

Policy and Institutional Changes for Promoting Investment of Remittances in Kenya's Agricultural Sector

REPORT

Submitted by:

AFRICAN MIGRATION AND DEVELOPMENT POLICY CENTRE (AMADPOC)

Contact Person:

Prof. John O. Oucho, PhD

Founder and Executive Director
African Migration and Development Policy Centre
P.O. Box 14405-00800, Nairobi, Kenya
Telephone: +254(20)2640625
Email: contact@amadpoc.org

25th November, 2011

TABLE OF CONTENTS

LIST OF TABLES	ix
ABBREVIATIONS AND ACRONYMS	x
ABBREVIATIONS AND ACRONYMS	x
EXECUTIVE SUMMARY	xv
1.0 BACKGROUND TO THE STUDY	1
1.1 Introduction	1
1.2 Purpose and Objectives of the Study	1
1.3 Summary of Terms of Reference	1
1.4 Methodology	2
1.5 Limitations	2
1.6 Outline of the Study	3
2.0 .INVESTMENT CLIMATE IN KENYA.....	3
2.1 Situation of Investments: Special Reference to Rural Areas.....	3
2.2 Constraints to Investment with particular emphasis on the Agricultural Sector	5
2.2.1 Overview.....	5
2.2.2 Challenges in Agricultural Sector	6
2.2.3 Constraints in Agricultural Sector	6
2.3 Policies and Laws and their Impact on Investment Opportunities	10
2.3.1 Policy Environment	10
2.3.2 Policies and Laws related to Agriculture sector.....	11
2.3.2.1 Introduction	11

2.3.2.2 Market Liberalization	12
2.3.2.3 Development Strategies and Programs in Agriculture.....	13
2.3.2.4 The Poverty Reduction Strategy Paper (PRSP), 2001-2004.....	13
2.3.2.5 The Economic Recovery Strategy for Wealth and Employment Creation	14
2.3.2.6 The Ministry of Livestock and Fisheries Development Strategic Plan 2003 – 2007	14
2.3.2.7 Strategy for Revitalizing Agriculture, 2004 - 2014.....	14
2.3.2.8 The Agricultural Sector Development Strategy (ASDS) 2010-2020.....	15
2.3.2.9 The National CAADP Compact and Medium Term Investment Strategic Plan (MTISP).....	15
2.3.2.10 The National Development Plan (NDP), 2002-2008.....	15
2.3.2.11 The Kenya Rural Development Strategy and the East African Community	15
2.3.3 Legal Framework for Investment	17
2.3.3.1 Overview.....	17
2.3.3.2 Business registration and licensing.....	19
2.3.3.3 The legislative framework for commercial activities	19
2.3.3.4 The legal framework for creating and enforcing secured transactions	20
2.3.3.5 Commercial Dispute Resolution	20
2.3.3.6 Land use and transfers.....	20
2.4 Investment opportunities in other subsectors of the Economy	20
2.4.1 Overview	20
2.4.2 The Vision 2030	21
3.0 SAVINGS BY SMALLHOLDER FARMERS.....	22
3.1 Overview of Trends.....	22
3.2 Constraints to Savings	23

3.3 Investment Support Institutions	25
3.3.1 Ministry of Agriculture	25
3.3.2 Ministry of Co-operative Development.	27
3.3.3 The Ministry of Trade	27
3.3.4 Financial institutions	28
3.3.5 Co-operatives, SACCOs	28
3.3.6 Farmers' Associations.....	28
3.3.7 Farmers Unions.....	29
3.3.8 Agricultural Workers Unions	29
4. 0 REMITTANCES AND INVESTMENT IN RURAL AREAS	29
4.1 Role of credit facilities	29
4.2 Structure and performance of the financial sector in Kenya	30
4.3 Migrants and Family Inputs.....	32
4.3.1 Overview	32
4.3.2 Diaspora bond in Kenya.	32
4.3.3 MoneyGram partners in Kenya.	32
4.3.4 Initiatives on Costs and Competition Reductions	33
4.3.5 Transparency of Information	34
4.3.6 Online Resources on Remittance Cost	34
4.4 Micro-enterprise Development Programme and Investments	34
4.4.1 Overview	34
4.4.2 Segmentation of the rural financial market in Kenya.....	34
4.4.2.1 Financial institutions serving small and microenterprises	34

4.4.2.2 A Case of Financial institutions serving small and microenterprises (SMEs) in Kenya	35
4.4.3 Lending approaches by informal and semi-formal institutions	36
4.4.4 Loan security	37
4.5 Diaspora and Rural Development.....	37
4.5.1 Overview	37
4.5.2 A Case of Acumen Fund	38
4.5.3 A Case of Grameen Foundation.....	38
4.5.4 A Case of Juhudi Kilimo	39
4.5.5 Project-Kenya Charity	40
4.5.6 Kenya Community Development Foundation KCDF	40
4.6 Collective Investment of Diaspora Remittance.....	41
4.6.1 Overview	41
4.6.2 Diaspora Investment Fund (DiaFund)	41
4.6.2.1 Introduction	41
4.6.2.2 Mission	42
4.6.2.3 Investors (sourcing)	42
4.6.2.5 Investment strategy.....	43
4.6.3 Remittances from the Kenyan diaspora	43
4.6.4 Operational Instruments to promote diaspora remittance.....	45
4.6.5 Kenya Government efforts to tap diaspora remittances	46
4.6.6 Challenge of Managing Diaspora Remittances	46
4.6.7 Rationale for World Bank Involvement.....	46

5.0 CAPACITY BUILDING AND INFORMATION STRATEGIES	48
5.1 Identification of capacity building needs and Initiatives	48
5.1.1 Overview	48
5.1.2 Enhancing capacity for the delivery of improved services in strategic public sectors and	49
5.1.3 Increasing the quality of design and implementation of diaspora-led investment initiatives in participating countries	49
5.1.4 Improving communication and working relationship between African governments, Donor agencies and Diaspora professionals	49
5.2 Information Systems and Farmers Access to Information	50
5.2.1 Information Systems and Farmers Access to Information	50
5.2.2 Regional Information -provision Initiatives	50
5.2.3 National level Information - provision initiatives.....	52
5.2.4 Non Governmental Organisations (NGOs)	53
5.2.5 Private Sector	53
5.2.6 Strategies in which information system could be established or strengthened	54
5.3 Necessary Capacity Building and Institutional Reforms for enhancing Investment of Remittances.....	55
5.3.1 Overview	55
5.3.2 Main components and activities deserving support	55
5.3.3 The Case of Kenya	56
5.3.4 Financing for Capacity Building.....	56
5.3.4.2 The Africa Catalytic Growth Fund (ACGF)	57
5.3.4.3 The Institutional Development Fund (IDF)	57
5.3.4.4 Development Marketplace	57
5.3.4.5 The private sector,	57

5.3.4.6 Faith-based Coalitions.....	58
5.3.4.7 Africa Diaspora Engagement and Facilitation Fund.....	58
5.3.4.8 Remittances-based Africa Diaspora Investment Funds.....	58
5.3.4.9 Diaspora Networks/Teams/Groups.....	58
5.3.4.10 Ownership and Partnerships.....	58
5.3.5 The African Diaspora Investment Facility.....	59
5.4 Policy and Institutional Framework and Impact on Remittances and Investment.....	60
5.4.1 High Remittances transfer costs:.....	60
5.4.2 Regulatory restrictions.....	61
5.4.3 Inappropriate legal and regulatory framework.....	61
5.4.4 Inefficient financial system.....	61
5.4.5 Lack of Access to finance:.....	61
5.4.6 Lack of information on investment opportunities:.....	61
5.4.7 Weak institutional link with the diaspora.....	61
5.4.8 Unfavourable enabling environment:.....	61
5.4.9 Legal and regulatory framework.....	61
5.5 Policy Options and Initiatives for fostering Diaspora-led Investments.....	62
5.6 Incentives and Mechanisms for fostering Diaspora-led Investments.....	63
5.6.1 Initiatives that impact on volume of remittances inflow through formal channels.....	63
6.0 CONCLUSION AND RECOMMENDATIONS.....	65
6.1 Conclusion.....	65
6.2 Recommendations.....	65
6.2.1 Improving the Investment Climate.....	65

6.2.2 Enhancing Farmers' Savings for Investment in agriculture.....	66
6.2.3 Enhancing Remittances and Investment.....	66
6.2.4 Information Strategies.....	70
6.2.5 Future research.....	71
REFERENCE.....	72
ANNEXES.....	78
Annex 1: External and Internal Migration Outflows: Net Migration Rates in Kenya and selected Eastern ..	78
Annex 2: Remittances and other Resources Flows to Africa, 1990-2010 (\$ billions)	79
Annex 3: Remittances Flows to African Countries, 2006-2010 (\$ millions).....	80
Annex 4: Expenditure for the Ministry of Agriculture (2005/06-2008/09), Ksh million.....	81
Annex 5: Public Agriculture Expenditure as a Share of Total Public Expenditure in Kenya and Selected other African Countries, 1999-2009	81
Annex 6: Aid to Agriculture in Kenya and other Selected African Countries (2007 constant dollars, millions), 2002-2008.....	82
Annex 7: Aid to Agriculture as a percentage of total aid in Kenya and other Selected African Countries 2002-2008.....	82
Annex 8: Production of Selected Primary Crops, 2001-2010 (Metric Tonnes)	83
Annex 9: Principal Export Commodities, 2002-2009: Per Cent of Total Value	84
Annex 10: Land: Categories of Agricultural Land (As at 1995) in Kenya 000 Hectares.....	85
Annex 11: Estimated East African Maize Availability Balance Sheet July 2009-2010 (minimum Quality Maize).....	86

LIST OF TABLE

Table 1: A summary of constraints and proposed strategies/measures	9
Table 2: Trends in Farmers Savings (Co-operative Society Total Share Capital, 2002-2009) in Ksh. Million	22
Table 3: Financial Service Access Strands (percent)	24
Table 4: Poverty Estimates (2005/06).....	24
Table 5: Annual Inflation Trends 2000-2010 (Base February 2009=100)	25
Table 6: Trends in Remittances (in \$million)	44

ABBREVIATIONS AND ACRONYMS

AAU:	Association of African Universities
AfDB:	African Development Bank
ACBF:	African Capacity Building Foundation
ACET:	Africa Centre for Economic Transformation
ACGF:	Africa Catalytic Growth Fund
ACP-EU (CTA):	The Technical Center for Agricultural and Technical Cooperation
ADIGF:	African Diaspora Investment Facility
ADC:	Agricultural Development Corporation
ADEFF:	Africa Diaspora Engagement and Facilitation Fund
ADF:	African Development Forum
AFC:	Agricultural Finance Corporation
AGRA:	Alliance for a Green revolution in Africa
AIDS:	Acquired Immune Deficiency Syndrome
AIST:	African Institute of Science and Technology
AMSCO:	African Management Services Company
ARD:	Agriculture and Rural Development
ASCA:	Accumulating Savings and Credit Associations
AU:	African Union
BIO:	Belgium Investment Organisation
BPO:	Business Process Outsourcing
CAADP:	Comprehensive African Agriculture Development Programme
CBOs:	Community Based Organizations
CDE:	Centre for the Development of Enterprise
CEO:	Chief Executive Officer
CGA:	Cereal Growers Association
CIDO:	Citizens and Diaspora Directorate
COMESA:	Common Market for Eastern and Southern Africa
COREVIP:	Conference of Rectors, Vice Chancellors and Principals

COTU:	Central Organization of Trade Unions
DESPF:	Diaspora Engagement Strategic Policy Framework
DENI:	Direct Expatriates National Investment
DFID:	Department for International Development
DGDC:	Directorate General for Development Cooperation (Belgium)
DiaFund:	Diaspora Investment Fund
DLC:	Distance Learning Centre
D-MADE:	The Development Marketplace for the African Diaspora in Europe
EAC:	East African Community
EPC:	Export Promotion Council
EPZ:	Export Processing Zone
EPZA:	Export Processing Zone Authority
ERSWEC:	The Economic Recovery Strategy for Wealth and Employment Creation
FAO:	Food and Agricultural Organisation of the United Nations
FBCI:	Faith Based and Community Initiative
FDI:	Foreign Direct Investment
FINNFUND:	Finnish for Industrial Co-operation
FMO:	The Netherlands Development Finance Company
FSI:	Foreign Services Institute
GDLN:	Global Distance Learning Network
GDP:	Gross Domestic Product
GoK:	Government of Kenya
GMR:	Guarantee Minimum Return
GWU:	George Washington University
HCDA:	Horticultural Crops Development Agency
HIV:	Human Imuno-Deficiency Virus
HTAs:	Hometown Organisations
IADB:	Inter-American Development Bank
ICDC:	Industrial and Commercial Development Corporation

ICSID:	International Centre for Settlement of Investment Disputes
ICT:	Information and Communication Technology
IDA:	International Development Agency
IDEAA:	Institute for Development of African Agriculture
IDF:	Institutional Development Fund
IFU:	The Industrial Fund for Developing Countries
IMF:	International Monetary Fund
IOM:	International Organization for Migration
KARI:	Kenya Agricultural Research Institute
KCDF:	Kenya Community Development Foundation
KDA:	K-Rep Development Agency
KDIF:	Kenya Diaspora Investment Fund
KENFAP:	Kenya National Federation of Agricultural Producers
KENINVEST:	Kenya Investment Agency
KEPSA:	Kenya Private Sector Alliance
KFA:	Kenya Farmers Association
KIA:	Kenya Institute of Administration
KMC:	Kenya Meat Commission
KNFU:	Kenya National Farmers Union
KPAWU:	Kenya Plantation and Agricultural Workers Union
KRDS:	Kenya Rural Development Strategy
KREP:	Kenya Rural Enterprises Programme
KSA:	Kenya Sugar Authority
Ksh:	Kenya Shilling
KTDA:	Kenya Tea Development Agency
LAC:	Latin America and Caribbean
MDGs:	Millennium Development Goals
MFI:	Micro Finance Institution
MIGA:	Multilateral Investment Guarantee Agency of the World Bank

MOP:	Ministry of Planning
MOFA:	Ministry of Foreign Affairs
MTO:	Money Transfer Organisations
MUB:	Manufacturing Under Bond
NBFI:	Non-bank Financial Institutions
NCPB:	National Cereals and Produce Board
NDIF:	Nigerian Diaspora Investment Fund
NDP:	National Development Plan
NEMA:	National Environment Management Authority
NGOs:	Non Governmental Organisations
Norad:	Norwegian Agency for Development Cooperation
Norfund:	Norwegian Investment Fund for Developing Countries
NTB:	Non-Tariff Barrier
PDLM:	"The French Programme Development Local Migration"
PEP:	Private Enterprise Partnership
PPS:	Public Private Sector Partnerships
PRSP:	Poverty Reduction Strategy Paper
R & D:	Research and Development
RECs:	Regional Economic Communities
RIA:	Regional Investment Agency
RoK:	Republic of Kenya
ROSCA:	Rotating Savings and Credit Association
SACCO:	Savings and Credit Co-operative Organisation
SAPS:	Structural Adjustment Programmes
SDC:	Swiss Development Corporation
SIDA:	Swedish International Development Agency
SMEs:	Small and Medium Enterprises
SRA:	Strategy for Revitalization of Agriculture
SSA:	Sub-Saharan Africa

S & T:	Science and Technology
TOKTEN:	Transfer of Knowledge through Expatriate National
TRIPS:	Trade related Intellectual Property Rights
UK:	United Kingdom
UN:	United Nations
UNDP:	United Nations Development Programme
USA:	United States of America
USAID:	United States Agency for International Development
USD:	United States Dollar
VAT:	Value Added Tax
WMIDA:	Migrant Women for Development in Africa
WTO:	World Trade Organisation

Policy and Institutional Changes for Promoting Investment of Remittances in Kenya's Agricultural Sector

EXECUTIVE SUMMARY

This study is based on findings and recommendations of the recent study on migration, agriculture and food security in Kenya commissioned by FAO in collaboration with the Commonwealth Foundation and the Ramphal Commission on Migration and Development. The study was carried out by the African Migration and Development Policy Centre, AMADPOC. The study concluded that although remittances play an important role in Kenya's economy, the current institutional and policy frameworks do not provide a conducive environment for investment of remittances resources. It recommended, among other things, that more policy research, capacity building and institutional initiatives are required if remittances are to have the desired impact on Kenya's economic development, especially among smallholder farmers in rural areas. The main objective of the study was to carry out a detailed analysis of existing policies and laws and institutional arrangements that support or hinder investment of remittances in Kenya and identify policy and legal reforms and capacity-building needs required in order to promote investment of remittances in the country.

The methodology of this study involved a comprehensive literature review followed by collection of relevant statistics from selected institutions. Finally a set of key stakeholders was identified, field visits arranged and discussions held with senior staff of the institutions. The study is structured into five main parts. The first section is the Background to the study. The second part of the study provides a review of the investment climate in Kenya with emphasis on policies and legal frameworks and their impact on investment. This is followed by part three on savings by smallholder farmers in the country. Section four of the study reviews remittances and investment in rural areas. In the fifth section, capacity building and information strategies are presented. The last section of the study consists of conclusion and recommendations.

Main Findings

Investment opportunities in the country

Kenya is a leading destination for investors in the region. The country has vast investment opportunities in agriculture and agri-business, tourism, building and construction, infrastructure, manufacturing, environment and natural resources, finance and banking, education, Information and Communications Technology, ICT, health, transport and trade. The aim of Kenya Vision 2030, the country's long-term development blue print is "to transform Kenya into "a newly industrializing, middle income country providing a high quality of life to all its citizens in a clean and secure environment". Kenya is also a member of the East African Community, (EAC), with a total population of over 80 million, the Common Market for Eastern and Southern Africa, (COMESA), with a total population of about 400 million and the Inter-Governmental Authority on Development (IGAD) with a population of over 200 million. All these Regional Economic Communities (RECs), are moving towards forming a common investment area. COMESA in particular, has already established a specialised agency, the Regional Investment Agency (RIA), to deal with investment in the region, These regional integration initiatives provide a large market potential for those investing in production of goods and services in the region.

In rural areas in particular, there are many opportunities in crop and animal production, agro-processing and marketing for both domestic consumption and export. There also many opportunities in the rest of the economy, including manufacturing, mining, provision of health services, banking and finance, energy generation and distribution, tourism, port facilities, road subsector, building and construction, forestry, Information and Communications Technology, ICT, among others.

Policies and Laws and their Impact on Investment Opportunities

Policy Environment

Kenya's development policies are expounded in its' most recent development blue print, Kenya Vision 2030. The government has developed policy strategies that include addressing critical issues in agriculture, manufacturing subsector, development of tourism, availability of affordable energy, environmental conservation, financial services, the wholesale and retail businesses, real estate and export trade.

The country has made significant progress in eliminating exchange controls, including restrictions on inward portfolio investments, and has removed trade restrictions, except for certain sensitive products in health, security and environment. There are no restrictions on foreign investment, foreign ownership and repatriation of profits or capital. Investment in the Export Processing Zones (EPZs) and Manufacturing Under-Bond (MUB) enjoys a 10-year tax holiday, followed by a 25% tax rate for the next 10 years, and is exempt from import duties, VAT and sales tax. Foreign ownership in listed Kenyan companies is generally restricted to 40% in the aggregate and 5% for each individual investor. The Government has revitalised the investment climate by abolishing import licensing and opening up of the capital markets to foreign participation. The government also set up the Export Promotion Council (EPC), and established the Kenya Investment Agency, KENINVEST, to strengthen the institutional frameworks for promotion of both domestic and foreign investment. Kenya enacted a New Constitution in August 2010 which protects investors and also created 47 regions or Counties all of which provide new investment opportunities.

In agriculture, there have been several policy initiatives since the failure of liberalization policies in agriculture under the World Bank led Structural adjustment programs, SAPS that started in the 1980's. The most important policy initiatives include development of the Poverty Reduction Strategy Paper (PRSP), 2001-2004, the Economic Recovery Strategy for Wealth and Employment Creation (2003-2007) (ERSWEC), the Ministry of Livestock and Fisheries Development Strategic Plan 2003 – 2007, the Strategy for Revitalizing Agriculture, 2004 – 2014, the Agricultural Sector Development Strategy (ASDS) 2010-2020, the National CAADP Compact, the Medium Term Investment Strategic Plan (MTISP), and the Kenya Rural Development Strategy (KRDS), 2002-2017.

Legal and Institutional Framework for Investment

The major investment-related laws in Kenya consist of the Foreign Investment Protection Act, the Trade Licensing Act, and the Investment Promotion Act. These laws provide for the rights and obligations of foreign investors, detailed investment procedure, application for investment approval, competent departments, investment incentives, etc. Sector-specific rules are incorporated in relevant regulations, such as the Transport Licensing Act, the Land Control Act, the Water Act, the Hotels and Restaurants Act, the Tourism Industry Licensing Act, the Mining Act, etc. In the agricultural sector, other laws include the Plant Protection Act, the Suppression of Noxious Weeds Act, the Agricultural Produce (Export) Act, the Agricultural Act and the Seeds and Plant Varieties Act.

Kenya is a member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group that promotes foreign direct investment by providing political risk insurance to investors and lenders against losses caused by noncommercial risks. It is also a signatory to the International Centre for Settlement of Investment Disputes (ICSID) which is a channel for settling disputes between foreign investors and host governments, the World Trade Organisation, WTO, the global watchdog on trade in goods and services, including Trade Related Intellectual Property Rights, TRIPS, the East African Community, EAC and the Common Market for Eastern and Southern Africa, COMESA whose protocols address investment issues.

In spite of the progress made in developing policies and laws that govern investment in the country, several shortcomings still abound. Apart from poor infrastructure, especially road network and telecommunications, other factors are cumbersome regulatory framework whereby potential investors are subjected to bureaucratic and multiple screening and approval systems; unfair investment policy requirements for foreign investors; unfavorable labor laws and trade union activities; and inadequate policy framework for fair competition. Other institutional, policy and legal shortcomings include lack of co-ordination and linkages within and across key economic sectors or subsectors and

absence of a single National Investment Master Plan, scattered laws and policies requiring multiple licensing by various government ministries, policy and legal inadequacies and Government's continued participation in business, access to land and weaknesses in investment support institutions for smallholder farmers, including limited public investment in agriculture relative to other sectors of the economy.

Remittances, Capacity Building and Information Strategies

The study also identified a number of ongoing initiatives, policy gaps, capacity building needs and information strategies which require to be addressed in order to promote investment of remittances in the country in general and the agricultural sector in particular. Ongoing capacity building initiatives include enhancing capacity for the delivery of improved services in strategic public sectors and institutions, increasing the quality of design and implementation of Diaspora-led investment initiatives in participating countries and improving communication and working relationship between African governments, Donor agencies and Diaspora. Factors that hinder the flow and investment of remittances in the country include high remittances transfer costs, regulatory restrictions, inappropriate legal and regulatory framework, inefficient financial system, lack of access to finance, lack of information on investment opportunities, investment regulations and weak nationality laws. In order to address these constraints, the study proposes several policy options and initiatives aimed at fostering Diaspora-led investment in the country. These include, among others, enacting legislation that would lead to more competition in the remittances transfer market, establishment of the legal basis that would allow for the creation of innovative investment vehicles, avoiding the erection of artificial barriers to Diaspora investment and provision of exceptions to the application of certain laws. A review of the information provision initiatives by both private and public sectors has revealed several information gaps in terms of reach, quality, accuracy, relevance and timeliness. There are also challenges related to sustainability of the information systems, which are currently highly donor-dependent, and institutional weaknesses of the information providers in terms of human resource and technical capacities for effective delivery of information to smallholder farmers in the country.

Recommendations

Improving the Investment Climate

- Improve rural infrastructure and lower the cost of transportation for farm produce
- Promote regional trade in agricultural commodities to expand markets for investors in the sector
- Review land use policies to improve access to land by investors
- Reduce risks in agriculture by promoting irrigation
- Improve co-ordination of sector ministries and reduce cost of doing business by harmonizing licensing procedures
- Improve co-ordination and collaboration among sectoral ministries and encourage small-scale investors for poverty reduction and food security
- Improve allocation of resources in the national budget to agriculture in line with the Maputo Declaration by Heads of State and Government to at least 10% of the national budget if the 6% annual agricultural growth is to be realized.
- Review foreign aid policies to channel more resources into productive sectors of the economy, especially agriculture.
- Harmonise investment policies and plans and consolidate these into a single National Investment Plan for easier access to investors

Enhancing Remittances and Investment

- Enact legislation that would lead to more competition in the remittances transfer market.
- Establish the legal basis that would allow for the creation of innovative investment vehicles that specifically address the diaspora investor.
- Avoid the erection of artificial barriers to Diaspora and provide exceptions to the application of certain laws
- Establish framework that would allow for introduction of innovative financial instruments by domestic financial institutions.
- Establish programs to improve recipient financial literacy
- Provide specific incentives for promoting investment of remittances, such as business advisory services, tax incentives, technical and financial assistance programs that provide support to diaspora entrepreneurs in initiating investment projects in Kenya and the region, involve the diaspora in economic missions make provisions for short term work placements.
- At the level of Multilateral Institutions, develop specific strategies to deal with diaspora issues through linking up with and supporting diaspora group initiatives, involving diaspora groups in internationally funded local development projects and facilitate the involvement of diaspora in existing initiatives and financing programs among others.

Information Strategies

- Strengthen farmers' organizations and build the capacity of rural smallholder farmers to use ICT, and improve access to modern technology through affordable pricing mechanisms
- Improve sustainability of information systems through increased government funding and strengthening public-private sector partnerships in collection, analysis and dissemination of information to smallholder farmers, including possibility of providing limited subsidies to support private sector actors
- Strengthen the technical and human resource capacity of private sector-led the information providers to train and advice smallholder farmers.
- Provide information on a value chain basis including that on investment opportunities to smallholder farmers.
- Improve rural infrastructure and cost of doing business in rural areas.
- Set up rural resource centres where farmers can access comprehensive information across the entire value chain for particular commodities of their interest and in a language they can easily understand.

1. BACKGROUND TO THE STUDY

1.1 Introduction

This study is based on findings and recommendations of the recent study on migration, agriculture and food security in Kenya commissioned by FAO in collaboration with the Commonwealth Foundation and the Ramphal Commission on Migration and Development. The Kenya Country case study was carried out by the African Migration and Development Policy Centre, AMADPOC from March to May 2011. It concluded that in addition to cultural, economic and political ties, Kenya is also closely linked with members of the Commonwealth through migration, with the country having substantial numbers of her citizens living abroad and remitting significant amounts of money back home.

Although remittances account for more than 5% of Kenya's Gross Domestic Product (GDP), (World Bank, 2010), they play an important role in the country's economy, among other things fighting poverty, meeting household food security and health, making investment in education, housing, land, business and agriculture. However, the study concluded that the current institutional and policy frameworks do not provide a conducive environment for investment of remittances resource. To this end, it recommended, among others, that more policy research, capacity building and institutional initiatives are required if remittances are to have the desired impact on Kenya's economic development, especially among smallholder farmers in rural areas of the country. This follow-up study therefore aims to explore the necessary policy and institutional changes required to promote investment of remittances in Kenya, including collection and dissemination of information on remittances and capacity building interventions needed.

1.2 Purpose and Objectives of the Study

The main objective of the study is to carry out a detailed analysis of existing policies and laws, as well as institutional arrangements that support or hinder investment of remittances in Kenya. The study also identifies policy and legal reforms and capacity-building needs required in order to promote investment of remittances in the country. It reviews and documents factors affecting savings of smallholder farmers and the existing information collection, analysis and dissemination systems related to remittances and investment in the country and propose strategies for setting up or strengthening information systems in support of investing remittances in the country.

1.3 Summary of Terms of Reference

The main terms of reference for the study are to:

- Review the investment climate in Kenya and identify factors that hinder or promote investment of remittances in agriculture and other sectors of the economy;
- Analyse the impact of policies and laws on investment in the country;
- Document investment opportunities in the country with particular emphasis on the agricultural sector;
- Review trends in farmers' savings, factors that affect savings by smallholder farmers and key investment support institutions in the country;
- Research on whether credit can be used as a complementary tool to promote the investment of remittances in rural areas, with remittances used as collateral for loans;
- Examine the possibility to adopt a nationwide microenterprise development programme, financed exclusively through migrants's remittances or in combination with other sources of funds, to pool and transfer remittances to specific destinations;

- Examine whether charitable rural development funds be created to allow the diaspora to help the rural poor;
- In addition to legislative measures, examine what could be operational instruments to promote the collective investment of remittances from Diasporas in rural areas;
- Review and identify capacity-building needs, ongoing or/and planned capacity building initiatives in the country and relevance to remittances investment in the country;
- Review current information provision strategies, their effectiveness and relevance and propose mechanisms of enhancing access to information by smallholder farmers;
- Identify information gaps, collection, analysis and dissemination activities and propose strategies in which information system could be established or strengthened;
- Identify possible capacity building and institutional reforms required to enhance investment of remittances and key institutions and ongoing or planned activities related to remittances flow, transmission and investment at national and farmers' level; and
- Prepare a synthesis report with conclusions and recommendations on policy reform, capacity building and institutional reform identifying actions needed and resource requirements.

1.4 Methodology

The study used a three-pronged approach. First, a detailed literature search was carried out during which previous literature on the subject was carefully analysed. Sources of this information included internet searches and hard copies of published and grey material available from research institutions, ministries and the private sector. Second, relevant statistics were collected from selected institutions such as the World Bank, Ministry of Planning, National Development and Vision 2030, Kenya Investment Agency, Ministry of Agriculture, Kenya National Bureau of Statistics, the Kenya Institute of Public Policy Research and Analysis (KIPPRA) and the Central Bank of Kenya among others. Third, key stakeholders were identified for field visits specifically to hold consultations and discussions with senior staff of the institutions. Institutions visited included the Ministry of Agriculture, farmers organizations, in particular, the Kenya National Federation of Agricultural Producers, (KENFAP), Cereal Growers Association, private sector information providers (the Kenya Agricultural Commodity Exchange), selected financial (credit) institutions (the Agricultural Finance Corporation, Equity Bank and Kenya Women Finance Trust), Kenya Investment Agency and the Central Bank of Kenya. The views of these stakeholders were then analysed to provide vital information for the report..

1.5 Limitations

One major limitation of the study was the lack of consultations with smallholder farmers and other rural-based stakeholders such as the agricultural workers unions. The rains pounding the country induced farmers to devote themselves to farmwork which would have undermined their response to enquiries. Moreover, there was limited as well as time and serious financial resource constraints. A detailed field survey and consultations with a broader range of stakeholders would certainly have enriched the study. The second main limitation of the study was overreliance on secondary data. The researchers were unable to ascertain some shortcomings of the data at their disposal.

1.6 Outline of the Study

The study begins with an executive summary that provides a brief overview of the study and highlights the key findings and study recommendations. It is then divided into five main sections: the first section is the background to the study; the second section provides a review of the investment climate in Kenya with emphasis on policies and legal frameworks and their impact on investment; this is followed by section three on savings by smallholder farmers in the country; section four reviews remittances and investment in rural areas; the fifth section outlines capacity building and information strategies and the last section consists of conclusion and recommendations.

2. INVESTMENT CLIMATE IN KENYA

2.1 Situation of Investments: Special Reference to Rural Areas

Kenya is a leading destination for investors in the region. Its geographical location, good climate, bustling urban population, rich natural and human resource base, growing services sector, relative political stability and a hardworking populace are among the many reasons that attract investors to the country. The country has vast investment opportunities in agriculture and agri-business, tourism, building and construction (demand for housing by far outstrips supply due to a rapidly growing population), infrastructure, manufacturing, environment and natural resources, money and banking, education, Information and Communications Technology (ICT), health, transport and trade. According to Kenya Vision 2030, the country's long term development blue print, the aim of Kenya Vision 2030 is "to transform Kenya into "a newly industrializing, middle income country providing a high quality of life to all its citizens in a clean and secure environment". The Vision is anchored on three key pillars: Economic; Social; and Political Governance. In the economic pillar, six key sectors have been identified to deliver the 10% economic growth rate per annum required under the economic pillar. These include tourism; agriculture; manufacturing; wholesale and retail trade; business process outsourcing (BPO); and financial services. Investment in these sectors is therefore critical for the country's economic development. Kenya is also a member of the East African Community (EAC), and the Common Market for Eastern and Southern Africa (COMESA) which are moving towards forming a common investment area. COMESA in particular, has already established a specialised agency to deal with investment in the region, the Regional Investment Agency, RIA, based in Cairo, Egypt. The EAC has been holding regular investment forums to promote investment in the region. These positive developments expand further opportunities for investment beyond Kenya's borders. For example, COMESA has a population of about 400 Million (www.comesa.int) which provides a large market for those investing in production of goods for export in the region.

From the early 1990s, Kenya had embarked on structural and macroeconomic reforms in all sectors of the economy, as a means of establishing the framework for an environment conducive to higher economic growth. However despite these reforms, Kenya's economy performed poorly during the period 1990-2001 due to various factors; and managed to grow at minimal average of 2% between 1990- 1996 and 1.04% over the entire 1997-2001 period. Also during this period, the country suffered from declining levels of private investment, low savings and excessive government domestic borrowing. The country also witnessed a decline in the export/GDP ratio, from 32.1% between 1990 and 1995, to 27.5% between 1996 and 2000, and to further to 26% in 2001.

As part of turning around the economic decline, the National Rainbow Coalition, (NARC) government rightly recognized that the private sector would provide the engine driving the economy's growth and development, so as to facilitate reduction of poverty levels, increased jobs creation, redistribution of growth outcomes to majority of Kenyans, and generation of sufficient resources to support the growth momentum both in the medium and the long term. Little however has been done to put into place sufficient and specific interventions to spur the private sector activities since the Economic Recovery Strategy for Wealth and Employment Creation, (ERS) was issued, although the Government is currently spearheading the formulation of a Private Sector Development Strategy (PSDS), which is being prepared in partnership with private sector stakeholders and development partners. Until a comprehensive

reform programme on all business constraints is prepared and implemented, it will not be possible for the private sector to drive the economic revival agenda, while the sector also will find it impossible to contribute to achievement of the Millennium Development Goals, notably on poverty eradication and a substantial increase in standards of living by 2015, the target date..

In rural areas in particular, there are many opportunities in crop and animal production, agro-processing and marketing for both domestic consumption and export. In the food crops sector, Kenya is a net importer of all the basic cereals, namely, maize (staple crop), wheat, rice and beans. More production and processing of these crops is required to meet the increasing demand due to the country's high population growth rate. There are numerous opportunities in the farm inputs supply chain, particularly in manufacture of farm inputs such as fertilizers, seeds, agro-chemicals and equipment. In the cash crops subsector, investment opportunities abound in the production, processing and marketing of tea, coffee, horticulture, especially fruits and vegetables, floriculture, cotton, sisal, cashew and macadamia nuts, among others given the country's diverse agro-ecological zones. In the livestock subsector, opportunities do exist in dairy production and processing, for example, establishment of slaughter houses especially in the vast livestock producing regions of North- Eastern Kenya. But investment in rural areas is not only agricultural. There are opportunities for cement manufacturing, mining, provision of health services to complement government services, micro-finance, and development of cottage industries. A more detailed review of opportunities in agriculture and in specific agricultural subsector is outlined below:

There is considerable scope for diversification and expansion of the agricultural sector through accelerated food crop production and increase of non-traditional exports. There are also opportunities for improvement in technological infrastructure such as packaging, storage, and transportation. Intensified irrigation and additional value added processing are marketable areas for investments. The range of products falling under the agriculture sector, in which broad investment opportunities exist, includes (see Annex 8. for production of selected primary crops in Kenya) and Annex 9 for principal export commodities):

- Cereals sub-sector (e.g. maize, wheat, other cereals), takes up 1% of total agricultural marketed production
- Temporary industrial crops (e.g. sugar cane, pineapples, pyrethrum, horticulture, etc), take between 92-93% of the country's total agricultural marketed production
- Permanent crops (e.g. coffee, tea, sisal), take up between 4-5% of the country's total agricultural marketed production, and
- Livestock and livestock products (cattle & calves, dairy produce, chicken & eggs), take up about 2% of the country's agricultural marketed production.

Investment opportunities exist in seed production, manufacture of sprayers and pesticides, veterinary services, construction of dams and bore holes, installation of irrigation systems and services. Opportunities also exist in support services, such as cold storage facilities and refrigerated transport for horticultural and other perishable products. The investment opportunities for the various sub-sectors are outlined below (www.investmentkenya.com).

Horticulture: The horticultural sector is one of the fastest growing sectors in the economy and is the second largest foreign exchange earner after tea. Opportunities exist in production and export of products such as cut-flowers, French beans, pineapples, mushrooms, asparagus, mangoes, macadamia nuts, avocados, passion fruits, melons, guavas and carrots, onions, tomatoes, pepper, bananas.

Agro-Processing: Numerous investment opportunities exist in this sector. Edible and other oils produced locally include butter, ghee and margarine as well as sunflower, rapeseed, cottonseed, sesame, coconut and corn oils, while a large quantity of palm oil is imported. Investments to develop substitutes for palm oil imports are welcome. Kenya

produces excellent beer, utilising locally grown barley. The country has recently developed papaya and grape wines that can be exported to regional and international markets. Opportunities exist in coffee roasting and grinding, with a further potential such as in the production of decaffeinated coffee for export.

Sugar production, at 402,000 tonnes per annum is below the domestic demand estimated at 600,000 tonnes per annum. Molasses, a by-product of sugar production, is processed into power alcohol, potable alcohol, and baker's yeast. There is also considerable potential for the expansion of chocolate and confectionery products for export. Opportunities for investment exist in the production and processing of sugar, tea, meat and dairy products.

Poultry Products: Hatcheries for the production of chicken for both domestic and regional consumption are under-exploited.

Fisheries: Kenya's waters provide vast fishing potential. At present, deep sea fishing, prawn and trout farming are in their infancy but growing rapidly. Opportunities also exist in fish processing (filleting and fishmeal production), as well as fisheries-support infrastructure (refrigerated transport, cold storage, etc.).

Leather and Leather Goods: Most hides and skins are processed up to the wet blue stage for export while investment opportunities exist in production of finished leather, offering potential for the manufacture of shoes and other leather products.

Forestry and forestry products: There are opportunities for forest valuation, capacity building in resource assessment, planning and management, impact assessment, geographical information systems, monitoring and evaluation, research in non-wood tree products to enhance their economic potential, development of credit support to private forest investments, improving data and information for management planning through regular surveys and forest inventories, developing and improving marketing of forest products, modernization of forest industries to improve efficiency.

2.2 Constraints to Investment with particular emphasis on the Agricultural Sector

2.2.1 Overview

Kenya Vision 2030 (pages 4-11) provides a detailed review of the challenges facing each of the six key economic sectors and gives specific strategies on how to achieve each sectoral goal. The challenges that hinder investment in the country as outlined by Kenya Vision 2030 and according to our own analysis include:

- Non Tariff barriers, NTBs which raise the cost of doing business. These include lengthy and cumbersome procedures for clearing goods at border posts, technical and quality standards, import and export bans and corruption.
- Poor infrastructure (rail and road network, port facilities), poor rural access roads leading to high costs of transportation. This also includes cold storage facilities, on-farm storage; livestock holding grounds and facilities at rural markets all of which lead to heavy post harvest losses.
- Cost of investment capital. High interest rates/high cost of borrowing reduces returns to capital
- Access to land especially in urban areas. The cost of urban land has escalated in recent years and is a major disincentive to investors. Most of the agricultural land is not titled, thus discouraging potential investors.
- High cost of energy, especially electricity and diesel for farming operations and agro-processing making Kenyan products less competitive, compared to imports from the region, for example, sugar from Zambia and Egypt within the COMESA region is much cheaper. This has made Kenya to resort to safeguard measures to protect the Kenyan sugar industry from collapse due to competition from cheaper sugar from the COMESA region..

- Institutional challenges: weak institutions, poor governance and corruption especially in the public sector discourage potential investors. This also includes weak farmers' organisations that have limited capacity to articulate issues facing the agricultural sector. Co-operatives, which are supposed to be farmers commercial arms have been inefficient and lacked to conduct business on behalf of farmers, leaving space for undue government interference.
- Insecurity. This is not only a problem in Kenya's urban areas but also prevalent especially in Northern and North eastern parts of the country which have huge but largely unexploited livestock potential.
- Laws governing investment in Kenya: Requirements of Investment Act 2005 such as a minimum investment outlay of USD 500,000 other conditions act as disincentives to potential investors, especially small and medium enterprises.
- Poor planning and lack of co-ordination and linkages among the various subsectors of the economy. The country has not had single national investment master plan.

2.2.2 Challenges in Agricultural Sector

In the agricultural sector, factors that hinder investment include limited access to both input and output markets (high cost of inputs coupled with poor producer prices) leading to low profitability or returns to investment capital, lack of credit as agriculture is viewed as a high risk sector, uncertainty due to overdependence on rain-fed agriculture that is subject to vagaries of weather, government interventionist policies such as import and export bans for maize, poor rural access roads. The current policy and regulatory framework has not always been supportive of investors. In agriculture, many scattered policies and laws govern the sector and potential investors have to deal with numerous government offices in order to obtain the necessary permits such as for water extraction, establishment of slaughter houses. These have contributed to poor food production and high food prices. Although the high food prices are detrimental to the wellbeing of the poor and have significant implications for Africa's ability to meet the MDGs, they also have potential for increasing the value of agricultural assets and for stimulating private sector investment in agriculture, once the enabling policy environment is in place (African Development Bank, 2008).

The main challenges facing the rural sector as identified by Kenya's Rural Development Strategy 2002-2017 are: to increase productivity and economic growth in order to halt the worsening poverty levels; and to attain the target of reducing poverty by 50% by the year 2015. They have to be confronted at a time when Kenya faces a declining financial and natural resource base, HIV/AIDS pandemic, insecurity, and ill-effects of globalization.

Another major challenge of the agricultural sector is to compete in the world market. The country depends on a narrow range of primary agricultural products for exports, which are facing a fairly volatile and stringent world market. One of the greatest challenges in Kenyan agriculture exports is to increase the volume and value of export within the various trade protocols of the WTO Agreement on Agriculture.

2.2.3 Constraints in Agricultural Sector

The growth of Kenya's agriculture and food sector is constrained by both economic and non-economic constraints. These include: institutional weakness, collapsed infrastructure; lack of an effective land policy; low political support; high taxation; poor research and extension linkages; increasing prevalence of HIV/AIDS and other diseases, and dysfunctional institutions especially financial institutions. The section that follows examines in greater detail these constraints.

There is poor agrarian leadership in Kenya. The leadership has failed to promote an all-inclusive agricultural development framework, where the state, the private sector, civil society, higher institutions of learning, and the farming community participate. The framework must be an indigenous-led but Kenya can always use relevant experiences from the successful economies, for example the Asian economies, (Naya and Mcleery 1994). Past policies have been supply driven and has been designed without the participation of stakeholders especially the

farmers and even if such policies were good for the farmers, they may not have had the desired effect, as there was no ownership by the intended beneficiaries, (Gitu, 2001, Idabacha, 2000). More important is that the role of women in agriculture has been ignored notwithstanding the important role they play in all agricultural production activities, (Boserup, 1970; Sachs, 1983; FAO, 1993; Pinstrop–Andersen and Pandya–Lorch, 2000; and Todaro, 2000).

The weakness of most of the resource poor farmer organizations is another component of the institutional failure. There is often poor governance and weak leadership in many of the resource poor farmer groups. In particular, some of the resource poor farmer groups are led by people who perceive them as avenues for accessing financial resources from support organizations. These are the most troublesome of all farmer groups in that they inhibit the farmers' ability to establish an institutional capacity for self-development. Weak leadership in many of the resource poor farmer groups inhibit their capacities to address their needs e.g. through failure to mobilize their own resources to reasonable levels before seeking external support. Weak leadership also tends to create dependency on others for direction and frequently leads to failure to articulate group needs and demands.

Kenya suffers from collapsed infrastructure: poor road network, inadequate railway network, unreliable and costly electricity, water supply, lack of information and communications technology infrastructure. Due to poor transport network, commodity prices often fluctuate substantially from one region to the other and are seasonally volatile. Even when agricultural surplus zones have gluts, it is not possible to transport the produce to the deficit zones. Similarly, when technical solutions in agriculture have become available, it is noted that lack of infrastructure causes problems in their transmission especially with regard to marketing, credit, extension and input provisions. In some cases, the cost of transporting agricultural inputs and produce is extremely high to the extent that farmers do not produce at all even if other resources are available. This has greatly affected negatively on the development of the agricultural sector and consequently on poverty and food security.

Agriculture is predominantly rain fed and output is therefore heavily influenced by the amount, distribution and variability of rainfall, which causes considerable risks and uncertainty in production. Land scarcity is further dramatized by episodes of severe droughts, (Short and Gitu, 1990). Recurrent drought has been associated with significant declines in production and consequent food shortages.

High taxation especially on inputs including machinery, fuel and spare parts make Kenya agriculture less competitive. Taxation and policy biases against agriculture include: concentration of public investments in areas of infrastructure and provision of safety nets in urban areas; direct taxation of agricultural based exports and local authority tax; subsidies and tax waivers for capital intensive technologies such as computers and mobile phones instead of reducing costs of agricultural inputs; development of infrastructure in urban areas rather than in rural areas where the infrastructure is needed most; weak farmers institutions to support agriculture; and market access and transport costs that are biased against rural development. Input intensive technologies are neither economical when farmers must pay prices for fertilizers and receive only 30 to 60 percent of the market value for their produce, nor are they economical when extra production cannot be transported and sold because of lack of infrastructure.

Land has been one of the most contentious issues in Kenya's political economy (see Annex 10 for categories of agricultural land in Kenya).. The lack of a coherent land policy that harmonizes the different land based activities such as agriculture, pastoralism, tourism, industrial location and human settlement has continued to undermine agricultural development and food security. The surveying, titling and registration of land is about 80 percent complete in the high and medium potential areas of the country but this cannot be said for ASAL areas. Some authors believe that ownership of land greatly influences the intensification of agriculture as title to land gives one the exclusive rights to operate a particular land holding, invest on it and can also be used as collateral in sourcing financial credit, (Bwika, 1990). Lack of title deeds has weakened farmers resolve to operate their land holdings and has also weakened long-term investments on land. Further, land ownership and credit access is highly biased against women who are the main operators of land in Kenya.

Agricultural productivity is threatened by the HIV/AIDs pandemic. The opportunity cost in terms of foregone production is high and at the same time, mortality and morbidity from HIV/AIDs is resulting to labour shortage for both

farm and domestic work. In the rural areas, estimates indicate HIV infections to be between 12-13 percent. This threatens the ability of the small farmer to produce sufficient foodstuffs. Similarly, other diseases such as tuberculosis and malaria are resulting to the same, (Saitoti, 2000; Wilson 2001; Bernet and Rugalema 2001).

Low political support and non-performance of policies have affected agricultural growth. Kenya's leadership must play its part in guiding agricultural development than hitherto. It must drive agricultural development process and must provide political support, which is so vital for a rapid and sustained growth process. Annexes 4, 5, 6 and 7 show expenditure for the ministry of agriculture, public expenditure in agriculture compared to total expenditure, aid to agriculture and aid to agriculture as percentage of total aid, clearly indicating marginalization of this vital sector.

Weak research and extension linkages have adversely affected agricultural production and productivity. Although Kenya's agricultural research system is relatively strong as compared to other developing countries, progress in increasing total factor productivity in agriculture suggests that it has inherent weakness that forces it to operate below its potential. This has been related to weaknesses in research priority setting, financing, management and poor inter-agency linkages under funding of operational costs; lack of managerial autonomy and accountability (Simons and Gitu, 1989; Simons; 1989; Gitu, 2001; Omamo, 2003). A major limiting factor to agricultural research has been the reliance of local research institutes on donor funds. The weaknesses in research and extension linkages have limited the generation of new technologies. Analysis a decade ago shows a declining trend in efficiency and effectiveness of the Ministry of Agriculture extension services, (Kosura, 2001). This has been as a result of declining budgetary allocations to the sector, lack of clear objectives, failure to identify the role of beneficiaries and poor organizational and institutional structures among others. Although new technologies are available on shelf, the farming community has not benefited from them since research findings do not flow to the farming community because of a dysfunctional extension service.

Strong credit and marketing institutions supported agricultural production systems in the first decade after independence. This included: Agricultural Finance Corporation (AFC) for credit, National Cereals and Produce Board (NCPB) for marketing, maize, wheat and other cereals, Kenya Meat Commission (KMC) for marketing meat, Kenya Cooperative Creameries for milk and Kenya Sugar Authority (KSA) for sugar just to mention a few. These institutions initially performed fairly efficiently, but due to high-level government interference, corruption and poor management, their performance deteriorated to a point that they increasingly failed to provide services to the farmers.

Other constraints which have also contributed to the decline in agricultural production and productivity and must be removed include: lack of storage and other post-harvest technologies; lack of a comprehensive legal framework to guide formulation of consistent policies; poor marketing information, lack of capacity by the private sector to take over functions previously performed by the state before liberalization; inadequate integration and coordination of activities by major players within the sector including the various Government Ministries, farmers' organizations, private sector, donors and NGOs, inadequate high yield crop and livestock varieties, and high input costs especially animal feeds. These constraints must be removed if agriculture productivity is to be increased. In addition, there is need to improve macro-economic performance which would enhance domestic saving rates to promote capital formation for wealth creation and economic growth, (GoK, 1986; Nyangito, 2001; Lipton, 1987; Eicher 1988; 1987 and Gitu and Short 1990; Gitu and Kanyua, 1991]

Another factor hindering investment in the agricultural sector is lack of insurance in the sector. Risks in the sector are seen as being too high for those who wish invest directly in the sector through production, agro-processing or marketing activities or those who want to provide services such as credit. Without credit, it's difficult to mobilize enough financial capital required for investment in the sector.

Table 1 provides a summary of constraints and strategies/measures to promote production and marketing for the various promising agricultural development opportunities. The first column represents the product; the second column represents the constraints while the third column represents strategies/measures to be funded. Development of high-yielding varieties needs to be accorded the highest priority for most crops. Access to credit, market, and

processing facilities is also of considerable importance in the case of many crops. Feed, processing facilities and disease control would play a vital role in the livestock sector.

Table 1: A summary of constraints and proposed strategies/measures

Promote production and productivity. Product	Constraints	Strategies/Measures
Maize	Drought, poor extension services, lack of working capital, access to credit and low yielding varieties.	Research on high yielding varieties; extension; promotion of optimal use of fertilizers and improved seed quality assurance.
Wheat	Subdivision of existing farmland, lack of machinery, inappropriate technology for small holders, access to credit, soil acidity, insecurity of tenure, inadequate infrastructure (roads), low producer prices, poor research and extension services.	Research and extension services, credit, market promotion, storage and appropriate technology.
Rice	Conflict over ownership of the rice schemes, low yielding varieties, poor disease and pest control, high cost of production and poor marketing channels.	Research and extension services, land use policy, disease and pest control.
Horticulture	Poor extension services, high freight cost and unavailability of cargo space, poor implementation of SPS and inadequate cooling facilities at the Kenyan ports and high input costs.	Extension services and cooling facilities at Kenya ports provide duty exemption for packing materials and machinery.
Traditional Crops	Poor marketing, poor research and extension and limited alternative use of traditional crops.	Market promotion, and research and extension
Oil Crops	Low producer prices, lack of high yielding varieties, inadequate processing facilities, poor pest and disease control, inadequate quality seeds and poor extension services.	Research and extension, processing facilities, pest and disease control and production of high quality seeds.
Tea	Inadequate tea factories, poor marketing, inadequate research on high yielding drought, frost resistant varieties and poor promotion and high input costs.	Construction of new tea factories, market promotion, and research and extension.
Coffee	High input cost, lack of credit, high processing costs, inadequate extension, inadequate high yield-enhancing technologies, and poor legal and regulatory framework.	Credit, research and extension and value adding exports.
Cotton	Poor seed quality and inadequate seed multiplication, and poor research and extension.	Research and extension, and seed multiplication.
Pyrethrum	Poor marketing, low product prices and increased competition, and monopoly.	Market promotion and liberalize the sub-sector.
Dairy	Poor genetic potential of existing herd, inappropriate institutional framework, disease and pest control, poor artificial insemination service, inadequate credit and high cost of feeds.	Research on improvement of genetic potential, disease and pest control, artificial insemination and credit.
Meat	Poor marketing infrastructure (roads, storage and slaughter facilities), inadequate control of communicable disease, poor extension service, insecurity due to cattle rustling and poor feed quality.	The intensification of feed production, storage and slaughter facilities especially in the rural areas, disease control and the production of quality feed.
Poultry	High initial or start-up capital, high feed cost and diseases epidemic, poor and inaccessible extension services.	A programme for disease control, extension service and provide credit.
Fisheries	Poor infrastructure (access roads, poor storage and landing	The construction of access roads,

		storage, landing
--	--	------------------

Source: consultant's summary of literature

2.3 Policies and Laws and their Impact on Investment Opportunities

2.3.1 Policy Environment

Kenya's development policies are expounded in its most recent development blue print, Kenya Vision 2030. Vision 2030 identifies a broad range of policy strategies in selected subsectors relevant to this study. In agriculture, the main strategies are transforming key institutions in agriculture to promote agricultural growth, increasing productivity of crops and livestock, introducing land use policies for better utilisation of high and medium potential land, improving market access for smallholder farmers through better supply chain management and adding value to farm and livestock products before they reach international markets.

Land as a major factor of production will undergo reforms through implementation of the National Land use policy in which respect for property rights to land is critical and land administration including computerisation of land registries, establishment of National Spatial Data Infrastructure for monitoring land use patterns, and enhancement of legal frameworks for resolution of land disputes will be important elements.

In manufacturing subsector, the main policy strategies include restructuring key local industries that use local materials but are currently uncompetitive, for example, sugar and paper manufacturing), exploiting opportunities in value addition to local agricultural produce and adding value to intermediate inputs.

In order to develop the tourism industry further, the sector policy strategies will be developing Kenya's coast, increasing quality of service and charges in the country's premium parks, creating new high value niche products (e.g ecotourism), improving conference facilities and attracting high-end international hotel chains.

Availability of affordable energy is critical to investors' ability to produce goods and services competitively. According to Vision 2030, Kenya's energy costs are higher than her competitors in the region. Policy strategies are aimed at continuing reforms in the energy sector through putting in place a strong regulatory framework, encouraging private generation of power, separating generation from distribution, exploitation of new sources of power-geothermal, coal, renewable energy (biofuels, co-generation) and connecting Kenya to energy surplus countries in the region.

Concerning the environment, strategies include promoting environmental conservation, improving pollution and waste management through application of right economic incentives and commissioning of public-private partnerships (PPS) for improved efficiency in water and sanitation delivery.

In the financial services sector, policy strategies include undertaking legal and institutional reforms to make Kenya a more competitive financial centre, consolidation of smaller banks into larger stronger ones and streamlining informal finance, SACCOs and micro-finance institutions, and tapping international sources of capital. Although remittances are not specifically mentioned, they are broadly covered under international sources of capital.

Previous studies show that in the diaspora are investing quite significantly in housing and other forms of real property such as land. The government's policy strategy for the housing sector include better development and access to affordable housing, enhance access to adequate finance for developers and buyers and initiation of nationwide urban planning and development campaigns.

For the wholesale and retail subsector, government policy is to transform this large informal subsector to become part of vibrant formal sector. This will be accomplished through provision of training and credit, improving efficiency creating formal market outlets for small and medium enterprises and other forms of capacity building.

The government also encourages investors, especially those involved in production of goods for export, the country has put in place several policy initiatives and export promotion schemes that include a duty remission facility, Manufacturing Under Bond (MUB) and Export Processing Zones (EPZs).

Kenya has made significant progress in eliminating exchange controls, including restrictions on inward portfolio investments, and has removed trade restrictions, except for certain sensitive products in Health, Security and Environment. There are no restrictions on foreign investment, foreign ownership and repatriation of profits or capital.

Investment in the Export Processing Zones (EPZs) and Manufacturing Under-Bond (MUB) enjoys a 10-year tax holiday, followed by a 25% tax rate for the next 10 years, and is exempt from import duties, VAT and sales tax. Foreign ownership in listed Kenyan companies is generally restricted to 40% in the aggregate and 5% for each individual investor. The Government has revitalised the investment climate by liberalising the exchange controls, removing price controls, freeing the shilling exchange rate to be market driven, abolishing import licensing and opening up of the capital markets to foreign participation (<http://www.epckkenya.org>). The government set up the Export Promotion Council (EPC), and established the Kenya Investment Agency, (KENINVEST), to strengthen the institutional frameworks for promotion of both domestic and foreign investment. Furthermore, Kenya enacted a New Constitution in August 2010 which protects investors and also created 47 Counties all of which provide new investment opportunities.

A reform process, through what is popularly known as Structural Adjustment Programmes, (SAPs) set in motion in the 1980s led to significant changes in the Kenyan economy. But the pace of progress slowed in the second half of the 1990s. Since then, population growth, degradation of natural resources, the changing global climate and the political crisis of early 2008 have all contributed to worsening poverty levels. Kenya's long-term development blueprint, Vision 2030, was launched in 2008. It aims to create a "globally competitive and prosperous country with a high quality of life by 2030". Vision 2030 is designed to guide the country towards meeting the Millennium Development Goals by 2015 and beyond, transforming Kenya into "a newly industrialized, middle-income country".

Evidence shows that agriculture-led growth in Kenya is more than twice as effective in reducing poverty as growth led by industry. The key to better performance in agriculture lies in boosting smallholder productivity and developing non-farm activities. By making financial services widely available to rural communities to enable the growth of smallholder enterprises, the Government of Kenya aims to stimulate rural economies.

The government recognizes that economic development depends on agriculture, tourism, manufacturing and the energy sector. And all of these rely heavily on sustainable management of natural resources, particularly Kenya's five major water towers. The increased frequency of drought has also led the government to place natural resource management and climate change mitigation at the centre of its agricultural and economic development strategy. In partnership with other development partners, the government has introduced new legislative and policy reforms to coordinate ecosystem management and the sustainable use of natural resources. These include:

- Agricultural Sector Development Strategy, which gives agriculture priority importance within Kenya's economy, as a means of livelihood for most of the rural population, and as the key to food security and poverty reduction;
- Legal Notice No. 166, which offers guidelines for agricultural farm forestry and requires that 10 per cent of all agricultural land be planted with trees;
- Water Act, which aims to enhance water resource management through community participation;
- Forest Act, which aims to enhance the long-term protection and conservation of forestry resources.

2.3.2 Policies and Laws related to Agriculture sector

2.3.2.1 Introduction

In the first and second decades after independence, macroeconomic policies covering monetary, fiscal, exchange rate, trade policies and budgetary decisions had profound impacts on the profitability of the agricultural sector and the welfare of farmers. Nevertheless, a set of relationships among fiscal, inflationary pressure, exchange rate options and agricultural profitability underlies the indirect imposition of a tax on agricultural producers. Kenyan farmers have faced heavy implicit taxation through unfavorable macroeconomic policies especially over-valued exchange rates, which reduced the prices they obtained for their exports. As part of the monetary policy, the requirement is that ceilings on loan interest rates must include all lending related charges and fees removed, permitting institutions to set

their lending rates to reflect current market conditions. Monetary policy has impacted negatively on credit availability for agriculture. The major concern with the foreign exchange policy is the need for a stable exchange rate that supports and reduces uncertainty in the sector and enhances investor confidence.

The role of the Ministries of Agriculture (MoA) and Livestock and Fisheries Development is to provide a conducive policy environment and appropriate services for the sector to develop. The Ministries are also responsible for the control of crop and livestock production, marketing, extension, land use development, regulation of agricultural credit, advice on soil conservation and agricultural research. Besides, the ministries are the reference points in agricultural policy formulation and implementation. One of the core functions of the Ministry of Agriculture (MoA) is to ensure food security through appropriate crop production technologies. It endeavours to attain this through, among others, provision of good quality seed and the control of pests and diseases. The Ministry has the major responsibility of creating an enabling environment for the players in the agricultural sector, through development of effective policies and strategies; undertaking review of policies and regulatory framework; and ensuring control of pests and diseases. It also facilitates collaboration among various stakeholders such as researchers, private agro-business enterprises, farmers, NGOs, CBOs, and development partners. This can only be achieved if relevant policies are formulated and implemented to enhance productivity, which leads to an enhanced food security status and a reduction in poverty. Self-sufficiency in the production of foodstuffs has been a stated policy objective in the agricultural sector as a means of sustaining livelihoods in the country.

2.3.2.2 Market Liberalization

In the first two decades of independence, the most persuasive school of thought was that government involvement in agriculture was the prime mover if not the panacea of the growth of the rural economy and agriculture in particular. This thinking was reversed in the third decade when too much government intervention in agriculture started to be viewed as having negative impacts on agriculture. State involvement was viewed as unsustainable, costly and responsible for the creation of market distortion and the budgetary implications arising thereof. Beginning in early 1980s, policy makers from major international institutions especially the International Monetary Fund (IMF) and the World Bank in collaboration with local technocrats and policy makers started to call for the reduction of government involvement in productive sectors. It was believed that developing economies like Kenya would grow much faster with less government, since markets would promote competition, which motivates efficient allocation of resources and would encourage innovation. This was the beginning of liberalisation paradigm. A shift towards liberalized market policies in Kenya started in the 1980s but it was not until 1993 that the government became committed to implementation of these policies, (Ikiara, Juma and Amadi, Nyangito, 1998).

Despite high expectations, liberalization failed to deliver fully due to the following reasons: first, it was fast; second, it was broad and far-reaching; third, it was poorly sequenced and not synchronized with other policies. Fourth, there was policy instability, which reduced investor confidence. Fifth, there was lack of harmony and co-ordination in implementation of the policies, (Nyangito, Argwings Kodhek, Omiti and Nyoro 2003).

The result of this broad and fast-paced liberalization of the agricultural sector tended to confuse farmers as it increased uncertainty in agricultural markets therefore undermining confidence in policies. Furthermore, major institutional change resulting from the reforms required sufficient implementation capacity that was grossly lacking within government

After liberalization, the state was to play a reduced role in agriculture and food sector but the private sector that was supposed to fill the gap left by the state has not actively participated in the sector. Reasons given for this phenomenon include: lack of capacity, poor infrastructure, inadequate regulatory system and assumed high risk in investing in agriculture. Liberalization came in to address constraints that prevailed in the agricultural sector. However, literature indicates the continued prevalence of those constraints. For example, the removal of subsidies in particular agricultural fertilizer and floatation of currencies resulted in increased costs of farm inputs, making it difficult for farmers to increase or even to maintain previous production levels from the same amount of land.

Furthermore, while liberalization was supposed to ensure availability of food to all people and at all times, cases of hungers are still reported even in areas that were previously food self-sufficient. Furthermore, pricing and marketing liberalization of the food sector led to dramatic producer price increases in nominal terms for most commodities. The dramatic price increase for food crops was due to removal of price controls and response to market forces, indicating that prices were set below the market price as determined by supply and demand. Nevertheless, production volumes indicate a poor response to price increases due to the fact that real producer prices fluctuated heavily while the terms of trade between the outputs and inputs worsened. Consequently, the profitability of growing food crops became low, as the prices did not provide adequate incentives for increased production of the crops. Furthermore, an analysis of the input and output price shows that liberalization measures have yet to impact positively on profitability in agriculture. Trade liberalization has led to an increase in import of foodstuffs, and a reduction in government support to agriculture.

The need for improved agricultural productivity in the recent years has attracted the attention of policy makers, researchers and development practitioners in Kenya because: declining agricultural productivity has led to food shortage, underemployment, low incomes from cash crops and poor nutritional status. This trend must be reversed, if Kenya is to attain sustainable development. More public investment should be channeled into agriculture in the areas of human capital, technology and institutional innovations among others. This is because the transformation of agriculture ought to be public sector led in future. As noted by Eicher in reference to Initiative for Development of African Agriculture (IDEAA) countries, “ The current emphasis of many donors and academics on ‘freeing agriculture from the state’, downsizing and reducing the role of the state represents a misleading understanding of history and a misleading guide to action in the IDEAA countries. Instead of endorsing a blanket reduction of the state involvement, we should be analyzing the changing and evolving roles of the state in relationship to civil society, the private sector and NGOs overtime. Specifically, we should be asking, what are the new roles for old actors such as the state?” (Eicher, 2001).

2.3.2.3 Development Strategies and Programmes in Agriculture

Policies affecting agriculture consist of government decisions that influence the level and stability of input and output prices, public investment, costs and revenues, and allocation of research and development funds to improve farming and agricultural related processing technologies (Nyangito, 2001). Some of these policies affect agriculture more directly than others and constitute the agricultural sector policies affecting particular commodities and production techniques. These have included particularly quantitative controls, subsidies and taxes on inputs and outputs. Policies that affect agriculture indirectly are of two types. One set is macro policies that affect agriculture through macro prices such as general trade regimes, interest, exchange, and wage rates. The second set of indirect policies is concerned with investment decisions in provision of services such as research and development, education, health, transport, market infrastructure and institutions, which have a broad impact on agricultural sector productivity. These policies can be broadly classified into: Pricing and marketing including marketing institutions, research and extension, land, credit and financial institutions including the role of co-operatives, infrastructure investment including transport and irrigation, food security and self-sufficiency, and agricultural input policies.

Several policy initiatives have been issued and documents have been prepared since 2001 to highlight the government objectives regarding sustainable growth and socio-economic development, and to build overall programmatic frameworks for their implementation. The most important policy documents are discussed below.

2.3.2.4 The Poverty Reduction Strategy Paper (PRSP), 2001-2004.

This document outlines priority areas and measures necessary for poverty reduction and economic growth. The Poverty Reduction Strategy Paper was prepared through a consultative process in all districts and involved the government, the private sector and the civil society. In it, government commits to priority actions in two broad areas:

– creating opportunities for rural communities and the private sector to effectively carry out their activities in an increasingly competitive global environment, and accelerating policy and institutional reforms, particularly the large backlog of legislative and regulatory reforms. During the PRSP consultations, Agriculture and Rural Development (ARD) in general, received top ranking as the key sector through which to tackle the increasing level of poverty. The ranking within ARD (in ascending order) was crop development, rural water, livestock development, food security, lands and settlement, environmental management and fisheries (Agriculture Sector Brief and Horizon, 2015).

Within agriculture, crop development, was the priority sector with poor extension services, inefficient rural financial systems, the poor state of rural infrastructure and poor marketing and distribution systems being identified as the main constraints. In the livestock sector the PRSP identified marketing systems and infrastructure, disease control and extension services as priority interventions. The challenge for the Government is to mobilize the necessary resources and build the institutional capacity to implement the proposed measures.

The causes of poverty were identified as: low agricultural productivity and poor marketing, insecurity, unemployment and low wages, bad governance, land issues, lack of infrastructure especially roads, cost of social services and education, HIV/AIDS epidemic and gender imbalance. The PRSP has addressed the removal of these causes and hopes that the extreme poverty level would be reduced by 50 percent by 2015 while the overall target is to reduce poverty prevalence to less than 30 percent by the same year. The strategies to achieve these targets in the agriculture sector would include: crop development through improved extension services, provision of credit to the small holder farmers, improve the rural infrastructure including roads for ease of transporting the farm produce to the markets, develop marketing linkages between producers and consumers through the provision of market information, and capacity building for the institutions charged with the implementation of the strategies.

2.3.2.5 The Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) (2003-2007)

This document lays out the main policies of the new government. The Strategy intends to restore and sustain economic growth, generate 500,000 jobs per year to absorb over 2 million Kenyans who are currently unemployed, and reduce poverty. It lays out the main agricultural policies that are further elaborated on in two draft documents: Strategy for Revitalizing Agriculture being prepared by the Ministry of Agriculture, and the Strategic Plan 2003-2007 of the Ministry of Livestock and Fisheries Development.

2.3.2.6 The Ministry of Livestock and Fisheries Development Strategic Plan 2003 – 2007

The Strategic Plan gives further insight into the government's priority interventions in the livestock sector. In the areas of disease control related to enhancing the export of livestock products, the Ministry proposes to develop and implement disease and pest eradication programmes, develop and operationalize disease free zones and set up risk analysis and Trace Back Systems to meet the requirements of international livestock markets. The strategy also calls for a streamlined legislative policy framework, review of the National Livestock Policy, the policy regime surrounding the provision of veterinary services, and the Wildlife Conservation Act that does not allow e.g. ostriches and crocodiles and other emerging livestock species to be domesticated. Liaison with various government departments will be used to enhance security in livestock producing areas (Agriculture Sector Brief).

2.3.2.7 Strategy for Revitalizing Agriculture, 2004 - 2014

This is a joint strategy of the Ministries of Agriculture, Livestock and Fisheries Development but the Livestock and Fisheries Development Ministry have already developed their own Ministry specific Strategic Plan described above. The Strategy for Revitalizing Agriculture (SRA) makes bold and potentially far-reaching proposals. It accepts the growth target for the sector of 3.1 percent, but does not say where the growth will come from. However, its analysis of the key constraints to Kenyan agriculture indicates that it is the beginning of a process that may more clearly define and achieve that target. The SRA recognizes low productivity as the key constraint in Kenyan agriculture. As a result, symptoms like high production costs and competition from imports are manifested. The productivity problem is decomposed into 3 components: extension, research and economic and financing problems. The extension problem

manifests in the lack of awareness or use of existing productivity enhancing technologies, while the research problem as laid out in the SRA refers to non-existence of appropriate productivity enhancing technologies. The economic and financing problem manifests in farmers aware of, but unable to meet the cost of available productivity enhancing technologies. This is attributed to some of the poor services they receive in terms of the policy, legal and regulatory framework, the input and output marketing services that result, and the poor access of the agricultural sector, particularly the typical small scale producer to different types of financial services.

2.3.2.8 The Agricultural Sector Development Strategy (ASDS) 2010-2020

The Agricultural Sector Development Strategy recognizes that in order to ensure accelerated growth of the agricultural sector as envisaged in Vision 2030, the following strategic issues need to be addressed: Empower farmers by strengthening producer organizations; Improve regulatory framework; Review taxation on agriculture; Improve the agricultural extension service; Establish efficient research system; Increase competition in the supply of inputs; Improve access to financial services and credit; Promote market orientation; Encourage growth of agri-business; Develop and implement land reforms and an agricultural land use master plan; Improve environmental management; Strengthen frameworks for development of Northern Kenya and other arid lands, and; Improve food security.

The above strategic issues are indeed pertinent to the development of the agricultural sector and promotion of investment in the sector. However, what is urgently needed is action through public-private sector partnerships to ensure that all the issues are adequately addressed.

2.3.2.9 The National CAADP Compact and Medium Term Investment Strategic Plan (MTISP)

The CAADP National Compact builds on the ASDS but in line with the CAADP process, aligns the strategies under the four CAADP Pillars, namely, Pillar 1 (Extending the area under Sustainable land management), Pillar 2 (Improving rural infrastructure and access to markets), Pillar 3 (Increasing food supply and reducing hunger) and Pillar 4 (Agricultural research, technology dissemination and adoption). After preparation of the National CAADP Compact, an investment plan was prepared based on the identified priorities and on Vision 2030. According to the National CAADP Compact for Kenya, overall growth and development of the sector will be anchored on five strategic thrusts: (i) Increasing productivity and promoting commercialization and competitiveness of all crops, livestock, marine and fisheries and forestry (ii) Increasing market access through the development of cooperatives and agri-business (iii) Developing and managing water resources, land resources, forestry and wildlife in a sustainable manner (iv) Reforming agricultural services, credit, regulatory, processing and manufacturing institutions for efficiency and effectiveness and (v) Promoting private sector participation in all aspects of agricultural development.

2.3.2.10 The National Development Plan (NDP), 2002-2008.

The plan is a statutory policy document outlining the development policies and strategies to be pursued by the government and other development agencies over the medium term- a seven year period-and was launched more or less at the same time as the PRSP.

2.3.2.11 The Kenya Rural Development Strategy (KRDS), 2002-2017 and the East African Community Rural Development Strategy.

This is a longer-term framework document outlining a broad range of strategies for improvement of rural Kenya over the next 15 years. Considering food security promotion and attainment as the initial step towards poverty alleviation and equitable growth and development in rural areas, the KRDS is a road map for government, private sector, civil society (religious groups, NGOs, rural communities, CBOs) and other development partners.

Several policy actions and interventions are proposed within the KRDS framework to facilitate the process of rural development with agriculture providing the stimuli, resources and market. Agricultural growth must serve as the catalyst for the broad-based economic growth and development. Through forward and backward linkages to the non-

farm economy, agriculture will generate raw materials, employment, income, larger market and growth in the rest of the economy (Horizon, 2015 and Agriculture Sector Brief). According to Kenya Institute of Public Policy Research and Analysis, KIPPRA (2010), Kenya Economic Review, 2010, there is need to implement the Agriculture and Rural Development Strategy of the East African Community and remove NTBs to promote cross border trade in agricultural commodities; the combined population of 80 million people in the EAC provides a larger market for investors in Kenya. KIPPRA proposes the following policy agenda as necessary for revamping the agricultural sector:

- Promote small scale irrigation technologies that promote pro-poor growth based on both demand and supply strategies
- Intensify sustainable production and marketing systems
- Strengthen research-extension-farmer linkages
- Improve input distribution
- Build capacity among farmers organizations (e.g in business development and management skills)
- Improve enabling agriculture business environment
- Farmers should explore marketing options such as futures and commodity hedging
- Expand regional agricultural trade.

In relation to the above general strategies, there have been a number of sectoral reforms which are at various stages of implementation. Some of the reforms since 2008 include (Economic review of Agricultural sector, Government of Kenya, 2009):

- National seed Industry policy and Seeds and Plant Varieties. The policy aims to give a clear direction for sustainable development of the seed industry in order to provide quality and adequate seed and planting materials and harmonise related seed activities, legislation and actors
- Sessional Paper and Amendment of the Sugar Act 2001 to restructure the sugar industry and make it more competitive and respond to regional and global trade. Due to poor performance of the sugar industry, Kenya has had to report to application of Safeguard measures of COMESA to prevent collapse of the industry due to its inability to compete with cheaper sugar from the COMESA region.
- National Agricultural Sector Extension Policy aimed at reviewing the national extension policy to give it a sector wide dimension.
- National food and Nutrition policy and food security and safety Bill to improve food availability and quality for all.
- Amendment of the Coffee Act No 9 of 2001 to allow for direct coffee sales and marketing, reform key industry institutions and establish the Coffee development Fund to finance the industry.
- Sessional paper and bill to reform the National Cereals Board Act to improve legal framework for a commercialized grain industry.

All the above efforts show that the government has and continues to make serious efforts in order to improve the policy environment in which all investors in the agricultural sector operate. Many of the reforms have been co-ordinated by the Agricultural Sector Co-ordinating Unit, ASCU, which is also developing a policy on agricultural insurance to create an enabling environment for farmers to insure their business.

2.3.3 Legal Framework for Investment

2.3.3.1 Overview

The major investment-related laws in Kenya consist of the Foreign Investment Protection Act, the Trade Licensing Act, and the Investment Promotion Act. These laws provide for the rights and obligations of foreign investors, detailed investment procedure, application for investment approval, competent departments, investment incentives, etc. Sector-specific rules are incorporated in relevant regulations, such as the Transport Licensing Act, the Land Control Act, the Water Act, the Hotels and Restaurants Act, the Tourism Industry Licensing Act, the Mining Act, etc (www.china.org). In the agricultural sector, other laws include the Plant Protection Act, the Suppression of Noxious Weeds Act, the Agricultural Produce (Export) Act, the Agricultural Act and the Seeds and Plant Varieties Act.

The purpose of the Investment Act 2004 is 'to promote and facilitate investment by assisting investors in obtaining the licenses necessary to invest and by providing other assistance and incentives and for related purposes'. Kenya is also a signatory to several regional and multilateral trade and investment agreements which further expand the policy space and opportunities for investors in the country. Kenya is a member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group that promotes foreign direct investment by providing political risk insurance to investors and lenders against losses caused by noncommercial risks (<http://www.miga.org>). It is also a signatory to the International Centre for Settlement of Investment Disputes (ICSID) which is a channel for settling disputes between foreign investors and host governments (<http://www.investmentkenya.com>), the World Trade Organisation, WTO, the global watchdog on trade in goods and services, including Trade Related Intellectual Property Rights, TRIPS, the East African Community, EAC and the Common Market for Eastern and Southern Africa, COMESA whose protocols address investment issues.

From the above summary of policy and legislative initiatives, it is quite evident that the current policies and laws do support investment in several ways. It's also clear that the private sector has been given an opportunity to actively participate and partner with government in investment activities. These opportunities for example, include private public partnerships in pollution and waste management, energy generation, infrastructure, agriculture, air transport, and telecommunications where very successful partnerships can be cited.

However, in spite of the progress made in proving policies and laws that govern investment in the country, several shortcomings or limitations need pointing out. The impact of policies and laws in the Kenya's horticultural sector are well articulated in a recent paper entitled, '*An Assessment of the Factors Influencing Foreign Direct Investment Inflows in Kenya's Horticultural Industry*' (Njoroge, S and Oketch, T 2011). The paper provides typical examples of the shortfalls in the policy and legal frameworks governing investment in the agricultural sector. Apart from poor infrastructure, especially road network and telecommunications, other factors were cumbersome regulatory framework whereby potential investors are subjected to bureaucratic and multiple screening and approval system; unfair investment policy requirements for foreign investors; unfavorable labor laws and trade union activities; and inadequate policy framework for fair competition. Other institutional, policy and legal shortcomings are summarised below:

Lack of co-ordination and linkages within and across key economic sectors or subsectors: Although the Kenya Investment Agency provides information on investment opportunities in various subsectors and has created a website for this purpose the country does not have a consolidated National Investment Master plan for ease of reference by potential investors. Although some sectors are closely related to one another (e.g agriculture and manufacturing), the development of sectoral master plans is done without due recognition of these linkages. The various sectoral master plans have not been consolidated into a single master plan.

Scattered laws and policies requiring multiple licensing by various government ministries: For example, to invest in real estate, one has to get a permit from the Ministry of Public Health and Sanitation, Ministry of Environment (National Environment Management Authority, NEMA) and Ministry of Local Government. To set up a

slaughter house, one would also need to get permits from all the above ministries in addition to the Ministry of Livestock Development. If investor is a foreigner, he would also have to be cleared by the Ministry of Immigration. All these raise the cost of starting business and discourage potential investors.

Policy and legal inadequacies: Under the new constitution, limits have been put on how much land an individual can own. The process of acquiring land is itself cumbersome and expensive. The minimum amounts of capital outlay that foreign investors need- at least five hundred thousand United States of America dollars or the equivalent in any currency and domestic investor, at least five million shillings or the equivalent in another currency, (Investment Act, 2004) before they qualify for an investment certificate serve to lock out majority small and medium enterprise investors. This is particularly discouraging for investors in the agricultural sector which is perceived as more risky and generally attracts less credit from formal financial sources. The Act does not recognise the role of millions of smallholder farmers who are the backbone of the cereals, tea, and horticulture, dairy and coffee subsectors.

Government participation in business: The Government should ideally concentrate on creating an enabling environment by investing in infrastructure and other public goods such as provision of information and extension services for smallholder farmers, and in formulating and implementing suitable policies and laws rather than in actual participation in business. For example, investors in the agro-input supply chain have been discouraged when the government gets into importation and distribution of fertilizers or seeds, which are then sold at subsidised prices, thus creating unfair competition. Sectors that have limited government participation have realised phenomenal growth. Examples of these are the dairy and horticultural sector. According to a report by the African Development Bank on the African Food Crisis (African Development Bank, 2008), several actions need to be taken in order to respond to the food crisis, stimulate private investment in agriculture and contribute to sustainable food security on the continent:

- Scaling up Rural Infrastructure: There is need to improve infrastructure for increased irrigation and water storage capacity for agricultural production, reduction of post harvest losses through better feeder roads, storage facilities
- Removing trade barriers such as tariffs and SPS requirements among members of regional economic communities (EAC and COMESA for Kenya) to expand markets for potential investors
- Removing barriers to human movement across borders and opening up land for cultivation by neighbors- Kenya should seek to access land in Uganda and Tanzania where it's plenty
- Stepping up adaptive research on existing research findings across borders to increase crop yields
- Managing well targeted smart subsidies for key agricultural inputs such as fertilizers and seeds
- Stimulating investment through private sector and public/private partnerships, e.g. farmers out-grower schemes
- Promote SMEs especially in agri-business through expanding financial intermediaries (lines of credit, guarantees to local banks, particularly agricultural development banks, to enable them extend long term financing to agricultural producers
- Strengthen agricultural research, science and technology through increased funding of public research
- Improve agricultural education and training to enhance agricultural extension services to farmers.

The United Nations Conference on Trade and Development, (UNCTAD, 2008) has also proposed several policy measures that need to be taken, which are relevant to Kenya. These include the following:

- Balancing the inherent tension between urgent and sustainable access to food: food aid policies should not undermine or act as disincentives to local production of food as this will discourage local investors
- Improved co-ordination between agricultural development and trade through better linkages and co-operation between ministries responsible for domestic agriculture and trade at the national level. The ministry of Agriculture and that of Trade need to work more closely in promoting agricultural trade and investment in the country. Such collaboration already exists for example through the Interministerial Committee on WTO but more needs to be done.

- Investment and enterprise development policies and agricultural development-need to make rules and regulations more simpler and transparent for foreign and local investors with special emphasis on small scale operators in order to promote maximum participation and benefit for local rural populations
- Technology policies and agricultural development: Improve awareness of and easy access to proven technologies to increase their adoption and build the capacity for the assessment and /or modification of particular technologies to suit local conditions to enhance technology diffusion.
- Financial support policies for agricultural development- increase public investment in agriculture for research and development. Channel more aid to the agricultural sector.
- Commodity markets development: support the development of commodity exchanges

2.3.3.2 Business registration and licensing

The current business registration is archaic, inefficient and unreliable, and imposes additional cost to investors in terms of money and time, and is especially a burden to SMEs. There are about 12 business registration procedures, in comparison to 7 in Ethiopia, 9 in South Africa, 6 in Zambia, 5 in Hong Kong and 6 in UK. These lengthy procedures result to delays in starting a business, whereby it takes an average of 47 days to start a business in Kenya, in comparison to 32 in Ethiopia, 38 in South Africa, 35 in Zambia, 18 in UK and 11 in Hong Kong. They also translate into costly operational costs, whereby Kenya's cost of business registration is at an average 53.4% of business income per capita, compared to South Africa at 9.1%, Hong Kong at 3.4%, and UK at 0.9%. These costs increase when Environmental Impact Assessment requirements are included, and when lost management time, bribes and opportunity costs are accounted for. Other constraints related to starting a business include the cumbersome process of registering a business name, the process of company registration which is bureaucratic, lengthy and expensive, and the chaotic and unfriendly registration procedures at the Registrar's office.

Regarding business licensing, the Single Business Permit introduced in 1998 and implemented by local authorities is considered by businesses as a tax but not a license, since local authorities do not conduct any examination on health, safety and environment standards of a business premises prior to issuance of the license, but are merely interested in the revenue generated. The payment of the license is also duplicated among various local authorities, since even after paying for the license to the local authority in the area where production takes place, a manufacturer still has to pay similar licenses to all other local authorities where distribution of goods takes place.

2.3.3.3 The legislative framework for commercial activities

The current legislative framework governing insolvency and secured transactions in Kenya is outdated and not comparable to international best practices. The framework is characterized by:

- A rigid financial transactions framework, where some financial transactions, for example giving assistance for purchase of shares to small investors are not permitted in Kenya while they are allowed in other countries such as the UK, US, Canada, New Zealand, Australia and Hong Kong.
- Poor protection of the rights of minority shareholders in publicly quoted companies, especially if those that may wish to leave a company, for example due to change of the company's ownership structure. The buy-out of the minority shareholder by the company is not allowed in law while it has been allowed in other countries like England, Australia and New Zealand.
- Uncompetitive regime on time and cost involved in getting an insolvency case resolved, compared to neighboring and other competitor countries.

2.3.3.4 The legal framework for creating and enforcing secured transactions

Kenya's legal framework for creating secured transactions is complex, technical and ineffective. It creates uncertainty and increases cost of transactions, and makes it difficult to create a credible system of enforcing credit collection. Current gaps in the legal framework include the lack of a comprehensive framework governing security of movable property, which explains why banks refuse to take moveable collateral such as stock as security for loans, and in most cases only accept land titles. This problem is further complicated by a multiplicity of land regimes, complexity of land laws and poor administration, and requirement for payment of stamp duty as a prior condition for any land transaction, which could delay the transaction for several months.

2.3.3.5 Commercial Dispute Resolution

Difficulties experienced in recovering credit through the court system are a major cause of restricted access to business credit in Kenya and its high cost. The causes of poor credit recovery include backlogs in hearing of court credit related cases, corruption in the courts, insufficient basic infrastructure like magistrates' offices and court clerks, and the existence of only one commercial court in Kenya which currently has a backlog of an estimated 6,000 cases. Further, there are no other legally binding procedures apart from the court system for commercial dispute settlement. The result of the problems experienced in recovering credit makes Kenya quite uncompetitive compared to neighboring and other investor competitor countries on cost, number of days and procedures to enforce a contract.

2.3.3.6 Land use and transfers

Investors who have acquired land find it difficult to obtain site development approvals, connections to utilities and provision of services like roads. These difficulties are due to lack of a national land use plan and overlapping functions of Government authorities involved in land transactions. Except for EPZs, there are no written procedures, benchmarks, guidelines or formats that can be followed by investors when applying for approvals to site development or change of ownership. The decision on land use or transfer can take up to 12 months, but for those who wish to shorten the process, they have to hire expensive local consultants, or bribe officials of relevant authorities.

2.4 Investment opportunities in other subsectors of the Economy

2.4.1 Overview

The Kenya government has in a number of policy documents emphasized self-sufficiency in domestic production of the main food commodities as well as the ability to generate adequate foreign exchange as a means of achieving food security. As noted earlier in this document, the country has not attained the desired self-sufficiency except for maize in the 1970s. There have been shortfalls in foodstuffs particularly maize due to the reduction in acreage under the crop, low levels of fertilizer use, discontinuation of the crop insurance schemes particularly the Guaranteed Minimum Return (GMR) and drought among others. Subsequent policy papers have addressed incentives to farmers to increase food production and create an effective distribution system that guarantees food reaches deficit areas.

Even with the adverse climatic conditions and the scarcity of medium to high potential land, it has been demonstrated that given adequate support and non-interference in production and marketing, Kenya is capable of increasing both production and productivity in agriculture. Tea, horticulture and dairy sub-sectors are some of the sub-sectors where Kenya has had greatest success and still have great potential to increase production and productivity. The success in the sub-sectors can be attributed to a combination of factors including: favorable weather conditions over some of the years, availability of credit, emerging market opportunities, government sponsored research and extension, training, and monitoring among others. The government also created an enabling environment by removing bureaucratic structures in the market mechanism. The combined government assistance and restraint from interference helped in the rapid expansion of these sub-sectors, [Nyangito 1996, Kimenyi, 1995].

2.4.2 The Vision 2030

It identifies investment opportunities in the following areas:

Building and Construction: Extensive opportunities for investment exist particularly in the area construction of trunk roads, upgrading slums and informal settlements, urban renewal, construction of middle and low income housing, manufacture and supply of building materials and components and upgrading of rural access roads. Possibilities also exist through participation in concessioning and dualing of some of the highways. New road links are planned between Kenya, Ethiopia and Sudan. These initiatives provide opportunities for the provision of credit to construction companies.

Manufacturing: Initially developed under the import substitution policy, there has now been a shift to export oriented manufacturing as the thrust of Kenya's industrial policy. The sector plays an important role in adding value to agricultural output and providing forward and backward linkages, hence accelerating overall growth. A wide range of opportunities for direct and joint-venture investments exist in the manufacturing sector, including agro-processing, manufacture of garments, assembly of automotive components and electronics, plastics, paper, chemicals, pharmaceuticals, metal and engineering products for both domestic and export markets.

Mining and Mineral Products: Opportunities exist in the production of glass as the country is not self-sufficient and in the manufacture of quality ceramic pottery and tiles and sanitary-ware. Investment potential exists in prospecting and mining of other minerals such as gold, precious stones and petroleum.

Wood and Wood Products: Making use of renewable resources, investment opportunities exist for production of high quality and hand carved furniture for export, high density board from saw dust for the domestic market, high quality veneers, wooden toys, sporting goods such as cricket bats and rackets for export, and other speciality items.

Telecommunication: The sector has been liberalised greatly, moving away from the monopoly of Kenya Posts and Telecommunications Company to a host of new players. Investors possessing the necessary skills in those sectors can form joint ventures, particularly for the provision of cellular phones and internet services. Opportunities exist in development of broadband infrastructure, software and hardware development, supply of equipment, technical and consultancy services, among others.

Road sub-sector: The improvement of the national road network is a top priority of the Government of Kenya. Apart from development of national trunk roads and infrastructure for urban transport, there are opportunities in supply of road safety equipment, training on road safety issues, and technical and consultancy services.

Tyres: The country currently has only one tyre manufacturing facility namely Firestone (E.A.) Limited.

Port facilities: Investment opportunities exist in the rehabilitation of berths to expand and improve their services, study and installation of modern information technology systems at the ports, rehabilitation and management of port services, training, supply of equipment, technical and consultancy services for marine engineering, among others. In civil aviation, there potential opportunities in rehabilitation of airports, management of airports, supply of equipment, technical and consultancy services.

Energy: Kenya's energy policy emphasizes the need for sustainable energy supplies in adequate quantities at effective costs, so as to achieve national development goals. The policy also emphasizes delivery of quality energy services so as to ensure that Kenya will continue to attract investments in those economic activities of which energy inputs are basic to production at competitive prices. The country is dependent mainly on three forms of energy namely: petroleum, electricity and wood-fuel. To a lesser extent wind, solar and biogas are used as alternative

energy sources. There are opportunities in geothermal and hydro-electric energy productions in production of solar energy panels and in production of biofuels.

Banking & Finance: Some areas for investment opportunities include lease hire, micro-financing, investment banking, insurance Services and business Advisory services – trusteeship and Receiverships.

Information and Communication Technology, ICT: Use of ICT has been embraced greatly by the Government of Kenya and several incentives are available which provide investment opportunities in the I.T. Enabled Services, Call Centers for both inbound and outbound calls, Wide range of Business Process Outsourcing activities, Disaster recovery, Software development, Education and Training, ICT Habitats and Development of Broadband infrastructure .To compliment all the above sectors, Kenya aspires to attract internationally reputable educational institutions, universities and training centers. The following areas exist for investment: Science and technology centers, IT Centers of Excellence, Training Centers for Hospitality industry, School Fashion and Design, R&D institutes, Schools for Business and International Marketing.

Tourism: Tourism is Kenya's third largest foreign exchange earner. Enormous opportunities exist for investment in film production; recreation and entertainment facilities in conference Tourism, cultural tourism, cruise ship Tourism, aviation/tour and travel Tourism and in eco-tourism. Opportunities also exist in this sector in the construction and running of tourist hotels and games lodges all over the country, especially in new areas such as Western Kenya

Mobile Computer Laboratories (new): Ministry of Finance allocated Ksh1.3 billion (\$16.6 million) to purchase Mobile Computer Laboratories - computer-filled buses - for each Parliamentary region of the country. These ICT buses will be for high-school students and follow Rwanda's ICT Bus initiative, where that country is poised to roll out mobile telecenters for rural communities under its eRwanda program.

Digital Villages (existing): Similar to a small cybercafe, Kenya's Digital Villages are small ICT centers in each Parliamentary region that are designed to create business hubs and expand economic opportunities in rural areas. This project, in partnership with the World Bank, is already underway and has rolled out 16 centers so far.

3.0 SAVINGS BY SMALLHOLDER FARMERS

3.1 Overview of Trends

Savings by smallholder farmers can be estimated through an analysis of the total share capital accumulated by farmers through their agricultural societies. Table 1 shows the total share capital of all co-operative societies, both agricultural and non agricultural. Most non agricultural societies are based in urban areas whereas the agricultural ones are owned by farmers and are located in rural areas.

Table 2: Trends in Farmers Savings (Co-operative Society Total Share Capital, 2002-2009) in Ksh. Million

Sector	2002	2003	2004	2005	2006	2007	2008	2009
Coffee	3,461	3,502	3,373	3,384	3,395	3,566	3,623	2,667
Cotton	12	1	1	1	1	10	10	17
Pyrethrum	11	7	6	6	7	10	12	12
Sugar	27	27	27	28	29	14	17	18
Dairy	90	107	118	138	158	151	156	255
Multi-purpose	92	78	75	75	77	91	122	122
Farm Purchase	20	4	4	4	5	8	9	9
Fisheries	6	3	2	3	4	3	3	110

Other agricultural	547	638	247	248	254	321	353	471
Total Agriculture	4,266	4,371	3,853	3,888	3,930	4,174	4,305	3,681
SACCOs	70,394	74,215	93,335	101,686	112,455	112,829	113,112	171,856
Consumer	17	42	40*	41	42	44	48	49
Housing	234	456	469	470	473	459	505	530
Craftsmen	35	25	25	25	25	24	26	35
Transport	12	13	14	15	16	16	18	662
Other non agricultural	165	749	351	253	245	243	267	120
Total Non-Agriculture	70,857	75,499	94,234	102,490	113,256	113,615	113,976	173,252

Source: Government of Kenya: Statistical Abstract, 2010, pg 119.

The level and trends in savings as expected are a reflection of the performance of each agricultural subsector. Subsectors such as cotton, pyrethrum and sugar have performed extremely poorly and have been on the verge of collapse. However, savings in the dairy subsector rose progressively from Ksh 90 million in 2002 to Ksh 255 million in 2009 reflecting the positive growth realised in the subsector as a result of liberalisation policies of the government and increasing demand for dairy products. The transport sector realised a sudden jump in savings from a mere Ksh.12 million in 2002 to Ksh 662 million in 2009 due to new Government policy that minibuses, popularly known in East Africa as 'Matatus' must belong to a co-operative society before they are allowed to operate in any part of the country's roads. This was an attempt to not only organise the industry but also make it easier for government to collect revenue/taxes from the industry. This demonstrates how government policy can impact on savings of a sector.

3.2 Constraints to Savings

A number of factors hinder savings by smallholder farmers. These include:

- **Limited financial service access within the reach of smallholder farmers who are often scattered in remote areas:** Due to large distances involved and hence high transportation costs and limited coverage of financial institutions in rural areas, smallholder farmers often find it expensive to save small but important amounts of money that could accumulate over time. Smallholder farmers are not seen as 'good savers' or 'credit worthy' by the big and medium scale financial institutions. Fortunately, new local banks, such as Equity Bank and Family Bank have recently come up to challenge the traditional large banks such as Barclays and Standard Chartered by moving into rural and small urban areas, and hence financial services are slowly getting within the reach of smallholder farmers. Table 2 shows Financial Service Access Strands (percent). According to table, most Kenyans (38.3%) don't have any access to any type of financial services. In rural agricultural areas only 18.1% have access to formal financial services while majority (54.5%) use informal sources. 34.4% are completely excluded from access to any form of financial services. The situation is worse in semi arid and arid areas which are also among the poorest regions of the country, with 15.8% and 8.7% accessing formal financial services respectively. This cannot be conducive for savings. A major problem with accessing formal credit by smallholder farmers is lack of agricultural insurance.

Table 3: Financial Service Access Strands (percent)

Service provider	Total	Urban	Rural other	Semi arid	Arid
Formal: Banks, post office	18.5	43.8	18.1	15.8	8.7
Semi formal: SACCOs/MFI	8.1	22.7	17.2	10.2	4.1
Informal: ROSCAs/ASCAs	3.5	39.1	54.5	58.1	31.1
Excluded	38.3	36.9	34.4	34.1	64.3

Source: *Kenya Poverty and Inequality Assessment, Volume 1: Synthesis Report (World Bank, 2008, pg 114)*

- **Government policy:** Despite smallholder farmers being the backbone of Kenya's agricultural sector, the government has only used 'moral suasion' when dealing with financial institutions and encouraging them to lend more to the agricultural sector. Without mobilising more investment resources through borrowing, smallholder farmers have had little opportunities of creating wealth and thus generating savings.
- **Poverty and food insecurity:** Due to limited commercialisation of smallholder agriculture, most farmers operate at subsistence level that hardly allows them to meet their basic needs such as food, health, housing and education. The majority of Kenya's poor are based in rural areas. As a result, smallholder farmers are net consumers, even as producers of food, and have little left to save. For one to be able to save, the income of smallholder farmers should be adequate to meet the very basic needs, especially food, health, clothing, education and housing. Table 4 shows the level of poverty in Kenya indicating that in rural areas, 49.70% and 47.20% suffered from overall and food poverty respectively according to poverty estimates carried out in 2005/2006.

Table 4: Poverty Estimates (2005/06)

	Poverty measure	Headcount (%)	No of poor (million)	Poverty gap (%)
National	Overall	46.60	16.60	16.60
	Food	45.80	16.30	
	Severe	19.50	6.90	
Urban	Overall	34.40	2.50	11.70
	Food	40.40	2.90	13.00
	Severe	8.30	0.60	2.50
Rural	Overall	49.70	14.10	17.80
	Food	47.20	13.40	16.20
	Severe	22.30	6.30	6.90

Source: World Bank (2008).

- **High Transaction costs and lack of bargaining power along the farm commodity value chains:** In addition to high transport and other marketing costs, smallholder farmers are basically price takers and get the least profit, if any, when selling their produce to markets directly or through brokers. In fact, smallholder farmers are often forced to sell below their true production costs, especially during harvest time for lack of storage, especially for perishable commodities. They also sell primary products with minimum value addition. Under these circumstances, where farmers receive poor prices, their low profit levels reduce their capacity to save.

- **Constraints and Poor Performance of some Subsectors:** As indicated above, some commodity sectors have experienced several problems which have had a direct impact on farmers' incomes. For example, pyrethrum cotton, sugarcane, coffee all used to be high income earners for smallholder farmers. These sectors have been on the decline due to a number of internal problems such as poor governance, poor pricing and payment policies and systems. They have also been negatively affected by instability in international commodity prices. Other contributing factors have been the high cost of production, lack of credit, inadequate use of modern inputs such as certified seed and fertilizers and limited access to markets. The factors have impacted negatively on productivity and profitability in these subsectors, reducing smallholder farmer' incomes and therefore, their potential to save.
- **Worsening macro-economic conditions leading to high cost of living:** The cost of living in the country has been going up recently, especially the cost of food further eroding rural incomes and ability of smallholder farmers to save. The rate of inflation in Kenya currently stands at about 16%. The consumer prices index also clearly demonstrates the high price increase in consumer goods. In particular, high fuel prices have hit the poor hard. Government intervention to lower prices of fuel, particularly paraffin that is used by the poor and diesel, critical for farm operations has been ineffective. High fuel prices have led to rising costs of transport and manufactured consumer goods. A rapidly depreciating Kenya shilling compared to major foreign currencies has raised the cost of imports further thus affecting all Kenyans, but more so the poor in urban and rural areas. The average annual national consumer price index (Base year being 1997) for food and drink (weighted at 0.505) was 283.66 in 2008 rising to 319.45 in 2009 (Government of Kenya, Statistical Abstract 2010). The Kenya shilling has depreciated by 43% since March 2007, exchanged at 80.8 shillings per United States Dollar in January 2011 and stood at 102 per United States dollar in the last week of September 2011 (*Daily Nation, 27th September 2011, page 63*). The rates of inflation from 2000 to 2010 are shown in the table below indicating a sharp rise in inflation rate from 10% in 2000 to 15.1% in 2008. Although the annual rate of inflation fell drastically to only 4.1% in 2010, this has been reverses in 2011 to 17.3% in September 2011 (www.centralbank.go.ke).

Table 5: Annual Inflation Trends 2000-2010 (Base February 2009=100)

YEAR	ANNUAL WEIGHTED AVERAGE INDEX	ANNUAL INFLATION RATE
2000	49.89	10
2001	52.75	5.8
2002	53.79	2.0
2003	59.06	9.8
2004	66.03	11.8
2005	72.57	9.9
2006	76.95	6.0
2007	80.24	4.3
2008	92.36	15.1
2009	102.09	10.5
2010	106.26	4.1
2011	Not available	17.32

Source: Kenya National Bureau of Statistics (www.knbs.or.ke)

3.3 Investment Support Institutions

3.3.1 Ministry of Agriculture

The Ministry mobilizes funds from the national budget and development partners for investment programmes directly or through its commodity specific parastatals in improving productivity, farm inputs supply, extension, marketing and marketing infrastructure such as cold storage for horticultural produce. Some of the leading parastatals are the National Irrigation Board, NIB, (irrigation development), National Cereals and Produce Board, NCPB (grain marketing, storage of strategic grain reserves, purchase of agricultural inputs especially fertilizers, seeds), Kenya seed Company (seed production and marketing), Agricultural Development Corporation, ADC (seed and commercial maize production, dairy development-production of high quality breeding stock), Kenya Agricultural Research Institute (for investment in agricultural research and technology development), Agricultural Finance Corporation, AFC (financing agricultural operations), Horticultural Crops Development Authority, HCDA (promoting investment in horticultural production), Kenya Sugar Board (support for development of sugar factories and related infrastructure), Coffee Board of Kenya (coffee production and marketing) and the Kenya Tea Development Agency, KTDA (tea production and marketing for smallholder farmers), Tea Board of Kenya. Others are the Pyrethrum Board of Kenya, The Kenya Dairy Board, the Cotton Board and the sisal board. The last two are almost 'moribund' due to the near collapse of their respective sub-sectors.

Whereas these boards were initially set up as regulatory agencies, there are several companies in which the government has substantial shares. These include for example, the New Kenya Co-operative Creameries and several sugar manufacturing firms. The performance of these parastatals has had mixed results. Great success in supporting farmers' investments has been realized in horticulture, dairy development, seed production, tea production and export and agricultural research. For example, the Horticultural Crops Development Agency, HCDA has contributed greatly to increased investments in the horticultural industry. According to an article by the Sunday Nation of 25th September 2011 (page 33), Kenya's small scale tea farmers earned a 'bonus' of Ksh 40 Billion this year and were only second to Sri-Lanka globally.

This was possible through excellent performance by the Kenya Tea Development Agency which owns 65 tea processing factories. But some of the parastatals have not been so successful, many of them due to a bad and long history of past mismanagement. Many of them had to be restructured and their services commercialized. This applies for example, to the National cereals and Produce Board. Others are yet to undergo any major restructuring, remain a burden to the exchequer, and have been unable to support smallholder farmers' investment effectively, including inability to pay for farmers deliveries. Typical examples include the Pyrethrum Board of Kenya which still owes farmers money for deliveries made years back. Although the Ministry of Agriculture has vast potential and mobilizes the largest amount of public funds in support of investment by smallholder farmers, it is limited in its effectiveness by government bureaucracy and technical deficiencies, including lack of adequate field extension staff. For a long time, recruitment of new staff was frozen under the World Bank supported Structural Adjustment Programmes, SAPs.

In addition, much of the funds allocated through the national budget also go towards recurrent expenditure as opposed to development (investment). Most of the technical roles of the ministry will be assumed by County Governments under the new Constitution, with the Ministry's key role being policy formulation and implementation. The ministry also has been restructured recently in order to improve service provision, including creation of a new directorate to deal with policy and agribusiness. The ministry, which recently facilitated the development of Kenya's national compact (investment strategies and choices) under the Comprehensive Africa Agriculture Development Programme, CAADP, therefore remains the largest public sector entity in the country that is best placed to support investment initiatives for smallholder farmers who are often resource poor and lack the capacity to compete with the private sector or large scale commercial farmers. But the ministry and its host of parastatals need to continually undergo reforms for them to improve both the efficiency and effectiveness of supporting investment by smallholder farmers in a sector that is becoming more dynamic, globalised and hence very challenging. There is also need to reform and increase public spending in the agricultural sector, including channeling more aid to the sector as Annexes 5 and six. There was a declining trend in public spending as a share of Total public expenditure for Kenya

from 7.2 % in 1999 to 4.4 in 2007. This can partly be explained by the freezing of employment of new staff and provision of other agri-support services by the Ministry of Agriculture and reduction of investment in the sector generally under the World Bank supported Structural Adjustment Programmes, SAPS. Compared to the share of agriculture in GDP, investment in agriculture is relatively low, leading to a situation where the sector is seen as being 'mined' by the rest of the economy. The contribution of agriculture to GDP (percent) was 23.8% (2005), 23.4% (2006), 21.7% (2007), 22.7% (2008) and 24.4% in 2009 (Statistical Abstract, 2010). Little foreign aid has also directed to the agricultural sector compared to other sectors. As a percentage of total aid, little aid has been channeled into the agricultural sector and yet this is the most productive sector and one on which majority citizens depend for their livelihood. This calls for changes in foreign aid policy if poverty and food insecurity are to be reduced drastically and more rapid agricultural development realized in the country. Development partners need to recognize the role agriculture plays in Kenya's economy and increase assistance to this vital sector.

However, there has been renewed interest by the Government in investing in Agriculture. The Government of Kenya formulated the Strategy for Revitalization of Agriculture, (SRA) and most recently, under the Africa wide framework, the Comprehensive Africa Agricultural Development Programme, (CAADP), the country built on the SRA to prepare the National Compact for CAADP. What remains to be done is to formulate an investment plan based on CAADP. There has been an increased effort to meet the CAADP commitment of providing at least 10% of national budget to agriculture in order to realize the CAADP agricultural growth rate target of at least 6% per year. Despite this commitment, few governments in Africa, Kenya included, have met the CAADP agreed level of investment in the sector according to a recent comprehensive monitoring and evaluation (M\$E) for the CAADP prepared by the Regional Strategic Analysis and Knowledge Support System, (RESAKSS). The report estimates that Kenya spent less than 5% of the national budget on agriculture whereas Ethiopia spent at least 10%.

3.3.2 Ministry of Co-operative Development.

This is an important regulator and facilitator of the co-operative movement in the country. The ministry deals with policy and legislation governing the co-operative sector and plays a critical role in ensuring that investments through the co-operative movement are sound, safe (well managed) and contribute to the country's economic and social development. The Ministry set up the Co-operative College that provides training to co-operatives. Working closely with co-operatives is the Co-operative Bank of Kenya. The Bank has a dedicated Division to serve the co-operative movement and has an agri-business department within the division to cater for financial needs of the agricultural co-operatives and all other players through agricultural value chain approach. The bank has supported coffee, dairy, grains, horticulture and livestock value chains (Agri and Co-operative Training and Consulting Limited, 2011). Although the bank was set up to service the co-operative sector, it has been fully commercialized and opened its services to all and hence charges for services and like any other bank without any special consideration for smallholder farmers.

3.3.3 The Ministry of Trade

By setting up the Kenya Investment Agency, Export Promotion Council, (EPC), and the Export Processing Zone Authority, (EPZA) the ministry established important institutions which indirectly support investment by all investors in the country, including smallholder farmers. The agencies are mainly involved in promotion and provision of information for investors and other forms of facilitation including improving the policy and legal framework. This encourages demand for raw agricultural materials produced by small scale farmers and market outlets for farm produce. Although they are not directly involved in mobilizing savings or implementing programmes for smallholder

farmers, they are important in creating a suitable business environment and in lowering the cost of doing business which can have a positive impact on savings and implementation of programmes by smallholder farmers.

3.3.4 Financial institutions

Agricultural credit from large commercial banks limited to mainly large scale commercial farmers who can provide adequate collateral. Although the government tried to encourage commercial banks (through moral suasion mainly) to lend more to the agricultural sector, this noble call was largely ignored due to the perceived lack of credit worthiness by smallholder farmers. These large banks not only required collateral in the form of land title deeds and other fixed assets which smallholder farmers lacked but charged high interest rates and also did not have branches in rural areas. Recently however, some local banks such as Equity Bank, have partnered strongly with the government to provide farmers with credit. Although there has been a proliferation of micro-finance institutions run by Non governmental Institutions, NGOs and private sector firms, their interest rates are still too high for viability of investment by smallholder farmers. Until they lower the interest rates, these micro-finance agencies remain unsuitable investment partners for smallholder farmers.

3.3.5 Co-operatives, SACCOs

These have the highest potential and are the most suitable vehicles for promoting investment by smallholder farmers through mobilizing savings and implementing smallholder farmers' investment programmes. Initially bogged down by mismanagement and political interference to the extent that they were facing collapse due to the bad image and practices, co-operatives have been instrumental in marketing and successful development of agri-business in Kenya. In areas where they have been well managed, farmers have benefited a lot through increased farm incomes. Typical examples of success are co-operatives in the tea subsector. Where they have collapsed, farmers have heavily lost out for example the collapse of the cotton co-operatives and subsector in Western and Nyanza parts of Kenya. Another important institution, the 'mouthpiece' of the co-operative movement in Kenya is the Kenya National Federation of Co-operatives, (KNFC) However, with liberalization of agricultural marketing and near collapse of many co-operative societies, KNFC lost many members and got financially strapped, has a weak human resource base and has been ineffective in representing the cooperative movement.

3.3.6 Farmers' Associations

The Kenya Farmers Association, (KFA) is one of the oldest farmers associations that was prominent in the early 70's. KFA was an active player in grain trade, especially wheat and maize, and in procurement of farm inputs especially fertilizers, seed, agro-chemicals and implements. KFA had country wide branch network of stores that brought its services close to smallholder farmers. The effectiveness of the association to promote farmers' investment was hampered by political interference in its management and leadership. Although various efforts have been made to revise the association, including a search for a strategic partner investor, KFA is still largely a 'sleeping giant' in that its vast potential lies idle and untapped. Other associations include the Cereal Growers Association, (CGA) which deals mainly with maize and wheat production and marketing and has been working with other maize industry players, particularly with USAID, the Alliance for Green Revolution in Africa, (AGRA), Kenya Agricultural Research Institute, (KARI), farm input suppliers and Ministry of Agriculture to promote investment and trade in cereals. Cereal Growers Association (CGA) is a member based farmer organization registered in 1996 in response to the liberalization of the grain market in Kenya. Its establishment was due to challenges encountered after liberalization which broadly include inappropriate policies, lack of access to proper production technologies and inefficient market systems (www.cga.co.ke). As a specific industry association dealing with maize, the staple food crop, CGA is also well positioned to mobilise savings and implement smallholder farmers' investment programmes. Many other less prominent but equally important industry associations are members of the Kenya National Federation of Agricultural Producers, (KENFAP). These include the Kenya Coffee Growers Association, Kenya Poultry Farmers Association, Kenya Livestock Producers Association and Kenya Cotton Growers Association, among others. The Kenya Private Sector Alliance, (KEPSA) represents the private sector. Some of the above associations have recently received some

capacity building/institutional strengthening support from the Agricultural Sector Co-ordinating Unit, (ASCU) in terms of staffing and opening offices. In general, although the industry sector associations are currently weak, they are strategically the most suited for leading investment initiatives in their respective sectors due to their specialization. For example, the Kenya Livestock Producers Association is best suited to deal with livestock issues in the country.

3.3.7 Farmers Unions

The most established farmers union in the country is the Kenya National Federation of Agricultural Producers, KENFAP. It emanated from the reorganization of its predecessor, the Kenya National Farmers' Union, itself a pre-colonial establishment set up in the 1946 to serve the interest of large scale (white) farmers but later transformed to serve all farmers (www.kenfap.org). KNFU initially concentrated on policy representation and creation of an enabling environment for smallholder farmers. However, as donor funds dwindled, KNFU set up a farmers investment fund (Farmers' Company) that was meant to build the organization's capital and income generating base through development of real property. The company mobilized some savings from smallholder farmers but did not realize enough capital to start operating. KENFAP on the other hand, embarked on a more active path of promoting direct investment by farmers.

Currently, KENFAP has a diverse range of programmes in addition to lobbying and policy advocacy. Unfortunately, KENFAP, like its predecessor, KNFU, is still donor dependent and has limited income generation capabilities of its own. KENFAP is a federation of several sub-sectoral rural producers associations having changed from individual to corporate membership of associations for poultry, potatoes, milk etc which are involved in the actual investment (production) of the various commodities. Although KENFAP as an umbrella organization may be useful in mobilizing resources, actual implementation of programme would be best undertaken by the individual associations if their staffing and other necessary capacities, such as training in good agricultural practices, leadership and business management skills and access to marketing and other agri-business information can be improved.

3.3.8 Agricultural Workers Unions

The Kenya Plantation and Agricultural Workers Union, KPAWU, represents about 200,000 agricultural workers including tea, coffee and flower workers, and is affiliated to the Central Organization of Trade Unions, COTU, the apex trade Union for majority workers in the private sector. Established in 1963, KPAWU deals with elimination of child labour in plantation agriculture (www.crin.org), implementation of international labour standards (especially improvement of working conditions in flower farms) and lobbies government against mechanization of plantations (especially tea picking) concerned that this would lead to loss of employment by its members. Being a relatively small nongovernmental organization with a limited national coverage, KPAWU is best placed to function as a workers representative organization. However, with most of its members being unskilled youth and women, KPAWU is a unique organization dealing with agricultural workers unlike other sub-sectors in manufacturing and services which have a multiplicity of organizations. It can therefore be very appropriate for mobilizing savings for this unique group of relatively low income earners and for implementing investment programmes for the 'laborers' to transform them from being mere laborers depending on poor agricultural wages to investors with additional income generating opportunities.

4.0 REMITTANCES AND INVESTMENT IN RURAL AREAS

4.1 Role of credit facilities

In Kenya, despite emphasis on increasing the availability of credit to small and microenterprises (SMEs), access to credit by such enterprises remains one of the major constraints they face. A 1995 survey of small and

microenterprises found that up to 32.7% of the entrepreneurs surveyed mentioned lack of capital as their principal problem, while only about 10% had ever received credit (Daniels et al., 1995). Although causality cannot be inferred a priori from the relationship between credit and enterprise growth, it is an indicator of the importance of credit in enterprise development. The failure of specialized financial institutions to meet the credit needs of such enterprises has underlined the importance of a needs-oriented financial system for rural development.

Experience from informal finance shows that the rural poor, especially women, often have greater access to informal credit facilities than to formal sources (Hossain, 1988; Schrieder and Cuevas, 1992; Adams, 1992). The same case has also been reported by surveys of credit markets in Kenya (Raikes, 1989; Alila, 1991; Daniels et al., 1995). A relevant question then becomes: Why do informal financial institutions often succeed even where formal relationship between lending policies and the problem of access makes it difficult to answer such a question. Thus, it would be important to empirically analyse the credit policies in the rural financial markets with the view of establishing their role in determining the access of small-scale enterprises to financial services from both formal and informal sources in rural Kenya.

Improving the availability of credit facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy (ROK, 1994). Despite this emphasis, the effects of existing institutional problems, especially the lending terms and conditions on access to credit facilities, have not been addressed. In addition, there is no empirical study indicating the potential role of improved lending policies by both formal and informal credit institutions in alleviating problems of access to credit. Knowledge in this area, especially a quantitative analysis of the effects of lending policies on the choice of credit sources by entrepreneurs, is lacking for the rural financial markets of Kenya.

Although informal credit institutions have proved relatively successful in meeting the credit needs of small enterprises in some countries, their limited resources restrict the extent to which they can effectively and sustainably satisfy the credit needs of these entrepreneurs (Napon and Huddleston, 1993). This is because as microenterprises expand in size, the characteristics of loans they require become increasingly difficult for informal credit sources to satisfy, yet they still remain too small for the formal lenders (Aryeetey, 1996a). Studies on financial markets in Africa have shown that credit markets are segmented and unable to satisfy the existing demand for credit in rural areas. Whereas for informal markets it is the limited resources that bring the constraint, for the formal sector it is the difficulty in loan administration that is the problem. A relevant issue for empirical investigation is therefore that of the factors behind the coexistence of formal and informal credit sources in the Kenyan market.

4.2 Structure and performance of the financial sector in Kenya

Kenya's financial sector grew steadily in the 1990s as indicated by the growth of the share of the financial sector in GDP from 7.9% in 1990 to 9.6% in 1994, and to 10% in 1997 (ROK, 1997, 1998). The assets of the banking system more than doubled between 1990 and 1995, while those of the non-bank financial institutions (NBFIs) increased by 16% over the same period. The composition of the institutions as at 1998 consisted of 55 commercial banks, up from 48 in 1997; 16 non-bank financial institutions from 24 in 1997; 4 building societies; and 2 mortgage finance companies (Central Bank of Kenya, 1998).

The number of commercial banks increased significantly in the 1980s, from 16 in 1981 to 26 in 1990 and 48 in 1997. The NBFIs also experienced rapid growth over the same period, more than doubling from 23 in 1981 to 54 in 1988. The number declined sharply after that, however, to 24 in 1997 (CBK, 1998). The rapid growth in the banks and NBFIs was attributed to a regulatory framework in which entry requirements were relaxed as a deliberate government effort to promote the growth of locally-owned financial institutions. The rapid growth of NBFIs was due to the lower entry requirements for NBFIs, which also faced no interest rate restrictions and were therefore able to attract more deposits by charging higher interest rates. In the 1990s, the realization that regulatory differences had resulted in the

mushrooming of NBFIs led to harmonization of capital requirements and interest rate regulation for both banks and NBFIs. This led to the decline in the number of NBFIs as many converted to commercial banks.

As the financial sector grows, institutional diversity is expected. However, this has not been the case, as reflected in the limited growth of other competing institutions like post bank, insurance and the stock exchange. The Kenyan banking sector is dominated by a few large firms, which focus mainly on short-term lending. Of the 56 commercial banks operating in the country, the largest four control 81% of the deposits. The short-term nature of their lending and their policies of concentrating on a small corporate clientele has implied indifference to small savers and borrowers. This has meant that they exclude a large number of potential borrowers and investors from their services.

The growth and relative sophistication in the Kenyan financial system have not been matched by efficiency gains in the quality of services offered to the customers and the economy in general. It has been argued that the large differential between deposit and lending rates is an indication of the lack of sufficient competition for savings among Kenyan banks. Despite the liberalization of interest rates in 1991, nominal interest rates have shown minimal increase, resulting in negative real interest rates, and a widening of interest rate spread, indicating inefficiency in the system. Bank charges for services rendered also make the cost of banking prohibitive to a majority of the population. The high profitability in the banking sector has not triggered entry by new competitors as would be expected. This points to the existence of barriers to entry in the market. According to the 1997–2002 development plan, there is need to introduce regulatory measures to check oligopolistic tendencies, which restrict entry and efficiency in the banking sector.

As in many other countries in sub-Saharan Africa, the performance of formal financial institutions and credit programmes in Kenya in terms of alleviating the financial constraints of the smallholder sector has met a lot of criticism. The criterion of creditworthiness, delays in loan processing and disbursement, and the government approach to preferential interest rates, resulting in non price credit rationing, have limited the amount of credit available to smallholders and the efficiency with which the available funds are used (Atieno, 1994). This can be seen as an indication of the general inadequacy of the formal credit institutions in meeting the existing credit demand in the country.

Bottlenecks in the capacity of the existing institutions to deliver credit are also reflected in the existing unsatisfied demand (Aleke Dondo, 1994). Viewed against its ability to meet the particular credit needs of the different types of rural enterprise activities, Kenya's financial system displays a deficiency in the range of financial instruments and lack of coordination between different financial institutions. This is consistent with the argument that credit markets in Africa are characterized by inability to satisfy existing demand, which for the informal market is explained by the high transaction costs and default risks.

The lending policies used by the main credit institutions in Kenya do not ensure efficient and profitable use of credit funds, especially by farmers, and also result in a disparity between credit demand and supply (Atieno, 1994). This view is further supported by a 1995 survey by the Kenya Rural Enterprise Programme (KREP) showing that whereas credit is an important factor in enterprise expansion, it will most likely lead to enterprise contraction when not given in adequate amounts (Daniels et al., 1995). Hence, despite the existence of a sophisticated financial system, it has not guaranteed the access to credit by small-scale enterprises.

Although not much is known about the informal financial sector in the country, there is a consensus that it is an important source of finance to the small-scale entrepreneurs in the country (Aleke Dondo, 1994). Ouma (1991) found that 72% of the sample surveyed saved with and borrowed from informal sources. Whereas in the formal credit

market only a selected few qualify for the predetermined loan portfolios, in the informal market the diversified credit needs of borrowers are better satisfied. The problems of formal financial institutions, especially security, loan processing, inadequate loans given, unclear procedures in loan disbursement and high interest rates, all underscore the importance of informal credit and the need to investigate the dynamics of its operations, especially with respect to how these factors determine the access to and the use of credit facilities. Informal credit sources in Kenya comprise traders, relatives and friends, ROSCAs, welfare associations, and moneylenders.

It is apparent from the foregoing that the financial market is divided between formal and informal segments, which operate almost independently. It is also apparent that the informal credit markets offer important alternative sources of credit since despite its resources, the formal sector is not effective in meeting credit demand. There is no empirical information on the effect of (differences in) lending policies and procedures in determining the access of small-scale enterprises to credit. This study was intended to fill this gap of information. An important issue addressed by this study is the underlying factors behind the coexistence of the two types of credit markets, which account for the differences in their ability to satisfy the credit demand by small-scale enterprises. Alternatively, why do borrowers choose to use any one source of credit in the market? In the Kenyan financial market, what are the typologies of lending units? Why do they serve only specific segments of the credit markets?

4.3 Migrants and Family Inputs

4.3.1 Overview

The most typical transfer method to Kenya is the use of money transfer operators; however, new initiatives are emerging. In March 2007, Safaricom (a joint venture between Telkom and Vodafone), the largest cell phone company in Kenya, introduced a money transfer service known as M-Pesa that allows its customers to send remittances electronically through SMS. By May 2007, more than 2.37 million Kenyans had registered as M-Pesa users and transferred more than \$130 million in domestic and international transfers. There are currently more than 2,700 M-Pesa agents around the country. The services were especially helpful during the post-election crisis earlier in 2008 when most banks were not operational. A problem emerged when some agents were not able to pay out their customers' remittances because of cash shortages.

The Central Bank of Kenya acknowledges that infrastructure to facilitate remittance sending is lacking, and there are plans to develop a strategy to enable the Kenyan diaspora to transfer capital and invest in the country. One example is the launch of a diaspora bond, with technical assistance from the World Bank. Kenya has an opportunity to learn some of the Mobile Remittance Schemes as practiced in other countries.

4.3.2 Diaspora bond in Kenya.

The Kenyan government plans to launch a diaspora bond to direct remittances to development projects, loan securitization, and debt payments in local currency. Developed with the technical assistance of the World Bank, this financial instrument is expected to enable the Kenyan Central Bank to raise migrant investments. This will be the first diaspora bond in Africa; only Ghana has recently announced a saving scheme that has elements of a diaspora bond. Data from the World Bank show that Sub-Saharan African countries can potentially raise \$19 billion every year by issuing diaspora bonds.

4.3.3 MoneyGram partners in Kenya. MoneyGram International launched a partnership with Imperial Bank to widen its agent network in the country. The money transfer company already has a partnership with the Cooperative Bank of Kenya. In the first five months of 2008, Kenyans in the diaspora sent \$280 million in remittances, a 34 percent year-on-year increase (World Bank, 2009).

4.3.4 Initiatives on Costs and Competition Reductions

The British Experience with Price Comparison Sites: Price comparison websites are now a common feature of the internet. People can compare prices for items ranging from mortgages to microwaves, insurance policies to i-Pods. We are also seeing a number of price comparison sites for remittances, and this article explores the development of these useful consumer tools and discusses how they may change in the future.

The concept of a website that allows consumers to compare the price of remitting has been discussed for around five years. The benefits of making the level of remittance costs and the basis for their calculation available has been championed by governments, nongovernmental organizations (NGOs), and consumer groups. The basic assumption is that the more information customers have about the cost and other features of money transfer products, the more likely they are to make the best decision for themselves. In addition, it was predicted that prices would fall as consumers used the information to shop around, and those organizations that were priced at the premium end would be forced to adjust their pricing to compete more effectively.

The first known site (<http://www.profeco.gob.mx/envio/envio.asp>) was established by a Mexican consumer group precisely to publicize what it felt was the high level of pricing and lack of transparency within the United States-to-Mexico market. At around the same time, and following the G8 Sea Island Summit meeting in 2004, the U.K. Government's Department for International Development (DFID) commissioned in-depth consumer research that demonstrated a lack of consumer understanding of available options, coupled with the fact that the pricing of remittance services was considered too high. As a result, DFID commissioned the www.sendmoneyhome.org site, which was launched in March 2005. The site contained information on the fee, exchange rate, type of service available, and the time it would take to send the money. The information was not just made available on a website, but was also circulated by key influencers to the communities concerned through leaflets translated into a variety of relevant diaspora languages.

Over a two-year period, DFID has made a considerable investment in the website; it now covers 12 sending countries and 74 receiving countries. So what has the impact been?

- Since the site was launched, there has been a decline in prices. These have occurred in most corridors from the United Kingdom, and DFID quotes that in the United Kingdom-to-India corridor, prices have fallen by up to 28 percent over a three-year period. Exactly how much of this fall is due to a website and how much is due to other factors, such as the entry of Indian banks in the U.K. market and a general increase in competition, is open to debate. Indeed, globally, pricing trends have been dropping during this time, so it would be difficult to make a claim that this was the sole reason for the decline. Undoubtedly though, there has been an increase in awareness of the options for consumers, which will have contributed to a more competitive environment.
- Money transfer operators are now more aware of these sites and some actively provide information for them. The reaction of the industry has generally been positive and the more competitive a remittance service provider is, the more active it is in providing information to the sites.
- A number of other countries have also introduced their own similar sites; Netherlands, Norway, Germany, France, Australia, and New Zealand are planning to launch similar sites in the near future.

In conclusion, the introduction of price comparison sites in the United Kingdom has led to increased consumer awareness of the various elements of remittance pricing and has been accompanied by a fall in prices. These sites are very effective tools for increasing transparency, and the model is being replicated in many markets. Care must be taken to ensure that the information is complete, relevant, current, and, most importantly, impartial.

4.3.5 Transparency of Information

Increasing transparency of information is the first principle of the CPSS/World Bank General Principles of Remittances. To help achieve this, the World Bank will soon produce a pricing database covering more than 115 corridors that will be updated on a six-month basis to track changes in overall pricing in each corridor.

The Global Public/Private Working Group on remittances will be discussing whether there is a need for global standards in this area at its meeting in Vienna in September.

4.3.6 Online Resources on Remittance Cost

The French Agency for Development created a website in October 2007 (www.envoierargent.org) on remittance transfer methods from France to six country corridors: Morocco, Tunisia, Mali, Senegal, Comoros, and Benin. It indicates several ways for sending money, costs, speed, rates, and so on and presents maps for each country, indicating precise locations where it is possible to receive remittances. In Sub-Saharan Africa, for example, it is not easy to cover all of the countryside. To date, the website has been used for 3,500 consultations without any advertisement or informational campaign accompanying this effort. The French Agency for Development expects to expand the website to include 12 remittance-recipient countries, incorporate more banks and money transfer companies, and provide links to other European websites, such as Britain's [sendmoneyhome](http://sendmoneyhome.com).

4.4 Micro-enterprise Development Programme and Investments

4.4.1 Overview

Small-scale enterprises have become an important contributor to the Kenyan economy. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households in the country (Republic of Kenya, 1989, 1992, 1994), accounting for 12–14% of GDP. With about 70% of such enterprises located in rural areas, the sector has a high potential for contributing to rural development. Yet the majority of entrepreneurs in this sector are considered uncreditworthy by most formal credit institutions. Whereas a small number of NGOs finance an increasing number of microenterprise activities, most formal institutions still deny these enterprises access to their services.

4.4.2 Segmentation of the rural financial market in Kenya

4.4.2.1 Financial institutions serving small and microenterprises

A number of institutions provide credit to the small and microenterprise sector in Kenya. These include commercial banks, non-bank financial institutions, nongovernment organizations, multilateral organizations, business associations, and rotating savings and credit associations. In addition, financial transactions also take place between traders, friends, relatives and landlords, as well as commercial moneylenders. The main commercial banks involved in SME lending and savings mobilization are the Kenya Commercial Bank and Barclays Bank. Many financial institutions, especially commercial banks, rarely lend to small and microenterprises (SMEs) since they emphasize collateral, which most SMEs lack. Few enterprises are able to provide the marketable collateral and guarantee requirements of commercial banks, with the result that SMEs lacking such requirements have not been able to obtain credit from banks. Most of them therefore rely on their own savings and informal credit (Oketch et al., 1995).

The advantage of commercial banks is that they have a wide branch network that can reach most micro-enterprises. They also operate accounts, which make it possible to monitor their clients closely. Most of them are located in urban areas, however, making it difficult to provide services to those enterprises located in rural areas. Given that up to 78% of the SMEs are located in rural areas; this is a major limitation on the extent to which commercial banks can serve them. Other limitations of commercial bank lending to the SME sector in Kenya are the lack of appropriate savings instruments to mobilize savings to the SMEs and the restrictions on withdrawals, which discourages savers who would like frequent access to their savings. Their location away from many enterprises also implies high transaction costs, which discourage most enterprises from using their savings and other services.

In the recent past, a number of non-government organizations (NGOs) have been involved in financing of microenterprises. Most NGOs have not had positive performance, however. Their inexperience in financial intermediation and limited financial resources have constrained their potential. There is little coordination among the NGOs, resulting in duplication of resources and activities. Most of them have high credit costs, are donor based and sponsored, lack adequate funding, and are limited in their geographical coverage. They also discriminate against small-scale enterprises who get rationed out by lenders since cheap credit creates excess demand for loanable funds, forcing lenders to lend to large enterprises that have collateral and are perceived to be less risky.

Rotating savings and credit associations (ROSCAs) are also an important source of credit in the country. These are found in both rural and urban areas as either registered welfare groups or unregistered groups. They mainly provide credit to those who would likely be ineligible to borrow from other sources. ROSCAs have developed mostly in response to the lack of access to credit by SMEs, forcing them to rely on their own savings and informal credit sources for their financing. It has been found that rural firms use ROSCAs more than urban ones. They mostly integrate savings into their credit schemes, thus mobilizing savings from their members. However, even for members of ROSCAs, not all their credit needs can be satisfied within the associations. This implies that there is some proportion of borrowing and lending that is not catered for by either formal institutions or such associations. This is catered for by personal savings as well as borrowing between entrepreneurs and other forms of informal transactions.

4.4.2.2 A Case of Financial institutions serving small and microenterprises (SMEs) in Kenya

There are a number of credit institutions that support small and microenterprise activities in Western Kenya region. These include commercial banks, development finance institutions, NGOs, and rural credit organizations like SACCOs and ROSCAs. There are also a number of financial transactions taking place outside these institutions, like those between relatives and friends, traders, and welfare groups. An inventory survey of financial institutions in western Kenya by KREP documents the main lending institutions in the region. These are presented briefly below.

Barclays Bank offers loans for women entrepreneurs both as individuals and in groups. Under the Barclays Bank of Kenya Credit Scheme, the bank offers credit to small and large enterprises engaged in off-farm activities. Commercial rates of interest are applicable with no lower or upper limits. The clients are drawn from the existing bank clientele. The scheme aims at stimulating small businesses by removing some of the constraints on bank lending to the sector. The main constraints of risk and administrative costs were to be addressed by the creation of a loan guarantee fund. Credit is advanced to small businesses by Barclays Bank, operating within the traditional banking system, with the institutional systems in place to achieve a high level of loan recovery. The loan guarantee fund is used to guarantee part of the loan. The client provides 25% of the security for the loan while the guarantee fund provides the remaining 75%, thus helping to distribute the risk of lending.

In western Kenya, the scheme operates in Bungoma and Kisumu, the two areas having a total of 14.8% of the clients nationally. The loans are not restricted to any specific sector, although an observation of the applications shows that 45% of all the clients operate wholesale or retail trade.

Care International focuses on pre-existing organized rural groups. Its credit programme emphasizes women owners of microenterprises. Clients are required to raise equity cash of 25% of the total loan required. The loan security is the group members who guarantee each other and are collectively guaranteed by the group. Credit is advanced to the group, which lends to its members individually.

Other institutions include **Industrial and Commercial Development Corporation** (ICDC), which operates credit schemes including one that caters for retail and wholesale traders for working capital. The **Anglican Church of Kenya, Diocese of Maseno South** provides financial and nonfinancial services to farm and non-farm rural enterprises.

Kenya Industrial Estates directs loans to small-scale enterprises. The main security is land and buildings. **Kenya Small Traders and Entrepreneurs Society** can be classified as an informal source of credit since it brings together entrepreneurs whose share contributions determine the amount of credit they receive. Members act as the guarantors for the loan.

KREP has a credit programme targeted at ROSCAs, who then onlend to their members. The loan received by the groups is equivalent to ten times the groups' savings; savings are an important component of the programme and there is also an insurance fund.

Promotion of Rural Initiatives and Development Enterprises (PRIDE) provides credit to small enterprises especially those in the informal sector without access to other sources of credit. **ROSCAs** provide credit to borrowers who would normally be unlikely to borrow from other sources, and also mobilize savings from members. Rural firms rely more on ROSCAs since they present easier access. **SACCOs** also provide both savings and credit facilities to their members. The amount of credit provided depends on the amount of the individual members' savings, but the use of money is not restricted.

4.4.3 Lending approaches by informal and semi-formal institutions

There are four major approaches for providing credit to small enterprises in Kenya: group-based minimalist credit schemes, lending to individuals, lending to community based enterprises, and integrated credit models (Aleke Dondo, 1994). In the minimalist approach, credit only is provided without any other form of assistance. The group-based approach can use either newly formed groups or already existing ones. The approach operates on the principle that credit is the most important constraint to entrepreneurs. Based on newly formed groups, credit is provided to small groups that guarantee the loans to their members. This approach emphasizes responsibility in the selection of clients, appraisal, approval and collection of loans while at the same time cutting administrative costs. Members make weekly contributions to a joint account in the name of the group and the lending institution, which acts both as a savings account for each member and a loan guarantee fund. Members can only receive a second and bigger loan after the first loan is repaid. The responsibility for loan administration by the group provides peer pressure, which keeps up repayment.

In the alternative of existing groups, the NGOs come in to bridge the capital gap faced by the groups, mainly ROSCAs, by giving them loans at market rates of interest. The group then onlends to the members at a higher interest rate. Members repay to the group, which then repays the NGO. The method is a cost-effective way of

extending credit since the members do the administrative work. The groups have achieved high levels of cohesiveness and are effective in reaching even those in remote rural areas.

In one type of the minimalist individual credit model, credit provision is restricted to those who can secure it with tangible collateral; commercial banks and non-bank financial institutions mainly use this model. The model uses the existing commercial bank branch network and therefore has considerable potential for reaching many people with small enterprises. In the scenario where tangible security is not required, it is replaced with guarantors or chattel mortgages.

In community-based enterprises, financial assistance is provided to group owned and managed enterprises. The approach evolved from grant-giving programmes of NGOs. Administrative costs of this approach are high and although returns to the groups may be high, returns to the members are small.

The integrated model combines training and technical assistance with credit. The loans are given to individuals who interact directly with the loan officer. An assessment of the appropriate loan size is normally done and one or two guarantors are required to guarantee the loan. The model is relatively expensive due to the training and technical assistance components.

4.4.4 Loan security

Loan security is one of the important aspects of credit to SMEs. Most lending to small-scale enterprises is security based, without any regard for potential cash flow. However, organizations lending to microenterprises have devised alternative forms of collateral. These include: group credit guarantees, where organizations lend to individuals using groups as guarantors, and personal guarantors, where individuals are given loans based on a guarantor's pledge. Loan guarantee schemes are increasingly being implemented as a means of encouraging financial institutions to increase their lending to the risky sectors and those without the traditional formal security. The main banks operating this scheme are:

- **Kenya Commercial Bank**, where the government guarantees the loan to reduce the risk and overcome the lack of borrower security. Applicants are expected to meet all the bank requirements except for tangible security.

- **Barclays Bank**, where entrepreneurs involved in off-farm business activities but lacking the traditional bank security are guaranteed through a loan guarantee fund. An important feature of these institutions' activities is that there is little interaction or coordination between the different activities. They mostly serve different types of economic units with access to their facilities directly dependent on participation in the supported activities. This fragmentation is further reflected in the geographical dispersion of specific programmes, credit terms and conditions specific to certain programmes, and the short-term nature of a number of programmes. Credit markets in Africa are mainly fragmented, since different segments serve clients with distinct characteristics. Hence this diversity of credit institutions can be seen as an explanation of the fragmentation.

4.5 Diaspora and Rural Development

4.5.1 Overview

Estimates from the World Bank indicate that remittances by the Africa Diaspora have continued to grow over time, with roughly US\$30 billion remitted in 2007. This amount is more than double the amount of international aid received. According to the World Bank, in 2006, official remittances to Kenya were roughly \$525 million, or the equivalent of 2.2 % of the Gross Domestic Product (GDP). There has been much debate in the Diaspora, national governments and regional and international agencies on the best ways to leverage Diaspora remittances for

development and poverty eradication. For example, the World Bank has proposed tapping into remittances from Africans in the Diaspora in helping fund a portfolio of projects worth as much as \$13 billion to help support the continent's development goals. The African Union has also been active in trying to develop Diaspora-friendly policies and has proposed to "invite and encourage the full participation of the African Diaspora, as an important part of our continent, in the building of the African Union." Most of the East African countries (Kenya included) have, to varying degrees, been active in developing policies for Diaspora engagement. Although the approaches pursued by different countries differ, most share common elements, including some policy and institutional changes, to recognise and take advantage of the role of the Diaspora within government planning, proposals for dual citizenship and engagement of the Diaspora through conferences and skills and investment seminars, either at home or in the major capitals abroad.

Because most East Africans are prepared to invest and also to contribute to development in their native countries, it is important to offer incentives and mechanisms conducive to that end. A possible avenue for this is the matching of remittances for development projects from individuals or groups with funds from development partners. One of the most significant hurdles in Diaspora remittances is the cost of sending money from abroad. For example, the cost of sending \$100 dollars (KSh6,700) from Canada to Kenya through Western Union is \$17 or almost 20 % of the amount remitted. The development of new money transfer systems such as Safaricom's M-PESA transfer system, which allows money to be transferred through mobile phones, at a small cost, without the need for bank accounts, is helping to lower costs. However, the system is still not widely available. Governments and international agencies should encourage the development of easier and cheaper transfer systems wherever possible, so as to lower transfer costs and leverage remittances for maximum development. With proper planning Diaspora can develop East Africa significantly.

4.5.2 A Case of Acumen Fund

Acumen Fund is a pioneering not-for-profit venture fund that is changing how the world addresses poverty. Acumen Fund invests "patient capital" in business models that deliver critical, affordable goods and services to the world's poor, improving the lives of millions. Since its founding in 2001, Acumen Fund has invested more than \$40 million in companies that provide access to water, health, energy, housing and agriculture inputs to low-income consumers in South Asia and East Africa. For more information on Acumen Fund's activities and investments, visit www.acumenfund.org and www.acumenfundblog.org.

This is an Investment to provide Kenyan smallholder farmers access to loans for agricultural assets. On May 9, 2011 - [Acumen Fund](#), a nonprofit global venture firm addressing poverty in South Asia and East Africa, and Grameen Foundation, a global nonprofit serving the world's poor through microfinance and technology, announced a \$1.75 million quasi-equity co-investment in [Juhudi Kilimo Company Limited \(Juhudi Kilimo\)](#). Juhudi Kilimo is a microfinance company in Kenya that provides loan products to smallholder farmers for productive agricultural assets. The Acumen Fund and Grameen Foundation co-investment of \$1.2 million and \$550,000, respectively, would help Juhudi Kilimo grow its portfolio and serve more farmers, hire new staff, and improve its efficiency across its seven branches.

"After a decade of investing 'patient capital' in companies providing innovative solutions to poverty, Acumen Fund has learned that people want choice, not charity, and an opportunity to better their own lives and communities, which is exactly what Juhudi Kilimo provides through its products and services for smallholder farmers," said Jacqueline Novogratz, CEO, Acumen Fund.

4.5.3 A Case of Grameen Foundation

Grameen Foundation, a global nonprofit organization, helps the world's poorest people lift themselves out of poverty by providing access to financing and management strategies to the local organizations that serve them. It also

develops mobile phone-based solutions that address “information poverty” among the poor by providing tools, information and services in the fields of health, agriculture, financial services and livelihood creation. Founded in 1997, Grameen Foundation has offices in Washington, DC; Seattle, WA; Colombia; Ghana; Hong Kong; the Philippines; and Uganda. Microfinance pioneer Dr. Muhammad Yunus, founder of Grameen Bank and winner of the 2006 Nobel Peace Prize, is a founding member of its Board of Directors, and now serves as director emeritus. For more information, please visit www.grameenfoundation.org.

Since 2003, Grameen Foundation has provided more than \$16 million in funding to microfinance institutions in Ethiopia, Kenya, Ghana and Nigeria through loan guarantees and direct investment. One key program, the Pioneer Fund, targets institutions working with the rural poor throughout Sub-Saharan Africa, Latin America and Asia. To date, one-third of the Pioneer Fund’s portfolio companies represent early-stage microfinance institutions serving the rural poor in East Africa.

It remains committed to expanding access to financial services for the poorest people and we are pleased to support Juhudi Kilimo’s pioneering work with smallholder farmers working in Kenya’s remote rural areas,” said Alex Counts, president and CEO of Grameen Foundation. “We also applaud it for adopting the Progress out of Poverty Index, a social performance tool that will provide its management and stakeholders with valuable information on the clients it is reaching and the changes in their economic well-being over time. Grameen Foundation also partners with Acumen Fund, since joining forces with like-minded, entrepreneurial social-change organizations is our preferred approach.”

Agriculture is the backbone of Kenya’s economy, with nearly 80% of the population (30 million people) deriving their livelihoods from farming. Meanwhile, average landholding in the country continues to shrink, with Kenya’s average farm size now less than 2.5 hectares (about 6 acres). The key to economic growth for Kenya’s smallholder farmers is access to productive agricultural assets, but 36% of rural Kenyans have no access to any form of financial services. Without appropriate financing, these productive assets are often out of reach. Juhudi Kilimo’s financing products enable farmers to access high-quality agricultural assets, such as improved breeds of dairy cows that can produce more than four times more milk per day than local dairy cows in Kenya. This improved productivity has the potential to increase household productivity by \$600 annually.

4.5.4 A case of Juhudi Kilimo

“Juhudi Kilimo provides financing to smallholder rural farmers organized in groups to purchase productive agricultural assets, such as dairy cows and other livestock, irrigation equipment, and greenhouses,” said Aleke Dondo, Founder and Board Member, Juhudi Kilimo. “By financing income-generating assets, paired with targeted business and agricultural training, we help to build and sustain rural enterprises that create jobs and deliver greater market access and new services to these communities.” Juhudi Kilimo plans to increase its client base from 7,322 in March of 2010 to more than 25,000 by the end of 2015, aiming to improve the lives of nearly 125,000 rural Kenyans. The company began in 2004 within the K-Rep Development Agency (KDA) to target the underserved rural farmer market untouched by other K-Rep Group companies.

Success of the asset-financing program led KDA to explore spinning off the line into a new company, which was formally founded on April 1, 2009, as Juhudi Kilimo. “Agriculture-specific financing is relatively new to rural Kenya, but an important area of investment in a country where the vast majority of the population rely on agriculture to sustain themselves,” said Biju Mohandas, East Africa Director, Acumen Fund. “Acumen Fund’s investment in Juhudi Kilimo will expand our current agricultural portfolio and provide additional insight into agricultural finance, which we can then share with the rest of the region and world.”

4.5.5 Project-Kenya Charity

Project Kenya Charity works with rural villages throughout Kenya. Its motto is “Building up Communities in Kenya” by providing education support and development support that address their challenges. The mission of Project-Kenya charity is to support and foster educational development in rural Kenya, while stressing the importance of leadership, tolerance, and sustainability.

Most importantly, the lack of education is directly connected with intolerance, unemployment, alcohol and drug use, bad hygiene, and discrimination. Thus, education provides children and adults the ability to think critically, problems solve, and form advanced thoughts. Furthermore, Project Kenya promotes the principles of servant leadership and embraces the importance of volunteering.

During the period 20/2012 Project-Kenya was selected and received a grant totaling \$8,000.00 from the Genesis Fund. The grant would be applied to technology and education program. The money would be used over the next 2 years, to put in more computer labs, install projectors/screens, libraries, and resource rooms in many more schools.

Project Kenya Charity officially began work in Migori in 2010 in the villages of Namba, Nyamome and Sagero. It purchased a cow and calf for an HIV/AIDS support group. The milk is used to supplement their diet daily and will help the HIV medications work well.

In July 2010, it helped to construct an early childhood classroom and computer lab. The classroom was overdue by about 20 years. More than 60 children now use the new room. And recently, the Ministry of Education announced that Nyamome Primary's computer lab will become an e-learning site. It will be one of five schools chosen in the entire area. In March, 2011 Project-Kenya provided assistance in developing a library at the school. Furthermore, in July, 2011 the project had two special education teachers and one child psychologist working with the staff at Nyamome.

More so, in March 2011 the project also provided a computer to Sagero Secondary School and met with the female students for the week to discuss women's rights and sexuality. It also delivered supplies to Kababu Polytechnic. The needs at both of the schools are many. Some of the essential needs include science lab supplies, bicycles for getting to and from school, but also they need programs on peer pressure, sexuality, and self-esteem.

In July 2011 the project worked with St. Akidiva's Hospital. A medical team of five joined the staff there to provide care and treatment to the local villages. Project-Kenya provided school medical care days at Nyamome Primary and at Sagero Secondary with the assistance of Dr. Akidiva and his staff.

The next and final projects with the community will be to get clean water and adequate sanitation into these villages and schools.

4.5.6 Kenya Community Development Foundation KCDF

Kenya Community Development Foundation (KCDF) is a Kenyan grant making public foundation. The Foundation supports communities and other non-profit making organizations to effectively mobilize permanent funds (endowments) for development and promotion of social justice in Kenya. Mission is to effectively mobilise resources for building permanent funds for grant making towards the development of communities.

4.6 Collective Investment of Diaspora Remittance

4.6.1 Overview

World Bank Report (2010) says remittance transfers to Africa have increased since 1990 to over \$40 billion or over 2.6 per cent of GDP in 2010, making the remittances the largest source of net foreign inflows after foreign direct investments. At the macro-level, the remittances help to stabilize foreign exchange, sustain consumption and investment during downturns and improve state creditworthiness by increasing the level and stability of foreign exchange receipts. At the micro-level, the remittances help reduce poverty. "They spur spending on health and education as a result of both higher household incomes and – according to some studies – a devotion of higher share of remittances than other income sources to these services," the report says.

The Government of Kenya (GoK) has recognized that Kenyans in the Diaspora can contribute to economic development through the injection of their knowledge, ideas, and resources for projects and programs. Best practices gained by the Diaspora who work in and/or do business in developed economies, can be applied to fast-track government goals as articulated in the Kenya economic blueprints such as the "Economic Recovery Strategy for Wealth and Employment Creation" and "Vision 2030".

In 2007, GoK in recognition of the significant contribution of Kenyans living abroad to its national development established the Diaspora Affairs Directorate i.e. International Jobs and Diaspora Office (Directorate), in the MoFA to specifically deal with Diaspora matters. MoFA plans to create opportunities for the Diaspora community to actively participate in refining the draft Diaspora Engagement Strategic Policy Framework (DESPF). By undertaking a participatory approach to the formulation of the Framework, the MoFA hopes to instill in the Diaspora community, a sense of ownership in the process so that it will have an equal stake in the success of implementation. The Ministry has entrenched Diaspora Diplomacy as one of its key objectives as outlined in its Strategic Plan for the 2008- 2012 period.

The Directorate has the mandate to design and implement strategies that would integrate the Kenyan Diaspora into national development as outlined in "Vision 2030". The Directorate has been assigned to work on a draft DESPF that will guide all future government engagement with the Diaspora based on identified national development needs and priorities. More specifically, the Directorate has been tasked to:

- (a) mobilize the Diaspora to participate in the formulation of a Diaspora engagement policy;
- (b) establish a database that will enable systematic collection and cataloguing of information on the Diaspora;
- (c) undertake programs for the Diaspora to engage in development activities;
- (d) support organized Diaspora associations to carry out some of these development activities in a coordinated manner; and
- (e) work closely with Kenya's Foreign Missions to identify and facilitate professionals to return (real or virtual) to contribute to national development.

4.6.2 Diaspora Investment Fund (DiaFund)

4.6.2.1 Introduction

In addition to the usual investment deterrents plaguing the continent, the African diaspora investor typically faces the crucial problem of inability to access to capital for investment in their home countries:

- Financial institutions in their host countries are reluctant to provide the diaspora investor with loans for investment into an African country.
- International development finance institutions and local African banks are reluctant to provide them with financing as they are not resident in Africa. Sub-Saharan region countries are proposing to establish a fund specifically designed to facilitate funding of investment initiatives by entrepreneurial and enterprising members of this community.

The African Diaspora Investment Fund (DiaFund) is a **fund of funds** that will invest in quality seed and venture capital funds within and outside the SSA region that commit to invest in promising diaspora-connected deals in the region.

4.6.2.2 Mission

The mission of the DiaFund would be to increase the amount and diversity of capital funding available to help the diaspora early-stage and growth companies to grow, prosper and mature in the SSA region. It would do this by:

- encouraging the availability of a wide variety of venture capital in the region interested in funding diaspora-connected businesses;
- helping diaspora-connected businesses in the region gain access to sources of capital;
- helping to build a significant, permanent source of capital available to serve the needs of diaspora businesses in the region.

4.6.2.3 Investors (sourcing)

Four types of investors will be targeted for constitution of the fund. They include both nonprofit and profit-making investors, as follows:

(i) Institutions

Key International institutions that have been identified include:

- The European Investment Bank
- The African Development Bank
- The World Bank

(ii) Private companies and Foundations:

These are companies and foundations with interests in the continent. Multinational companies (Shell, Diageo, BP, etc) as well as the growing base of large corporate concerns where African entrepreneurs have interests (MTN, Celtel, etc.).

(iii) Diaspora community includes professionals and entrepreneurs active in the corporate sector outside Africa.

An important source of investment into such a fund might be derived from the remittances made by the community. A number of schemes for pooling of remittance funds or the constitution of remittances-related funds have been proposed by diaspora organisations. These include the remittances relief tax (Faal 2006) proposal from the UK-based organization AFFORD and the Direct Expatriates Nationals Investment (DENI) (Kwoba, 2006) program initiated by the Foundation for Democracy in the United States. Such diaspora organizations will also constitute an important medium for reaching potential diaspora investors.

(iv) Host country governments

The development finance institutions and related ministries of European governments are other potential sources of funding. This will include the development cooperation agencies and/or ministries as well as institutions set up by these governments to provide support for investment into developing countries. These will include institutions such as:

- Directorate General for Development Cooperation - DGDC (Belgium)
- Belgium Investment Organisation – BIO (Belgium)
- PROPARCO (France)
- Department for International Development – DFID (UK)
- Swedish Development International Agency – SIDA (Sweden)
- Swedfund International AB – Swedfund (Sweden)
- Swiss Development Corporation – SDC (Switzerland)
- The Netherlands Development finance company - FMO (Netherlands)

- Finnish fund for Industrial cooperation – FINNFUND (Finland)
- The Industrialization fund for Developing countries – IFU (Denmark)
- Norwegian Investment fund for Developing countries – Norfund (Norway)

4.6.2.5 Investment strategy

The DiaFund will not make direct investments in individual businesses but would rather invest in:

- high-quality venture capital funds managed by investment managers who have made a commitment to equity investments in diaspora-connected businesses located within the region.
- National diaspora investment funds. This will include funds such as the proposed Kenya Diaspora Investment Fund (KDIF) and other funds that would be established in the country in future.

It is expected that an investment or investments by the DiaFund in any venture capital fund may comprise no more than 20% of the total committed capital in the venture capital fund.

4.6.3 Remittances from the Kenyan diaspora

There are an estimated 2 million Kenyans living abroad especially in North America and Europe. The Central Bank of Kenya says diaspora remittances have been growing by the year, hitting \$642 m (Ksh 53.27bn) last year. But recent World Bank and the African Development Bank surveys show an even higher amount of \$1.8 bn (Shs149.4bn) sent home in 2010 by Kenyans living abroad. Inward remittance flows in Kenya has had an upward trend, apart from 2009, which can be attributed to the effects international economic melt down, as the developed countries (i.e. the source of remittances) were heavily affected in the year 2008 (Table 6).

Table 6: Trends in Remittances (in \$million)

Country by Remittance Flow	2006	2007	2008	2009	2010
Burundi					
Inward Remittance flows	0	0	4	3	3
Outward Remittance flows	0	0	0	0	0
Kenya					
Inward Remittance flows	1128	1588	1692	1686	1758
Outward Remittance flows	25	16	64	-	-
Rwanda					
Inward Remittance flows	21	51	68	93	91
Outward Remittance flows	47	68	70	71	-
Tanzania					
Inward Remittance flows	15	14	17	16	17
Outward Remittance flows	30	46	54	54	-
Uganda					
Inward Remittance flows	411	452	724	694	773
Outward Remittance flows	206	236	381	463	-

Source: Computed by consultant using World Bank (2010) dataset

Money sent home by Kenyans living abroad – from the US, UK, and increasingly elsewhere in the world – is a crucial source of foreign currency for East Africa’s biggest economy. Remittances to Kenya were higher this August than in any other month in 2009 and up 29 percent since August 2008. According to the Central Bank of Kenya, \$55.95 million were sent back to the country in August 2009, as opposed to \$43.4 million the same month last year.

Remittances had surged to \$611.2 million in 2008 from \$573.6 million the previous year, partly due to Kenyan mobile service provider Safaricom’s IPO last year in which the diaspora participated. But the country, has, so far in 2009 as a whole, registered an overall drop of 8.7 percent in remittances, from \$417 million in the first eight months of 2008 to \$398 million in the same period this year, in line with a global trend affecting other countries in Africa and the developing world in general.

Kenya has been actively trying to attract greater investments from citizens in the diaspora in the past few years, although it still appears to be suffering a lack of information on available investment opportunities in the country; which have so far been provided mainly by media outlets. In a bid to address this issue, the government has created

the Kenya Investment Authority which includes a data bank on investment opportunities in Kenya, advice on starting a Kenyan business, and assistance with regulatory requirements.

Speaking to the *Business Daily newspaper* in August 2011, Egara Kabaji, Director of public affairs and communication in Kenya's Ministry of Foreign affairs, said that Kenyans living abroad were open to new ideas but were not sufficiently informed on investment opportunities. Kabaji said the Ministry had already developed a foreign policy aimed at improving the image of the country abroad after it was badly impacted by the post election violence spread in early 2008. Diaspora diplomacy was listed among the policy's main pillars as a tool to pursue Kenya's economic interests abroad. Some of the main pillars of this policy include facilitating an increase in remittances by decreasing their cost and delivery time; informing the diaspora about investment opportunities; developing policies and products directing remittances towards more "developmental" use; and helping Kenyans find better jobs abroad, among others.

A further attempt to boost remittances to the country targets Kenya's bond market. Following the examples of Israel and India, whose programs have proved particularly successful, the Kenyan government also re-announced the launch of its own diaspora bond in June this year following a similar statement that was made in April 2008.

As studies on diaspora bonds have shown, the collection of data on foreign remittances is crucial for the success of such investment promotion programs, which rely on investors' greater inclination to bear risks within their country of origin. The geographical source of Kenyan citizens sending money back home is particularly important in this sense. The country's central bank has said that over half of remittances in the past five years have come from North America. This differs from World Bank data indicating greater remittance volumes from the UK. In addition, tracking down remittances from the informal system is important and layers another degree of estimation.

And given prior evidence, such as in their approach to newer service models like M-Pesa, Kenyan authorities have shown certain openness in setting regulatory boundaries. Allowing options for P2P-based investments and/or co-development possibilities for immigrants sending home could help Kenya make more rapid improvements; since effectively targeting investments has been shown to be a success criterion for building business in such environments, as well as for encouraging value transfer within the formal sectors. It will continue to be important that innovative approaches can be "productized" for diaspora-focused use.

4.6.4 Operational Instruments to promote diaspora remittance

.Mobile money transfer in Kenya: The widely publicized report, *Leveraging Migration for Africa: Remittances, Skills and Investments (World Bank,2011)* reports that use of savings and credit cooperatives as channels for diaspora remittances can "reduce costs of money transfers by increasing access to financial services in the rural areas and poor communities and reducing the costs of opening bank accounts." The report provides useful insights on the handling of diaspora remittances.

Savings and credit societies – commonly known in Kenya as SACCOs – together with post offices, rural banks and micro-finance institutions have large networks particularly among the poor, "providing a unique opportunity to expand formal remittance markets and improve access among the poor and to rural areas," the World Bank (2011) report says: "Consistent with financial stability, regulatory framework should support the provision of money transfer services by these institutions which should be encouraged to partner with banks and money transfer operators," the report continues.

4.6.5 Kenya Government efforts to tap diaspora remittances

To tap into this income source, the Kenya government has announced that it is now in the process of creating a diaspora virtual network hub to facilitate the flow of information between government and the Kenyan diaspora. The project is expected to start in July 2011 and be completed in 18 months.

In its Vision 2030 blueprint, the government has placed diaspora as one of the flagship projects under the financial sector. It has government ratified the amendment to the AU Constitutive Act that invites and encourages the full participation of the African diaspora as an important part of the continent in building the African Union.

4.6.6 Challenge of Managing Diaspora Remittances

The World Bank reports warn against overreliance on diaspora remittances as a source of foreign exchange. “Large remittances can present a macroeconomic challenge, however, by causing the exchange rate to appreciate potentially reducing the production of tradable goods.”

Although African Governments and the AU have begun the process of engaging the diaspora, public policy to harness these diaspora underutilized resources are lacking when compared with global practices elsewhere. As a result, institutional relationships between home countries and the diaspora are very weak or non-existent. The continual search for practical global policy options to harness diaspora resources prompted some Bank units⁹ to put in place mechanisms to facilitate ongoing African diaspora efforts. The proposed program would build on these initiatives and provide a coherent Bank-wide framework for mobilizing the African Diaspora for the continent's development. A leading migrant scholar argues that the term ‘African diaspora’ is flawed. Instead, he prefers ‘African nationalist diaspora given diasporas’ strong links to their respective countries of origin. For details, see John Oucho's public lecture at the University of West Indies (Mona Campus) in Jamaica on 21 February 2011.

There are several modes of engagement with the Diaspora which will determine the success of the program. These include: (a) *permanent return* to the home country. This is suitable for those immigrants who are approaching retirement and would like to return to their home country; (b) *short and long-term placements*. This is also conducive to some Diaspora who has commitments in their home countries because of family, children education, mortgages, career advancement, etc.; and (c) *virtual ‘return’* of talents and skills. The ubiquity of ICT creates opportunities for year-round and intensive knowledge sharing and virtual service delivery between the Diaspora and home country actors for local capacity development e.g. clinical diagnosis, student supervision, and policy consultations. The above depend not only on addressing the obvious economic cost of return, but also on mitigating the relevant emotional, social, and professional costs.

4.6.7 Rationale for World Bank Involvement

There are several rationales for Bank engagement as follows:

The World Bank as the major development partner of Africa: The World Bank can partner with African countries and assist and support them to meet their obligations and expectations under the AU agenda. African Governments and the AU are seeking Bank assistance to move their agenda forward. The proposed program will provide African Governments and the AU with analytical and possible financial support to sharpen the focus and making operational their Diaspora agendas.

The Bank's coordinating and convening capability: The involvement of the Bank in this program would help to negotiate access to proprietary information and knowledge, and broker scientific research partnerships between Diaspora's host country employers and home counterparts to increase science and technology (S&T) and research and development (R&D) outputs in home countries. For instance, the ongoing WBI country programs in Ethiopia and Ghana established at the request of the AU; Africa Institute of Science and Technology (AIST) initiative; the Knowledge for Development program Diaspora initiatives; the Development Marketplace for the African Diaspora in Europe (D-MADE) jointly organized by the Bank Brussels office, WBI and AFR; PREM group activities on international remittances; Operations and Policy Department work on "General Principles for International Remittance Systems" etc.

Bank's experience in utilizing information and communications technologies (ICTs) for corporate business: The World Bank has been a leader in deploying ICT to conduct business effectively i.e. global corporate offices with superb IT links, extensive use of video conferencing (VC) and online tools such as the Global Distance Learning Network (GDLN) – Distance Learning Center (DLCs) etc. The proposed program emphasizes contributions of the Diaspora regardless of location and distance, and virtual delivery of goods and services. The Bank's experience and resources in this regard will be an invaluable asset.

Strengthening Bank existing technical assistance portfolio with Diaspora expertise: The AU is calling on Africa's development partners to find mechanisms to enable the African Diaspora to render technical expertise in the developmental programs of partner countries. Major components of Bank technical assistance programs in Africa are earmarked for consultant engagement. The proposed program would enable the Bank to develop good working relationship with the African Diaspora who can utilize their expertise to strengthen the performance of Bank-assisted operations in Africa.

A Financing and fund management power of The Bank: The AU and African Governments are seeking new mechanisms to support business opportunities for small and medium-scale enterprises (SMEs), raise levels of productivity through education and training, and reduce intolerable high levels of unemployment. One option is leveraging African Diaspora remittances. It is proposed that the catalytic role played by the Inter-American Development Bank (IADB) to leverage remittances in Latin America be supported and replicated by the Bank and the African Development Bank (AfDB) in Africa.

Scaling up ongoing diaspora activities: African Diaspora professional groups and associations have been making remarkable contributions in many of the focus areas of the Millennium Development Goals (MDGs) such as poverty reduction, access to education and health care, and so on, but these are often small scale activities which need to be scaled-up. Further, Diaspora professionals have ideas, skills and expertise which can be guided with innovation and creativity to break new ground and thereby enhance the quality of development projects. In the past, institutional support and sustained funding have been lacking for these Diaspora initiatives.

Harness the potential of African diasporas in the continent's development. African Governments and the African Union (AU) have been making efforts towards mobilizing the African Diaspora in the continent's development process. However, few concrete strategies and significant activities have been developed or undertaken. There have been statements by high-level officials of several countries calling for "turning the brain drain into brain gain," but little tangible efforts are available to indicate that such statements can be respected by their Diasporas. Some African governments have created cabinet positions within government to mobilize the diaspora but results are hard to come by. Here are a few of the notable initiatives being embarked upon by African governments and the AU:

- **The African Union:** has been holding consultations with its Diaspora groups in North America, Brazil, the Caribbean and Europe to discuss strategies for designating the African Diaspora worldwide as Africa's sixth (6th) region (along the lines of the regional economic commissions). For example, a Consultative Planning Meeting of the North American African Diaspora was held in New York, in June 2007. These consultations generated inputs for a high-level AU summit to be held in South Africa in 2008.
- **UNECA:** The organization's African Development Forum (ADF) established a Diaspora Focus Group for the obvious purpose in its ADF'99 and 2000 sessions, unfortunately, nothing has come out of these events apart from a website to create a database on the Diaspora.
- The **Association of African Universities (AAU)** is dedicating the October 2007 Conference of Rectors, Vice Chancellors and Principals (COREVIP'07) to the subject: The African Brain Drain – Managing the Drain: Working with the Diaspora.
- **Kenya:** The Government has begun consultations with Kenyans abroad on how best to facilitate their participation in national development. The Kenyan President is encouraging the country's diplomatic missions abroad to market Kenya through the diaspora communities. A series of high- profile diaspora meetings have been launched by the Kenya Government in collaboration with Kenyan Diaspora Associations to advance discussions of the Kenya Diaspora Bill 2007. A draft paper has been produced by the Government and Diaspora representatives on *Maximizing the potential and input of the Kenyan Diaspora in the political process, wealth creation, employment generation and poverty reduction (Republic of Kenya, Ministry of Planning and National Development, 2007).*

Meetings have also been held in the U.S. and U.K., featuring the Minister for Planning & National Development, the Chair of the Diaspora Bill Drafting Committee and Kenya Private Sector Alliance chair. The Kenyan Diaspora population is estimated at 2 million, the majority being in the USA (47,000), Canada (21,000), UK (15,000), Germany (5,200), Scandinavia (about 2,000), and Australia (7,500). Together, Kenyan Diasporas remit about \$1 billion annually to the home country. The 2nd Kenya Diaspora SME Trade & Investment Conference is scheduled for August 2007 in Nairobi; the 10th Kenya Community Abroad Conference was recently held in Delaware, USA.

5.0 CAPACITY BUILDING AND INFORMATION STRATEGIES

5.1 Identification of capacity building needs and Initiatives

5.1.1 Overview

The Pan African Capacity Building Forum delegates (representing cabinet ministers, senior government officials, representative of development partner agencies and civil society organizations) including the former president of Tanzania (Benjamin Mkapa) and Prime Minister of Mozambique (Luisa Dias Diogo) at the 2nd Pan African Capacity Building Forum, which met in Maputo (1-3 August, 2007), among other things, it called for "strategies to facilitate the contributions of African Diasporas to the development of their countries."

Capacity building program could have three development objectives. These objectives are to: (i) enhance capacity for the delivery of improved services in strategic public sectors and institutions including financial management, education, health, agriculture, infrastructure, administration and management in participating countries; (ii) increase the quality of design and implementation of Diaspora-led investment initiatives in participating countries; and (iii)

facilitate improved communication and working relationships between African governments, donor agencies, and Diaspora professionals to build stronger, more responsive and capable African public and private service institutions.

5.1.2 Enhancing capacity for the delivery of improved services in strategic public sectors and institutions (Objective 1) will be pursued by supporting Diaspora professionals, and entrepreneurs to build on ongoing efforts through a blended strategy entailing virtual participation; short, medium and long-term placements; return and retention; institutional partnerships and networks. The strategy for achieving results of this objective include: institutionalizing programs in participating countries through government operational policies requesting services and products; deploying professionals through national focal points; and multi-stakeholder monitoring and evaluation of outcomes of activities.

A strategy utilizing the “involuntary” Diaspora, in particular, will include: formation of collaborating socio-economic and cultural blocs to strengthen Africa’s response to globalization; tapping their capacity to lobby Western governments (paragraph 6), and building South-South institutional linkages e.g., in the area of tropical agriculture in the face of climate change between Brazil, Caribbean nations, and Africa.

5.1.3 Increasing the quality of design and implementation of diaspora-led investment initiatives in participating countries (Objective 2) will be pursued by:

(a) facilitating business and investment promotion networks through mechanisms for Diaspora and home country partners to access development funds e.g., organizing Development Marketplace competitions;

(b) facilitating knowledge exchange between AFR and the Latin America and Caribbean Region (LAC) on business development e.g., renewable energy systems such as bio-fuels, linked to Brazil’s expanding business interests in the Southern Africa region; Caribbean agribusiness export sector practices; and lessons of IADB and the United States Agency for International Development (USAID) in helping Latin America to leverage remittances for development.

(c) working with the AfDB to support a Diaspora Investment Fund based on global initiatives that exploit the benefits of Diaspora remittances;

(d) engaging Diaspora professionals in the implementation of Bank-assisted projects;

(e) assessing the potential of establishing Diaspora business investment, management, and service centers in target countries. Currently, the Diaspora relies on family and friends in business identification and implementation with varied results as these local actors are untrained; often funds get diverted and misused;

(f) facilitating home country banking sector to develop appropriate loan and credit schemes for Diaspora entrepreneurs; and

(g) identifying business development assistance instruments for services to be rendered to Diaspora entrepreneurs, e.g., business identification, global/local market survey, preparation of business plan, starting a business, business capitalization, etc.

5.1.4 Improving communication and working relationship between African governments, Donor agencies and Diaspora professionals (Objective 3) will be undertaken simultaneously with strategies under objectives 1 and 2 and will include: (a) organizing regular knowledge exchange forums for the Diaspora on Bank, other donor, and government operational policies, procedures, and guidelines; (b) moderating virtual learning environments and discussion forums, Diaspora clinics (brown bag lunches) and guest speaker series; and (c) facilitating and nurturing

policy-relevant networks on topical issues such as sub/regional integrated infrastructure, energy, transportation, and research on climate change and agricultural productivity.

5.2 Information Systems and Farmers Access to Information

5.2.1 Information Systems and Farmers Access to Information: This section seeks to provide answers to some pertinent questions:

- What kind of information is required by smallholder farmers in Kenya?
- Who are the main information providers to smallholder farmers in the country from public and private sectors, and NGOs?
- What kind of information is provided and how is it provided (mode of collection and analysis, and dissemination channels)?
- How effective is the information provision? Is it relevant/useful and adequate?
- What are the information gaps? What improvements in both variety/quality/quantity and delivery mechanisms are needed?

Information requirements by smallholder farmers are easier understood if examined from the value chain approach. First, farmers need information for decision making on what to produce. For example, should a smallholder farmer grow maize, potatoes or cabbage in a particular season? Should the farmer grow a monocrop or intercrop? This depends on many factors, but largely on the information the farmer has on relative profitability of each enterprise, household food self sufficiency considerations (food first theory), farm size and other agronomic factors such as rainfall levels against each crop requirements during the season. This will be followed by actual production process- where information on availability and cost of farm inputs is critical-land preparation, planting, weeding, fertilization), harvesting/storage and marketing including cost of transport, potential buyers and current commodity prices and quality requirements by buyers.

A number of information provision activities exist in the country. Some of the initiatives are regional, while others are national or rural. The target groups for the various information service providers are also different, with few of them targeting smallholder farmers. A summary review of the selected information service providers from both public and private sector at regional and national levels presented below. The review examines the effectiveness of information provision, relevance, gaps and proposes strategies for improving this important service to smallholder farmers in Kenya.

5.2.2 Regional Information -provision Initiatives

- **Famine Early Warning Systems Network, FEWSNET (www.fews.net).** This web-based system that monitors food prices and hunger spots in the region is of little relevance to smallholder farmers. It is more useful to government food security departments and donor agencies such as the World Food Programme and USAID involved in relief food supplies.
- **Food and Agricultural Marketing Information System, FAMIS (www.famis.comesa.int).** FAMIS is a regional project covering all 19 COMESA member States and was funded by COMESA Secretariat, the African Development Bank and their member States. The web-based food and marketing information system has three information pillars, namely, food security, marketing information and Sanitary and Phytosanitary (SPS). The

system set up in 2005 with technical support from the International Institute for Tropical Africa, (IIAT) has not been very successful for several reasons. FAMIS, being a network of national marketing information systems was not effective in providing information to its stakeholders due to poor design (covered too many commodities) and poor data collection, analysis and dissemination capacity at member States level. Member States did not allocate much funding for the systems day to day operation. The data provided by the system was therefore not reliable or timely enough. Further more, the system targeted mainly large commercial regional traders assuming that smallholder farmers would be served by their rural or national systems. With the ending of funding support to FAMIS in 2010, the sustainability possibilities for the system to continue are rather weak. Being purely web-based few smallholder farmers and other rural stakeholders could access it or were even aware about the existence of the system. Like most donor funded projects, FAMIS faces eminent collapse after end of funding by the African Development Bank unless urgent efforts are made by COMESA secretariat to source alternative sources of financial and technical support. One of the proposals for sustainability of FAMIS was its incorporation or mainstreaming into CAADP Compacts and National Investment Plans, such as Kenya's MTIP so that resources could be allocated from national budgets.

- **Regional Agricultural Trade Intelligence Network, RATIN (www.ratin.net):** Initially started by USAID under the Regional Agricultural Trade Expansion Support Project, RATES, the system has since been taken over by the Eastern Africa Grain Council, (EAGC). According to information on the website (www.ratin.net), the major task of RATIN is to supply traders with improved early warning marketing and trade information that would lead to more efficient and competitive transactions in food trade between surplus and deficit regions in East Africa. RATIN information is distributed to hundreds of small and medium cross border traders of cereals and pulses in East Africa through loose associations each of which receive RATIN monthly bulletin and disseminate it to all members. The system is limited in that it deals with cereals only: maize, beans, and rice and targets cross border traders in eastern Africa. It has no backward linkages or direct interest in providing information to smallholder farmers in the country. RATIN is currently hosted by the Eastern Africa Grain Council (EAGC). It is EAGCs Market Information Service. The main activity of RATIN is regional grain trade analysis using information from various sources.
- **Regional Agricultural Input Market Information and Transparency System (AMITSA) - www.amitsa.org:** AMITSA is the newest regional initiative having been officially launched in Kenya in early 2011. It's a joint initiative of IFDC, the East African Community (EAC) and COMESA, is improving access to market and technical information on agricultural inputs (fertilizers, seeds and crop protection products) for public and private stakeholders in eastern and southern Africa. The role of the inputs market in promoting food security and agricultural growth is critical to the success of regional and national policies. Among the major constraints to increased use of agro-inputs in East Africa is the lack of information about these agro-inputs. It is against this background that IFDC in collaboration with the EAC and COMESA have developed the Regional Agricultural Input Market Information and Transparency System, AMITSA (www.amista.org). The AMITSA network covers eight countries – Burundi, Kenya, Malawi, Mozambique, Rwanda, Tanzania, Uganda and Zambia. In collaboration with ministries of agriculture, agro-input trade associations, local projects and non-governmental organizations, AMITSA staff members have identified and trained more than 230 agro-dealers in 120 towns in the region to share monthly prices and sales trends from their agro-input shops. Statistics, directories, publications and market news are compiled and shared via an interactive, web-based portal (www.amitsa.org). Monthly price reports are sent by e-mail to over 600 recipients and can be downloaded from the site's publication center. Mobile phone applications were recently integrated into the AMITSA system, which broadened

availability to nearly every farmer and agro-dealer in the region by allowing data to be transmitted via text messages. Price information, technical, extension or marketing messages and alerts will be distributed to more than 5,000 agro-dealers and to hundreds of thousands of farmers (Agri-Hub Uganda, <http://apf-uganda.ning.com>). The system is unique in that it deals solely with farm inputs at regional level and covers 8 countries in Eastern and southern Africa, namely Kenya, Uganda, Zambia, Mozambique and Malawi. It is supported by the International Fertilizer Development Centre, (IFDC) based in Nairobi, Kenya.

5.2.3 National level Information - provision initiatives

Ministry of Agriculture: The Ministry of Agriculture is the main public body charged with providing information to smallholder farmers in the country. Information provision is one of the strategic issues in all government agricultural policy documents and investment programmes such as the National Food Policy, SRA, ASDS, National CAADP Compact and MTIP. Realizing that lack of information is one of the factors hindering agricultural development in general and attainment of national food security and improved smallholder farmers' incomes, the Government established the Marketing Information Branch (for marketing information), the Agricultural Information Centre, AIC (general information) and the Division of Agricultural Extension (mainly agronomic information). Information on climatic issues such as weather is provided by the Meteorological Department under the Ministry of Environment and Natural Resources. The national extension service has been inadequate and not pro-poor according to recent reports (Government of Kenya, Expenditure Review, 2010). Public extension service, however, remains the most reliable for the 4.5 million smallholder farmers, pastoralists and fisher-folk in Kenya who form 13% of the population. Current extension outreach is 2.1 million smallholders per year through Common Interest Groups (CIGs), Self-Help Groups (SHGs), Extension Groups (EGs), field days, demonstrations, exchange visits and individual targeting. Hence, 2.4 million smallholders are not reached at all yet they are Kenyans who have a right of access to public extension services. Innovative ways were needed to have the majority if not all farmers reached by extension services to enable them to make a positive contribution to agricultural productivity that remains the economic mainstay of the country (Hedwid et al, undated). As a response to this situation, the Government recently set up the National Farmers Information Service, NAFIS (www.nafis.go.ke) in order to enhance information provision to all farmers. NAFIS is a voice service that offers agricultural extension information which farmers can access through mobile phones. NAFIS is updated through the web, and the IVR is created automatically through a Text-to-Speech engine in both Kiswahili and English. NAFIS is an initiative of the Government of Kenya through the Ministry of Agriculture's National Agriculture and Livestock Extension Programme, NALEP. It is a comprehensive information service intended to serve farmers needs throughout the country, including in rural areas where internet access is limited. The service comprises of a detailed website that is updated easily by extension officers (www.nafis.go.ke) The information covers both livestock and crops (cereals). Unfortunately, this innovative plan has not taken off as expected. In terms of Government spending in agriculture, extension activities have always taken up the largest share of the budget, compared to research. The information is provided through various channels: radio, print, and through the extension services where government officers visit farmers in the field. But the information provision by government has not been adequate. The number of extension officers has been low and poorer smallholder farmers in remote areas have been disadvantaged. The quality of marketing information has been poor due lack of timeliness as limited resources have been allocated to collection, analysis and dissemination of marketing information. In the past, most of the marketing information activities were funded mainly by donors and lacked continuity.

5.2.4 Non Governmental Organisations (NGOs)

Apart from the Government, several other service providers are actively engaged in provision of information to smallholder farmers and buyers in the country. These are highlighted below.

- **DrumNet, Pride Africa**

Rural farmers in central Kenya have been piloting a project, called DrumNet, which provides marketing, financial services and information via their mobile phones. The premise of the Pride Africa project is that a lack of market information is one of the key elements that keeps farmers from getting the full market value for their products.

- **The Online Information Service on Non-chemical Pest Management in the Tropics (OISAT)-
www.oisat.org**

This is a web-based information tool offering trainers, extension workers and farmers a quick access to up-to-date information for their work and for organizing agricultural learning processes in order to minimize pest damage in a safe, effective, and ecologically sound way. Its structure is based on the cropping season of the major crops, indicating key pests for each growth stage and plant part. Farmers can access technical information for direct use in the field at the individual level and as joint farmer learning processes, in their effort to further develop their agricultural production systems (www.oisat.org). The information is also presented in the form of pictures with explanatory glossaries. However, being purely web-based means that most smallholder farmers who neither have computers nor access to internet cannot be reached by such a system. But NGOs and farmers organisations can freely access the information and distribute it to their members. It's therefore a valuable resource centre which calls for partnerships and networking in order for system to be useful to smallholder farmers who are not able to access it directly.

5.2.5 Private Sector

Kenya Agricultural Commodity Exchange (KACE), (www.kacekenya.co.ke)

The most innovative and pioneering private sector-led initiative aimed at providing information to smallholder farmers in Kenya has been by the Kenya Agricultural Commodity Exchange, (KACE). This is a private sector firm launched in Kenya in 1997 to facilitate competitive and efficient trade in agricultural commodities, provide reliable and timely marketing information and intelligence, provide a transparent and competitive market price discovery mechanism and harness and apply information and communication technologies (ICTs) for facilitating trade and information access and use, initially in Kenya but to scale out to the East African Community subsequently (www.kacekenya.co.ke).

Unlike traditional agri-business firms involved in contracting farmers to produce certain commodities who use the 'traditional extension approaches in providing information to farmers, KACE applied modern Information and Communication Technologies, (ICT) and partnered with other private sector actors, principally Safaricom, a leading telecommunications company in Kenya, to develop the information system. Farmers with a mobile phone can access information on where to sell and at what prices at a minimal fee which also generates KACE some resources to run the system. A key objective of KACE is the development of a simple and low cost marketing information system to provide reliable and timely market information and intelligence targeted at smallholder resource-poor farmers in Kenya. KACE also aims at providing market linkages for smallholder farmers to local, regional and international markets. The components of KACE market information system are (COMESA, 2007) rural-based market information points (MIPs), Mobile Phone Short Messaging Service (SMS), Interactive Voice Response (IVR) Service, Internet-based data base system, Rural FM Radio-based virtual trading floor and central Headquarters Hub in Nairobi.

Unfortunately, KACE's efforts are concentrated mainly in Western Kenya. More resources and institutional strengthening are required in order to upscale the efforts of KACE to the rest of the country so that more products

can be covered and more smallholder farmers reached. KACE information system has not been able to generate adequate finances to sustain its activities and remains mainly supported by donor funding.

5.2.6 Strategies in which information system could be established or strengthened

A review of the information provision initiatives by both private and public sectors has revealed several information gaps in terms of reach, quality, accuracy, relevance and timeliness. There are also challenges related to sustainability of the information systems, which are currently highly donor dependent and institutional weaknesses of the information providers in terms of human resource and technical capacities for effective delivery of information to smallholder farmers in the country. Whereas the public sector provides information through national extension services for both livestock and crop production, and to some extent, marketing information consisting of prices in main towns, and for selected commodities, the information provided rarely covers the entire value chain since small scale farmers are seen mainly as sources of raw materials. They are not seen as entrepreneurs who need information on value addition, including information on opportunities for investment through agro-processing. The national extension system does not reach all farmers, especially the poor ones. Information on prices is often not analysed or synthesized to enable farmers make sound business decisions. Other gaps in information provision include limited provision of information on appropriate and affordable technologies for production and agro-processing and quality and food safety standards (sanitary and phytosanitary measures). Reported cases of aflatoxin contamination in maize and level of post harvest losses demonstrate that smallholder farmers do not have adequate information on farm storage. Information on packaging requirements, safe use of pesticides and other elements of good agricultural practices for smallholder farmers to meet export requirements has been inadequate since considerable amounts of farm produce are rejected yearly after inspection by the Kenya Plant Health Inspectorate Service, KEPHIS. There are also information gaps in terms of smaller holder access to information on agricultural policy developments at national, regional (e.g. COMESA/EAC trade protocols) or global levels (e.g. WTO Doha Development Agenda) yet this affects smallholder farmers. Given the above shortcomings in information supply and the emerging trend in which ICT is increasingly used to provide information to smallholder farmers and the strong reliance on cell phones and ICT has important implications for access to information by smallholder farmers. For improved effectiveness and relevance, the following strategies are proposed. However, there is need to:

- Conduct more analysis and provide farmers information that is of practical use rather than providing 'raw' statistics that farmers may not easily interpret and therefore apply
- Build the capacity of rural smallholder farmers to use ICT, especially computers and internet
- Generate its own resources for sustainability as it may collapse once donor support by for the information systems ends
- Improve ICT infrastructure in rural areas: access to computers, mobile phone network coverage, electricity affordable internet connectivity
- Keep the cost of internet connection and cell phone calling rates affordable. The drop in calling rates in Kenya recently due to increased competition was encouraging. However, the reversal of the low calling rates through increases in calling rates by some leading cell phone companies is worrying as it will likely reduce the access of smallholder farmers to their services.
- Need to strengthen the human resource capacity of the information providers to train and advice smallholder farmers
- Provide additional skills e.g. in marketing for farmers to use the information more effectively.
- Improve the geographical and commodity coverage of the information service providers and relocate services closer to rural areas where farmers live
- Provide more resources for data collection, analysis and dissemination especially through mass media such as radio and TV
- Provide information on a value chain basis including that on agro-processing technologies and cost for value addition and commercialization of smallholder agriculture

- Provide information on investment opportunities, sources and cost of finance to smallholder farmers. The Kenya Investment Agency should decentralise its services to rural areas to improve access to their information and advice to smallholder farmers
- Information provision to smallholder farmers should be seen as a public good since smallholder farmers have limited resources to 'buy' the information. Government support is still needed, including subsidies for private sector initiatives.
- More and sustainable sources of funding should be sourced through adequate provision in national agricultural budgets. Information provision should be mainstreamed in all CAADP National Compacts and Investment Plans.
- The government should come up with modalities for attracting the participation of the private sector through cost sharing. This will avoid a situation whereby donor funded initiatives in support of provision of information to smallholder farmers collapse at the end of funding. Efforts of the private sector, such as KACE in providing information need to be supported through funding support for greater outreach, information analysis and packaging and dissemination. Farmers organizations such as KENFAP, industry associations and co-operative societies should be strengthened to establish information centres in rural areas.
- Improve rural infrastructure and cost of doing business in rural areas. Information per se will not make stallholder farming profitable
- Government should continue to implement supportive policies to encourage production of marketable surpluses, promote agro-processing at local level and make markets work for the poor through remunerative prices to smallholder farmers. Fair producer prices that meet the farmers' production costs and leave normal profit margin are the single most important incentive for commercialization and transformation of smallholder agriculture in the country.
- Set up rural resource centres where farmers can access comprehensive information across the entire value chain for particular commodities of their interest and in a language they can easily understand. The newly established National Farmers Information System needs to be revived and strengthened to serve farmers better and to become self sustaining.

5.3 Necessary Capacity Building and Institutional Reforms for enhancing Investment of Remittances

5.3.1 Overview

In August 2010, the Region's Institutional Development Fund (IDF) Committee (RIC) approved in principal the Grant for \$990,000. The main objective of the Grant is strengthening the capacity of African Union's Citizens and Diaspora Directorate (CIDO) in order for it to implement selected high priority activities of its larger global Diaspora Program.

5.3.2 Main components and activities deserving support

Component 1: Strengthening implementation capacity of staff in CIDO to implement its global Diaspora program, specifically by supporting the regional coordination liaison function located in the AUC representational missions in different parts of the World.

Component 2: Implementing the high priority activities of the AUC's global Diaspora

- Developing a legal framework for Diaspora participation in the AU;
- Preparing the African Heads of State Summit on the Diaspora including a draft Plan of Action
- Creating and consolidating the Regional Diaspora networks through Regional Consultative Conferences in USA, Caribbean, and South America; in Europe; the Middle East and the Gulf; and in Australia and Oceania;

- Strengthening AU's outreach and communication capacity to African Diaspora and African Member states; and
- Launching a pilot project to establish the AUC's Diaspora Volunteers Program with specific focus on volunteer medical doctors and nurses.

5.3.3 The Case of Kenya

In Kenya, IDF Grant for Strengthening Capacity for Diaspora Engagement with Specific Focus on Building Capacity of Diaspora Affairs Directorate in the Ministry of Foreign Affairs - P121227. The IDF grant supports in developing the communications, outreach, and information gathering capacity of the Directorate office.

The Objectives and Activities of the IDF Grant

The main objective of the IDF Grant is to enhance the capacity of Directorate in MoFA to mobilize the Kenyan Diaspora for development. Emphasis will be given to mainstreaming the Diaspora into national development as outlined in the Kenyan economic blueprint: "Vision 2030". Enhancing the capacity of the Directorate would lead to the development of a national Diaspora Engagement Strategic Policy Framework and Plan of Action; and would strengthen the GoK's communications with, outreach to, and information gathering from its Diaspora.

Component 1: Develop the Kenya's Diaspora Engagement Strategic Policy Framework and Plan of Action

This component will strengthen capacity of staff in the Directorate to develop the strategic framework, plan of action and benchmarks to engage Kenyan Diaspora for development. Activities include providing support to:

- Outreach workshops to the Kenyan Diaspora Networks and Hometown Associations in the United Kingdom and Europe, and in the United States.
- Outreach for participation of the Kenyan Diaspora at the Bi-annual conference of Kenyan Ambassadors and High Commissioners.
- Outreach Kenya Diaspora through engagement with Kenyan Think Tanks for preparation of policy notes on Kenyan remittance flows and leveraging investments for development investment climate and constraints.

Component 2: Develop the Communications, outreach, and information gathering capacity of the Directorate office

The component will finance short term consultant assignments to strengthen staff capacity in the Directorate. Activities include to: develop a web portal for exchanging experiences, and global communication strategies; learn best practices experiences of Diaspora engagement through study tours in Asia and Africa as well as utilization of the Global Distance Learning Network (GDLN); improve the virtual technology of the Directorate to engage with the Kenyan Diaspora; and develop a training module which includes training curriculum and training manual at the Foreign Service Institute in MOFA on the role of Diaspora in Kenya's economic and social development.

5.3.4 Financing for Capacity Building

There are several ways in which the above proposed activities could be financed. These include: providing better access to the technical assistance resources funded under Bank/IDA assisted projects; opening up the Institutional Development Fund (IDF) to broader capacity development initiatives; accessing the Africa Catalytic Growth Fund (ACGF); expanding the scale of Development Marketplace competitions targeting the Diaspora; working with special programs of bilateral partners such as the Faith-Based Initiatives of the USA; seeking contributions and partnerships

from other donors and large multi-national corporations; creation of a multi-donor trust fund for Diaspora engagement and facilitation; and creating a remittances-based Africa Diaspora Investment Fund..

5.3.4.1 The existing portfolio of Bank/IDA-assisted projects in Africa is about \$ 22.0 billion for 401 operations. Many projects include categories of expenditure and funding earmarked for foreign consultants. Country and Sector Departments, Networks, Task Teams and Borrowers should have access to a multipurpose database containing the profiles of Diaspora professionals and their networks. Region-wide Diaspora engagement forums, awareness seminars and consultations with partner country participation will be held to discuss pragmatic ways and schemes for using African Diaspora as consultants in planned (pipeline) and in ongoing projects (portfolio). A strategy and a systematic approach for the “Diasporization” of the existing pipeline and portfolio will emerge, and thereafter task teams and borrowers should endeavor to include available Diaspora as consultants in project design and implementation.

5.3.4.2 The Africa Catalytic Growth Fund (ACGF) could be a major instrument for funding the proposed program. The ACGF is a financing vehicle that “targets support to a few country-specific, high reward development opportunities capable of generating significant, positive spillover effects, beyond those that can be supported by IDA”. It is “intended to facilitate incipient transformational change in a few countries at a time”. Mobilizing the African Diaspora for the continent’s development is considered by AU and expert groups as the “last frontier” to unleash the capacity, know-how and the resources needed to reinvigorate Africa’s waning public and private sectors. It is proposed that participating countries will apply for funds under the ACGF facility to finance Diaspora engagement activities. Preliminary discussions have been held with the ACGF team who support the Diaspora initiative’s goals and encourage collaboration toward country participation and synergy within the Africa Region.

5.3.4.3 The Institutional Development Fund (IDF) will be explored to provide funding for Diaspora activities in participating countries. Planned support for the Africa Center for Economic Transformation (ACET) is one example of how a small investment can provide large returns and engage the Diaspora.

5.3.4.4 Development Marketplace: Selective donors are providing support to the Development Marketplace for the African Diaspora in Europe (D-MADE) which is geared to providing grants for Diaspora entrepreneurs who want to implement business activities in Africa. Belgium is providing E150, 000; Netherlands E350, 000; France -E50, 000; and Italy has expressed an interest in providing E250, 000. Germany will contribute in kind by hosting the launch of an event in Bonn. Spain and Portugal are also considering support. Italy is supporting also, the Ethiopia Diaspora country program in the amount of \$140,000; and will provide an additional \$200,000 for extending the program to under-serviced areas in the regions and districts. Lessons will be drawn from the D-MADE to guide subsequent use of this channel for promoting Diaspora entrepreneurship.

5.3.4.5 The private sector: Partnerships with private sector organizations in the USA and Europe, especially multi-national corporations with strong business interests in Africa can be explored. These partnerships would be linked to a business case for participation rather than being seen as short-term charitable or pro-bono contributions, and could take many forms such as the organization being a vehicle for development, allowing/sponsoring its employees to contribute to homeland development without loss of benefits or career progression, financially contributing to a fund, allowing the use of proprietary technical knowledge, providing opportunities for employees to articulate new African business opportunities, allowing Diaspora to serve as the organization’s representative in their home country etc. Discussions have been initiated with the US Chamber of Commerce as well as with the Business Action for Africa in the UK to assess initial interest.

5.3.4.6 Faith-based Coalitions: African Diasporas have established several churches and mosques in countries of residence. Some of these are either branches or off-shoots of churches and mosques in home countries. Others are new and entirely on their own. All of these churches and mosques provide vehicles for community development and philanthropy in home countries. Arrangements could be made under the proposed program to identify and expand on such efforts through links with public and private sector faith-based initiatives in countries of residence (e.g., for matching funds). In order to knit as many US faith-based organizations as possible together under a common umbrella for this purpose, discussions have been held with the USAID Centre for Faith-Based and Community Initiatives (FBCI), which is linked to the White House's Office for Faith-Based Affairs. African-American churches and institutional establishments play a pivotal role in this endeavor. FBCI administers a Compassion Capital fund that disburses minigrants of \$50,000 to grassroots organizations, and awards of \$3.0 million over a period of years to larger organizations. This funding support has been very successful within the USA, and FBCI is considering replicating this on an international scale. Specific proposals discussed with the Bank include participation in a conference to share Diaspora best practices at which the regional Vice President could be invited to speak, creating linkages between Diaspora groups and faith-based organizations interested in working in Africa, and broadening the scope of the Compassion Capital Fund to include funding opportunities for Diaspora contribution to Africa.

5.3.4.7 Africa Diaspora Engagement and Facilitation Fund: If agreed, discussions can be pursued with donors supporting ongoing Diaspora programs to contribute to an Africa Diaspora Engagement and Facilitation Fund (ADEFF) for funding program activities.

5.3.4.8 Remittances-based Africa Diaspora Investment Funds: African Diaspora remittances flows are in excess of \$4.0 billion per year. Mechanisms could be developed following practices in Latin American countries (Brazil, Mexico, El Salvador, Guatemala, Argentina, Nicaragua, Dominican Republic) where these flows are leveraged to finance Diaspora-led development activities for enhanced development impact. It is proposed that the catalytic role played by the Inter-American Development Bank (IADB) to leverage remittances in Latin America be supported and replicated if necessary by the Bank in collaboration with the African Development Bank (AfDB) in Africa.

5.3.4.9 Diaspora Networks/Teams/Groups

Engaging the African Diaspora will be primarily through three interrelated types of professional networks and teams: Technical Expert Networks; Investment and Business Promotion Networks; and Policy-relevant Action Networks. In general, network members can be private individuals with verifiable track records in areas of expertise, and in some cases, affiliated with recognized institutions, organizations or corporations in country of residence. Flagship areas from which activities, projects and interventions will be supported and financed include: Making finance work (public finance management); education economy and competitiveness; health (preventive and curative); agriculture productivity, climate change and environment; banking and insurance (to enhance the development impact of remittances); closing infrastructure gaps; industry, science, technology and engineering (strengthening African Institute of Science and Technology (AIST)); affordable housing and shelter; legal services; governance (enabling policies, rules of engagement, transparency, accountability); and peace and security.

5.3.4.10 Ownership and Partnerships

The foundations and the long term sustainability of the proposed program will rest on robust partnership arrangements involving the major stakeholders. The proposed program is designed with the following guiding principles of partnerships:

(a) African Partners: African Governments, the AU and regional bodies such as Regional Economic Communities (RECs), the African Capacity Building Foundation (ACBF), the Association of African Universities (AAU), non-governmental organizations (NGOs), and CSOs would work together to define the respective rules of partner engagement and support for the proposed program.

(b) Partner Country Ownership: Proactive measures will have to be taken to institutionalize the proposed program through government coordinating units that would collate the internal demand for Diaspora services/products.

(c) Internal Partnerships: Country and Sector Departments in AFR should have focal points/designated persons as part of the Diaspora engagement facilitation team. This team will work to map, align, and match Diaspora skills/expertise to respective country and sector needs and demands.

(d) Bilaterals: The proposed program will build on donor goodwill and interest as expressed in support for the Development Marketplace of the African Diaspora in Europe (DMADE) to extend and enhance working relations with DFID, OECD/DAC, EU, USAID and other interested South-South partners. The Department for International Development, UK (DFID), has an established Diaspora program and discussion will be held with them to assess opportunities for collaboration.

(e) Multilaterals: UNDP runs the Transfer of Knowledge through Expatriate Nationals (TOKTEN) program which supports Diaspora professionals on short term assignments in participating countries. Working relations with UNDP and other UN agencies will be developed under the proposed program to draw on the synergies of related undertakings.

(f) Academia, global research institutions and international NGOs: Institutional partnership arrangements would be facilitated through Diaspora network links e.g. with African Studies programs at North American universities, and comparable programs in Europe. In this context, discussions have been held with the George Washington University (GWU) to explore how the Bank can partner with their research-based Diaspora program, which is active especially in the health sector. GWU has proposed a series of interventions that will help the proposed program to meet its objectives, namely, conducting a survey of Diaspora groups and homeland country needs and marketing both to each other, organizing a workshop on virtual migration, and assisting the African medical Diaspora in medical workforce capacity development

5.3.5 The African Diaspora Investment Facility

Goal and Objectives: The African Diaspora Investment Facility (ADIF) aims at making available instruments that will enable and sustain African diaspora-led investments into countries of the SSA region. The facility will assist existing and potential diaspora investor with adequate instruments at three levels of a business venture cycle: genesis, start-up, sustainability. At each point in the cycle, there is the need to provide assistance in the form of information, capacity building, and funding. Thus this facility has the following objectives:

- Provide an integrated set of services in the areas of information and documentation, development of bankable project proposals, facilitating of access to finance, management and marketing in view of improving existing diaspora-initiated businesses in the continent or the setting up of new ones (Information and Technical Assistance – ITA)
- Make available funding facility that would benefit the diaspora entrepreneur (DiaFund)

Information and technical assistance (ITA) Activities

This service will provide potential diaspora entrepreneur or diaspora group of investors with information and assistance at the investment project genesis as well as during start up and implementation phase. At the project genesis and elaboration phase, the following information service is envisaged:

- Compile, document and disseminate information about available investment opportunities, including potential joint venture partnerships with local and foreign investors
- Provide information on legal, financial and other requirements for investing in target home countries.
- Provide information on government policies and procedures as well as the facilities and incentives made available to diaspora investors
- Provide remittances senders and receivers with information on financial products and services in a bid to leveraging remittances for capital and employment generating activities
- Facilitate financial literacy education to both senders and recipients.

Additionally, the facility should be able to assist and/or coordinate assistance to diaspora entrepreneurs in the “packaging” and “marketing” of their projects. These will include:

- Provision of advisory and training services in the elaboration of business plans that meet the requirements of financial institutions (international development finance institutions, venture capital firms, banks, etc).
- Liaising with these institutions to secure funding for projects.
- Structuring of joint venture partnerships with local and/or foreign companies.
- Assistance in obtaining the approval of government authorities from target countries.
- Seeking out potential investors, providing guidance on how to approach them, active setting up meetings and contacts.

Finally, the facility should serve as the platform for identifying, recruiting and deploying experienced managers to provide requisite managerial expertise to the diaspora investor during the start-up and implementation phases of the project. Where this is available, the facility will make use of the services of professionals from the diaspora community. The facility will make use of resources available at international institutions and NGOs for the technical assistance and implementation aspects of its activities. Some of the international institutions and organisations that have been identified for this purpose include:

- Centre for the Development of Enterprise (CDE)
- Technical center for agricultural and technical cooperation ACP-EU (CTA)
- African Management Services Company (AMSCO)
- International Organization for Migration (IOM)
- Development NGO's such as GRET, ATOL and TECHDEV
- Network of consultants: Coachinvest, “retired” Senior consultants

5.4 Policy and Institutional Framework and Impact on Remittances and Investment

Inflow of remittances from the diaspora to their origin takes different forms: private transfers (or remittances), funds invested in private or community sector ventures and in portfolio investments. Over the last few years, there is a reportedly increase in the volume of such funds into Kenya. In sub-Saharan Africa, Kenya attracts the second largest volume of remittances, after Nigeria. However, it has a limited capacity to channel such remittances into productive investments and lags in its effort to capture private equity and portfolio investments from its diaspora. A review of the institutional, regulatory framework and obstacles to increased inflow from the diaspora in Kenya is presented in Annex 1. A number of factors hinder the flow and investment of remittances in the country. These factors are outlined below.

5.4.1 High Remittances transfer costs: Remittances to Kenya are essentially made through formal and informal channels. Unlike countries in Latin America and Asia, the cost of formally transferring funds to Kenya remains high and as such senders prefer using informal networks that in addition to being relatively cheaper provides those without

the appropriate documentation with a “safe” means for making their transfers. The high cost of sending money through official channels is one of the reasons for an estimated 50 to 75 percent of remittances being sent via informal channels with a significant proportion remaining outside the financial system. This essentially results from the fact that there is less competition in the transfer market in the region with one MTO – Western Union - controlling the market in Kenya.

5.4.2 Regulatory restrictions: impede entry into the remittance market of financial institutions such as micro finance institutions with extensive geographical reach and proximity to the poor. For instance, only commercial banks are permitted to make remittance payments in Kenya.

5.4.3 Inappropriate legal and regulatory framework: In Kenya there are restrictions that constitute a barrier to entry for some key institutions with the capacity to play a key role in the intermediation of remittances. These restrictions relate generally to minimum capital requirement and type of institution that could engage in money transfer activities. This is the case for non banking financial intermediaries such as micro finance institutions, cooperatives and community-based organisations.

5.4.4 Inefficient financial system: Despite much progress made in some countries in the last few years, the governments and the local financial institutions in Kenya are still not offering innovative financial products/instruments that could be used to channel remittances to private sector investments. This lack of access to the formal financial services by the recipients impedes financial deepening.

5.4.5 Lack of Access to finance: The diaspora investor faces the crucial problem of inability to access finance for investment in their home countries: (1) Financial institutions in Kenya are reluctant to provide the diaspora investor with loans for investment in the country. (2) International finance institutions and local African banks are unwilling to provide the diaspora with financing as they are not resident in Africa.

5.4.6 Lack of information on investment opportunities: Most potential diaspora investors are generally unaware of investment opportunities in Kenya.

5.4.7 Weak institutional link with the diaspora: Kenya is yet to adopt a legal and regulatory framework that would attract the diaspora investor.

5.4.8 Unfavourable enabling environment: The poor state of the country’s infrastructure, rigid bureaucracy, corruption, etc... does dampen the enthusiasm of some diaspora investors.

5.4.9 Legal and regulatory framework

5.4.10 Dual Citizenship: Nationality is a primary legal entry point. The definition of citizenship is a political and normative matter by which people are “classified” as nationals or foreigners, residents or nonresidents. It is a major thematic link connecting legal definitions and regimes, from investment, labour markets and taxes to migration and diaspora. It has a fundamental impact on how the identities of individuals as well as companies, should be ascertained, “given”, registered, communicated.

The loss of a nationality has a serious emotional impact on the diaspora member who still wants to maintain links with the home country. Also, granting dual citizenship to nonresident nationals has the impact of broadening the country’s economic base and fostering trade and investment between the origin and host countries. It is thus important that this should be given serious consideration by countries in the region. Within the African continent, only a very limited number of countries have granted this right to their non resident nationals who have taken up other nationalities. Nevertheless, there is now a new momentum for the countries of the region to consider granting such rights.

5.4.11 Investment regulations: Historically, many investment laws in Kenya have been of the general type, not addressing the needs of any specific investor class or industry and assuming that conditions exist that will facilitate an efficient allocation of investment capital. This kind of investment law is useful in countries where the basic market system is developed and free from distortions. On the other hand, an all encompassing investment law seeks to transform local economies and focuses on all issues of development including those of transfer of technology, the requirements for industrial upgrading, manufactured exports, access to financial capital, etc... This second type of investment law presents pitfalls. It compels policy makers to identify the most important investment needs and to determine what incentives should be given and for how long. The design of such comprehensive legislation is costly and time consuming with uncertain results due to inaccurate assumptions. It is thus risky to elaborate a unique and over ambitious “diaspora investment law”.

A preferred option would be to develop a set of interrelated and interconnected laws present in different statutes but tied together through a clear vision and objective in relation to the diaspora. This approach does not consider any particular investment law as the end to the process. Each significant area of policy and law (investment, financial, business, trade in services) should be given attention with a view to strengthening its critical components for the diaspora. Annex 2 presents the legal framework underlying diaspora investment and an outline of a legal strategy.

5.5 Policy Options and Initiatives for fostering Diaspora-led Investments

The development of a Policy framework for diaspora led-Investment calls for a flexible and non prescriptive approach involving a number of stakeholders as well as legal and regulatory measures designed to improve the investment climate. Like other investors in the country, diaspora investors face the same set of issues that has hampered investment in Kenya: unfriendly business regulations, bureaucracy, corruption, etc. It is thus obvious that the economies would be better off by ensuring that the local environment is conducive to enabling investments from all potential investors: domestic, diaspora and other foreign investors.

Some of the recommendations on formulating policy measures designed to enhance diaspora-led investment into domestic economies would include:

- **Enact legislation that would lead to more competition in the remittances transfer market:** legislation that constitutes barriers to entry for some key institutions with the capacity to play a role in the intermediation of remittances should be relaxed. This is especially the case for the law that requires institutions to obtain a full banking license in order to serve as a money transfer operator. This would allow for the entry of non-banking financial institutions such as micro finance institutions, cooperatives and community-based organisations, into this market.

Increased competition in the market would lead to the lowering of the high costs of remittances transfers⁵⁶. Additionally banking reforms that allow domestic banks to seek investment from abroad could potentially change the dynamics of this market as these financial institutions can now offer “diaspora account” which can be used to make monetary transfers from abroad.

- **Establish the legal basis that would allow for the creation of innovative investment vehicles** that specifically address the diaspora investor. Some countries in the region still do not allow the floatation of a financial product in the domestic market by a foreigner. Thus, for example, the Kenyan government recently did not grant authorisation to a UK-based diaspora entrepreneur for the floatation of an infrastructure bond, , to which privileged access would be granted to the diaspora investors.

- **Avoid the erection of artificial barriers to diaspora investment** – This is typically the case where dual citizenship is not granted to the diaspora with the ensuing impact on property rights. As indicated earlier, a number of countries in the region still have provisions in their investment related legislation that prohibits a foreigner to own land

and to invest in certain sectors of the economy. Further restrictions are made as to the share of equity that the latter may hold in a national corporation. It is thus important to waive such provisions for the diaspora of a country where dual citizenship is still prohibited.

- **Provide exceptions to the application of certain laws** - whenever the principle of equal treatment results in a clear disadvantage for the diaspora investor. This would be the case, for example, in the application of bankruptcy law where information and notification of shareholders on their rights and on presenting claims may reach the diaspora investor too late for them to defend their rights on an equal footing with respect to domestic investors.

5.6 Incentives and Mechanisms for fostering Diaspora-led Investments

Over the past few years, a number of initiatives to fostering diaspora-led investments into migrant domestic economies have been proposed. In addition to “setting the macroeconomic house in order” in view of creating an enabling environment for investments into the countries in general, two sets of objectives have been pursued by such diaspora-related initiatives:

- Increase the volume of remittances inflow through the formal channels (and to the domestic banking system) and channeling received remittances to productive sectors of the economy
- Facilitating diaspora entrepreneurship

5.6.1 Initiatives that impact on volume of remittances inflow through formal channels

Given that remittances remain private in nature, it has been shown that mandatory schemes to influence the channel used by the migrant often do not produce desired results (Foran, 2006). This is more so given the fact that the authorities in the region do not have direct control over the migration process. Measures that are in the form of incentives generally work better. These may include:

- **Establish framework allowing for introduction of innovative financial instruments by domestic financial institutions.** The government should allow for and encourage the establishment of financial instruments that would serve to capture remittances from the diaspora. A number of banks in the region are already offering such services covering the full spectrum of products that address the needs of the diaspora community: current, savings and investment accounts. Some of these instruments would include:

- **Repatriable foreign exchange accounts:**— Such accounts could be allowed to yield premium interest rates and premium foreign exchange rates.

- **Issuance of diaspora bonds:** A diaspora bond is a debt instrument issued by a country – or potentially, a sub-sovereign entity or a private corporation – to raise financing from its overseas diaspora. Diaspora bonds are typically long-dated securities to be redeemed only upon maturity. They are often sold at a premium to the diaspora members, thus fetching a “patriotic” discount in borrowing costs. Given that these bonds are long term in nature, proceeds could be used to finance investments. Issuance of this instrument also has the effect of improving the issuing country’s sovereign credit rating.

Some of the constraints that a country issuing such bonds may face include: weak and non-transparent legal systems for contract enforcement; a lack of national banks and other institutions in destination countries, which can facilitate the marketing of these bonds; and a lack of clarity on regulations in the host countries that allow or constrain diaspora members from investing in these bonds (Ketkar and Ratha 2007, Ratha et al 2008). Diaspora bonds are considered to be effective in diverting unrecorded remittances into the formal banking system because of the anonymity provided.

- **Establish programs to improve recipient financial literacy:** Most remittances recipients (and even senders) are not aware of available financial (savings and credit) services that could serve as “stepping stone” to the start up of a

SME. It is thus important to elaborate schemes that could provide the remittances actors with such information. Thus, for example, remittances receiving financial institutions could be encouraged to provide related financial services documentation to each recipient. With assistance from the government, special training sessions could also be organised in collaboration with these institutions.

Remittances securitization: Additionally, a country can improve its access to international capital markets through securitization against expected remittances earnings from its diaspora. According to the World Bank, this may contribute to overcoming the currency and emerging market risks that a country faces by establishing offshore collection account for foreign currency receipts (World Bank, 2005). It is estimated that sub-Saharan African countries can potentially raise US\$ 17 billion by securitizing future remittances and other future receivables (Ratha et al, 2008).

In addition to the set of measures described earlier which have the potential effect of spurring investments by the diaspora, other investment promotion specific incentives need to be considered. These would include:

- **Establishing specific tax/sectoral/export/tariff incentives** for new diaspora investments. The following are some best practices that Kenya can replicate:

- **Preferential tax rates.** An example would be the Nigerian Pioneer Status scheme that grants a 5 years corporate tax amnesty to first time diaspora investors. This is also the case for Cape Verdean diaspora investors - Offer concessional rates of duty on imported capital goods (i.e. machinery and equipment) - Creation of a one-window clearance system for diaspora investments.

- Preferential access to capital goods and raw materials import

- **Provide business advisory services:** The authorities may be encouraged to establish centers that provide advisory services on investment in the domestic economy. These would include providing information on available investment opportunities, saving schemes, financial support, business start-up procedures etc. Such services could be provided by the diaspora-focused institution identified earlier or by a unit within the country's investment promotion agency.

- **Use MFIs to directly support diaspora-led investments:** In a number of countries, non-bank financial institutions such as MFIs remain outside the remittances market. However, given their reach, they could be empowered to capture remittances as deposits and channel to them to existing businesses in the economy. As with the banking institutions, MFIs could thus be able to offer the same set of financial instruments that could serve to "accumulate" remittances in view of constituting seed capital for business venture, real estate investments or even serve as a fund upon which local SMEs could borrow from.

At the Host country level

Strategic relationship with the diaspora

Diaspora groups and networks in host countries, especially those that are established as Home Town Associations (HTAs), play a key role in maximising the developmental impact of migration on origin countries. With respect to investment into the origin countries, these groups are recognised for fostering bilateral trade between their host and home countries as well as being effective in initiating and implementing community sector investment projects in their origin countries. Such groups are effective based on the links they maintain in both the origin and host country.

Host country governments can strengthen formally constituted institutions but the effectiveness of networks lie in their informal relationships and social capital, which should be preserved and supported. Co-development initiatives that seek to integrate the specialised knowledge of diasporas, virtually or physically, back into the home country, is a good example of innovative ways to engage with the diaspora.

6.0 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

There are many investment opportunities in Kenya's agricultural sector and other sectors of the economy, especially in rural areas. Taken from a value chain approach, there vast opportunities exist in crop and livestock production, in provision of agri-support services such as supply and distribution of farm inputs and provision of extension, storage, and financial services. There are also opportunities in agro-processing for both domestic consumption and export and in agricultural marketing. Although the Government has developed various policy strategies and instituted reforms in the agricultural sector and macro-economic framework, a number of institutional, policy and regulatory gaps still abound and hinder investment in the agricultural sector. These constraints need to be addressed through strong collaboration of all stakeholders, including government, farmers' organizations, civil society, private sector and development partners. Concerning mobilization of remittances for investment in the agricultural sector and rest of the economy, several measures need to be put in place in order to create an enabling environment and channel remittances to productive sectors of Kenya's economy. Notwithstanding the fact that a number of initiatives have been taken by the authorities to mainstream the role of the diaspora in economic, political and social matters, there remains a number of challenges that continue to undermine the contribution of the Kenyan diaspora to the country's economy.

6.2 Recommendations

6.2.1 Improving the Investment Climate

- Improve rural infrastructure and lower the cost of transportation for farm produce
- Promote regional trade in agricultural commodities to expand markets for investors in the sector
- Review land use policies to improve access to land by investors
- Reduce risks in agriculture by promoting irrigation
- Improve co-ordination of sector ministries and reduce cost of doing business by harmonizing licensing procedures
- Review the investment related laws to reduce initial capital requirements for registration of investment by the Kenya Investment agency to allow registration of small scale investors in the agricultural sector
- Improve the farm inputs supply chain and make farm inputs more accessible and affordable to all investors
- Eliminate tariff and non tariff barriers such as unexpected export bans to encourage investors
- Improve co-ordination and collaboration among sectoral ministries and encourage small-scale investors for poverty reduction and food security
- Increase incentives to smallholder farmers through supportive policies that encourage production of marketable surpluses, promote agro-processing at local level and provide remunerative prices to smallholder farmers to encourage investment in the agricultural sector.
- Improve allocation of resources in the national budget to agriculture in line with the Maputo Declaration by Heads of State and Government to at least 10% of the national budget if the 6% annual agricultural growth is to be realized.
- Review foreign aid policies to channel more resources into productive sectors of the economy, especially agriculture
- Harmonise investment policies and plans and consolidate these into a single National Investment Plan for easier access to investors
- Decentralise activities of the Kenya National Investment Agency to rural areas where smallholder farmers live and work.

6.2.2 Enhancing Farmers' Savings for Investment in agriculture

- Improve access to financial institutions in rural areas to encourage smallholder farmers to save
- Strengthen farmers organizations (Unions, SACCOS, ROSCAs) through capacity building in leadership, governance and business management skills training
- Implement poverty reducing strategies and create off farm income generating opportunities to reduce poverty and encourage savings by smallholder farmers
- Promote crop and livestock insurance to reduce risk of borrowing which will in turn increase investment in agriculture and generate more income for saving by smallholder farmers.

6.2.3 Enhancing Remittances and Investment

(a) Policy options and initiatives for fostering diaspora-led investments

Some of the recommendations on formulating policy measures designed to enhance diaspora-led investment into domestic economies would include:

- **Enact legislation that would lead to more competition in the remittances transfer market:** legislation that constitutes barriers to entry for some key institutions with the capacity to play a role in the intermediation of remittances should be relaxed. This is especially the case for the law that requires institutions to obtain a full banking license in order to serve as a money transfer operator. This would allow for the entry of non-banking financial institutions such as micro finance institutions, cooperatives and community-based organisations, into this market.

Increased competition in the market would lead to the lowering of the high costs of remittances transfers. Additionally banking reforms that allow domestic banks to seek investment from abroad could potentially change the dynamics of this market as these financial institutions can now offer “diaspora account” which can be used to make monetary transfers from abroad.

- **Establish the legal basis that would allow for the creation of innovative investment vehicles** that specifically address the diaspora investor. For example, the Kenyan government recently did not grant authorisation for the floatation of an infrastructure bond, by a UK-based diaspora entrepreneur, to which privileged access would be granted to the diaspora investors.

- **Avoid the erection of artificial barriers to diaspora investment** – This is typically the case where dual citizenship is not granted to the diaspora with the ensuing impact on property rights. There are provisions in Kenya’s investment related legislation that prohibits a foreigner to own land and to invest in certain sectors of the economy. Further restrictions are made as to the share of equity that the latter may hold in a national corporation. It is thus important to waive such provisions for the Kenya diaspora since dual citizenship issues are still being worked on; however, allowed in the new Kenya Constitution.

- **Provide exceptions to the application of certain laws** - whenever the principle of equal treatment results in a clear disadvantage for the diaspora investor. This would be the case, for example, in the application of bankruptcy law where information and notification of shareholders on their rights and on presenting claims may reach the diaspora investor too late for them to defend their rights on an equal footing with respect to domestic investors.

(b) Initiatives that impact on volume of remittances inflow through formal channels

Given that remittances remain private in nature, it has been shown that mandatory schemes to influence the channel used by the migrant often do not produce desired results (Foran, 2006). This is more so given the fact that the authorities in Kenya do not have direct control over the migration process. Measures that are in the form of incentives generally work better. These may include:

- **Establish framework that would allow for introduction of innovative financial instruments by domestic financial institutions.** The government should allow for and encourage the establishment of financial instruments that would serve to capture remittances from the diaspora. A number of banks in Kenya are already offering such services covering the full spectrum of products that address the needs of the diaspora community: current, savings and investment accounts. Some of these instruments would include:

- **Repatriable foreign exchange accounts – such accounts could be allowed to yield premium interest rates and premium foreign exchange rates.**

- **Issuance of diaspora bonds:** A diaspora bond is a debt instrument issued by a country – or potentially, a sub-sovereign entity or a private corporation – to raise financing from its overseas diaspora. Diaspora bonds are typically long-dated securities to be redeemed only upon maturity. They are often sold at a premium to the diaspora members, thus fetching a “patriotic” discount in borrowing costs. Given that these bonds are long term in nature, proceeds could be used to finance investments. Issuance of this instrument also has the effect of improving the issuing country’s sovereign credit rating. Diaspora bonds are considered to be effective in diverting unrecorded remittances into the formal banking system because of the anonymity provided.

- **Establish programs to improve recipient financial literacy:** Most remittances recipients (and even senders) are not aware of available financial (savings and credit) services that could serve as “stepping stone” to the start up of a SME. It is thus important to elaborate schemes that could provide the remittances actors with such information. Thus, for example, remittances receiving financial institutions could be encouraged to provide related financial services documentation to each recipient. With assistance from the government, special training sessions could also be organised in collaboration with these institutions.

Remittances securitization: Additionally, Kenya can improve its access to international capital markets through securitization against expected remittances earnings from its diaspora. According to the World Bank, this may contribute to overcoming the currency and emerging market risks that a country faces by establishing offshore collection account for foreign currency receipts (World Bank, 2005).

(c) Other investment promotion specific incentives

- **Establishing specific tax/sectoral/export/tariff incentives** for new diaspora investments.

- **Preferential tax rates.** An example would be the Nigerian Pioneer Status scheme that grants a 5 years corporate tax amnesty to first time diaspora investors. This is also the case for Cape Verdean diaspora investors - Offer concessional rates of duty on imported capital goods (i.e. machinery and equipment) - Creation of a one-window clearance system for diaspora investments.

- Preferential access to capital goods and raw materials import

- **Provide business advisory services:** The authorities may be encouraged to establish centers that provide advisory services on investment in the domestic economy. These would include providing information on available investment opportunities, saving schemes, financial support, business start-up procedures etc. Such services could be provided by the diaspora-focused institution identified earlier or by a unit within the country’s investment promotion agency.

• **Use MFIs to directly support diaspora-led investments:** It is noted that non-bank financial institutions such as MFIs remain outside the remittances market. However, given their reach, they could be empowered to capture remittances as deposits and channel to them to existing businesses in the economy. As with the banking institutions, MFIs could thus be able to offer the same set of financial instruments that could serve to “accumulate” remittances in view of constituting seed capital for business venture, real estate investments or even serve as a fund upon which local SMEs could borrow from.

In addition, MFIs should be enabled to directly support diaspora-led investments. It is noted that non-bank financial institutions such as MFIs remain outside the remittances market. However, given their reach, they could be empowered to capture remittances as deposits and channel to them to existing businesses in the economy. As with the banking institutions, MFIs could thus be able to offer the same set of financial instruments that could serve to “accumulate” remittances in view of constituting seed capital for business venture, real estate investments or even serve as a fund upon which local SMEs could borrow from.

(d) At the Host -country level

Host country governments can strengthen formally constituted institutions but the effectiveness of networks lie in their informal relationships and social capital, which should be preserved and supported. Co-development initiatives that seek to integrate the specialised knowledge of diasporas, virtually or physically, back into the home country, is a good example of innovative ways to engage with the diaspora.

Policy recommendations

Given the importance of the remittances market, host country authorities should work with their counterparts in Kenya on technical, regulatory and oversight matters to ensure transparency in the market. Also, measures that contribute to increased access to the financial system by migrants would enable them to use the formal channel for their remittances transfers.

i) Incentives and mechanisms

Some initiatives that could be put in place to foster improved diaspora investments into the Kenyan economy may include:

• **Establish technical and financial assistance programs** that provide support to diaspora entrepreneurs in initiating investment projects in Kenya and the region.

• **Involve the diaspora in economic missions** in the host countries on behalf of Kenya. Not only would this provide the diaspora participant with an opportunity to identify investment opportunities, such actions would also be beneficial to host country entrepreneurs who can gain useful insight from the diaspora members on “local conditions” in Kenya.

• **Make provisions for short term work placements.** Encourage and put in place beneficial plans that would encourage short term work placements of diaspora members in the region. The period spent in a given country by a member of the diaspora will provide the opportunity to ascertain investment opportunities in that country for the benefit of Kenya.

ii) At the level of Multilateral Institutions

Multilateral institutions (or the so called development actors) have a key role to play in fostering diaspora-led community and private sector investment in Kenya. Institutions such as the International Organisation for Migration has been addressing issues related to the sector for sometime now. In recent years, there has been a flurry of activity at other major multilateral institutions.

In 2007 the World Bank launched the Development Marketplace for African Diaspora in Europe (D-MADE) initiative targeting diaspora members in Europe (see box) and the European Union launched in 2009 a multi-million Intra-ACP migration facility that would address some elements of diaspora-led investments. The Pan African Capacity Building Forum held in Maputo, Mozambique in 2007 called for “strategies to facilitate the contributions of African Diasporas

to the development of their countries". These are strategies that would enable Kenya benefit from its diaspora, if Kenya encouraged her diaspora to bid for these opportunities.

iii) Strategic links with the diaspora

The role that migrants play in promoting investments in their countries of origin, as well as the contribution they make towards the prosperity of their host countries, should be recognised and reinforced. African diaspora investment should become an integral part of global, regional and national strategies for poverty reduction. Measures to encourage the transfer and investment of remittances should be combined with strategic policies that are conducive to good governance and economic growth.

Multilateral institutions as well as their member States should work with SSA government authorities to address diaspora investment with more consistent strategies, policies and legislations including: nationality, commercial and financial law, tax law, international family and family property relations, international legal cooperation and litigation. The governance of international migration and investment could also be enhanced between countries at the regional level, with more effective cooperation among governments and between international institutions and organisations of the region. Such efforts must be based on the close linkages that exist between international migration, investment and development and other key policy issues, including trade, aid, state security, human security and human rights.

iv). Incentives and Mechanisms to fostering diaspora-led investments

At the community sector investment level, multilateral institution should be instrumental in providing the platform for sustaining projects initiated by diaspora groups. Some of the key recommendations include:

- **Linking up with and supporting diaspora group initiatives** – It is vital that these groups be engaged effectively for the "long term" on initiatives that they generate themselves. The groups are better placed to determine the right community projects for their regions and will not readily buy into those projects imposed by development actors.
- **Encourage diaspora groups to become involved in international funded local development projects.** These groups have the knowledge base and network to effectively contribute to the successful outcome of local community development projects. A scheme to encourage consortia that vie for the implementation of such international funded development projects to include competent diaspora groups should be given due consideration.

Initiatives by multilateral institutions geared towards supporting diaspora private sector investments should involve both direct support to the diaspora entrepreneur as well as support to creating an enabling investment climate in Kenya and assist the country in its effort to channel remittances from their diaspora into productive investments.

- **Initiate and support schemes designed to support diaspora-led private sector investments.** A typical example of such a scheme is the D-MADE initiative.
- **Facilitate the involvement of diaspora in existing initiatives and financing programs** which endorse SME activities in the region. As with community sector projects, existing programs such as the World Bank's IFC Private Enterprise Partnership program (PEP-Africa) should be adapted to support diaspora-led investments. Another instrument that should be opened up to diaspora investment would be the Small Investment Program (SIP) guarantee program developed by the Multilateral Investment Guarantee Agency (MIGA) of IFC, the World Bank private sector arm. This program, specially designed for SMEs, offers a standardized package of risk coverage including currency inconvertibility and transfer restriction, expropriation, and war and civil disturbance.
- **Assist Kenya government in her effort to improve the investment climate in the country.** The study team is aware of a number of initiatives at the level of several multilateral institutions that focus on this issue. The European Union has in place a number of such initiatives that provide funding to developing an efficient and effective enabling investment

- **Provide international support to initiatives designed to leveraging remittances for contribution to the Kenyan economy.** Multilateral institutions should provide adequate support to Kenya as it seeks to increase the flow of remittances into the economy either through the emission of diaspora bonds or through securitization of future remittances.

(e) At the level of the diaspora community

Not only does the diaspora community invests in both private sector and community sector projects, it also has the knowledge and network that could be deployed in fostering FDI in the domestic economies of their origin countries. However, to play the FDI facilitator role, there is need for an increased networking between the members of the community in view of building capacity for effective participation in decision-making at all private and public sector levels in both origin and host countries. At the home country level, they need to:

- **Engage with the authorities in Kenya** to promote good governance and in improving the enabling environment for private sector development. At the host country level, there is need for them to:

- **Actively engage with host country business promotion institutions** (investment promotion agencies, chambers of commerce and other business associations). The diaspora member or organisations could be instrumental in providing information on investment opportunities in the Kenyan economy, participating in business promotion events (for example, economic missions, trade events) directed towards Kenya.

- **Foster trading links with Kenya.** Members of the African diaspora, who are employed amongst the top consultancies and multinational firms, should facilitate access to the top management, support Kenya's trade and FDI initiatives, and help in increasing Kenya's share of products outsourced by large multinational corporations. Also professionals, traders and businessmen should provide useful insights for market penetration strategies and use their networks for the entry of products and services from the Kenyan economy into host market.

- **Make contributions that will foster a positive image of Kenya in host country.** Active participation in the media to "sell Kenya in a positive light" might just be as important as sending money home.

6.2.4 Information Strategies

- Provide farmers information that is of practical use rather than 'raw statistics that farmers may not easily interpret
- Build the capacity of rural smallholder farmers to use ICT, especially computers and internet and improve access to modern technology through affordable pricing mechanisms
- Improve sustainability of information systems through increased government funding and strengthening public-private sector partnerships in collection, analysis and dissemination of information to smallholder farmers, including possibility of providing limited subsidies to support private sector actors
- Improve ICT infrastructure in rural areas: access to computers, mobile phone network coverage, electricity affordable internet connectivity
- Need to strengthen the human resource capacity of the information providers to train and advice smallholder farmers.
- Improve the geographical and commodity coverage of the information service providers and relocate services closer to rural areas where farmers live
- Provide more resources for data collection, analysis and dissemination especially through mash media such as radio and TV

- Provide information on a value chain basis including that on agro-processing technologies and cost for value addition and commercialization of smallholder agriculture
- Provide information on investment opportunities, sources and cost of finance to smallholder farmers. The Kenya Investment Agency should decentralise its services to rural areas to improve access to their information and advice to smallholder farmers
- Farmers' organizations such as KENFAP, industry associations and co-operative societies should be strengthened to establish information centres in rural areas.
- Improve rural infrastructure and cost of doing business in rural areas. Information per se will not make stallholder farming profitable
- Set up rural resource centres where farmers can access comprehensive information across the entire value chain for particular commodities of their interest and in a language they can easily understand.

6.2.5 Future research

There is need to carry out a study on migration, remittances and agriculture to clarify the inter-linkages.

REFERENCE

- Adams, D.W. and J.D. Von Pischke, (1992): "Microenterprise credit: Déja vu". *World Development*, vol. 20, no. 10:1463–70.
- Adera, A., (1995): "Instituting effective linkages between formal and informal financial sector in Africa: A proposal". *Savings and Development*, 1/1995: 5–22.
- African Development Bank (2008): The Africa Food Crisis Response, ADB/BD/WP/2008/113
- Agri and Co-operative Training and Consultancy Services Limited (2011): Brochure for 2nd Regional Co-operative Value Chain Symposium, 29th and 30th September 2011
- Aleke, Dondo (1994): "Credit to the informal sector approaches and models experienced in Kenya". KREP Occasional paper No. 27. Nairobi: Kenya Rural Enterprise Programme.
- Alila, P.O., (1991): "Informal and formal credit in rural Kenya, A case of Western Kenya grassroots borrowing and lending in an institutional development perspective". Institute for Development Studies, University of Nairobi.
- Aryeetey, E., (1996a): "Informal financial markets in Africa". In M. Matthew and G. Ngola, eds., *Forging Links: Economic Research and Policy Making in Sub-Saharan Africa*. Paper presented at the 1995 Senior Policy Seminar.
- 1996b: "Rural finance in Africa: Institutional developments and access for the poor". The World Bank Annual Conference on Development Economics, 25–26 April, Washington, D.C.
- Aryeetey, E. and C. Udry (1997): "The characteristics of informal financial markets in sub-Saharan Africa". *Journal of African Economies*, supplement to vol. 6. Number 1.
- Aryeetey, E. and F. Gockel (1991): "Mobilising domestic resources for capital formation in Ghana: The role of informal financial sectors". AERC Research Paper No. 3.
- Atieno, R., (1994): "Institutional credit lending policies and the efficiency of resource use among small-scale farmers in Kenya". *Studien zur Ländlichen Entwicklung*, number 46, LIT Verlag Münster-Hamburg.
- Bwika James M. (1990). The Returns to Smallholder Farmer Education in Kenya. Ministry of Planning and National Development Technical Paper 90-07.
- Barnet, Tony and Gabriel Rugalema HIV/AIDS (2001): A critical Health and Development. In The Unfinished Agenda: Perspectives on Overcoming Hunger, Poverty and environmental Degradation. Per Pinstrup –Anderson and Rajul Pandya –Lorch.
- Barret, Christopher B. (1998): Food Aid: Is It Development Assistance, Trade Promotion, Both or Neither? *American Journal of Agricultural Economics* 80 (August 1998): 566–571.
- Boserup, Ester. (1970): *Women's Role in Economic Development* New York: St. Martins Press.

- Braverman, A. and J.L. Guasch (1986): "Rural credit markets and institutions in developing countries: Lessons for policy analysis from practice and modern theory". *World Development*, vol. 14, no. 10/11: 1253–67.
- Braverman, A. and M. Huppi (1989): "Stärkung der ländlichen kreditvergabe in Entwicklungslandern". *Finanzierung und Entwicklung*, März. Central Bank of Kenya. 1998. *Monthly Economic Reviews*.
- Common Market for Eastern and Southern Africa (2007): Study Tour on Agricultural Commodity Exchanges to Malawi. Report prepared for COMESA by Danniel Chikoja, June 2007
- Daniels, L., C. Donald Mead and M. Musinga (1995): "Employment and income in micro and small enterprises in Kenya. Results of a 1995 survey". KREP Research Paper No. 26. Nairobi.
- Eicher C.K (1988). *Food Security in Sub-Saharan Africa*, Michigan State University, International Development Papers. Food Security Policies. In Development Policy Management Government Printer, Nairobi.
- Esipisu, E. 1996. "Western Kenya: An inventory of micro-finance institutions and their experience with lending". KREP Research Paper No. 32, Nairobi.
- FAO, Kenya Agriculture Sector Brief, April 2004.
- FAO, Kenya: Food Security and Agriculture Development Horizon 2015, November 2003 (Draft).
- FAO (1993), Women's activities in Food and Agriculture Marketing in Developing Countries: Selected Readings CTA, Technical Center for Agricultural and Rural Cooperation CAB International.
- Gitu Kang'ethe W. and Cameron Short (1990). *Problems and Opportunities for improving land use efficiency in the high and medium potential areas: focus on daily production*. Technical paper 90 –06. Republic of Kenya. Ministry of Planning and National Development, September 1990.
- Gitu Kang'ethe W. and Emily Kanyua (1993). *Economic Analysis of Kenya's Animal Feeds Industry*. Technical Paper 93 –03. Republic of Kenya. Ministry of Planning and National Development.
- Gitu Kang'ethe W. and Jonathan Nzuma (2003), *Data Compendium for Kenya's Agricultural Sector*. KIPPRA SP No. 5, 2003: ISBN 9966949518.
- Hassan, Rashid M et al, (1992). *Wheat supply in Kenya: Production Technologies, Source of Inefficiency and Potential for Growth*. KARI/ CIMMYT project report.
- Hossain, M. 1988. "Credit for the alleviation of rural poverty: The Grameen Bank in Bangladesh". IFPRI Research Report No. 65.
- Idabacha Francis S. (2000). *Agricultural Policy Process in Africa: Role of Policy Analysts*. Ecapapa Monograph Series.
- Ikiara, G.K Juma, M.A and Amadi, J.O. (1993), 'Agricultural Decline, Politics and Structural Adjustment in Kenya', in Gibbons, P. (ed.), Social Change and Economic Reform in Africa, Nordiska African Institute Upsalla. 76
- Kashuliza, A.K. and J.G. Kydd. 1996. "Determinants of bank credit access for small holder farmers in Tanzania: A discriminant analysis application". *Savings and Development*, no. 3: 285–97.

- Kariuki, P. 1995. "The effects of interest rate liberalization on access to bank credit in Kenya". *Small Enterprises Development*, vol. 6, no. 1: 15–21.
- Kenya Dairy Development Policy (2000). Toward development of a sustainable dairy industry.
- Kenya Institute of Public Policy Research and Analysis, KIPPRA (2010): Kenya Economic Review 2009
- Kenya Institute of Public Policy Research and Analysis, KIPPRA (2010): Critical Issues on Food Security in the Nile Basin Countries-an Interventionist and Trans-boundary Approach. WP/17/2010
- Kenya, Republic of (1980 – 2001). Economic Survey: Various Issues. GoK. Printer. Nairobi.
- Kenya, Republic of (1996). Ministry of Agriculture
- Kenya, Republic of Kenya Rural Development Strategy (2002-2015).
- Kenya, Republic of National Development Plan 1997-2001. Government Printer.
- Kenya, Republic of National Development Plan (2002-2008). Government Printer.
- Kenya, Republic of (2001). Poverty Reduction Strategy Paper for the Period 2001-2004. Ministry of Finance and Planning, Nairobi.
- Kenya, Republic of Sessional Paper No.2 of 1986 on Economic Management for Renewed Growth. Government Printer.
- Kenya, Republic of. *Statistical Abstract Various Issue 1975 -2001*. Central Bureau of Statistics. Ministry of Planning. Government Printer.
- Kenya, Republic of (1980 – 2001). *Statistical Abstract: Various Issues*. GoK. Printers. Nairobi.
- Kenya, Republic of The Economic Recovery Strategy for Wealth and Employment Creation (2003-2007).
- Kimenye, Lydia N (1995). "Kenya Experiences in Promoting Smallholder".
- Migot-Adhola, S.E, F. Place and W. Oluoch-Kosura (1994). Security of Tenure and Land Productivity in Kenya" in Bruce John E and Migot-Adhola S.E (Eds). Searching for Land Tenure Security in Africa: Kendal/Hunt Publishing Co. World Bank.
- Mungivani and Oluoch W. Kosura (2001). Livestock and Livestock Products Marketing in Kenya. Mimeo
- Muyanga, Milu et al (2003). Food Security in Kenya's Semi Arid Lands: Underpinning Incidence and Coping Strategies. A paper prepared for IFPRI 2020 Network.
- Nappon, D. and B. Huddleston. 1993. "Rural infrastructure priorities for food security and sustainable development: The case of Central Africa". In U. Thimm and H. Hahn, eds., *Regional Food Security and Rural Infrastructure*, Vol. II, Lit Verlag Münster-Hamburg.
- Nissanke, M. and E. Aryeetey. 1995. "Financial integration and development in sub-Saharan Africa". Report prepared for the African Technology Department, AFTPS, Washington, D.C.: The World Bank.

- Oketch, H., A. Abaga and D. Kulundu (1995): The demand and supply of micro and small enterprise finance in Kenya. KREP, Nairobi.
- Oluoch-Kosura, Willis and J. T. Karugia (2001), Why the Early Promise for Rapid Increases in Maize Productivity was not Sustained, paper presented to the Workshop: African Food Crises: The Relevance of Asian Models, sponsored by Lund University and Sida, Nairobi, Jan 26-30, 2004.
- Omamo S.W. (2003). "Bringing Research Policy, and Practice in African Agriculture." A paper prepared of the 5th meeting of the Regional Advisory Committee of the IFPRI 2020 Vision Network for East Africa. November 14 –15, 2003. Intercontinental Hotel, Nairobi. Draft.
- Ouma, A.P.S. (1991). "Informal financial sectors in Kenya: The case of Siaya District". Unpublished MA research paper, Kenyatta University.
- Naya, Seiji and Robert Mcleery (1994): Relevance of Asian Development Experiences to African Problems. An International Centre for Economic Growth Publication. ICS Press San Fransisco, California.
- Nyangito, (1996). Agricultural Sector Performance in A Changing Policy Environment in Kenya's Strategic Policies in the 21st Century. Kimuyu Peter, Mbui Wagacha and Okwach Abagi, (Eds).
- Nyangito, H and L.Kimenye, (1996). Agricultural Development Policies in Kenya : 1963-1995 In Proceedings of the Workshop on 'From Sessional Paper No. 10 to the era of structural adjustments : Towards indigenizing the policy debate' Nairobi : IPAL
- Nyangito, H. J. M. Omiti, G.A. Kodhek and J. Nyoro. (2001). *Revitalizing Agricultural Productivity in Kenya*. A Paper presented during EAGER Workshop on Restarting Kenya's Economic Growth, Safari Park Hotel, Nairobi, March 2001.
- Nyangito, H. O. (1998). Agricultural Policy in Kenya: Reforms, Research Gaps and Options: IPAR Occasional Paper Series No. 2. Institute of Policy Analysts, and Research: Nairobi, Kenya..
- Nyangito, H. O, and Ndirangu, L, (2001). *Impact of Institutional and Regulatory Frameworks on the Food Crops Subsector in Kenya 1990 to 1999*. KIPPRA Discussion Paper Series.
- Nyangito, Hezron and Walter Odhiambo (2003). *Measuring Agricultural Productivity in Kenya: A Review of Approaches*. KIPPRA DP NO. 26. January 2003.
- Nyangito, Hezron, et al (2002). *Performance of Kenya's Wheat Industry and Prospects for Regional Trade in Wheat Products*. KIPPRA DP NO. 17. November 2002.
- Parker, J. C. and T.R. Torres (1994): "Micro and small enterprises in Kenya: Results of the 1993 national baseline survey". Sponsored by USAID.
- Raikes, P. (1989): "Credit savings in rural Kenya: An example from Kisii". Working Paper Number 466, IDS, University of Nairobi.
- Republic of Kenya (2010): Agricultural Sector Development Strategy 2010-2020
- Republic of Kenya (2009): Economic Survey 2009

- Republic of Kenya (2010): The Kenya CAADP Compact-Implemented through the Agricultural Sector Development Strategy
- Republic of Kenya (2009): Ministry of Agriculture Strategic Plan 2008-2012
- Republic of Kenya (2009): Ministry of Agriculture-Economic Review of Agriculture, 2009
- Republic of Kenya (2010): Statistical Abstract, Kenya National Bureau of Statistics
- Republic of Kenya (2005): Strategy for Revitalizing Agriculture 2004-2014, Short Version
- Regional Strategic Analysis and Knowledge Support Systems (2010): Comprehensive Monitoring and Evaluation Report for the Comprehensive Africa Agriculture Development Programme (CAADP)
- Republic of Kenya. (1989): *1989/93 Development Plan*, Nairobi: Government Printer.
- Republic of Kenya (1992): *Sessional Paper Number 2 of 1992 on Small Enterprises and Jua Kali Development in Kenya*. Nairobi: Government Printer.
- Republic of Kenya (1994): *1994/96 Development Plan*. Nairobi: Government Printer.
- Republic of Kenya (1997): *1997/2001 Development Plan*. Nairobi: Government Printer.
- Republic of Kenya (2004): Sessional Paper No. 3 of 2004 on development of micro and small enterprises for wealth and employment generation
- Republic of Kenya (2009): Time Release Study – Kenya Revenue Authority; Nov 2004
- Saitoti G, (2000). *The Challenges of Economic and Institutional Reforms in Africa*. ASHGATE Publishing Company.
- Schapiro, Morton Owen and Stephen Wainaina, (1989) “Kenya: A case Study of the Production and Export of Horticultural commodities.” In *Successful Development in Africa: Case Studies of projects, Programs and Policies*. EDI Development Policy Case Series. Washington, D.C. World Bank. 78
- Schrieder, G.R. and C.E. Cuevas (1992): “Informal financial groups in Cameroon”. In D.W. Adams and D.A. Fitchett, eds., *Informal Finance in Low Income Countries*. Boulder: Westview Press.
- Schuh. O.G.E, (1982): *Food Aid as a Component of General Economic and Development Policy; The Development of Effectiveness of Food Aid In Africa*; Agricultural Development Council, New York.
- Short, Cameron and Kang’ethe W. Gitu (1990). *Land Use and Agricultural Potential: A National Database*. Technical Paper 90 –02. Republic of Kenya. Ministry of Planning and National Development.
- Simons, Scott and Kang’ethe W. Gitu (1989). *Funding Agricultural Research and Extension: The Implications for Growth*. Technical Paper 89 –10. Long Range Planning Unit. Republic of Kenya. Ministry of Planning and National Development.
- Todaro Michael P. (2000): *Economic Development* ADDISON-WESLEY
- Udry, C. (1994): “Credit markets in Northern Nigeria: Credit as an insurance in a rural economy”. In K. Hoff, A. Braverman and J. Stiglitz, eds., *The Economics of Rural Organisations: Theory and Policy*. London: Oxford University Press.
- UNIDO (2002): *A Yearbook of Industrial Statistics – 2002*

United Nations Conference on Trade and Development (2008): Addressing the Global food Crisis: Key trade, investment and commodity policies in ensuring sustainable food security and alleviating poverty.

W Adams, D.W. (1992): "Taking a fresh look at informal finance". In D.W. Adams and D.A. Fitchett, eds., *Informal Finance in Low Income Countries*, Boulder: Westview Press.

Wilson, Sara E. (2001). AIDS Mushrooms in a Development Crisis. In The Unfinished Agenda: Perspectives on Overcoming Hunger, Poverty and environmental Degradation. Per Pinstrup – Anderson and Rajul Pandya –Lorch.

World Bank (2005): Doing Business, 2005

World Bank (2008): Kenya Poverty and Inequality Assessment, Volume 1: Synthesis Report

World Bank (2011); Leveraging Migration for Africa, Remittances, Skills and investments.

ANNEXES

Annex 1: External and Internal Migration Outflows: Net Migration Rates in Kenya and selected Eastern Africa Countries per 1000 People, 1975-2010

Region/Country	1975-1980	1980-85	1985-1990	1990-95	1995-2000	2000-05	2005-10
Eastern Africa	-1.90	-0.65	0.39	-1.56	1.2	-0.9	-1.1
Burundi	-2.3	4.43	-0.11	-8.6	-13.02	5.5	8.1
Comoros	5.68	-2.14	-1.83	0	0	-3.4	-3.1
Djibouti	56.77	5.65	38.49	-10.95	6.57	0.0	-
Eritrea	0	0	0	-22.42	-0.23	11.3	2.3
Ethiopia	-11.77	3.21	3.54	3.35	-0.15	-1.0	-0.8
Kenya	-0.04	0.04	0.05	1.74	-0.15	0.2	-1
Madagascar	-0.71	-0.17	-0.13	-0.09	-0.04	-0.1	-0.1
Malawi	-0.35	-0.3	20.95	-17.13	-0.93	-0.5	-0.3
Mauritius	-4.41	-5.45	-5.77	-1.28	-0.35	0.0	-
Mozambique	1.54	-5.89	-19.46	9.79	1.01	-0.2	-0.2
Reunion	-9.54	0.72	-0.62	2.68	2.45		-
Rwanda	-2.18	-3.96	0.48	-57.56	61.49	0.1	0.3
Somalia	59.79	-25.37	-16.06	-21.86	1.71	-5.1	-5.6
Uganda	-2.7	-1.56	3.11	1.44	-0.6	0.0	-0.9
Tanzania	-0.25	0.36	0.57	4.16	-1.25	-1.9	-1.4
Zambia	0.19	1.51	0.85	-0.16	1.74	-1.5	-1.4
Zimbabwe	-3.08	3.74	2.71	-3.28	-0.25	-11.2	-11.1

Source: World Bank (2011): Leveraging Migration for Africa. Remittances, Skills and Investment, page 38.

Annex 2: Remittances and other Resources Flows to Africa, 1990-2010 (\$ billions)

Region/resource flow	1990	1995	2000	2005	2007	2008	2009	2010*	% of GDP, 2009
Sub-Saharan Africa									
Migrant remittances	1.9	3.2	4.6	9.4	18.6	21.4	20.6	21.5	2.2
Official aid	16.9	17.8	12.1	30.8	32.6	36.0	3.7
Foreign direct investment	1.2	4.4	6.7	18.1	28.7	37.0	30.2	..	3.2
Private debt and portfolio equity flows	0.6	2.5	4.9	10.6	15.6	-6.5	12.3	..	1.3
North Africa									
Migrant remittances	7.2	7.0	6.6	13.1	18.3	19.8	17.5	18.2	3.3
Official aid	7.2	3.0	2.2	2.5	3.0	3.5	0.6
Foreign direct investment	1.1	0.9	2.8	9.9	22.5	21.6	14.9	..	2.9
Private debt and portfolio equity flows	-0.1	0.0	1.2	1.7	-3.6	-0.4	-0.5	..	-0.1
All Africa									
Migrant remittances	9.1	10.2	11.3	22.5	36.9	41.2	38.1	39.7	2.6
Official aid	24.1	20.7	14.3	33.2	35.6	39.5	2.6
Foreign direct investment	2.4	5.3	9.5	28.0	51.1	58.6	45.1	..	3.1
Private debt and portfolio equity flows	0.5	2.5	6.2	12.3	12.0	-6.8	11.8	..	0.8

*Estimated

.. Negligible

Source: World Bank (2011): Leveraging Migration for Africa. Remittances, Skills and Investment, page 50.

Annex 3: Remittances Flows to African Countries, 2006-2010 (\$ millions)

Region/country	2006	2007	2008	2009	2010e	% Growth 2008- 2009	% Growth 2009- 10e	% share of GDP (2009)
Sub-Saharan Africa	12,668	18,584	21,359	20,575	21,490	-3.7	4.4	2.6
Nigerai	5,435	9,221	9,980	9,585	9,975	-4.0	4.1	5.5
Sudan	1,179	1,769	3,100	2,993	3,178	-3.5	6.2	5.5
Kenya	1,128	1,588	1,692	1,686	1,758	-0.3	4.3	5.7
Senegal	925	1,192	1,288	1,191	1,164	-7.5	-2.3	9.3
South Africa	734	834	823	902	1,008	9.7	11.8	0.3
Uganda	411	452	724	694	773	-4.1	11.3	4.3
Lesotho	361	451	439	450	525	2.6	16.7	28.5
Mali	212	344	431	405	385	-6.1	-4.8	4.5
Ethiopia	172	358	387	353	387	-8.8	9.7	1.2
Togo	232	284	337	307	302	-9.0	-1.7	10.7
North Africa	13,942	18,267	19,815	17,489	18,163	-11.7	3.9	3.3
Egypt	5,330	7,656	8,694	7,150	7,681	-17.8	7.4	3.8
Morocco	5,451	6,730	6,895	6,271	6,447	-9.0	2.8	6.9
Algeria	1,610	2,120	2,202	2,059	2,031	-6.5	-1.3	1.5
Tunisia	1,510	1,716	1,977	1,966	1,960	-0.5	-0.3	5.0
Djibouti	28	29	30	28	28	-6.8	-0.3	2.7
Libya	16	16	16	14	16	-10.1	9.3	0.0
All Africa	26,613	36,851	41,174	38,063	39,652	-7.6	4.2	2.6
All developing countries	226,707	278,456	324,832	307,088	325,466	-5.5	6.0	1.9

Note: e=estimated

Source: World Bank (2010)

Annex 4: Expenditure for the Ministry of Agriculture (2005/06-2008/09), Ksh million

I Item	2005/06		2006/07		2007/08		2008/09
	Printed	Actual	Printed	Actual	Printed	Actual	Printed
Recurrent Budget	5,116.1	5,052.6	5850.5	5464.5	9598.3	9510.6	7712.4
Development Budget	3,217.5	2215.7	4431.1	3716.8	5219.3	4044.9	4005.2
Total Expenditure	8,333.6	7268.3	10,281.7	9181.3	14817.6	13555.6	11717.6
Total Expenditure as % of GDP	0.59	0.51	0.73	0.56	0.82	0.75	-
Total Expenditure as % of total GoK Expenditure	2.31	2.02	2.44	2.19	2.37	2.19	2.17
Development as % of total expenditure	38.6	30.5	43.1	40.5	35.22	29.84	34.18
Recurrent as % of total expenditure	61.4	69.5	56.9	59.5	64.78	70.16	65.82
Budget to Agriculture	20372	-	24288	-	22514.8	-	25757.1
Agriculture as % of total Budget	5.8	-	6.2	-	4.8	-	4.3

Source: Economic Review of Agriculture, Government of Kenya (2009)

Annex 5: Public Agriculture Expenditure as a Share of Total Public Expenditure in Kenya and Selected other African Countries, 1999-2009

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Ethiopia	11.5	10.4	4.0	5.6	8.4	13.6	16.5	17.5		11.7	
Kenya	7.2	6.8	6.6	5.4	4.1	5.1	6.6	5.9	4.4	4.8	1.93
Malawi	12.5	8.8	4.9	8.7	6.6	7.0	11.0	11.0	13.2		
Uganda	1.6	2.6	1.6	2.6	2.3	2.1	2.0	3.0	3.0	3.0	3.16
Zambia	4.7	2.1	1.8	1.8	2.3	4.1	8.0	8.0	4.0		
Zimbabwe	2.04	1.76	2.92	8.26	9.02	11.9	10.0	6.20	6.00		

Source: Adapted from RESAKS 2010

**Annex 6: Aid to Agriculture in Kenya and other Selected African Countries (2007 constant dollars, millions),
2002-2008**

Country	2002	2003	2004	2005	2006	2007	2008
Ethiopia	29.4	41.1	21.0	31.3	38.1	46.0	0.2
Kenya	21.8	22.3	23.6	19.1	43.9	52.2	7.1
Malawi	10.1	21.0	14.9	38.1	26.9	47.2	-
Uganda	11.7	18.7	33.4	38.1	56.6	57.0	7.2
Zambia	21.2	16.3	13.7	29.9	37.0	39.8	3.1
Egypt	25.1	31.1	23.0	56.2	38.1	46.0	-

Source: ReSAKSS (2010)

**Annex 7: Aid to Agriculture as a percentage of total aid in Kenya and other Selected African Countries 2002-
2008**

Country	2002	2003	2004	2005	2006	2007	2008
Ethiopia	1.7	2.1	1.0	1.4	1.7	0.7	0.0
Kenya	2.4	2.9	2.7	2.1	4.4	4.5	0.5
Malawi	1.4	3.5	2.1	5.7	3.6	1.5	-
Uganda	0.8	1.5	2.4	2.4	3.9	1.1	0.4
Zambia	1.7	1.1	1.0	1.8	1.7	0.8	0.3
Egypt	1.1	1.5	1.3	2.6	4.1	2.9	-

Source: ReSAKSS (2010)

Annex 8: Production of Selected Primary Crops, 2001-2010 (Metric Tonnes)

Crop/Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Wheat	257255	307523	379034	397005	365696	358061	354249	336688	219301	511994
Rice	44996	44996	40498	49290	57942	64840	47256	21881	42202	44467.9
Maize	2757620	2411007	2713561	2454930	2918157	3247777	2928793	2369569	2E+06	3464541
Sorghum	116724	115700	127343	86580	150127	131188	147365	54316	94955	164066
Millet	61072	72327	63731	75171	59481	79207	119599	38462	56417	53881
Beans	370862	481225	429183	232074	375820	531800	383900	261137	465363	390598
Cassava	608493	601976	421317	388713	566400	656633	397705	750964	911074	323389
Sweet Potatoes	598680	513485	587700	546309	671709	724646	811531	894781	1E+06	383590
Sugar cane	3550792	4501363	4204055	4660995	4800820	4932839	5204214	5176670	6E+06	5475180
Tea	58706	61052	56937	69245	61824	61117	61874	59897	60134	72637
Coffee	294600	287100	293700	324700	328500	310578	369600	345817	314198	399006
Bananas	3797	5871	6187	12679	29320	32840	32240	31380	36025	52585.2
Pineapples	1084312	1073001	1019377	1036138	1255995	1237770	1186740	1686930	2E+06	1583143
Avocados	612248	619860	399103	536948	498469	499409	514490	339850	257623	272231

Source: Ministry of Agriculture

Annex 9: Principal Export Commodities, 2002-2009: Per Cent of Total Value

Commodity	2002	2003	2004	2005	2006	2007	2008	2009
Coffee, not roasted	5.0	4.6	4.4	4.7	4.0	4.0	3.1	4.7
Tea	26.2	24.1	22.7	21.8	20.7	17.9	19.8	21.3
Petroleum Products	3.0	0.1	0.7	3.5	1.9	4.0	2.3	2.1
Sisal fibre and tow	0.6	0.7	0.7	0.6	0.5	0.3	0.5	0.4
Meat and meat preparations	0.2	0.2	0.3	0.2	0.2	0.2	0.3	0.3
Pyrethrum extract and flowers	0.6	0.7	0.6	0.6	0.5	0.1	0.1	0.0
Hides, skins, fur skins, undressed	0.3	0.4	0.6	0.4	0.3	0.1	0.0	0.0
Cement, building	1.1	1.4	1.2	1.5	1.7	1.8	2.2	0.7
Wattle bark and extract	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Sodium Carbonate	1.6	1.7	3.4	0.1	0.0	0.0	4.1	2.6
Pineapples, tinned	2.8	2.8	2.0	1.9	1.2	1.4	1.6	1.0
Cotton, raw	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cashew nuts	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1
Beans, peas and lentils	0.4	0.5	0.0	0.1	2.1	1.8	1.0	0.9
Oil seeds, oil nuts and oil kernels	0.1	0.2	0.2	0.2	0.0	0.2	0.1	0.1
Scrap metal	0.1	0.1	0.2	0.3	0.3	0.7	0.5	0.2
Butter and ghee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maize, unmilled	1.3	0.1	0.2	0.1	0.2	0.2	0.1	0.1
Horticulture	21.6	26.7	24.9	23.0	21.4	21.7	22.1	20.2
Other	34.9	35.4	37.7	40.9	44.8	45.5	41.5	45.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Government of Kenya, Statistical Abstract 2010

Annex 10: Land: Categories of Agricultural Land (As at 1995) in Kenya 000 Hectares

Province	High Potential	Medium Potential	Low Potential	Total	All Other Land	Total Land Areas
Central	909	15	41	965	353	1,318
Coast	373	796	5,663	6,832	1,472	1,241
Eastern	503	2,189	11,453	14,145	1,431	5,576
Nairobi	16	-	38	54	14	68
North Eastern	-	-	12,690	12,690	-	12,690
Nyanza	1,218	34	-	1,252	-	1,252
Rift Valley	3,025	123	12,220	15,368	1,515	16,883
Western	741	-	-	741	82	823
TOTAL	6,785	3,157	42,105	52,047	4,867	56,914

Source: Statistical Abstract, 2010

The three categories are as follows:

- High potential: annual rainfall of 857.5mm or more (over 980 mm in the Coast Province).
- Medium potential: annual rainfall of 735mm-857.5 mm (735mm-980mm in the Coast Province and 612.5mm-857.5mm in Eastern Province).
- Low potential: annual rainfall of 612.5mm or less.

Annex 11: Estimated East African Maize Availability Balance Sheet July 2009-2010 (minimum Quality Maize)

	KENYA	UGANDA	TANZANIA	RWANDA	EAST AFRICA
CARRY OVER STOCKS JULY 2009 (MT)	450,000	70,000	200,000	120,000	840,000
IMPORTS					
Uganda	100,000		500	30,000	130,500
Kenya					
Tanzania	80,000				80,000
Rwanda					
Total East Africa Imports	180,000	0	500	30,000	210,000
Imports from outside the region-RSA etc			6,000	30,000	216,500
MAIZE PRODUCTION 2009-10					
Long rains	1,800,000	800,000	2,979,737	210,000	5,789,737
Short rains	300,000	550,000	445,247	25,000	1,320,247
Total Production Per year	2,100,000	1,350,000	3,424,984	235,000	7,109,984
Post Harvest loss, Industrial use seed	210,00	135,000	342,498	23,500	710,998
NATIONAL AVAILABILITY (MT)	2,520,000	1,285,000	3,282,486	331,500	7,238,986
EXPORTS					
Uganda	0	0			
Kenya	0	105,000	60,000		165,000
Tanzania	0	500			500
Rwanda		30,000			30,000
Total Exports to East Africa	0	135,500	60,000		195,500
Exports outside the region	0	5,000	10,000	30,000	45,000
Total Exports	0	276,000	130,000	30,000	436,000
NATIONAL CONSUMPTION(MT)	3,234,000	600,000	3,600,000	95,00	7,529,000
Available maize by end of June 2010(MT)	-714,000	409,000	-447,514	206,500	-726,014

Source: East African Grain council/RATIN (www.ratin.net)