

PC 12

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. 10208

PROJECT COMPLETION REPORT

KENYA

**EXPORT PROMOTION TECHNICAL ASSISTANCE PROJECT
(CREDIT 1045-KE)**

DECEMBER 27, 1991

**Eastern Africa Department
Africa Region**

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS (1980)

Currency Unit	-	Kenya Shilling (KSh)
KSh	-	US\$ 0.133
US\$ 1.00	-	KSh 7.5

ABBREVIATIONS

DFCK	-	Development Finance Company of Kenya
EAC	-	East African Community
EEC	-	European Economic Commission
HCDA	-	Horticultural Crops Development Authority
ICDC	-	Industrial and Commercial Development Corporation
IDB	-	Industrial Development Bank
KBS	-	Kenya Bureau of Standards
KIE	-	Kenya Industrial Estates
KMC	-	Kenya Meat Commission
KNTC	-	Kenya National Trading Corporation

FISCAL YEAR

Republic of Kenya: July 1 - June 30

FOR OFFICIAL USE ONLY

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of Director-General
Operations Evaluation

December 27, 1991

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Project Completion Report on Kenya - Export Promotion
Technical Assistance Project (Credit 1045-KE)

Attached, for information, is a copy of a report entitled "Project Completion Report on Kenya - Export Promotion Technical Assistance Project (Credit 1045-KE)" prepared by the Africa Regional Office. No audit of this project has been made by the Operations Evaluation Department at this time.

Attachment

A handwritten signature in dark ink, appearing to be 'P. H. H.', is written over the word 'Attachment'.

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

PROJECT COMPLETION REPORTKENYAEXPORT PROMOTION TECHNICAL ASSISTANCE PROJECT
(CREDIT 1045-KE)TABLE OF CONTENTS

	<u>Page No.</u>
PREFACE	1
EVALUATION SUMMARY	iii
<u>PART I: PROJECT REVIEW FROM THE BANK'S PERSPECTIVE</u>	1
Project Identity	1
I. Introduction	1
II. The Project and Its Justification	2
III. Project Implementation	4
IV. Project Results	5
V. Bank and Borrower Performance	6
VI. Conclusions	6
<u>PART III: STATISTICAL INFORMATION</u>	8
Table 3.1: Related Bank Loans	8
Table 3.2: Project Timetable	8
Table 3.3: Disbursements	9
Table 3.4: Staff Inputs	9

PROJECT COMPLETION REPORT

KENYA

EXPORT PROMOTION TECHNICAL ASSISTANCE PROJECT
(CREDIT 1045-KE)

PREFACE

This Project Completion Report reviews the Kenya Export Promotion Technical Assistance Project, which was supported by IDA Credit 1045-KE.

Credit 1045-KE for US\$4.5 million to the Republic of Kenya was approved on June 12, 1980, and was closed on June 30, 1985, the original closing date.

Parts I and III were prepared by Bank staff based on information available in project files and from discussions with Bank staff members associated with the Project. In view of the lengthy period between closing and preparation of the PCR, and in accordance with SVPOP guidelines for preparing PCRs dated June 1989, no attempt was made to ask the Kenyan Government to prepare Part II.

This PCR was read by the Operations Evaluation Department. The draft PCR was sent to the Borrower for comments, but none were received.

PROJECT COMPLETION REPORT

KENYA

EXPORT PROMOTION TECHNICAL ASSISTANCE PROJECT
(CREDIT 1045-KE)

EVALUATION SUMMARY

Objectives and Design

1. The Export Promotion Technical Assistance Project was prepared in FY80 to provide technical support for Kenya's first structural adjustment program, which was approved at about the same time. It was designed to address adjustment issues relating to industrial production and export marketing through studies, seminars and training. Beneficiaries were expected to include a broad list of relevant Government ministries and agencies as well as private entrepreneurs. The project was to be implemented by a staff drawn from four ministries, and guided by a committee consisting of the Permanent Secretaries of those ministries. An advisory committee was also to be established, consisting of representatives from six Government ministries or agencies (paras. 9-12).

Implementation Experience

2. Project implementation was extremely slow -- no activities had started by the time the first structural adjustment operation was completed. A second structural adjustment program followed on, but very few activities in support of it were actually implemented under Credit 1045-KE. In 1983, in an attempt to speed up project implementation, the Government considered employing UNIDO to take over project implementation. However, in 1984, it decided against doing so. Also, reluctance on the part of some Government officials to use loan funds, even on IDA terms, for policy studies led to continued slow implementation. The project was closed on schedule June 30, 1985, with only US\$760,000 of IDA funds (17% of the IDA credit) actually utilized (paras. 13-17).

Results

3. While the record of the uses made of these funds is not clear, there is no evidence that any of the project activities undertaken made a positive impact on the first or second structural adjustment operations, or toward achieving the project's objectives of supporting industrial development and export expansion in Kenya. The project must be considered unsuccessful in terms of meeting its stated objectives (paras. 18-22).

Lessons

4. The experience with this project highlights the need for better advance planning of technical assistance activities; assuring that there is serious beneficiary interest in the project objectives; instituting project implementation arrangements that provide for clear lines of responsibility and authority;

and for programming an adequate level of Bank staff time for supervision. These lessons were incorporated in the subsequent generation of technical assistance projects for the industrial and financial sectors in Kenya (paras. 23-25).

PROJECT COMPLETION REPORT

KENYA

EXPORT PROMOTION TECHNICAL ASSISTANCE PROJECT (CREDIT 1045-KE)

PART I: PROJECT REVIEW FROM THE BANK'S PERSPECTIVE

Project Identity

Project Name: Export Promotion Technical Assistance Project
Credit Number: 1045-KE
RVP Unit: Africa Region
Country: Kenya
Sector: Technical Assistance

I. Introduction

1. Kenya's first decade after independence in 1963 was one of remarkable growth and structural transformation. Total GDP grew at an annual average rate of 6.6% during 1964-73. Both agriculture and manufacturing grew rapidly, at 4.7% and 8.4% per annum respectively. The expansion of agriculture was stimulated by the conversion of considerable high-potential land from extensive use to small-holder cultivation, the introduction of high-value production activities, and the adoption of high-yielding maize varieties. Growth of manufacturing was made possible largely by the expansion of domestic demand due to rising agricultural incomes, while investment for domestic production was being encouraged by high levels of protection, a liberal attitude towards foreign investment, and active Government promotion of and participation in manufacturing ventures.

2. Following the first oil crisis of 1973, growth decelerated to 4% p.a., or virtual stagnation in per capita terms, reflecting not only the oil shock, but also the emergence or intensification of structural constraints largely unrelated to the post-1973 terms of trade deterioration. Agricultural growth decelerated, due partly to the tapering off of the specific positive factors that had sustained agricultural growth in the first decade after independence, Government policies, including trade and exchange rate policies that turned the internal terms of trade against the agricultural sector, and inefficient, monopolistic Government involvement in agricultural marketing that discouraged production and placed undue burdens on the budget.

3. Industrial growth also decelerated due to the increasingly high cost of Kenya's capital-intensive investment and the burden on the balance of payments of a sector that imported a substantial volume of intermediate goods for minimal processing and assembly but exported very little. Export volume grew by less than 1% annually during the late 1970s, and exports became more concentrated on coffee, tea, and petroleum products.

4. A fundamental problem underlying the sluggish industrial and export performance was the wall of heavy protection afforded by tariffs, licensing and quantitative restrictions. Also, the collapse of the East African Community (EAC) common market in 1976 reduced the export prospects for Kenyan products produced under protected conditions. In a word, the early economic strategy that was able to exploit the easy import-substitution possibilities of the Kenyan economy was exhausted, and the high levels of protection required by that strategy resulted in an anti-export bias by making it more profitable to produce for the domestic market.

5. During 1974-75 the increase in petroleum prices also put a strain on Kenya's balance of payments. This was temporarily relieved by the rapid escalation of coffee prices (one of Kenya's principal exports) in 1976-77, but prices soon dropped and the balance of payments pressures accelerated again, exacerbated by an increased level of military spending and a liberal import policy adopted during the coffee boom.

6. In 1979 Kenya sought the assistance of the Bank and the IMF in designing and implementing a revised set of policies to cope with the deteriorating balance of payments situation. The new strategy was outlined in the Kenyan Fourth Development Plan (1979-83). Kenya signed a stand-by agreement with the IMF in 1979, and provided the Bank with a letter dated January 2, 1980 outlining a specific and time-bound action program that was designed to begin the transformation of the Kenyan economy. This program became the basis for approval by the Bank of an IDA credit (999-KE) of US\$55 million, which was approved on March 25, 1980 (the World Bank's first structural adjustment loan in Africa). The action program, which was also supported by EEC and OPEC Fund financing, was conceived as the first phase of a more comprehensive structural adjustment process and, if successful, was expected to be followed by other adjustment operations in the future.

7. This first phase program had limited objectives focusing on (i) the promotion of a more efficient and outward looking pattern of industrial growth; (ii) effective external debt management; and (iii) realistic advance budgeting of government revenues and expenditures. The first objective was designed to include the growth of non-traditional exports, thus easing the foreign exchange constraint over the medium term. Specifically, the Government agreed that industrial protection would be rationalized and gradually reduced, and that existing incentives for non-traditional exports would be improved. The program was expected to have a substantial impact on the economy, including a boost in exports. The IDA credit proceeds were used to finance imports of a broad range of essential raw materials (except fuels), intermediate goods and final manufactures, including machinery and equipment.

II. The Project and its Justification

8. The Export Promotion Technical Assistance Project was conceived as a means of making technical assistance and training available in support of the structural adjustment program. Specifically, the project was intended to "..... support industrial development in Kenya in line with the Government strategy under the current development plan", with special emphasis on industrial production and export marketing.

9. The project, to be implemented over four years, was divided into two parts with primary responsibility for Part A to be located in the Ministry of Industry and Part B in the Ministry of Commerce. Activities, as spelled out in the Development Credit Agreement, were to include:

Part A: Studies, Seminars and Training related to Industrial Production

- i. feasibility studies of export-oriented projects;
- ii. studies to identify and evaluate the production and export potential of specific industries, firms and sectors or subsectors;
- iii. studies to identify and assess manpower requirements for industrial restructuring;
- iv. studies on implementation of industrial restructuring policies;
- v. studies on the technology to be applied in the use of local resources and production techniques for exports;
- vi. a training program providing for the training of staff from the Kenya Bureau of Standards related to the improvement of standards and quality control of exports and goods;
- vii. a short-term training program in Kenya and elsewhere in activities relating to the identification, preparation and appraisal of projects for staff from public agencies; and
- viii. a staffing program to implement above activities.

Part B: Studies, Seminars, and Training Related to Export Marketing

- i. marketing studies of export-oriented products and projects;
- ii. studies to identify and evaluate the export potential of industries, firms, sectors and subsectors;
- iii. studies to identify and assess manpower requirements for export marketing and promotions;
- iv. studies on implementation of export marketing and promotion policies;
- v. a program providing for the training in Kenya and overseas of staff from public agencies in export marketing activities;
- vi. organization of export marketing seminars in Kenya;
- vii. support services through a special fund to assist production, packaging and direct marketing of exports by handicraft workers and associations as well as to upgrade skills of relevant artisans through short-term training locally or elsewhere;
- viii. a staffing program required to implement I-IV above.

10. The project was to be implemented by staff in the Ministries of Finance, Economic Planning and Development, Industry and Commerce. A professional staff of five senior Kenyan officials was to be assembled from personnel in the Ministries of Planning, Commerce and Industry to manage the project. An inter-ministerial project advisory committee was to be established consisting of the

Permanent Secretaries in the Ministries of Industry, Commerce, Planning, Finance, and three other representatives from the other project beneficiaries (Agriculture and Livestock Development, the Industrial Development Bank of Kenya (IDB), the Development Finance Company of Kenya (DFCK), the Kenya Industrial Estates (KIE), Industrial and Commercial Development Company (ICDC), the Horticultural Crops Development Authority (HCDA), the Kenya National Trading Corporation (KNTC), the Kenya Meat Commission (KMC), and the Kenya Bureau of Standards (KBS) as well as individual private entrepreneurs).

11. The project staff, after taking due account of comments by members of the advisory committee, were to submit recommendations for final Government approval to a committee consisting of the Permanent Secretaries in the Ministries of Economic Planning and Development, Commerce, Industry and Finance (or their nominees). The Permanent Secretary of the Ministry of Economic Planning and Development (or his nominee) would act as chairman of the approval committee. All proposals would be submitted to the Association for final approval. The Bank's Resident Representative in Kenya would be authorized to approve submissions on behalf of the association.

12. Project costs were projected as follows:

	<u>US\$ Million</u>
Consultants for Studies	4.50
Training/seminars	0.50
Support services for handcraft workers	0.15
Export standards/Quality control	0.15
Incremental local staffing and support services	0.50
Price contingencies	<u>0.60</u>
	6.40
Project Cost Net of Duties and Taxes	6.00

IDA agreed to finance US\$4.50 million of the project costs, and the Government was to provide the equivalent in local currency of US\$1.50 million. There is no evidence of any detailed planning or terms of reference prepared in advance for the studies to be done or for the training programs to be carried out.

III. Project Implementation

13. Conditions of effectiveness, including the appointment of the professional staff to be responsible for the project, were met on schedule. However, the professional staff were Government officials with other duties, and so had limited time for project implementation.

14. Program implementation went forward very slowly, in part because responsibility for implementation was widely diffused and partly because there was no full time locus of responsibility. One element that moved forward toward the end of the first year was a training seminar on National Technology Policy designed by World Bank staff. On March 9, 1983 the field office reported that as of that date only two activities had been approved, and only

one had incurred any expenditure. The first, for the aforementioned technology seminar, had drawn down about US\$100,000. The other, for technical assistance to the Customs Department, was awaiting the identification of a suitable consultant. Several proposals (one for Tourism Promotion Services and a study on incentives and comparative advantage for Kenyan exports), were considered but rejected by the Government.

15. In view of the slow rate of project implementation, in August 1983 the Government suggested that UNIDO be engaged to take over project implementation, and a UNIDO team visited Kenya to work up a proposal. However, in February 1984 the Government rejected the UNIDO proposal. Also, the Permanent Secretary of the Ministry of Economic Planning and Development advised Bank staff in Nairobi that the Government was reluctant to use any loan funds, even IDA credits, to finance consultancies for policy oriented studies. This attitude, which was not apparent to Bank staff at the time the project was under preparation, may have been reinforced by the availability of UNDP grant financing for industry feasibility studies during the implementation period, which led to several unsuccessful attempts to obtain UNDP grant financing for policy studies as well.

16. As of August 31, 1984 only US\$292,090 of the credit had been disbursed, US\$173,174 of which was for the National Technology Policy Program. Several individual consultants had been engaged for short periods to undertake specific work for the Ministry of Finance and Planning (now combined) related to export promotion. Subsequently studies were carried out regarding the foreign exchange earnings from agriculture, evaluation of progress on changes in the export compensation scheme, and industrial studies of various kinds along with financing some of the costs of an Indian small scale industry exhibition held in Kenya.

17. The Government did not seek to extend the project, and it was closed on June 30, 1985 as originally planned. As of January 14, 1986, the date of the last disbursement, US\$759,678.70 had been drawn down and the balance of the credit was canceled. The final disbursements by category were as follows:

<u>Category</u>	<u>Disbursed (US Dollars)</u>
1. Consultant Services	540,217.13
2. Training Seminars	201,635.12
3. Support Services	17,826.45
4. Training for staff	--
TOTAL	759,678.70

IV. Project Results

18. The Project's impact was obviously limited by the fact that only 17% of the project funds were drawn down. In addition, however, the intended role of providing technical assistance support for the Structural Adjustment Credit (Cr. 999-KE) was not achieved since no activities relating to this credit had

been expended by the time the structural adjustment operation was closed on December 31, 1980. The structural adjustment program associated with this credit was considered only partially successful, and was particularly disappointing in terms of making the industrial sector more efficient and outward-looking.

19. A Second Structural Adjustment Loan and Credit (Loan 2190-KE and Credit 1276-KE) was approved on July 1, 1982 as a follow-on to the first credit. The Kenyan program of adjustment adopted under the first credit was further developed and expanded (i.e. reduction in industrial protection, export promotion, improved external borrowing arrangements, and forward budgeting) and action programs were added with the objective of overcoming constraints in agriculture, energy, family planning, project implementation and domestic resource mobilization. While the Export Promotion Technical Assistance Project was available during the entire period of the second adjustment program, it appears to have played only a very limited role (if any) in supporting its implementation. The Second Structural Adjustment Program was considered marginally successful in improving Kenyan structural policies and procedures, but ineffective in actually achieving improved export performance.

V. Bank and Borrower Performance

20. The Export Promotion Project was largely conceived and designed within the Bank based on the Bank's perception of the Kenyan Government's needs in carrying out the structural adjustment program. As such, it failed to take into account the lack of Kenyan interest in the expected project outputs, and the reluctance of some Government officials involved in the project to use borrowed funds to finance studies and technical assistance (this reluctance is no longer apparent under more recent sector adjustment operations).

21. Also, the project design suffered from excessive complexity and division of responsibility for implementation. Although the record is not clear, it is doubtful that the Advisory Committee ever met. The Ministers of Industry and Commerce appear to have played little or no role in project implementation, and the professional staff responsible for project implementation had other full time responsibilities within the Government that diverted their attention from project activities.

22. The project was supervised from the Bank's office in Nairobi, although no analysis was made to determine if the Nairobi office had the time or the budget to carry out these responsibilities (which generally fell by default to the Deputy Resident Representative). No systematic supervision program was developed, and supervision reports were not prepared except on an exceptional (and incomplete) basis.

VI. Conclusions

23. By every measure this project must be considered as unsuccessful. There is no evidence of any effective accomplishments at the project level, the project did not serve as an effective supportive mechanism for the structural adjustment program, only a small portion of the funds were actually utilized,

and Kenyan expert performance did not show good results during and immediately after the life of the project.

24. In retrospect, there are some obvious lessons regarding project design:

- a. It is essential that there be serious beneficiary participation in the project design.
- b. Responsibility for implementation by the beneficiary should be clear cut and placed with staff who have the capacity and time to carry out their responsibilities.
- c. Adequate advance planning of project activities is necessary in order to avoid implementation delays and to assure that the recipients have the same expectations as the Bank regarding the nature of the project.
- d. The Bank must program adequate supervision time into its work schedule.

25. These lessons have been embodied in subsequent Kenya operations, and in particular in the preparation and appraisal of the technical assistance components of the Industrial Sector Adjustment Credit (No. 1927-KE approved in FY 1988), the Financial Sector Adjustment Credit (No. 2049-KE approved in FY 1989) and the Financial Parastatal Technical Assistance Credit (No. 2147-KE approved in FY 1990).

PART III: STATISTICAL INFORMATION

Table 3.1: Related Bank Loans

Loan Title	Purpose	Fiscal Year of Approval	Loan Amount in US\$ Million	Status
1. Credit 999-KE First Structural Adjustment Credit	To support the first phase of Kenyan Structural Adjustment	1980	55.0	Completed 12/31/80. Performance Audit Report No. 9934 was issued 2/10/84.
2. Loan 2190-KE & Credit 1276-KE	To support additional structural adjustment of the Kenyan economy	1983	60.9 and 70.0	Completed 1/6/84. Performance August Report No. 5682 was issued 5/31/85.

Table 3.2: Project Timetable

	Date Planned	Revised Date	Actual Date
Appraisal	November 1979	November 1979	November 1979
Negotiations	April 1980	April 1980	April 1980
Board Approval	June 1980	June 12, 1980	June 12, 1980
Loan Signature	July 1980	July 14, 1980	July 14, 1980
Effectiveness	August 1980	October 15, 1980	October 15, 1980
Loan Closing	June 1985	June 30, 1985	June 30, 1985

Table 3.3: Disbursements

Cumulative Credit Disbursements (US\$ Millions)							
		1981	1982	1983	1984	1985	1986
i.	Planned	0.5	1.5	3.0	4.5	4.5	4.5
ii.	Actual	0.0	0.01	0.11	0.21	0.65	0.76
iii.	Actual as % of Planned	0.0	7%	4%	5%	14%	17%

	Original	Disbursed	Canceled	Repaid	Outstanding
Credit Amount	4.50	0.76	3.74	0	0.76

Table 3.4: Staff Inputs

Staff Inputs (Mission and Headquarters)		
	FY	Person Weeks
Pre-appraisal	FY80	2.6
Appraisal	FY80	4.8
Negotiations	FY80	5.7
Supervision	FY81-86	1.2 (not including Field Office) ¹
Project Completion	FY92	3.0 (Estimate)
¹ Field Office Staff time is not available.		