

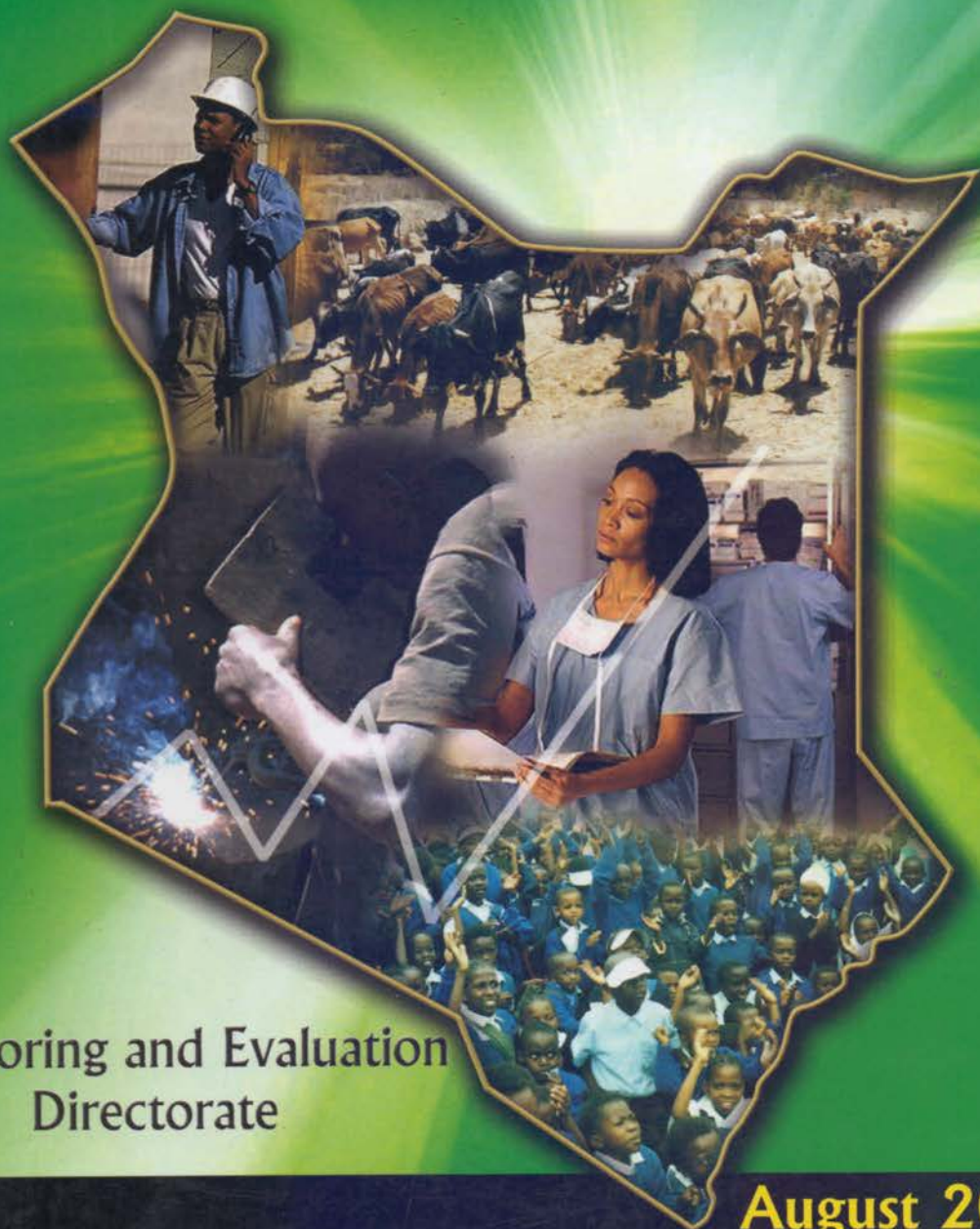


REPUBLIC OF KENYA

ANNUAL PROGRESS REPORT

2004-2005

Economic Recovery Strategy



Monitoring and Evaluation
Directorate

August 2006

ANNUAL PROGRESS REPORT 2004/2005

ECONOMIC RECOVERY STRATEGY

Monitoring & Evaluation Directorate
Ministry of Planning and National Development
Government of Kenya
August 2006



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Acronyms

AFC	Agriculture Finance Cooperation
AfDB	African Development Bank
AGD	Accountant General Department
AIA	Appropriations in Aid
ALRMP	Arid Lands Resource Management Programme
APR	Annual Progress Report
ARV	Anti Retro-Viral
ASAL	Arid and Semi-Arid Land
BMU	Beach Management Unit
BOPA	Budget Outlook Paper
BSD	Budget Supply Department
BSP	Budget Strategy Paper
CAG	Controller and Auditor General
CBK	Central Bank of Kenya
CBO	Community Based Organisation
CBS	Central Bureau of Statistics
CDF	Constituency Development Fund
COFOG	Classification of Government Function
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
DAMERs	District Monitoring and Evaluation Reports
DDO	District Development Officer
DFID	Department For International Development
DGIPE	Department of Government Investments and Public Enterprises
DMEC	District Monitoring and Evaluation committee
DPM	Department of Personnel Management
DPP	Directorate of Public Procurement
EAC	East Africa Community
EAD	Economic Affairs Department
EAPFM	Enhanced Action Plan for Financial Management
EPZ	Export Processing Zone
ERD	External Resources Department
FPE	Free Primary Education
GDP	Gross Domestic Product
GER	Gross Enrolment Rate
GITS	Government Information Technology Service

GJLOS	Governance Justice Law and Order Sector
GoK	Government of Kenya
IAG	Internal Auditor General
ICT	Information and Communications Technology
IFMIS	Integrated Financial Management and Information System
IP-ERS	Investment Programme for the Economic Recovery Strategy for Wealth and Employment Creation
IPPD	Integrated Payroll and Personnel Database
JICA	Japan International Cooperation Agency
KACC	Kenya Anti-Corruption Commission
KCAA	Kenya Civil Aviation Authority
KESSP	Kenya Education Sector Support Programme
KENINFO	Kenya Information
KPLC	Kenya Power and Lighting Company
KPRL	Kenya Petroleum Refineries Limited
KRA	Kenya Revenue Authority
LA	Local Authority
LASDAP	Local Authority Service Delivery Action Plan
LATF	Local Authority Transfer Fund
LPG	Liquefied Petroleum Gas
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MED	Monitoring and Evaluation Department
MoENR	Ministry of Environment and Natural Resources
MoEST	Ministry of Education, Science and Technology
MoF	Ministry of Finance
MOGs	Methodological and Operational Guidelines
MoGSCSS	Ministry of Gender, Sports, Culture and Social Services
MoH	Ministry of Health
MoJCA	Ministry of Justice and Constitutional Affairs
MoLG	Ministry of Local Government
MoLHRD	Ministry of Labour and Human Resource Development
MoPND	Ministry of Planning and National Development
MoRPW	Ministry of Roads and Public Works
MoTI	Ministry of Trade and Industry
MSE	Micro and Small Enterprise



MSME	Micro, Small and Medium Enterprise
MTEF	Medium Term Expenditure Framework
NSC	National Steering Committee
NASCOP	National AIDS and STD Control Programme
NEMA	National Environment Management Authority
NER	Net Enrolment Rate
NESC	National Economic and Social Council
NFE	Non-Formal Education
NGOs	Non Government Organisations
NHSSP	National Health Sector Strategic Plan
OAU	Organisation of African Unity
OECD	Organisation for Economic Co-operation and Development
OVCs	Orphans and Vulnerable Children
PEM	Public Expenditure Management
PEM-AAP	Public Expenditure Management and Accountability Action Plan
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PSC	Public Service Commission
PTR	Pupil Teacher Ratio
RBM	Results Based Management
SACCO	Savings and Credit Co-operative
SAGA	Semi-Autonomous Government Agency
SIDA	Swedish International Development Agency
SMEs	Small and Medium Enterprises
SRA	Strategy for the Revitalisation of Agriculture
STPP	Short-Term Priorities Programme
SWAP	Sector-Wide Approach
TSC	Teachers Service Commission
UNDP	United Nations Development Programme
UNICEF	United Nations Children Fund
UPE	Universal Primary Education
VAT	Value Added Tax
VCT	Voluntary Counselling and Testing
WB	World Bank
WSSD	World Summit on Sustainable Development

Foreword

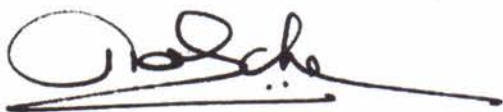
This *Annual Progress Report* for the period 2004 /05 is a series of such reports prepared by the government each year as an assessment of progress made towards the implementation of the *Investment Programme for Economic Recovery Strategy (IP-ERS)*, the country's medium –term strategy to foster economic growth and contribute to poverty reduction. In this regard, the APR evaluates performance and analysis outturns in relation to benchmarks and indicators that are set each year by various sectors. It provides an overview of the following year's policy intentions, particularly as reflected in the annual budget. The preparation of the APR also gives us an opportunity to review and make changes to policies, strategies, indicators and targets that have been set. This is the first time in the country's history, that a development strategy has had an in built system of reporting annual progress.

In 2004/05, the year under review, the economy registered marked improvement, with the GDP growing at 4.3 percent against a revised target of 3.1 percent. The goal for revenue expansion as a proportion of GDP remained close to 21.4 percent target. Price stability was maintained, with underlying inflation averaging 5.8 percent against a target of below 5 percent. These impressive achievements were as a result of various reform initiatives that have been undertaken since 2003 particularly in the areas of tax system, public finance, the public service sector, as well as improved governance arising from anti – corruption measures instituted across al sectors of the economy. The APR has also recorded achievements and challenges in the roads, energy and water and sanitation sectors.

The implementation of the Free Primary Education Programmed since 2003 has seen continuous improvements in enrollment in primary schools. The primary Net enrollment Rate in 2004/05 rose to 82.1 percent, exceeding The IP-ERS target of 81.5 percent. We however face a number of challenges arising from regional disparities in enrollment and in some cases, low quality of education due to resource constraints. In the health sector, the Government was able to increase spending from 7.0 percent of total public allocations in 2003 /04 to 7.7 percent in 2004/05 , but this is still far below the 12 percent recommended by the World Health Organization to enable countries meet the Millennium Development Goals. The establishment of the Gender Commission and a full Ministry responsible for Gender Affairs in 2004.05 has provided better focus on issues pertaining to the role of women in socio – economic development. All these achievements, however, were threatened by the relatively high rate of new HIV/AIDS infections, which still remains one of the biggest challenges of development in this country.

As implementation of the IP-ERS comes to a close in 2007, it is apparent that, we have to maintain the tempo of the reform agenda to achieve further results. We need to deepen structural reforms in public expenditure and financial management; speed up the privatization process of public enterprises; address issues constraining the growth of the agriculture sector: deepen public sector reforms and institutionalise the National Integrated M & E system.

It is my sincere hope and expectation that all ministries/departments and other stakeholders in the development arena will use the findings in this report to both gauge their performance in implementation of the IP-ERS and also make the necessary adjustments in development projects and programmes. Through these efforts, we will achieve better results and improve lives for our people in line with the benchmarks contained on such frameworks as the *African Peer Review Mechanism* and the *Millennium Development Goals*.

A handwritten signature in black ink, appearing to read 'Obwacha', with a long horizontal line extending to the right.

Hon. Henry Obwacha, MP
Minister for
Planning and National Development

Acknowledgements

The Annual Progress Report (APR) has been prepared under the overall leadership of Dr. Edward Sambili, Permanent Secretary, Ministry of Planning and National Development, who also gave invaluable contributions during the process. Recognition is given to the Directorate of Monitoring and Evaluation in the Ministry for co-coordinating the whole process of writing the APR. The report benefited greatly from inputs from the members of the National Steering Committee for Monitoring and evaluation (M&E) and contributions and commentaries made during the National M&E Stakeholders Forum held on 25th April 2006. Great support was received from the technical officers of the line ministries and districts, who provided data and information that went into the report through the Ministerial Annual Monitoring and Evaluation Progress Reports and the District Annual Monitoring and Evaluation Reports. The work of verifying and analyzing the information was done by a Technical Working Group on the APR, to whom we are greatly indebted.

We take this opportunity to thank all our Development Partners for their support, particularly in critically reviewing contents of the report at every stage of its development. We give special recognition to the Department for International Development (DFID) for their contribution, in providing financial support to this process. We look forward to continued collaboration in this process and in other areas of development.

Finally we wish to acknowledge the contribution of Dr Lillian Kaviti, who worked diligently in reviewing and editing this report. We also thank Mr. Eric Bosire, of the Department of Information for providing appropriate illustrations. Indeed it would be difficult to mention every individual or organization that contributed to the success of this exercise. It suffices to say that invaluable contributions were made invariably by different agencies at various stages in the process of developing this report. To all agencies and individuals we acknowledge your contributions with lots of appreciation.

Executive Summary

Background

The Annual Progress Report (APR) presents a review of the progress made during 2004/05, and is the second to be produced since 2004, when the *Investment Programme for the Economic Recovery Strategy (IP-ERS)* was implemented. The APR has been prepared by the Ministry of Planning and National Development (MoPND), Monitoring and Evaluation Department (MED), in consultation with line ministries and other key stakeholders, using the methodology proposed in the National Integrated Monitoring and Evaluation System (NIMES). The NIMES is a product of intense consultation processes that involved all key players in the government, private sector, civil society, and development partners.

The IP-ERS was Kenya's medium-term strategy to foster economic growth and reduce poverty. In the IP-ERS, poverty is defined as the inability to command resources and which is also considered to be a multidimensional phenomenon. This characteristic makes those afflicted with poverty susceptible to multiple deprivations due to interactions involving economic, political and social processes. The poor are understood to be not only those individuals who are deprived of opportunities to earn a reasonable income, but also those who are disadvantaged in accessing productive resources such as land, credit, health and education. This makes such groups of people vulnerable and powerless to changes in system-wide institutions. Their plight is further compounded by their inability to influence key decisions. Consequently, as a way of addressing the multidimensional aspects of poverty, the Government formulated a comprehensive multi-faceted

strategy to support economic growth, equity, poverty reduction and good governance, as epitomized in the IP-ERS.

To enhance economic growth, the Government envisaged strengthening the macroeconomic framework, developing a more responsible fiscal policy stance and encouraging private sector participation and investment. **To improve equity and reduce poverty**, the Strategy focused on universal primary education, improved access to basic health care, expanded productive capacity in agriculture, development of the traditionally overlooked arid and semi-arid areas, and upgrading the living conditions of the urban poor. **To enhance good governance**, the Strategy proposed reforms in the judiciary, strengthening the rule of law and security, as well as implementing reforms in public administration systems that were deemed essential for improving the Government's record with respect to transparency and accountability.

Update on Poverty

The Ministry of Planning and National Development is currently conducting the Kenya Integrated Household Budget Survey (KIHBS) and Participatory Poverty Assessments (PPAs) which will provide updated information on poverty (ERS indicator 27) amongst other aspects. While awaiting the KIHBS, the Central Bureau of Statistics (CBS) combined the WMS III and the 1999 population and housing census to produce two reports giving poverty profiles at the constituency level. The findings of the reports indicate that poverty varies widely in different rural areas; from a mean

constituency headcount of 31 per cent in Central province, to 65 per cent in Nyanza province. The poorest rural residences found in certain parts of Nyanza province recorded double the incidence of poverty experienced by their least poor rural counterparts in Central province. Among the 210 constituencies, the poverty headcount ratio ranged from between 16.5 per cent for Kabete (the constituency least afflicted with poverty), to 84 per cent for Ganze (the constituency most afflicted by poverty).

Further analyses based on Gini Coefficients for Constituencies indicate that low levels of poverty exhibit the highest levels of inequality, and vice versa. For instance, Ganze constituency, with the highest poverty index of 84 per cent, correspondingly registered the lowest inequality index of approximately 0.33. Conversely, Kabete constituency, with the lowest poverty index of 16.5 per cent had the highest inequality index of 0.43. This implies that resources in poorer areas are more equitably distributed, as compared to more affluent regions where resources are in the possession of a few individuals.

Performance evaluation against the Three Pillars

The IP-ERS was proposed as a strategy to enhance economic recovery and the creation of wealth and employment, entrenched on three fundamental pillars. The first of these would be to create an enabling environment to accelerate economic growth, the second, was the alleviation of poverty, and the third, the promotion of good governance. Accordingly, the three pillars provide the basis

for the annual assessment of progress made against the agreed IP-ERS APR indicators (see Annex B). It must be emphasized that the targets for some of the mentioned indicators were revised in 2004/05. **Table 8.1** includes the revised targets (marked R) and will therefore be used as the starting point for the 2005/06 APR.

Progress on Economic Growth

The IP-ERS prioritized both the revitalisation of economic growth and the creation of wealth and employment as key strategies to reduce poverty. The crucial areas with regard to these objectives were stipulated as:

- Macroeconomic stability
- Financial sector development
- Infrastructure development through private sector participation
- Revitalisation of the trade, tourism and manufacturing sectors.

Macroeconomic Performance: This was evaluated against a background of a changed methodology in the management of national accounts, which resulted in the inclusion of new economic activities hitherto not considered. This included the informal sector, information technology and horticultural produce. The economy, which was already on a recovery path, performed well in the period under review, growing by 4.3 per cent against an IP-ERS APR revised target of 3.1 per cent. This growth could partly be attributed to the economic and structural reforms implemented since the National Rainbow Coalition Government came to power in 2002.

However, the achievements, with respect to other macroeconomic targets, were diverse. For instance, inflation registered at 5.8 per cent against a target of 5 per cent, the goal for domestic debt/GDP was achieved (18.5 per cent against a target of 22.2 per cent), but PEM reforms undershot the number planned (only 6 were met against a target of 7). On the other hand, the target for public sector wages/GDP was achieved (7.8 per cent against a target of 8.14 per cent) and the goal for revenue expansion was broadly met (21.3 per cent against a target of 21.4 per cent).

Key constraints for 2004/05 included: the slow disbursement of donor funds; the persistent, negative political climate (especially during the constitutional review process period); drought and food shortages; Parliament's inability to enact certain bills including the Privatisation Bill; high oil prices; and, limited progress with regard infrastructure development. It is anticipated that in 2005/06, the Government will consolidate and strengthen the economic recovery of the country, with projections of the GDP growth rising by more than 5 per cent. Key structural reforms for the coming year include public expenditure and financial management; privatisation of public enterprises; and, improvements in the operations of the financial sector.

Public Expenditure Management: The IP-ERS emphasized on the efficient use of public resources and sound PEM as a means of stimulating economic growth and alleviating poverty. In response to this, in 2004-2005, the Government undertook a number of significant reforms in this direction. However, the Government does acknowledge the slow

progress made on implementing the IFMIS, the lack of momentum on the PETS and the effects of a weak budget execution on budget credibility. Consequently, the 2005 budget speech outlined the need to ensure that those responsible for financial management strictly adhere to the stipulated financial regulations, including procurement guidelines; implement a cash management system to ensure the timely release of resources to line ministries; carry out PETS to improve on the utilisation of public resources; commence the rollout of the IFMIS to line ministries; and, introduce a risk-based internal audit system. The budget formulation will therefore need to be accelerated to ensure that all 16 PEM-AAP benchmarks are met within the 2008/09 period.

Infrastructure: Improving Kenya's infrastructure (transport, water, energy, telecommunications and information technology) was one of the main goals of the IP-ERS. Accordingly, in 2004-2005, progress was made in the development, rehabilitation, and maintenance of roads across the country. The target for the IP-ERS indicator number 7 (the proportion of the road network in poor condition) was achieved. However, 32 per cent of this network was in poor condition against a target of 35 per cent. Following the introduction of reforms within the public transport system, fatalities caused by road accidents dropped from 3,004 in 2003 to 2,628 during 2003-2004 and finally, down to 2,676 in 2004-2005. The main challenge facing the improvement of the country's infrastructure falls squarely on inadequate funding, delays in the enactment of the Privatisation Bill, lengthy procurement procedures and a weak institutional framework.

A number of reforms were implemented within the energy sector. In addition, the IP-ERS target (indicator 8) for power coverage in rural areas was achieved (5 per cent against a target of 5 per cent). However, this sector is confronted with numerous challenges that include: high oil prices, a weak transmission and distribution infrastructure, and an inadequate legal and regulatory framework. Consequently, the government will enhance reforms within the sector to foster competition, diversify sources of energy and reduce on costs.

Water and Sanitation: It was stipulated in the IP-ERS that this sector had the potential to substantially improve the lives of Kenyans by ensuring that access to clean water and improved sanitation facilities was achieved. Whereas one of the IP-ERS water targets was achieved, the other target was only partially met. It was established that in 2004-2005, an estimated 53 per cent of Kenya's rural population had access to safe and reliable water, against a target of 53 per cent (IP-ERS indicator 9). With reference to indicator 10, the proportion of urban households with access to treated and reliable water facilities stood at 75 per cent in 2004-2005, against a target of 76 per cent. Hence, the main challenges facing the water sector revolve around financing and capacity. This sector will therefore continue to seek resources to ensure that there are adequate funds to facilitate the financing of core poverty programmes and projects. The challenge of capacity will be addressed by ensuring that the various implementing agencies have an adequate number of trained personnel, capable of managing their programmes and activities.

Productive Sectors: The IP-ERS identified the tourism, manufacturing and trade sectors as the primary movers of the economy. In response to this observation, the government has indicated its commitment to removing barriers to investment and lowering the costs of conducting business in the country. The tourism sector performed well over 2004-2005, with the annual growth rate of tourists (IP-ERS indicator 12) increasing to 15.1 per cent against -20.3 the previous year. Nevertheless, significant challenges still persist with respect to security, infrastructure as well as the lack of a clear, national tourism policy to streamline the sector. On the other hand, the trade sector performed above stipulated expectations, with the export volume growing at 9.4 per cent as compared to 6.2 per cent in the previous year (against a target of 5.7 per cent). However, the performance of the manufacturing sector remained generally static, performing below its actual potential. The key constraints for this dismal performance included: increased oil prices; the appreciation of the Kenyan shilling against the U.S. dollar, a depressed domestic demand, poor infrastructure and insecurity.

Progress on Equity and Poverty Reduction

The second pillar of the IP-ERS laid emphasis on equity and the alleviation of poverty. This was to be attained by investing in human resources (health and education); promoting agriculture, livestock and the environment; and, establishing effectively targeted poverty programmes.

Education: The provision of primary education is a key priority for the Government of Kenya. Accordingly, the primary Net Enrolment Rate (NER) in 2004-2005 was 82.1 per cent, exceeding the IP-ERS target (indicator 18) of 81.5 per cent. This figure reflected an increase of 2.3 percentage points, as compared to the enrolment rate in 2003-2004. However, performance against other IP-ERS education targets was not as impressive. For instance, the target NER for North Eastern province was not achieved; indicator 19 reflects that only 19.6 was achieved against a target of 24.5. Furthermore, the Standard Eight completion rate increased from 52 per cent in 2003/04, to 56 per cent in 2004/05, but did not meet the IP-ERS target of 59.7 per cent. Although the target for the incidence of primary repetition was exceeded (indicator 21 - 9.3 against a target of 9.8), this was not the case with reference to the transition to secondary education, where the registered performance registered below target, (indicator 22 - 52 per cent against a target of 55 per cent).

A number of constraints hamper developments within this sector. FPE has led to overcrowding; funds for the sector have sometimes not been released by development partners; there are marked gender and regional enrolment disparities which are difficult to address; and HIV has had a devastating impact on the sector, leading to a high number of OVCs. A major initiative to improve performance in the coming years is the Kenya Education Sector Support Programme (KESSP) which will support the Government's efforts to enhance the management and delivery of educational

services. In so doing, it is expected that there will be a significant improvement in the access to quality and relevant education and training. KESSP, launched in 2005, is a five year plan employing a sector wide approach.

Health: The primary objective for this sector as stipulated in the IP-ERS was to enhance the accessibility and affordability of quality basic health services to all Kenyans, with particular emphasis on the poor and vulnerable members of society. Although the Government successfully increased its spending on health care as compared to the previous year (from 7 to 7.7 per cent of the GDP), the performance in terms of outcome indicators was poor. Current data from the Ministry of Health (MoH) indicates a poor performance against IP-ERS targets. A case in point is that the percentage of children under one year who were fully immunised (indicator 14) remained unchanged from the previous year and around 10 percentage points below the target. In addition, the proportion of births attended to by skilled health personnel (indicator 16) was also well below target (42 per cent was achieved against a target of 70.8 per cent). Similarly, the Malaria target (indicator 17) was not achieved (26 per cent against a target of 15.2 per cent). The under-financing of this sector remains a significant challenge. As a result of this, health care targets have had to be revised downwards and there is concern that unless decisive steps are taken, Kenya will not meet its health MDG targets. One notable achievement was the approval by Parliament of the Bill for the National Social Health Insurance Fund. In addition, the Ministry has developed its second strategic plan (NHSSP II) which seeks to

enhance management, create an enabling environment for the private sector and community involvement in health care provision, in addition to the establishment of a clear M&E framework.

With regard to the treatment and control of HIV/AIDS, although good progress has been made to date, the rate of new infections remains significantly high. The HIV prevalence rate amongst 15-24 year old women attending an ANC was 10.0% against a target of 9.2%. This issue is being addressed through the rolling out of the National AIDS Strategic Plan 2005-2010.

Labour: Key goals of the IP-ERS with reference to this sector emphasized on the creation of more employment opportunities, the promotion of an enabling environment for industrial development and an increase in the productivity of factors of production. The IP-ERS proposed that 500,000 jobs should be created on an annual basis between 2003 and 2006, investor confidence should increase and industrial labour productivity should rise. With regard to this, there was a net increase in the number of jobs created between 2003 and 2004 estimated at 437,900 of which 36,400 were created within the formal sector. In view of this trend, a suitable methodology for measuring productivity has been commissioned awaiting further development.

Gender: While it is widely recognised that gender issues cut across several sectors, the IP-ERS focused mainly on alleviating gender disparities in education, health, agriculture and employment. Much of the Department of Gender's work has concentrated on policy and

institutional reforms (through the finalisation of a Sessional Paper), as well as the establishment of a National Gender Commission to ensure equitable participation of both women and men in development. The Department of Gender's projected activities for 2005/06 will be to establish gender divisions in all line ministries, carry out capacity building initiatives and accelerate the building of a system for tracking and measuring progress in gender mainstreaming. It is expected that once gender desks are fully functional; the ministry will have a better picture of gender-related activities that take place in each sector. This will subsequently be reflected in the information on progress made with regard to gender issues, in the annual progress report.

Agriculture: The agricultural sector continued to play a dominant role in contributing significantly towards increased food security, income generation, employment creation and industrial development within the IP-ERS framework. Growth in agriculture slowed from 2.7 per cent (achieved during 2003), to 1.4 per cent (in 2004). This was a result of the poor performance of major crops (notably, maize, coffee and pyrethrum) due to poor rainfall distribution, the use of low quality seeds and low use of inputs. This implies that the IP-ERS sector growth target (indicator 24 – 3.1 per cent) was not met. An array of constraints accounted for this dismal performance. They included: the slow growth of private sector institutions, the slow restructuring of Government institutions, poor and low density of rural infrastructure, a slow pace in the enactment of agricultural Acts, as well as the high competition posed by synthetic products.

Poverty Targeted Programmes: In order to directly address poverty, the IP-ERS proposed, as priority programmes, the establishment of the Social Action Fund, the development of Arid and Semi-Arid areas (ASAL), the implementation of slum upgrading programmes, and, the development of programmes aimed at reducing the vulnerability of marginalised groups. With regard to the Social Action Fund, no progress was made during the period 2004-2005. To support ASAL areas, the IP-ERS identified a range of activities to be implemented by the Arid Lands Resource Management Programme (ALRMP) that included:

- Rehabilitating roads
- Implementing a broad-based livestock development policy
- Facilitating private sector development of fishing infrastructure
- Strengthening community-based eco-tourism
- Developing special school programmes
- Strengthening community-based health care systems and preventive medicine
- Improving food security.

On the whole, good progress was made within this sector. With reference to slum upgrading efforts, over the review period, a number of studies were completed, while others are still on-going to guide the implementation of the Slum Upgrading Programme. Phase One of this project was initiated in Kibera during October 2004. Other slums targeted during this phase were: Soweto slum in Nairobi, East Mavoko slum in Athi River, and selected slums located in Mombasa and Kisumu.

Vulnerable groups: The Government did implement projects that target the marginalised and vulnerable members of society as part of the IP-ERS core poverty programme. These projects and programmes mainly took into consideration the plight of OVCs, the youth, women, and the disabled. Although a variety of initiatives were undertaken, a number of challenges still prevail that hamper effective planning and budgeting. They include: the lack of a policy framework in certain areas, inadequate technical and financial capacity within the implementing agencies and lack of reliable statistics on the vulnerable groups. However, the Poverty Eradication Commission (PEC) was re-launched in January 2005 with the mandate of spearheading the war on poverty, especially by formulating different approaches that would promote the living standards of people by supporting their income-generating activities.

Progress on Good Governance

The IP-ERS asserted that poor economic governance, including corruption and poor management of public resources, was one of the key impediments to economic and social development. Reforms were therefore proposed with reference to: public safety, law and order; public service reform; decentralisation and local government reform.

Public Safety Law and Order: Kenya has had a daunting task in its attempts to improve its investment climate, service delivery and personal safety within the country. This is largely attributed to the enormous challenges faced in trying to curb corruption and reduce

the incidence of crime. Consequently, alongside other priorities, the IP-ERS focused its policy proposals on the need to restore the rule of law, maintain an efficient and motivated police force, eliminate corruption, strengthen legal and justice institutions, create an enabling legal and regulatory framework, and reduce overcrowding in prisons. Unfortunately, the relevant IP-ERS indicator 29 (the ratio of concluded cases to reported cases) lacks the available data on targets and achievements with reference to this sector.

A number of additional indicators for this sector have now been agreed upon, but targets have not been set as yet. However, the crime rate in the country has been increasing. The numbers of reported cases of crime totalled 70,423 in 2003, 77,340 in 2004 and 83,841 in 2005. Progress made with regard to the reforms carried out during 2005/06 has been significant, with commendable efforts directed at addressing the huge challenges.

However, much more needs to be done in order to reverse the crime rate and curb deep rooted corruption which will serve to improve Kenya's international image, strengthen the judicial system and the rule of law. The establishment of the GJLOS programme could therefore be considered to be a step in the right direction as a way of accelerating the realisation of the long awaited reforms.

Public Service Reforms: The government is committed to the implementation of substantive reforms that will provide the country with a public service that is able to effectively play its role in Kenya's socio-

economic development. Consequently, the IP-ERS proposed that in the medium-term, the public service would improve on its performance potential by:

- Downsizing the Public service
- Reforming pay structures
- Reforming pensions
- Building the capacity of public administration.

Accordingly, a wide range of programmes on staff rationalisation and reducing the size of the Civil Service were implemented during 2004-2005. However, a number of factors led to the slow progress towards achieving the set output targets. This included the inadequate sensitisation of ministries and departments on the reform agenda; weak implementation of guidelines on divestiture of non-core functions; and weak coordination arrangements for staff deployment/redeployment, in line with recommendations of the ministerial rationalisation exercise of 1999/2000.

One of the IP-ERS indicators (number 4) was considered relevant to public administration: public sector wages as a proportion of the GDP. The target for 2004-2005 was registered at 8.14 per cent. During 2004-2005, this target was achieved. The Government spent 7.8 per cent of GDP (35 per cent of total expenditure) on the wage bill. In order to reduce this bill over the medium-term, it will be necessary to continue with the implementation of the Voluntary Early Retirement Scheme, with the objective of downsizing the Public Service by 21,000. The Government will also continue to strive for a leaner and more efficient Public

Service through pay reform, the introduction of performance based management and the rationalisation of ministerial structures in order to reduce on both the duplication of functions, as well as non-productive functions.

Decentralisation and Local Government

Reforms: Strengthening the Local Government remains an important priority of the GOK in its efforts to improve the overall management of the public sector. Towards end, the IP-ERS underscored the need to accelerate the Local Government reform process in order to enhance local service delivery, good governance and poverty alleviation. In 2004-2005, considerable efforts were made to ensure that the proposed new constitution would firmly establish the legal framework necessary for decentralised governance. However, the rejection of the Draft Constitution in 2005-2006 stalled the process of establishing the required legal framework.

In order to measure the devolution of power, an indicator recording the proportion of total public sector spending controlled and managed at the local level was approved (indicator 30). However, while the base data exists, strategies for the measurement of this indicator and setting of targets have not been fully implemented. It must be emphasized that the success of Kenya's Local Government reforms will depend on a combination of a strong and sustained political and operational leadership, adequate technical and financial resources, and active citizen participation. As decentralisation evolves, more expenditure responsibilities at the local authority level will require additional financial resources from the central government.

Table 8.1: Summary of IP-ERS indicators including revised targets (R)

No.	IP-ERS objective	Outcome indicator	Actual 2004/05	Target 2004/05	2005/06	2006/07
1	Accelerate economic growth	Real annual GDP growth rate (%)	4.3	3.1 (R)	5 (R)	5.1 [®]
2	Achieve and maintain price stability	Annual underlying rate of inflation (%)	5.8	Below 5	Below 5	Below 5
3	Control and reduce the burden of Domestic debt	Stock of Domestic debt/ GDP (%)	18.5	22.4 (R)	22.4 (R)	21.5
4	Control Public sector wage bill	Public Sector Wage Bill/GDP (%)	7.8	8.14	7.6 (R)	7.3
5	Expand revenue sources	Revenue/GDP (%) (including Aia/GDP ratio)	21.3	21.5 (R)	21.3 (R)	22.2
6	Reform public expenditure management	Benchmark score on PEM-AAP	6	6	13 (R)	15
7	Rehabilitate the road network	Proportion of road network in bad/poor condition (%)	32	35	28	20
8	Provide power coverage in rural areas	Percentage of rural households served (%)	5	5	7	8
9	Provide water coverage in rural areas	Percentage of rural households with safe and reliable water (%)	51	53	56	60
10	Provide power coverage in urban areas	Proportion of urban households with safe and reliable access to water (%)	75	76	80	83
11	Enhance safer road system	Annual number of fatalities on roads	2,676 (53/ 10,000 vehicles)	2,100 (60/ 10,000 vehicles)	1,700	1,300
12	Enhance tourism	Annual growth rate of tourists (%)	15.1			9.7
13	Strengthen trade and industry	Growth of volume of exports (%)	9.4 (2004)	5.7	5.7	5.7
14	Reduce infant mortality	Fully immunized children as % of less than 1 yr population	57	65 (R) (2005*)	67 (R) (2006*)	70 (R) (2007*)
15	Reduce HIV/Aids prevalence	Proportion of pregnant women aged between 15 - 24 years attending ANC who are HIV positive (%)	10.0	9.2 (2005*)	8.4 (2006*)	8.0 (2007*)
16	Reduce maternal mortality	Percentage of pregnant women attending ANC (at least 4 visits) (R)	42	60 (R) (2005*)	65 (R) (2006*)	70 (R) (2007*)
17	Reduce the burden of disease	Inpatient malaria morbidity as a percentage of total inpatient morbidity	26	16 (R) (2005*)	15 (R) (2006*)	14 (R) (2007*)

No.	IP-ERS objective	Outcome indicator	Actual 2004/05	Target 2004/05	2005/06	2006/07
18	Improve primary Net Enrolment Rate (NER)	Primary net enrolment rate (%)	82.1 82.2 (m) 82.0 (f)	81.5 82.9 (m) 80.1 (f) (2005*)	83.2 84.4 (m) 81.9 (f) (2006*)	84.4 85.0 (m) 82.5 (f) (2007*)
19	Increase North Eastern Province Net Enrolment Rate (NER)	Primary net enrolment rate for NEP (%)	19.6 23.6 (m) 14.9 (f)	24.5 29.7 (m) 19.4 (f) (2005*)	31.5 (R) 36.5 (m) 26.6 (f)(R) (2006*)	38.5 (R) 43.9 (m) 33.1 (f)(R) (2007*)
20	Reduce rate of primary school drop outs	Primary school completion rate (%)	56.0 57.1 (m) 54.9 (f)	59.7 60.3 (m) (2005*) 59.1 (f) (2005*)	60.0 60.4 (m) (R) (2006*) 59.6 (f)(R) (2006*)	60.3 60.5 (m)(R) (2007*) 60.1 (f)(R) (2007*)
21	Reduce the incidence of primary repetition	Primary repetition rate	9.3	9.8 (2005*)	7.4 (2006*)	4.9 (2007*)
22	Increase transition rate of pupils to secondary school	Primary to secondary school transition rate (%)	52	55 (2005*)	60 (2006*)	60 (R) (2007*)
23	Strengthen employment creation and productivity	Measured labour productivity in formal sector				
24	Raise income of small holders	Agricultural sector growth rate (%)	1.4	3.1	4	5
25	Improve environmental management	Forest area protected by gazettelement (Ha)		To rise by 13,000	To rise by 13,000	To rise by 13,000
26	Introduce universal environmental screening projects	Proportion of public sector projects subjected to environmental impact assessments				
27	Reduce absolute poverty	Proportion of people below absolute poverty line (%)				
28	Reduce prevalence of underweight children under 5 yrs of age	Prevalence rate of underweight children under 5yrs of age (%)				10
29	Increase more expeditious justice	Ratio of concluded cases to reported cases (%) (Now has 4 new indicators listed below)				60
		% change in Domestic Crime Index by 2009				

No.	IP-ERS objective	Outcome indicator	Actual 2004/05	Target 2004/05	2005/06	2006/07
		% change in Domestic Crime Index by 2009				
		% change in overall Corruption Perception Index				
		% of citizens who report that they have access to justice systems to resolve disputes				
30	Public sector transparency and devolution of power	Proportion of total public sector spending controlled and managed at local level (based on LAs, LATF, DRCS and CDF)				
		Public sector wage bill/GDP (%)	7.8	8.1	7.6 (R)	7.9 (R)
31	Creation of national monitoring and evaluation system	Fully functioning national system of M & E operating at all levels and providing feedback to the budget by the end of 2005				

NB: (2005), (2006), and (2007) are calendar years.

Developments in Monitoring and Evaluation

Substantial progress was made towards achieving IP-ERS indicator 31 ("*...fully functioning national system of M&E operating at all levels and providing feedback to the budget by the end of 2005*"). Key developments in the year under review included: the design and roll out of a two-tier M&E system at national and district level; the preparation of the 2003-2004 APR; the launch of the Kenya Integrated Budget Household Survey and the Participatory Poverty Assessment; the development of KENINFO as an effective socio-economic database; and the preparation of a strategic implementation plan for the national statistical system.

However, the MED faces a number of challenges such as: inadequate dissemination to agencies of the M&E system; limited capacity to develop and implement the system at both national and district levels; inadequate levels of financing for the M&E activities; limited progress in finalising definitions and targets for all the 31 IP-ERS indicators; the lack of an M & E policy framework defining the working relationships between the MED, ministries and all other stakeholders; and review and finalisation of the indicators framework for national reporting. These challenges will be adequately addressed in 2005/06.

Findings from District Monitoring and Evaluation Reports

At the district level, the MED had two tasks. The first was the promotion of an M&E culture and practice while the second task was to support the preparation of District Annual Monitoring and Evaluation Reports (DAMERs). In order to create a robust and efficient devolved system, the MED initiated a pilot exercise in eight districts during March 2005. These initial M & E efforts were rolled out to all other districts in the country, culminating in the preparation of district annual monitoring and evaluation reports for each district.

The synthesis of a sample of the first district reports indicates that locally managed and controlled funds have great potential to bring about positive development outcomes at the community level, especially if community participation is sufficiently enhanced with minimal political interference. However, the reports also recognised the inadequacies of the systems in their capacity to monitor and evaluate the effectiveness of the funds. Furthermore, the committees formed at the constituency level were poorly composed and also lacked the technical expertise required to evaluate the projects being undertaken. The preparation of the DAMER is currently being hampered by the reluctance of certain departmental heads and agencies to provide adequate information on time. However, despite the absence of conclusive monitoring indicators, an initial pilot synthesis report succeeded in highlighting the main challenges facing the management and administration of these funds.

Although the quality of the DAMERs varies, some useful conclusions can be drawn from them. Nevertheless, a number of issues that need to be addressed include: the weak capacity at district level to produce quality reports; the submission of late reports by at the district level; poor reporting on indicators; inadequacies in the methodology used to evaluate the effectiveness of devolved development efforts; weak links between the DAMER, the district budget and planning process; and the absence of reports from non-state actors.

Consequently, a number of actions will be undertaken during 2005/06. Firstly, it will be necessary to review the role of the DAMER in both the district and national monitoring systems and further, to explore how the DAMERs can be synthesised for the APR. Secondly, there is need to establish which elements are to be prioritized, in addition to exploring different methods of harmonising indicators at both district and national levels. Thirdly, the rollout of the district Monitoring and Evaluation system will be extended in a meticulous and sequential manner, in line with the capacity of the MED and collaborating partners.

IP-ERS Financing

Revenues have not only reached the target of 22 per cent of GDP on an annual basis, but they have also increased consistently in line with the IP-ERS targets. This has significantly contributed to the financing of the IP-ERS. However, the formation of the East Africa Customs Union under the East Africa Community (EAC) makes it fairly difficult to

Chapter One

1 Background

1.1 The 2004/05 APR

This is Kenya's second Annual Progress Report (APR) which reviews progress made during the period 2004/05, the second year for the implementation of the Investment Programme for the Economic Recovery Strategy (IP-ERS). The APR was prepared by the Ministry of Planning and National Development (MPND), Monitoring and Evaluation Department (MED), in consultation with line ministries and key stakeholders within the framework of the National Integrated Monitoring and Evaluation System (NIMES).

1.1.1 Purpose of the APR

APRs are undertaken in countries that are involved in the implementation of a poverty reduction strategy paper like the IP-ERS. Such strategy papers typically provide comprehensive poverty reduction plans which on average, cover a three to five year period. In each of the intervening years, APRs are produced with the intentions of both reporting on the implementation process, as well as providing an update on near term priorities. Where appropriate, APRs are used by various governments as a means of assessing progress made as a preliminary step towards setting the agenda for the following year.

Although there is no explicitly stated format guiding the formulation of an APR, it is generally expected to highlight three fundamental elements. These include: an evaluation of performance and analysis of outturns; an overview of the coming year's

policy intentions, particularly as reflected in the budget; and, feedback on how specific shortcomings identified in past World Bank/IMF Joint Staff Advisory Notes and Joint Staff Assessments have been addressed.

In addition, APRs indicate how annual reporting is used as a means of providing information on the implementation progress to key domestic and external stakeholders. Wherever necessary, such reports suggest modifications to strategies, policies, targets, and indicators in addition to providing updates on poverty or other relevant phenomena. Moreover, APRs play a fundamental role with respect to donor co-ordination and harmonisation, thereby reducing the need to provide additional reports for development partners.

1.1.2 The IP-ERS

The IP-ERS is Kenya's medium-term strategy for 2005-2007, introduced by the NARC Government to foster economic growth and reduce poverty. Poverty was defined in the Strategy as the inability to command resources. In addition, it was considered to be a multidimensional phenomenon, a characteristic which makes those afflicted susceptible to multiple deprivations due to the interactions of economic, political and social factors. The poor were understood to be not only disadvantaged with regard to having minimal sources of income, but were also viewed as generally disadvantaged in their ability to access productive resources such as land, credit, healthcare and education. Furthermore, the poor are usually vulnerable and powerless to influence changes made in

system-wide institutions, since they lack the capacity and ability to influence key decisions. Accordingly, in order to address the multidimensional aspects of poverty, the Government presented a multi-faceted strategy to support economic growth; equity and poverty reduction; and good governance, as epitomized by the IP-ERS.

To enhance economic growth, the Government envisaged strengthening the macroeconomic framework, enhancing a more responsible fiscal policy stance as well as facilitating private sector participation and investment. The improvement of equity and reduction of poverty were to be achieved by enhancing primary education, improved access to basic healthcare, expanded productive capacity in agriculture, development of traditionally overlooked arid and semi-arid areas, and upgrading the living conditions of the urban poor. The enhancement of good governance would be addressed through reforms in the judiciary, strengthening the rule of law and security, as well as the implementation of reforms in public administration systems that are critical to the improvement of transparency and accountability in public service. With respect to this, the present APR revolves around 31 summary indicators that represent all major sectors of the economy.

The Subsequent reports on progress made in the implementation of the IP-ERS also seek to present substantive information on achievements of the MDGs, considering that the IP-ERS broadly encompassed 10 out of the 12 targets of the MDGs. In preparing the IP-ERS, efforts were made to reflect on MDG concerns which largely reflected long-term national

aspirations, as opposed to the medium term nature of the IP-ERS. As such, the IP-ERS was MDG-based and thus, demonstrated the necessary ambition and realism needed to meet the MDGs.

The IP-ERS identified a wide range of policy and reform issues whose implementation would affect different sectors and involve various key stakeholders. This report focuses on progress made in the implementation of the IP-ERS within the framework of three broad pillars of the IP-ERS, which were economic growth, equity and poverty reduction and good governance.

1.1.3 Methodology used in the preparation of the APR

The APR was prepared within the framework of the Methodological and Operational Guidelines (MOGs) of the National Integrated Monitoring and Evaluation System.¹ The NIMES provided a mechanism for feedback on the budget allocation system to ensure that future expenditures were tailored to maximise their impact on IP-ERS targets. The M&E system is based on both a central and devolved reporting system. A key output of the central level system entailed the provision of annual submissions by ministries on progress made against IP-ERS objectives and the achievements of stipulated targets. The various sectoral chapters of this report were then developed from these submissions. With regard to the devolved structure, a system of district monitoring was set up during 2005, with District Annual Monitoring and Evaluation Reports (DAMERs) being prepared for the period 2004-2005. Although the rollout

process was incomplete by the end of 2005, preliminary findings from this level of reporting were derived and consequently formed the basis of this report.

Furthermore, the current report mainly focuses on thirty one IP-ERS outcome indicators and targets broadly identified as suitable for summarising national performance on a sector basis. These indicators were then used in the preparation of the first APR, though some revisions were included on the targets and intergrated in the second APR as reflected in the report. A more comprehensive presentation of the indicator framework is listed as Annex A.

1.1.4 New issues arising in the APR 2004/05

Based on the findings of a best practice review and feedback on the 2003/04 APR, an amended APR structure was developed for 2004-2005 that would incorporate significant changes. The changes applied to the following areas:

- The status of monitoring and evaluation at both central and devolved levels
- Restructured growth, equity and governance
- Policy objectives and targets of different sectors
- Current achievements and challenges encountered
- Lessons learned and the way forward during 2005-06
- Change of focus from ministries to specific sectors
- A detailed analysis of gender issues

- Weaknesses of the previous report with regard to good governance
- Provision of a new Table format on progress against indicators (Annex A).

1.1.5 The Link between the APR process, budgeting and planning

There is a need to fully integrate the APR process into key policy and budget processes in Kenya, including the Medium Term Expenditure Framework (MTEF), Results Based Management (RBM), and the Public Expenditure Review (PER) cycle. Accordingly, the MED undertook a review of the APR process in early 2006, with the aim of fully integrating it into the planning and budgeting cycle. Preliminary recommendations on how this can be achieved are presented in this report.

1.2 Poverty Update

As indicated in the IP-ERS, poverty in Kenya increased sharply during the early 1990s, declined during the mid-1990s, and rose steadily again after 1997. These trends have been attributed to the Structural Adjustment Programmes undertaken during this period that had a negative impact on the poor. To measure poverty and determine its causes, the Government conducted three welfare monitoring surveys in the 1990s. However, the profiles constructed from the three welfare monitoring surveys (WMS I, II, III) are not fully comparable due to differences in sampling techniques, the quality and quantity of data

¹For the methodology and institutional framework see: MoPND (2005) "Methodological and Operational Guidelines: Implementation of the National Monitoring and Evaluation System".

collected, and areas covered. In spite of this, available profiles revealed that poverty was widespread across all districts, and that the poor could be categorized by region of residence and socio-economic factors. The three surveys conducted indicated that an estimated 56 per cent of the Kenyan population were absolutely poor, the majority of whom were subsistence farmers; illiterate or landless people, widows and other female-headed households; large or polygamous households; pastoralists in drought prone areas, unskilled and semi-skilled casual labourers, informal sector workers and households with limited access to markets and social amenities.

The Ministry of Planning and National Development (through the Central Bureau of Statistics (CBS) and other departments) is currently conducting the Kenya Integrated Household Budget Survey (KIHBS) and Participatory Poverty Assessments (PPAs) to update the data on poverty. Unfortunately, until this data is available, it is impossible to provide reliable and accurate information on the number of people living below the poverty line (indicator 27). In the absence of current data on poverty, the CBS has had to combine the WMS III with the 1999 Population and Housing census to produce two reports that represent poverty profiles at the constituency level.

The second report developed during 2004/05, summarized results of the analysis of poverty estimates and regional concentration, as well as the socio-economic dimensions of poverty and inequalities at the constituency level. The findings of this report indicated a wide

variation in the levels of poverty across rural areas, from a mean constituency headcount of 31 per cent in Central province, to 65 per cent in Nyanza province. The poorest rural regions in Nyanza province experienced double the poverty incidence faced by their least poor rural counterparts in Central province. Among the 210 constituencies, the poverty headcount ratio ranged from between 16.5 per cent for the most affluent constituency (Kabete), to 84 per cent for the poorest constituency (Ganze).

The analysis of Gini Coefficients for Constituencies indicates that the index range fell between 0.30 and 0.43 (the higher the figure, the higher the inequality). Areas with low levels of poverty exhibited the highest levels of inequality, whereas the opposite was true of areas with the highest poverty levels. Consequently, Ganze, with a poverty index of 84 per cent (highest in the country) had the lowest inequality index of about 0.33. Conversely, Kabete constituency, with the lowest poverty index of 16.5 per cent had the highest inequality index of 0.43.

The CBS poverty profiles at constituency level expounded on the various socio-economic dimensions of poverty. Firstly, households headed by individuals with a minimum secondary educational level of attainment (or above) were more likely to have a better standard of living as compared to those headed by individuals possessing only primary level education. Secondly, within each province, households headed by individuals with no education tended to depict the highest poverty incidences. Thirdly, the management of education and poverty rates varied substantially amongst constituencies.

This implied substantial variation in the educational returns across different constituencies. Fourthly, there were no significant differences between the poverty levels of male and female headed households.

Particular categories of female headed households were viewed as being particularly vulnerable. However, a more disaggregated analysis of this group of vulnerable category is required.

Table 1.1 *Poverty estimates 1999/2000*

Province	Number of Constituencies	Constituency poverty head count range (% below poverty line)			Rank 1=least poor
		Lowest	Highest	Mean	
Nairobi	8	31.3	59.1	43.9	2
Central	29	16.5	43.2	31.1	1
Coast	21	30.5	84	57.6	4
Eastern	36	34.4	75.8	58.3	5
N. Eastern	11	59.8	70.5	64.2	7
R. Valley	49	33.6	64.3	47.9	3
Western	24	50.3	71.7	60.8	6
Nyanza	32	43.7	80.8	64.6	8

Source: Economic Survey 2005

1.3 IP-ERS indicators

The starting point for reviewing performance against the IP-ERS indicators is reflected in **Annex 2B** in the 2003-2004 APR which lists 31 indicators, baselines and targets. This is the framework that was used during the review of the IP-ERS progress during 2004-2005. The data is subsequently reproduced in **Table 1.2**, together with actual data for the period 2004-2005. In addition, all updates made to the baselines on 2003-2004 data have been included in the Table. However, only the original targets set in the last APR were used for this review, whereas several targets revised over the last year have been highlighted in **Table 7.1** and **Annex A**. These Tables will be the starting point for the next APR (2005/06).

In summary, no revised targets have been used during the analysis of this report. All revisions made to the targets have been indicated in **Table 7.1** reproduced in the **Executive Summary** and in **Annex A**. In each of the sectoral chapters of this report, revisions to targets are pointed out with reference to the sections on Lessons Learned And The Way Forward.



Chapter Two

2 Economic Growth

2.1 Economic Performance

Policy Review

The IP-ERS placed a high premium on the revitalisation of economic growth as a means of creating wealth and employment opportunities that would in turn, lead to poverty reduction and an improvement in the standard of living for Kenyans. The two cornerstones proposed to enhance economic growth lay squarely on the government's commitment to facilitate private sector growth and investment, and in the consistent and firm resolve of the Government to strengthen its policy and regulatory functions. With reference to these two pledges, four specific development outcomes are derived and stated as follows:

(i) Macroeconomic Stability

A major objective proposed in the IP-ERS was to: *restore economic growth within a sustainable framework of low inflation, declining fiscal imbalances, declining net domestic borrowing and healthy balance of payments.*² In accordance with this, the Government made explicit its commitment to increase domestic savings and investment and improve accountability in the use of public resources. In addition, reforms would be initiated with the goal of restructuring public spending towards priority areas and activities, particularly, those areas with a direct bearing on achieving the MDGs.

These goals were to be achieved through the use of both fiscal and monetary policies. On the fiscal front, the Government made a

commitment to reduce the national debt, increase expenditure on development, increase the efficiency and effectiveness of public expenditure, set expenditure ceilings and increase revenue earnings. On the monetary front, the Government overtly stated its intentions to keep overall inflation and underlying inflation at less than 5 per cent and 3.5 per cent per annum respectively; maintain the growth of broad money supply at 7.5 per cent; and operate a market-determined flexible exchange rate.

(ii) Financial Sector Development

Since this is generally an intermediation sector, its development supports a positive environment for private savings and investment. The Government indicated its commitment to implementing key measures. The first measure would be to enhance good governance by strengthening the supervision and enforcement of prudential and legal provisions, as well as tightening regulations for the sector. The next measures would be to address market structure issues by: ensuring stable market determined deposit and lending rates; strengthening the Deposit Protection Fund function; reducing the cost pressure on the sector; facilitating the privatisation and restructuring of state-owned banking institutions; and, streamlining the microfinance sub-sector.

(iii) Participation of the Private sector in infrastructure

The Government's approach as indicated in the IP-ERS was to use infrastructure as a key means of facilitating economic growth. This

was to be achieved by: establishing an expanded and well maintained road network; improving the safety standards of both urban and rural transport; increasing access to water resources; increasing the availability, reliability and affordability of energy; facilitating efficiency in telecommunication services; as well as supporting a vibrant information technology sector. With regard to this, the government has demonstrated its commitment to providing a favourable environment, conducive for increased private sector participation and investment in the main sectors of water, energy, roads, transport and communications. The basis for the right investment environment will be through the creation and maintenance of a satisfactory regulatory and legal framework and the privatisation of selected key operations.

(iv) Revitalisation of the Trade, Tourism and Manufacturing Sectors

In recognition of the importance of these sectors, the Government is keen on supporting their growth and development by improving the relevant regulatory framework, creating an attractive investment and business climate (i.e. liberalising trade, deepening financial markets, and enhancing infrastructure), improving security, removing barriers to investment and lowering the costs necessary to conduct various business transactions.

The 2004/2005 Budget Speech

While the IP-ERS was the Government's policy

statement for the period 2003-2007, it was to be monitored and made operational through annual budget statements. For the year under review, the relevant instrument to oversee and facilitate operations was the 2004/05 budget statement. This statement was prepared against the background of increasing international oil prices, a clearly articulated fiscal policy and expenditure management. The most critical considerations were the need to create a common external tariff in the East African countries, the desire for fiscal harmonisation in the East African Community, the existence of a large stock of pending bills, limited resources and the need to enhance expenditure on security.

The philosophy behind this statement concurs with key objectives of the IP-ERS. It emphasizes the Government intention (for the fiscal year 2004-2005) to consolidate and accelerate economic growth; sustain macroeconomic stability; stop the accumulation of pending bills and reduce the existing stock; enhance efficiency in the use of public resources and sustain and expand the core poverty expenditures. Other specific proposals include continuity in the privatisation processes of public enterprises, strengthening of tax policy administration, enhanced efficiency in the management of public enterprises and the acceleration of reforms within the financial sector.

Achievements

According to the 2003-2004 APR, a significant number of macroeconomic targets were exceeded. They included the Gross Domestic Product (GDP) growth rate, revenue as a

²IP-ERS-revised edition 2004, pg. 10

proportion of the GDP, private sector credit, foreign exchange reserves and underlying inflation. Conversely, certain targets were not achieved due to a number of factors. The targets made reference to investment as a proportion of the GDP, savings as a proportion of the GDP, expenditure as a proportion of the GDP, deficit as a proportion of the GDP, the net domestic borrowing by the government, the Net Domestic debt as a proportion of the GDP, money supply growth and the export volume and net external inflows.

The main reasons for these unmet targets were: low public investment; low donor disbursements (which undermined the achievements of the Government investment targets); a significant increase in credit to the private sector due to a lowering of the cash ratio; a significant appreciation in the real exchange rate; the underperformance of the coffee sub-sector; and negative net foreign borrowing. Irrespective of the mixed achievements during the 2003/04 review period, the Government remains firm in its resolve to implement various fiscal and financial sector reforms to enhance economic growth as stipulated in the IP-ERS.

General Economy

The economy performed very well during the period under review as compared to the previous period. The real GDP grew by 4.3 per cent in 2004, as compared to 2.8 per cent in 2003 and a 2004/2005 revised target of 3.1 per cent. The sectors that made a major contribution to this impressive growth were manufacturing (4.1 per cent), construction (3.5 per cent), trade (9.5 per cent), tourism and

hotels (15.1 per cent) as well as transport and communications (9.7 per cent). The manufacturing sector's performance was attributed to the increased output of cigarettes, cement, transport equipment, agro-processing industries (sugar, milk, grain milling, fish and tobacco), and outputs from Export Processing Zones (EPZs). The sector continued to perform well during the first half of the year 2005. The output of beer, cigarettes, soda ash, processed milk and cement increased by 16.1 per cent, 25.2 per cent, 1.2 per cent, 8.5 per cent and 23 per cent respectively.

Similarly, the tourism sector registered remarkable growth, spurred on by an aggressive marketing campaign, enhanced security as a directly attributable to the establishment of the Tourist Police Unit, and the opening of direct flights to parts of Asia (*Budget Speech 2005/06*). On the other hand, although the agricultural sector is important to the economy and the Government is committed to transforming it into a profitable, commercially oriented and internationally competitive economic activity, the sector did not register a good performance. Largely due to drought, the sector grew by only 1.4 per cent in 2004, as compared to 2.7 per cent in 2003. The worst performing sub-sectors were the maize, coffee and pyrethrum sub-sectors.

The continued economic recovery, with its real GDP estimated to grow by at least five per cent in 2005/06, emerges from the anticipated growth in the sectors cited above. The agricultural sector, which under-performed in 2004/05, is expected to grow by about three per cent, and backed by a strong performance

in sugar production, coffee and horticulture exports and a recovery from the effects of drought. In addition, the enhanced performance within the manufacturing sector (dairy processing, beer and cigarette production, cement, among others) is projected to propel industrial sector growth to over five per cent during the same period.

The building and construction as well as the energy (especially electricity) sectors both complement the industrial sector and are also expected to register strong output growth. In addition, the auxiliary service industry continued to experience a flurry of activity, with the rejuvenated tourism sector registering a 20 per cent increase in tourist numbers by July 2005, as compared to the number registered during the same period in 2004.

Developments in the telecommunication sector continued to be dominated by the ever increasing number of subscribers in the mobile telephone industry. By October 2005, there were five million subscribers, as compared to 2.2 million in August 2004. Improved cargo handling procedures registered an 8 per cent growth by the Kenya Ports Authority, 11 per cent output growth in Kenya Pipeline Company. With regard to transportation, there was an 18 per cent increase in new motor vehicle registrations. This accounts for the robust growth of the Transport sector.

The key inflation indicators (average annual overall and average annual underlying) showed an upward trend, generally because of higher oil prices, which translated into

higher production and transport costs, seasonal shortages of foodstuffs and rising consumer demand associated with increased wages. The Consumer Price Index (CPI) rose by 15.0 per cent in 2004-2005, mainly due to the rise in oil prices and higher food prices.

Other indicators of macroeconomic performance show that: the Government's expenditure, as a proportion of GDP contracted marginally to 22.3 per cent of the GDP in 2004-2005, as compared to 22.9 per cent of the GDP in 2003-2004. In addition, the Government debt decreased, as domestic borrowing declined during the same period. Broad money expanded by 11.3 per cent in the 12 months leading to June 2005, as compared to a target of 7.5 per cent. This suggested a decline of credit to the government, while credit to the private sector expanded (especially to real estate, finance, insurance, mining and quarrying). Furthermore, low interest rates were maintained alongside a stable exchange rate. In addition, the banking sector expanded by 12.2 per cent (in terms of asset size), and the proportion of non-performing loans to total advances declined to 19.8 per cent in June 2005 as compared to 23.5 per cent in June 2004.

Regarding the participation of the private sector in enhancing economic growth, the Government enacted the Investment Law and created the Investment Promotion Authority to be a one-stop-shop for all foreign investors with investments in the country. The privatisation process was also intensified with the conceding of Kenya Railways. However, the anticipated licensing of a second fixed-line telephone operator as well as the licensing of

a third mobile phone operator failed to materialize. Furthermore, the anticipated privatisation of Telkom Kenya, which was scheduled for June 2005, was not fulfilled.

Privatisation of strategic sectors such as the water sector was achieved through the creation of autonomous water and sewerage services boards. However, the challenge of providing good quality water for domestic use and livestock, especially in urban slums and ASAL areas, still remains. Moreover, the delayed enactment of the Privatisation Bill to stimulate private sector investments is a major setback. Whereas the Bill was not enacted in 2004/05, it is expected that this will be achieved in 2005-2006.

Fiscal Strategy

The IP-ERS fiscal strategy was structured around three key areas, namely:

- (i) **A Revenue Policy Framework** designed to maintain revenues to the GDP at a figure above 21 per cent, to ensure that the bulk of domestic expenditures were met from domestic resources.
- (ii) **An Expenditure Strategy** that would gradually reduce the level of recurrent expenditure to the GDP for a rapid increase in development expenditures. Public expenditure management reforms (outlined in the next section) and the IP-ERS would be used to re-direct expenditure to national priorities.
- (iii) **A Debt and External Aid Policy** aimed at reducing the budget deficit from 4 per cent of the GDP in 2003-2004, to

below 3 per cent of the GDP by 2005-06. Furthermore, it focused deficit financing on conceding external borrowing to allow for a reduction in the level of domestic debt to the GDP as well as maintaining or lowering the net present value of the overall debt to the GDP.

Revenue

The 2004/05 revenue as a percentage of the GDP was 21.3 per cent. This figure compares favourably to the overall revenue/GDP target of 21.4 per cent in the IP-ERS (see **Table 2.1**). During this year, Value Added Tax (VAT) and Import duty exceeded their targets, while Excise duty and Income Tax fell marginally below their targets. As a ratio of the GDP, VAT collection amounted to 5.79 per cent as compared to a target of 5.73 per cent. In addition, Import duty totalled 1.85 per cent of the GDP, which was higher than the target of 1.69 per cent. On the other hand, excise duty and income tax revenue totalled 3.47 per cent and 7.39 per cent, as compared to targets of 3.93 per cent and 7.51 per cent respectively.³

Revenue performance was further enhanced by the success of recent tax administration reforms implemented by Kenya Revenue Authority, as well as further expansion of the tax base through improved compliance. In addition, the exemptions regime was streamlined to harmonise it with other East African Community partner states. This is expected to generate additional revenues. Appropriate tax policy reform measures were also implemented to protect the revenue base, promote efficiency for increased

³Source: Quarterly Budget Review Q4, 2004/05

investment and economic growth, while at the same time cushioning the poor.

As part of the wider governance reform efforts, the Government implemented a number of significant tax administration reforms with a view to reducing corrupt practices, lowering compliance costs, and improving the business environment. These reform measures have resulted in significantly improving revenue collection and efficiency in service delivery. The most significant ones are:

- The full integration of the Income Tax and VAT departments into an integrated function-based Domestic Tax Department; deployment of information technology for the large Taxpayers Office; and, the introduction of computerised audits for the Large Taxpayers Office and Domestic Tax Department.
- The implementation of customs modernisation reforms aimed at reducing corruption, facilitating trade and introducing simplified customs processing procedures for imports and exports, supported by verifiable performance indicators. The specific customs modernisation reforms implemented included the introduction of mobile scanners that have helped minimise the erroneous declaration of imports. In addition, new customs software for clearing imported goods was installed to enhance efficiency within the sector.

These reforms are expected to continue in the medium term with the planned introduction of Electronic Tax Registers for all dealers in Value Added Taxable products.

Expenditure

Expectations are that the overall expenditure will remain at approximately the same level, due to a substantial increase in development expenditure which should have been offset by lower recurrent expenditure. This is notwithstanding the assertion in the IP-ERS that Kenya's expenditure levels were significantly above the target set for low-income countries. Specific actions taken with regard to the principle areas of expenditure included:

- Raising the level of development expenditure from 4.3 per cent in 2002-2003, to 6.7 per cent by 2006-2007
- Maintaining the core poverty expenditure at four per cent of the GDP
- Ensuring that the proportion of the Wage Bill to the GDP declined to 8.5 per cent by 2005/06
- Maintaining the level of expenditure on primary education
- Increasing the expenditure on health care to 12 per cent of total expenditures, by 2010.

According to the BOPA 2005, the Government made deliberate efforts to increase its funding to the social and economic-related sectors. Consequently, the share of total resources allocated to the health, education and agriculture sectors is expected to increase from 8.6 per cent, 27.6 per cent, and 3.1 percent in 2004-2005 to 9.4 per cent, 28.2 per cent, and 3.5 per cent in 2008-2009, respectively. Moreover, the Government intends to reduce further expenditure on motor vehicle purchases and other transport

related costs. With regard to this, during the 2005-2006 Budget Speech, the Government restricted the number of official cars at the disposal of senior government officers to two, and reduced transfers from those parastatals with the capacity to generate their own resources by 15 per cent. Further expenditure controls will be directed towards travel and accommodation and telephone usage.

The release of resources from these reforms is expected to facilitate additional Government expenditure allocation to infrastructure, core poverty programmes and other poverty-targeted programmes in the Arid and Semi-arid areas. An additional Government policy geared towards expenditure restructuring is its endeavour to resolve the issues surrounding stalled projects, which have ultimately led to the accumulation of pending bills. This will be achieved through strict adherence to financial discipline in line ministries and the establishment of a commitment control system.

Against these targets and according to BOPA 2005, the following results were achieved:

- The overall Government expenditure as a percentage of GDP decreased from 22.9 per cent in 2003-2004, to 22.3 per cent in 2004-2005, with the total expenditure being lower than the targeted figure by KSh. 30,888 million. This was due to the low disbursement of external funds.
- The overall fiscal deficit (before grants) narrowed from 1.8 per cent of the GDP in 2003-2004, to 1 per cent of the GDP in 2004-2005. However, with the inclusion of grants, the fiscal position moved to a

surplus of 0.1 per cent of the GDP in 2004-2005. The improved fiscal performance facilitated a decline in the ratio of the net domestic debt to the GDP from 21.4 per cent in June 2004, to 18.8 per cent in June 2005.

- Expenditure on development projects increased from 12.9 per cent of the total expenditure in 2003/04, to 15 per cent in 2004/05.
- Expenditure on core poverty projects increased from 19.7 per cent, to 20.7 per cent of the total expenditure during the same period.
- The Government made a substantial commitment and investment in free primary education by raising the education expenditure by 16.5 per cent to KSh. 86,117.3 million in 2004-2005, as compared to KSh. 73,941.4 million in 2003-2004 (*Economic Survey, 2005*).

The wage bill, together with non-discretionary expenditure such as debt service payment and pension obligations took up two-thirds of revenues, leaving only one-third to fund priority areas. However, some progress was registered with respect to the IP-ERS public sector wages/GDP target of 8.14 per cent for 2004-2005: 7.8 per cent in 2004-2005, against 7.9 per cent for 2003-2004 (see **Table 2.1**).

In spite of these achievements, the 2005-2006 Budget statement indicated that the recurrent expenditure would increase by 2.7 per cent, mainly due to the additional expenditure required for drought related expenses and the wage adjustments for civil servants. Furthermore, the development budget was scaled down by 17 per cent to reflect current

trends in donor disbursements and slow progress in implementation of projects.

Debt and Aid Policy

Donor support was estimated at US \$ 4.1 billion for the period 2004-2006. This was based on the attainment of a good relationship with donors, especially with reference to Kenya's access to the IMF poverty reduction and growth facility, as well as the conclusion of a successful consultative group meeting in November 2003. This enhanced expectations of better resource flows in 2004-2005. Besides the IMF, other big lenders during this period were IDA, Japan and the African Development Bank.

Although governance concerns caused delays in disbursements, there were commitments of budget support from both bilateral and multilateral development partners amounting to KSh. 46.7 billion for 2004-2005. Working on the assumption of a faster disbursement of funds pledged to enable the government to finance the planned development programmes, the 2004-2005 budgetary provisions left KSh. 57.9 billion, of which KSh. 22 billion would be financed through domestic borrowing, with the balance funded through development partners.

According to the Quarterly Budget Review, Fourth Quarter 2004/05, the total domestic debt marginally decreased from KSh. 254,647 million to KSh. 253,493 million due the unexpected decline in borrowing through treasury bills and bonds. On the other hand, external debt stood at KSh. 434,453 million, with more than 57 per cent and over 36 per

cent owed to multilateral and bilateral creditors, respectively.

Notably, the total public debt as a percentage of the GDP decreased gradually, starting from 64 per cent in June 2003, 62 per cent in June 2004 and down to 58 per cent in June 2005. This was a result of a higher GDP, reduced domestic borrowing, and the appreciation of the Kenya shilling that reduced the stock of external debt in local terms. Specifically, the overall public and publicly guaranteed debt decreased from KShs 749,400 million in June 2004 to KShs 745,000 million in June 2005 (as compared to KShs 654,759 million in June 2003). The prospects of the public debt portfolio for the fiscal year 2005-2006 are that domestic debt will increase by KSh. 25.3 billion, while the external debt will increase by KShs 23.4 billion (CBK, *Annual Report 2005*).

Reforms in the Financial Sector

Activities planned for 2003-2007 aim at strengthening and enhancing competitiveness within the financial sector. These activities are classified as monetary policy-related activities and financial sector-related reforms. The Central Bank demonstrated a commitment to maintaining inflation at a low and stable rate as a way to facilitate faster economic growth, thereby, creating more employment opportunities and reducing poverty. To implement this, the Central Bank's monetary policy was to keep the inflation level at below five per cent. Consistent with this objective, the growth in money supply (M3X) and reserve money were set at a target of 7.5 per cent and 3.8 per cent respectively. Private sector credit was therefore expected to grow

by 8.9 per cent (CBK, *Annual Report*, 2005). This will be achieved using the four monetary policy instruments of open market operations, discount window operations, reserve requirements and foreign exchange market operations.

Monetary Policy Framework: The main monetary policy activities involved:

- (i) reinforcing monetary policy operations to influence the level of money supply;
- (ii) appointing a monetary policy advisory committee;
- (iii) strengthening the monitoring of the Central Bank of Kenya balance sheet; and,
- (iv) producing macroeconomic and monetary forecasts.

Financial Sector Reform and Regulations: The recommended measures deemed relevant to enhance reforms within the financial sector involved:

- Developing a sound, financial sector strategy as well as a state-influenced bank restructuring and privatisation policy
- Establishing a highly professional unit to advise and provide operational support to authorities throughout the restructuring and privatisation process
- Privatising three commercial banks, restructuring one development finance institution and recapitalising one commercial bank
- Reducing non-performing loans in addition to carrying out a comprehensive diagnostic of the condition of small and medium sized banks and enforcing

remedial measures on undercapitalised institutions

- Establishing a Credit Reference Bureau to improve credit evaluation to strengthen the operations of the Deposit Protection Fund
- Reinforcing the judicial infrastructure for purposes of commercial dispute resolution and enacting a Microfinance Institutions Act
- Building institutional capacity to deliver resources to the poor and conducting a survey on the level of access to financial services by households and businesses
- Completing the Central Depository System to enhance both rules of disclosure as well as their enforcement
- Introducing a second tier market to allow medium firms access to capital markets
- Developing a comprehensive strategy for insurance services development
- Transferring banking system licensing, regulatory and disciplinary authority from the Ministry of Finance (MoF), to the Central Bank of Kenya
- Removing regulation on bank charges and commissions, in addition to tightening provisional regulations to conform to the International Debt Practice
- Implementing anti-money laundering legislation and developing a modern national payment system
- Building a CBK research department capacity as well as determining the geographical distribution of formal and semi-formal financial services.

As a result of a favourable macroeconomic environment, the banking sector remained substantially stable during 2004-2005 fiscal

year. However, not all of the planned activities were satisfactorily implemented by the end of the review period. Since most of the activities and policies were process orientated, it is fair to conclude that a sizeable number of them were either implemented or are currently being implemented. As a consequence of maintaining the stated policy stand, some achievements were realised. For instance, the money supply growth declined from 12.9 per cent in 2003-2004, to 11.3 per cent in 2004-2005, largely due to increased net foreign assets. In addition, credit to the private sector expanded by 20.9 per cent, thereby, significantly exceeding the target of 8.9 per cent.

Reforms within the financial sector reforms aimed at creating an enabling environment for private sector savings and investments, and lowering interest rate levels and spreads. The key area targeted by the proposed reforms included the establishment of a new regulatory framework that would enhance good governance and competitiveness. In response to this, the Government implemented a number of measures to strengthen the financial system and create a predictable environment for private sector development. Reforms initiated during 2003-2004 focussed on enhancing the supervisory capacity of the CBK, tightening provisioning regulation to conform to international best practice, making changes in the legal framework to remove uncertainties in the banking sector and strengthening the Deposit Protection Fund to enhance deposits. Other recent and prospective reforms include:

- Setting up a Bank Restructuring and Privatisation Unit in the MoF to develop and implement restructuring reforms for state owned banks
- Submission of the Micro Finance and Savings and Credit Co-operatives (SACCO) Bills to Parliament for enactment
- Building capacity to fight money laundering and terrorism such as: the gazettelement of the National Task Force on Anti-Money Laundering and Combating Financing of Terrorism in 2003
- Drafting of the Anti-Money Laundering and Proceeds of Crimes Bill and the Suppression of Terrorism Bill (2003)
- Modernising the financial system, including drafting a bill on Electronic Money Transfer, amending both the Banking Act and Central Bank Act to transfer all regulatory and supervisory roles from the MoF to the CBK
- Introducing a new regulation tightening loan provisioning and classification.

However, there were certain financial sector reforms that were not implemented as envisaged during both 2003-2004 and 2004-2005 periods. These were: the introduction of a contributory pensions system; a comprehensive strategy for insurance services market development; reforming capital markets; and introducing initiatives to improve claims settlement procedures in the Pension's department.

The general progress made during the review period evaluated against IP-ERS macroeconomic indicators has been summarised as follows (**Table 2.1** presents further details on this):

- The economy grew by 4.3 per cent as compared to a revised growth of 2.8 per cent the previous year against the IP-ERS revised target of 3.1 per cent. This growth is attributed to economic and structural reforms implemented since the National Rainbow Coalition Government came to power in 2002. The Government's programme with the IMF is still on course and has positively contributed to the economic recovery currently being realised. On the fiscal front, the good revenue performance led to a fiscal surplus, which permitted the Government to reduce its net domestic debt by about KSh. 3 billion.
- The underlying rate of inflation rose from 3.1 per cent in 2003-2004, to 5.8 per cent in 2004-2005. This was higher than the IP-ERS target of less than 5 per cent. This poor performance is attributed to the adverse impact of drought on food prices, increased oil prices and a higher expansion in money supply.
- The target for domestic debt/GDP was achieved. A percentage of 18.5 per cent was met against an IP-ERS target of 22.2 per cent.
- With reference to the public sector wage control, the ratio of public sector wages to GDP was achieved: 7.8 per cent was met against a target of 8.14 per cent (see the discussion of this indicator in Chapter 4).
- The target for revenue expansion was almost achieved, with the revenue/GDP ratio reaching 21.3 per cent against a target of 21.4 per cent. This could be the result of improvements in tax administration.
- The target for Public Expenditure Management (PEM) reform was almost achieved; since six of the PEM-AAP benchmark indicators were met against a target of seven (refer to the PEM section in **Table 2.1**). The ultimate aim is to achieve all 16 benchmarks by 2008-2009. Hence, efforts towards achieving this goal will need to be accelerated.



Table 2.1 IP-ERS Macroeconomic Indicators

IP-ERS Objective	Indicators	Base value (2003)	Actual 2003/04	Actual 2004/05	Target 2004/05	Target 2005/06	Target 2006/07	Comments	Source
1. Accelerate Economic growth	Real annual growth rate of GDP	1.8%	2.8% (R)	4.3%	3.1% (R)	5% (R)	5.1 (R)	Target was exceeded. This was attributed to the economic and structural reforms undertaken by the government.	BOPA 2005
2. Achieve and maintain price stability	Rate of inflation (underlying) ⁵	2.3% (R)	3.1% (R)	5.8%	under 5%	under 5%	under 5%	Target not met. Inflation high on account of high oil and costs of production	CBK Monthly Economic Review
3. Control and reduce the burden of domestic debt	Domestic debt/GDP ratio (net)	25.1% (R)	22.2% (R)	18.5%	22.2%	22.2%	21.5%	Target met due to reduced borrowing and high GDP growth.	BOPA 2005
4. Control public sector wage bill	Public sector wages/GDP	9 %	7.9% (R)	7.8%	8.14%	7.83%	7.28%	Target met	BOPA 2005
5. Expand revenue sources	Revenue (including AIA/GDP ratio)	20.8%	21.1% (R)	21.3%	21.4%	21.6%	22.2%	Target nearly met due to improved tax administration	BSP
6. Carry out PEM reforms	Benchmark score on PEM-AAP	3	4	6	7	9	10	Target not met	BSP

Challenges

The following are the main challenges that inhibited the full implementation of the activities planned during 2004-2005:

- The slow pace in the disbursement of donor funds, mainly due to pending or emerging governance issues.
- Persistent drought and resulting food shortages and funding; upward adjustments in civil service salaries which consequently necessitated adjustments in budgetary provisions that was unfavourable to the development agenda.
- Non enactment of the Privatisation Bill which was a critical facilitator to the success of reforms in key sectors like the energy, water, transport and communications sectors.
- The non-implementation of programmes in other sectors, particularly those with a bearing on infrastructural development.
- The high cost of production associated with persistent oil prices.
- Challenges encountered in efforts made to encourage private sector participation in

⁵The overall annual average inflation was 9.8 per cent in 2003, 8.2 per cent in 2003/04 and 15 per cent in 2004/05

infrastructure investment as proposed in the 2003-2004 APR. It was envisaged that this would be addressed by developing a strategy to attract private sector investment, ranging from outright divestiture, to the creation of strong public-private partnerships.

Lessons Learned And The Way Forward

The way forward was articulated during the 2005-2006 budget speech. It set priorities which took into account the macroeconomic performance and challenges faced during 2004-2005. On the whole, the Government's top priority is the consolidation and strengthening of recent economic recovery efforts. The GDP growth is expected to grow by five per cent based on: ... *the continued fiscal discipline, a sound monetary policy, and a deepening of structural reforms, especially in the area of governance.* [The priority measures are aimed at] ...*strengthening financial management to allow for increased monetary and fiscal stability, promoting domestic savings and investments; encouraging private sector participation in economic activities; reforming public spending towards priority activities; maintaining low inflation and stable interest rates; improving accountability in the use of public resources; and maintaining a healthy balance of payment position.* The specific priorities were categorised in two parts. The first priority focused on fiscal and monetary factors such as:

- Enhancing revenue collection to at least 22.8 per cent of the GDP;
- Ensuring a significant shift in resources

expended towards sectors; by improving the road network, urban transportation and access to water; core poverty programmes; and programmes to deal with recurrent droughts and food shortages;

- Containing the growth of domestic debt in order to reduce pressure on interest rates, reduce interest payments, and increase availability of credit to the private sector;
- Maintaining a Government expenditure policy that aims at containing both the wage bill and domestic borrowing;
- Maintaining a monetary policy stance geared towards low and stable interest rates;
- Maintaining a three-month worth of international reserves;
- Maintaining a 12 per cent growth in credit to the private sector;
- Containing core inflation at no more than five per cent and money supply at 8 per cent.

The second priority encompassed other structural reforms including:

- Public expenditure and financial management reforms (details of this are contained in **section 2.2**);
- Privatisation and public enterprise reforms;
- Financial sector reforms, especially the implementation of the Comprehensive Sector Strategy with the aim of improving efficiency in financial intermediation (by restructuring and/or privatisation of state-owned banks, the preparation of a SACCO Bill and enactment of the Micro Finance Bill).

In addition, the Central Bank continues to enhance stability and soundness within the banking system through the following measures (CBK Annual Report, 2005):

- Enforcement of compliance with the banking laws and prudential regulations. (Penalties will continue to be imposed as a deterrence mechanism).
- Full implementation of the risk based supervision by the end of 2005. This would be implemented with technical assistance from IMF-East Afritac. The Financial Institutions Supervision Department was expected to issue risk management guidelines to the sector during the third quarter of 2005, and implement a pilot risk based examination by the end of 2005.
- A proposal to introduce more advanced inspection techniques was advanced. Consequently, Central Bank supervisors are currently in the process of implementing the use of computer assisted audit techniques. Moreover, bank examiners use audit command language to interrogate computer files in the banking institutions to produce exception reports.
- The parallel run of the banking supervision application system was expected to be completed by the third quarter of 2005. It was anticipated that, with full implementation of the system, data processing and monitoring of work flows would be substantially enhanced.
- The implementation of the remaining Basle I Core principles for effective banking supervision was planned as a means of improving supervisory oversights, as well as ensuring compliance with International best practices.

- The reinforcement of the inspection follow up process was viewed as a means of ensuring that financial institutions would promptly address any weaknesses observed during on-site examinations.
- It was envisaged that there would be continued publication of bank charges to increase customer awareness of products and services offered in addition to their associated costs with a view to increasing competition within the sector.
- Close engagement of other Government agencies as a way of addressing the problem of non-performing loans in five public sector institutions, which also constitute the largest proportion of the sector's non-performing loans.

It must be emphasized that a number of the IP-ERS macroeconomic targets have subsequently had to be revised. (**Table 7.1** in Chapter 7 and **Annex A** provide a summary of this information).

2.2 Public Expenditure Management Reform

Policy Review

The IP-ERS emphasized the importance of efficient use of public resources and sound public expenditure management in stimulating economic growth and alleviating poverty. More specifically, the Strategy considered effective control and close monitoring of public expenditure as a means of reducing corruption, minimising deviations of budget outcomes from intentions, promoting budget discipline, and preventing the accumulation of new arrears. Accordingly, PEM reforms were initiated

in 2000-2001 with the adoption of the MTEF. Based on achievements made by 2003, as well as inherent weaknesses existing in the PEM system at the time, the IP-ERS proposed the following key priority actions as an approach to provide future direction for reform initiatives:

- The creation of strong coordination and management between MoF and MoPND
- The enactment of new legislation on financial management, public procurement and public audit
- A shift to programme budgeting, beginning with a review of budget classifications
- Increased comprehensiveness of the budget by including all government spending and extra budgetary funds within the budget
- The introduction of Integrated Financial Management Information System (IFMIS)
- The implementation of the Enhanced Action Plan for Financial Management (EAPFM)
- A review and adherence of the budget process timetable to allow sufficient time to incorporate findings from the PER process.

To meet the above PEM objectives and proposed activities, the Government pursued a series of reforms aimed at linking budgets to policies and planning, and thereby, re-orientating public expenditure towards core poverty programmes and infrastructure. Reforms have also focused on creating an institutional and legislative framework to improve the use of public resources. Of the planned actions, key achievements made by the Government in 2003-2004 included:

- Institutionalisation of the PER process which was subsequently rolled out to all ministries and integrated within the MTEF process
- Procurement of the IFMIS and training of its staff
- Strengthening of legislation by enacting the Anti-Corruption and the Economic Crime Act, the Public Officers Ethics Act, the Government Financial Management Act, and the Public Audit Act
- Initiating pilot Public Expenditure Tracking Surveys (PETS) in the health, education and agriculture sectors.

Indicator 6 of the IP-ERS indicator framework measures the benchmark score on the Public Expenditure Management and Accountability Action Plan (PEM-AAP). The target set for 2004-2005 was that 7 out of the 16 benchmarks would be achieved. In order to meet these benchmarks, the Government developed and facilitated operations of the more comprehensive EAPFM. The main objectives of EAPFM were to focus resources (within realistic fiscal constraints) on core priorities by strengthening budget preparation, reducing pending bills, broadening commitment control and strengthening financial discipline. This resulted in improved budget execution, better quality and prompt availability of information for purposes of financial planning and decision-making.

In 2003-2004, four out of the 16 PEM-AAP benchmarks were achieved. These four indicators were based on budget classification, internal control; routine reports compiled within the year and final audit

accounts. In 2004-2005, two more benchmarks were achieved. These were indicator 5 (budget expenditures classified on an administrative, economic, and detailed functional or programmatic basis) and indicator 11 (satisfactory reconciliation of fiscal and banking records undertaken routinely).

The Government did not meet the target of 7 benchmarks. Nevertheless, it will endeavour to meet all the benchmarks before 2008-2009. Several diagnostic studies scheduled to be conducted over the next few years (including the Public Expenditure and Financial Accountability Assessment) will give the government an opportunity to reassess the appropriateness of the PEM reform indicator in the IP-ERS indicator framework.

Achievements and progress on implementation

During the 2004-2005 budget cycle, the government undertook many reforms. This section provides a broad overview of the undertaken activities. (Further details of this are provided in **Annex B** which presents an update of the EAPFM).

Budget formulation

A key reform during 2004-2005 was the consolidation of all the departments involved in budget preparation and monitoring within the MoF, in order to facilitate effective integration of the policy, planning and budgeting functions. The MTEF secretariat is now part of the Budget Department that forms the Budget Policy Division. In addition, the Budget Monitoring Department was

merged with the Department of Economic Affairs. As a way of strengthening coordination and management between the MoF and MoPND, the sector convenors and co-convenors of sector working groups during 2004-2005 were drawn from both ministries. Previously, all the sector convenors were only MoPND officials.

The second key reform was a revision of the budget timetable. This implied that the budget preparation stage would have to start earlier in the year (October rather than December). The advantage of this revision was that it would allow for more time to feed in findings of the PER process into the preparation of macroeconomic and fiscal framework and sector expenditure ceilings. Moreover, the revised timetable would also capture changes made on budget documents. Consequently, in order to enhance budget preparations, the Government plans to issue a Budget Outlook Paper (BOPA) in October 2006, indicating sector ceilings and national priorities. Line ministries will then be expected to use the BOPA to prepare their PERs within an indicative resource constraint. Ministerial PERs have proved useful in the development of sector reports whose findings are captured in a budget strategy paper, which in turn, provides firm expenditure ceilings and priorities. The revised budget timetable also allows for more extensive consultations and participation by a wider cross-section of key stakeholders. The BOPA will therefore be forwarded to the Cabinet for approval in order to gain political endorsement and commitment.

In 2004-2005, the MoF made significant progress in adopting the full Government Finance Statistics approach for economic classification of expenditures. It also developed a bridge matrix to allow for the mapping of administrative classifications to a new functional classification, following the UN Classification of the functions of Government.

Budget Execution

One of the longstanding challenges in PEM faced by the Kenyan Government has been the need to reduce the variance between approved budget and budget outturn in order to deliver a credible budget. The Budget execution registered improvements after 2003-2004, following reform initiatives pursued by the Government.

In addition, the Government has made progress since June 2004 in developing a commitment control system (in line with the IMF programme). With regard to this, on 1st August 2005, a circular was issued from Treasury giving guidelines to ministries on commitment control and regular reporting on expenditures and arrears. As pointed out previously, from 2004-2005, the reconciliation of fiscal and banking records has been undertaken on a routine basis.

Steps have been taken to strengthen the procurement system through: the decentralisation of the procurement function, issuing procurement regulations, establishing the Directorate of Public Procurement in the MoF as an oversight body, and establishing an appeals body to deal with complaints. The Public Procurement and Disposal Bill 2005 was

enacted in mid November 2005. The Act will facilitate the removal of remaining deficiencies in the procurement system which will in turn, ensure that the procurement process of security related contracts, (amongst other processes) is made transparent and contracted accordingly.

Monitoring and Evaluation (M&E)

Monitoring and Evaluation is a mechanism used to identify areas of weakness within the budget. It provides an effective management feedback process within the financial management reform programme which can therefore facilitate the undertaking of corrective steps. Although the EAPFM does not indicate any large reforms or changes that took place during the M&E carried out in 2004-2005, the following activities did take place:

- To strengthen M&E, a number of activities were initiated as part of the annual progress review of the IP-ERS (described in Chapter 5 of this Report). Despite being delayed, the first APR was published in 2004-2005, where the development of the M&E framework was highlighted. However, these activities need to be further integrated into the budget cycle and identified in the EAPFM.
- The rollout of the IFMIS was initiated in 2004-2005. The completion and rollout of the IFMIS to line ministries originally scheduled to be completed by 2003, was rescheduled for 2004-2005. However, this had not been achieved by June 2005.
- The work on PETS was covered in the 2003-2004 APR. Accordingly, the 2004 PETS was finalised and published. This achievement

notwithstanding, a fast-tracking exercise needs to be developed to facilitate annual PETS exercise over the next three years.

Institutional and Human Resources

During 2004-2005, capacity building activities were undertaken in tax policy, payroll management, debt management, and internal audits within the MoF. Furthermore, an assessment of the available and required financial management skills was undertaken. This has led to the development of training plans at both the central and line ministry levels for accounting officers to ensure that relevant mandates are achieved with respect to financial management.

State Corporations

All state corporations were expected to be bound by performance contracts based on predetermined performance targets from 1st July 2005. A Privatisation Strategy was developed and will have its operations sanctioned by the Privatisation Commission once this commission is established. The Privatisation Act, 2005 was also published. The provisions for transfers to state corporations were reduced by 15 per cent of their total budget during 2005-2006, based on printed estimates.

Challenges

The revised budget timetable does not fully capture preparation of the APR or the consolidated government PER. The APR identifies IP-ERS targets and indicators and sets certain benchmarks which need to be met each year if IP-ERS priorities are to be achieved.

Adherence to the budget timetable in the first year of implementation has proved to be a major challenge. On the other hand, the budget process has become more transparent as compared to previous years. A delay in issuing the BOPA 2004 did however, affect the quality of public expenditure reviews and sector reports. Inadequate identification and costing of programmes was exacerbated by the late indication of sector priorities and a lack of ministerial ceilings. Fortunately, the BOPA 2005 now provides these ministerial ceilings. Furthermore, in 2004/05, sector working groups were not meeting on a regular basis, with many struggling to fulfil their role of determining trade-offs within sectors, in line with policy priorities and operating within rigid budget constraints.

Reducing the variation between the approved and actual budget remains a significant challenge. **Annex D** provides data on the budget execution at ministerial level. Five ministries under spent their total budget by over 60 per cent. The 2005 BOPA identified and attributed the large variations between the approved and actual budget to a weak budget preparation and the absence of restrictions on requests for virements and supplementary budgets. Challenges were also faced in the disbursement of donor funds, as well as weaknesses in the capacities of ministries to forecast non-tax revenues. To reduce the extent of in-year reallocations, the BOPA 2005 emphasized that with effect from 2006-2007, budget reallocations would be limited to not more than 8 per cent. Reallocations would therefore not apply to new programmes and virements involving core poverty programmes would not be permitted.

Lessons Learned And The Way Forward

While a number of key reforms were implemented and achievements made during 2004-2005, the government recognises the slow progress made on the IFMIS, the lack of momentum in 2004-2005 on PETS, and effects of a weak budget execution on budget credibility. In response to this, the 2005 budget speech underscored the need to:

- (i) ensure that those responsible for financial management strictly adhere to all financial regulations including procurement guidelines, as outlined in the Financial Management Act;
- (ii) implement a cash management system to ensure the timely release of resources to line ministries;
- (iii) carry out PETS to improve the utilisation of public resources;
- (iv) roll out IFMIS to line ministries;
- (v) introduce a risk-based internal audit system.

By the end of the 2004-2005 period, two out of the seven PEM-AAP budget formulation benchmarks had been achieved, two of the four budget execution benchmarks were met and two of the four reporting benchmarks were achieved. This is a visible demonstration of the Government's commitment to improving public expenditure and financial management that will in turn, ensure improved service delivery in key priority areas of health, education, infrastructure and agriculture. The Government aims at achieving all stipulated benchmarks before 2008-2009 by revising the intermediate annual targets for indicator 6 of the IP-ERS

framework. The revised target for 2005-2006 is the achievement of 13 benchmarks and a further two benchmarks by 2006-2007 (see **Table 7.1** in Chapter 7 and **Annex A**).

2.3 Restoring and Expanding Infrastructure

2.3.1 Introduction

The IP-ERS identified infrastructure development (transport, water, energy, telecommunications and information technology) as one of the main pillars of Kenya's Economic Recovery Programme. Good infrastructure is critical to lowering the costs of doing business and increasing the competitiveness of Kenyan products, both locally and internationally. Accordingly, the IP-ERS objectives for this sector envisaged:

- (i) an expanded and well-maintained road network;
- (ii) the improved safety standards of urban transport;
- (iii) increased access to water resources;
- (iv) increased availability, reliability and affordability of energy;
- (v) efficiency in telecommunications services; and,
- (vi) a vibrant information technology sector through increased private sector participation and investment.

To realise these objectives, the IP-ERS proposed the development of a satisfactory regulatory and legal framework, and the transfer of key operations to the private sector within the Government's overall privatisation and competition framework. Over the review

period, various agencies and departments implemented a number of reforms as outlined

in **Table 2.2**.

Table 2.2 *Infrastructure IP-ERS Outcome Indicators and Targets*

IP-ERS outcome indicator	Base value	Actual		Target		
	2003	2003/04	2004/05	2004/05	2005/06	2006/07
7. Proportion of road network in bad/poor condition (%)	43	38	32	35	28	20
8. Percentage of rural households served with power (%)	3.8	4	5	5	7	8
9. Percentage of rural households with safe and reliable water (%)	50	51	53	53	56	60
10. Proportion of urban households with safe and reliable access to water (%)	73	74	75	76	80	83
11. Number of fatalities on the road annually	2,676 (53/ 10,000 vehicles)	2,100 (60/ 10,000 vehicles)	1,700	1,300	Number of fatalities on the road annually	2,676 (53/ 10,000 vehicles)

Source: Ministry of Roads & Public Works, Ministry of Water & Irrigation, Ministry of Energy and Ministry of Transport

2.3.2 Transport

Policy Review

Transportation costs are a major determinant of the competitiveness of goods and services. The sector objectives identified in the IP-ERS were: expanding the road network; reducing the rehabilitation and maintenance backlog; strengthening road safety and controlling overloading; and, expanding private sector management and financing. To realise these objectives, the IP-ERS proposed a number of initiatives. With regard to the road network, the relevant activities included:

- The formulation of a long-term road sector strategy and a multi-agency model to manage responsibilities and financing of trunk roads, highways, park roads and rural roads
- A rationalisation of the number of agents responsible for the rehabilitation, construction and development of urban roads under the Kenya Roads Board Act
- Completion of a Road Inventory and Condition Survey study
- A reduction in the audit backlog for the Road Levy Fund in addition to accessing information on the use of the Fund to public scrutiny
- The establishment of a new Road Safety Authority, enforcing axle load control limits and launching a National Road Safety Campaign.

Specific target areas selected over the IP-ERS period included the rehabilitation of 2,815 km under the Roads 2000 programme, the reconstruction of 150 km of trunk roads per annum and the conceding of up to 1,208 km of trunk road during 2004-07.

The Government reiterated its commitment to finalizing the conceding of the Kenya Railways Corporation, as a means of improving rail services within the country. To ensure efficient and secure air transport, the IP-ERS proposed reforms to raise airport security and safety service levels to international standards and improve airport facilities, management and operations. To maintain the competitive edge of the port of Mombasa, the Government remains firm on its resolve to convert the region to a landlord port, in addition to providing modernised equipment, and finalising the Maritime Sector Policy Paper. Furthermore, the Government has asserted that it would, in the near future, purchase two new ferries to enhance safety standards.

During 2003-2004, the proportion of roads in poor condition was reduced from 43 per cent to 38 per cent. Approximately 188 km of trunk road was rehabilitated against a target of 150 km per annum. An estimated 78 km within national parks was improved, 1,314 km graded and 37.3 km rehabilitated by Kenya Wildlife Services. Other achievements included the auditing of the Roads Levy Fund, the launching of Road Safety Campaigns and financing agreements reached under the East African Road Network with various development partners. Over 2004-2005, the Government continued with the construction and rehabilitation of roads and put in place

modalities that would foster private sector participation.

Achievements and progress on implementation

Road Transport

During the review period, considerable progress has been made in the development, rehabilitation, and maintenance of roads across the country. The target for IP-ERS indicator number 7 (the proportion of the road network in poor condition) was met: approximately 32 per cent of roads were in poor condition against a target of 35 per cent (see **Table 2.2**). Unfortunately, no data is available to assess progress made against the other IP-ERS roads target (indicator 11) on road safety.

Development of roads under the Northern Corridor Transport Improvement Project

The main objective of the Northern Corridor Transport Improvement Project was to enhance domestic and regional trade by improving the transport system in the Northern Corridor, which connects the port of Mombasa with Nairobi, Uganda, Rwanda, Burundi and the Democratic Republic of Congo. This project is currently under implementation with support from the World Bank, the Nordic Development Fund, and the Government of Kenya. Upon completion, sections totalling 368 km of the Mombasa-Nairobi-Malaba road will be rehabilitated over a five-year period, at an estimated cost of USD275 million. Moreover, specific sections of

the road are being rehabilitated in cooperation with different donor bodies including:

- The World Bank (WB) granted the Government of Kenya a loan of USD 275 million to finance the rehabilitation/reconstruction of selected sections of the Mombasa-Nairobi-Malaba corridor under the Northern Corridor Transport Improvement Project.
- The Nordic Development Fund is financing rehabilitation of the Miritini - Maji ya Chumvi section (35 km). Pre-qualifications of contractors was completed and the contract subsequently awarded.
- Under the European Union (EU) funded component, reconstruction of the Sultan Hamud-Mtito Andei section (131 km) is ongoing with about 83 km completed at a cost of 4.6 billion.
- The reconstruction of Maai Mahiu-Naivasha - Lanet section (95km) commenced in March 2005 at a cost of KShs4.7 billion.
- Development of roads under the East African Road Network Project was carried out.

The East African countries jointly identified and prioritised five corridors and several road connections for rehabilitation, reconstruction, and upgrading. A draft feasibility study report of the Athi River-Namanga section, financed by the African Development Bank (AFDB), was prepared and submitted to the East African Community Secretariat. AFDB will also finance the feasibility, environment and detailed design of the Isiolo-Moyale road (536 km) and the construction of bitumen standards of the

Isiolo - Merille river section (136 km). These road works are currently in the process of procurement.

The feasibility study for upgrading the Emali-Oloitokitok road to bitumen standards was completed with funding from the Arab Bank for Economic Development in Africa. The Bank also agreed to finance the proposed upgrading project. The procurement process for this work is expected to commence as soon as the land acquisition exercise is finalized. In addition, the design for the rehabilitation of the Kisumu-Kakamega section is to be undertaken with funding from the Road Maintenance Levy Fund.

Accelerating the implementation of the Roads 2000 Programme

The Roads 2000 Programme emphasised the use of labour-based methods, supported with appropriate tools and equipment, as a suitable approach towards improving and maintaining the country's dilapidated road network. During 2004-2005, a number of development partners pledged a total of KSh. 6.3 billion to provide support to the programme in various districts for the next five years. They include KfW, AFDB, AFD, SIDA (Nyanza) and the EC (Phase 2). On the whole, under the Roads 2000 Programme, approximately 207 km of road was rehabilitated during 2004-2005. (**Table 2.3** provides an outline of the districts to be covered during the financial year, inclusive of a budget summary).

Table 2.3 *Districts to be covered under the Roads 2000 Programme*

Development Partner	Period	Districts	Planned funding (KShs Mn)	
			Donor	GOK
KFW	2004-2007	Kericho, Nakuru, North Nandi, South Nandi, Bomet, Nyamira	525	396
Sida	2005-2008	Gucha, Kuria, Migori, Suba, Homa Bay, Rachuonyo, Kisumu, Siaya, Bondo, Kisii, Nyando	1128	596
EC (Phase 2)	2005-2008	Meru North, Meru South, Meru Central, Tharaka, Embu, Mbere, Machakos, Makueni	900	1000
ADB	2004-2008	T. Nzoia, W. Pokot, U. Gichu, Keiyo, Marakwet, Kajiado, Transmara, Narok	2030	231
AFD	2005	Nyandarua, Muranga, Maragua	1455	145

Source: Ministry of Roads and Public Works

A study for the master plan for urban transport in Nairobi metropolitan area is currently ongoing under the Japan International Cooperation Agency (JICA) financing. The intended goal of this study is to provide a comprehensive improvement and integration of the traffic management system and road facilities, through the implementation of traffic management measures, the construction of the missing links and the improvement of roads. In addition, a study on the conceding of roads has been completed and consultants are embarking on the next phase. An investment conference was held in November 2004.

The Government has sensitised police officers on the implementation of Legal Notice No.161 of October 2003 and the need to carry out national campaigns as a way of improving on road safety. The target was to reduce by half the number of road-related fatalities from 3,000 deaths per annum to 1,500 deaths, and reduce the road fatality rate from 60 deaths per 10,000 vehicles, to 45 deaths per 10,000 vehicles. The computerisation of vehicle

inspection units is currently being undertaken to enhance the thorough inspection of vehicles. In addition, weighing motion bridges were procured before the end of the review period to reduce incidences of overloading.

Railway Transport

As a means of improving efficiency in the management and operations of rail transport, the Government undertook a number of reforms which include:

- (i) finalising the valuation of assets to be transferred to the workers' pension scheme;
- (ii) undertaking a staff rationalisation exercise to determine the optimal size of the workforce;
- (iii) rehabilitating locomotives which is still an on-going project;
- (iv) initiating "seamless" transport services whereby reliable trains ferry cargo from the port of Mombasa directly to Nairobi and Kampala.

that call for a proper institutional framework to guarantee the efficient and effective use of resources. To address the aforementioned challenges, the Government will continue to utilise funds from the Roads Maintenance Levy Fund which contributes nearly KSh. 9 billion annually to maintain roads. The government will also foster partnerships with development partners and the private sector to address the financing challenges. Lastly, in order to accelerate privatisation reforms, the government will pursue the enactment of the Privatisation Bill and review both the Traffic Act and the Transport Licensing Act to provide judges with the mandate to impose stiffer penalties on road users.

2.3.4 Communications and Information

Policy Review

The expansion of the telecommunications sector was recognised in the IP-ERS as one of the necessary conditions for accelerated growth in other productive sectors of the economy. Key strategies identified to realise this objective entailed:

- Introducing competition to end Telkom Kenya's monopoly by licensing fixed telephone service operators outside Nairobi;
- Licensing a third mobile operator;
- Licensing more internet operators;
- Reviewing the Telecommunications and Postal Sector Policy in view of the expiry of Telkom Kenya's license in June 2004;
- Withdrawing idle broadcast frequencies and re-allocating them under a more transparent and equitable regime;

- Facilitating and supporting the development of a submarine cable on Kenya's east coast.

Information and Communications Technology (ICT) is important not only for improving performance within the productive sectors and the Government, but also as a potentially fast growing and employment-generating industry. However, realising the full potential of this sector has been hampered by low access to telecommunications, the limited penetration of ICT usage in Kenya (especially in the rural areas) and inadequate legislation.

To address these problems, the Government prepared an ICT policy that provides guidance on the operations and management of internet technology, communications and radio/television. Other measures as provided in the IP-ERS included:

- Investing in adequate ICT education and training by streamlining the education curriculum to incorporate IT studies;
- Implementing a well-targeted tax reduction and /or tax incentives on both computer software and hardware to make them more affordable to micro-enterprises and lower income earners;
- Removing impediments that discourage the adoption and use of e-commerce;
- Completing the introduction of e-government into the country by June 2004.

Over 2003-2004, the ICT policy was finalised and approved by the Cabinet. Furthermore, an e-government committee was set up, leading to the completion of an e-government implementation strategy. As a result of this, 50

per cent of Government institutions were cabled. To increase access and adoption of ICT, the Government removed taxation on the importation of computer software and hardware, and allowed ISPs to develop their own gateway facilities and infrastructure, in an effort to end the Telkom monopoly. With reference to broadcasting, the Government liberalised the airwaves, licensed more local broadcasting stations and abolished permits for radio and television sets and dealers' licenses. In addition, a draft policy paper and report on the proposed Film Commission of Kenya was developed. A revision of the education curriculum to incorporate ICT education and training was also initiated.

During 2004/05, this sector's priority was to increase investment and expand the stock of national infrastructure resources as a prerequisite towards growth within the sector. Key strategies to facilitate this included:

- (i) increasing efficiency in the provision of communication services;
- (ii) improving access to information and increasing the use of ICT through licensing more players;
- (iii) enforcing license obligations; and
- (iv) identifying additional investment opportunities and involvement of other stakeholders in regulatory policy initiatives. Details on progress made with reference to these objectives are reported in the next section.

Achievements and progress on implementation

During 2004-2005, the Government re-organised the sector by amalgamating

its information, communications and broadcasting functions into a single new ministry. Thereafter, the overall contribution of transport and communications to the GDP rose from 9.9 per cent in 2003/04, to 10.3 per cent in 2004-2005. The Communications Commission of Kenya continues to facilitate investment within the sector through licensing and regulatory activities. Whereas the total number of mobile subscribers grew by 9.6 per cent (from 3.83 million in 2003-2004, to 4.99 million in 2004-2005), fixed line services declined from 3.0 million to 2.9 million. Consequently, overall teledensity grew from 8.09 per cent in 2003-2004, to 15.7 per cent in 2004-2005. In an effort to increase the fixed line networks and facilities, one regional telecommunications operator is in the process of setting in place a network for the provision of fixed telecommunication services in the North Eastern Province. Moreover, five additional local loop operators were licensed during the period.

The Communications Commission of Kenya continues to support the Kenya Education Network and Kenya Domain[®] Name Registration projects. Internet (Posta Surf) connectivity through Very Small Aperture Terminal technology was rolled out and a total of 347 offices had been connected by the end of June 2005. In addition, the Commission conducted its Universal Access Study and developed a plan to facilitate funding mechanisms. The Study outlined a five-year universal strategic plan for the country, which encompassed the establishment of a Universal Access Communications Development Fund to provide funding, on a priority basis, to investors willing to provide access to

underserved areas. A new investor guide, detailing new investment opportunities, was also developed.

Challenges

In spite of the impressive performance of this sector, a number of challenges prevented the sector from realising its full potential. They included the following:

- Litigations surrounding the licensing of the Second National Operator and the third mobile operator slowed down the pace of overall investments within the sector.
- The declining rate of fixed lines has had major implications not only for voice-service penetration but also for internet penetration and the creation of a critical mass necessary for the positive network effects associated with economic growth.
- There is a lack of adequate and reliable data on licensees' investment programmes that would provide a reasonable indication of quantifiable progress towards the creation of an "infrastructure" needed to service a modern economy.
- There is an inadequate supply of electricity in rural areas to facilitate Very Small Aperture Terminal connectivity.
- The long-overdue privatisation of Telkom has greatly hampered its ability to acquire funding to turn around performance.

Lessons Learned And The Way Forward

Legal battles concerning further mobile operators have had a negative impact on both investments and efficiency in the sector. To address these challenges, the commission

plans to acquire and install modern monitoring equipment for the purpose of improving service quality and reliability. It is anticipated that the new licensing framework currently being developed by the commission will lead to timely and effective licensing and regulation, thereby creating an environment more conducive for both domestic and foreign investment, all of which will boost activities within the sector.

2.3.5 Energy

Policy review

Electricity

The IP-ERS objectives relevant to this sector included:

- Enhancing the reliability of service supply
- Increasing access to electricity in rural areas by 1 per cent annually (from 3.8 per cent in 2003 to 8 per cent in 2006)
- Lowering energy costs through expanded private sector participation
- Strengthening the regulatory functions of the electricity regulatory board
- Reducing the Government's direct equity in the Kenya Power and Lighting Company, from 51 per cent to below 39 per cent
- Restructuring the Kenya Electricity Generating Company and creating the Rural Electrification Authority
- Accelerating the pace of rural electrification to reach a penetration rate of at least 40 per cent of the rural population by 2020 (from 4 per cent in 2003).

To realise these objectives during 2003-2004, a Sessional Paper for the Energy sector was developed and approved by the Cabinet. Furthermore, a resource mobilisation programme targeting Olkaria I and II was initiated, and the funding for the Sondu Miriu Hydropower project was resumed. The optimisation of the Kiambere power plant for capacity enhancement from 144 MWh to 164 MWh was also carried out.

Petroleum, Coal and Geothermal

The relevant objective with reference to this sector focused on improving service delivery and expanding existing facilities which would include the financial and management modalities for the extension of the oil pipeline from Eldoret to Kampala. Reforms in this sector were expected to address the problems of poor competition, safety standards and high barriers to the entry and promotion of LPG consumption. During 2003-2004, government officials completed studies on the petroleum potential of Anza Basin and Lamu Basin with a view to enhancing investor interest in the exploration and development of indigenous energy sources, as a means of reducing high energy importation bills. In addition, approximately 10 sites were drilled in the Mui Basin to explore for coal, with encouraging results, since seams of coal were found in half of the sites. Furthermore, a draft brochure on the policy, legal and fiscal regimes in petroleum exploration was prepared.

New and renewable energy (wood, wind, solar, and biogas)

The use of wood fuel is said to be the leading

agent responsible for the reduction in forest cover and deforestation within the country. Accordingly, the Government is committed to reversing this trend in favour of a policy promoting sustainable wood resource management and efficient harvesting and end-use technologies. Moreover, the Government is committed to the development of indigenous energy resources such as the harnessing of solar energy; support of initiatives to popularize wind energy; development of mini and micro hydropower; and, other biomass based fuels.

The Government further recognises the importance of energy efficiency and conservation measures in the industrial, commercial and domestic sectors. These include: efficient wood conservation technologies and the licensing of charcoal trade to encourage sustainable biomass production and use; and increasing the co-generation capacity to 300 MW by 2005. During 2003-2004, the Ministry of Energy completed the preparation of a Broad Wind Resource Atlas and established a steering committee to produce a detailed plan on how to set up a national centre of excellence for the development of renewable energy technology. A monitoring and evaluation system was also established to enhance the information flow on projects.

Achievements and progress on implementation

During 2004-2005, the Government continued with the implementation of various reforms in the energy sector, as envisaged in *Sessional Paper No 4* on the energy sector. As a result,

Weaknesses in the power system, coupled with the high cost of power from independent power producers, cumulatively contribute to the significantly high costs of conducting business in Kenya. Other challenges faced by the Power sub-sector include low power consumption at 121 kWh and low countrywide electricity access at 15 per cent of the total population, and 5 per cent of the rural population.

The petroleum industry is constrained by a limited supply of facilities for fuel, including liquefied petroleum gas, and domestic production of motor fuels, which do not meet international quality standards. In addition, inadequate distribution of infrastructure in remote parts of the country contributes to high product prices, while the price leadership inhibits competition. The lack of an inadequate legal and regulatory framework to guide sub-sector operations further poses a challenge. Consequently, the sector has witnessed the proliferation of substandard fuel dispensing facilities, and the under-dispensing of products, including the mixing of motor fuels with kerosene and the dumping of export fuels for illicit financial gains, at the expense of both the consumer and Government revenue. In addition, the establishment of a national centre for excellence in renewable energy has not taken place. Other key challenges within the sector include: An inefficient procurement system leading to some of the materials running out of stock, limited natural resources for electricity generation, an over-reliance on hydro-power and the high cost of fossil fuel.

Lessons Learned And The Way Forward

High energy costs continue to impact negatively on the cost of Kenyan goods and services and therefore compromise on their competitiveness. The success of socio-economic and environmental transformation strategies pursued by the Government will continue to be affected by the performance of the energy sector. To address the problems of high costs and poor access to energy, the Government will continue to pursue the implementation of critical reforms such as:

- The enactment of an Energy Act to succeed the Electric Power Act of 1997
- The establishment of a single independent energy regulator
- The establishment of a state-owned Geothermal Development Company
- Privatisation of the Kenya Electricity Generating Company
- The creation of a Rural Electrification Authority
- The division of Kenya Power and Lighting Company into two entities
- Provision of financial assistance to KPLC to facilitate the training of technical designers.

Additional measures that remain to be undertaken include:

- (i) the enhancement of private participation in oil exploration through upgrading of the current database and a review of the existing incentives;
- (ii) the promotion of new and renewable energy sources;
- (iii) divestiture of Government interests in oil

- refining and marketing, and in Kenya Pipeline Company;
- (iv) the enhancement of exploration for fossil fuels;
- (v) the provision of requisite support for research and development in emerging technologies;
- (vi) construction of the necessary LPG infrastructure and the deployment of a new rig to increase the Government's drilling capacity alongside contracted drilling; and
- (vii) mobilising resources for the development of geothermal potential in the Rift Valley. These reforms are expected to foster competition within the sector, diversify sources of energy and reduce on costs.

2.3.6 Water and Sanitation

Policy Review

The sector has the potential to substantially improve the lives of Kenyans by ensuring access to clean water and improved sanitation facilities. In addition, it has strong linkages with the agriculture, livestock and health sectors. The IP-ERS objectives proposed an increase in rural water coverage, from the 2003 baseline of 50 per cent (for rural households with safe and reliable water), to 60 per cent by 2006-2007. It also proposed an increase in urban water coverage, from 73 per cent in 2003, to 83 per cent in 2007 and the establishment of water management systems as provided for in the Water Act 2002. The relevant IP-ERS reforms which were based on the Water Act, called for the establishment of the Water Service Boards, the Water Service Regulatory Board, the Water Service Trust

Fund and the transfer of water assets from the ministry to the water boards. These reforms aimed at making water and sanitation services autonomous, mobilising investment for construction and rehabilitation and entering into partnerships with community-based organisations with a view to expanding services to urban poor and rural communities, in line with target 10 of MDG goal 7.

Accordingly, specific targets over the IP-ERS period focused on:

- The rehabilitation of 200 hydrological and quality water monitoring stations countrywide
- The analysis of 1,200 water samples annually
- A reduction in unaccounted water wastage from 60 per cent in 2003 to 25 per cent in 2005 through rehabilitation/augmentation of urban water supply and sewerage schemes in Nairobi and Mombasa
- Rehabilitation and handing over to local level management of 30 rural water supply schemes in 2003, 90 in 2004, 180 in 2005 and 300 in 2006
- Rehabilitation and handing over to local communities of 100 small dams and water pans annually
- Drilling, equipping/rehabilitating and handing over to local communities 500 boreholes annually.

During 2003-2004, the Government made progress in achieving the objectives of the sector. This progress encompassed:

- (i) developing an operational strategy to implement the Water Act 2002;

- (ii) establishing 10 (out of 11 targeted) institutions which were created under the Water Act;
- (iii) commercialising water services in Nairobi, Nyeri, Kisumu, Nakuru, Eldoret and Meru;
- (iv) finalising the sector's investment plan and strategy;
- (v) rehabilitating 45 hydrological and quality water monitoring stations;
- (vi) analysing 600 water samples and completing the rehabilitation and augmentation of water and sanitation in 32 urban water supply and 44 sanitation schemes.

In rural areas and ASALs, the rehabilitation of 83 rural water supply schemes and 150 small dams and water pans in 44 districts of ASALs was completed. 39 boreholes were drilled, the rehabilitation and completion of constructions for flood dykes in Nyando and River Nzoia, as well as the rehabilitation and augmentation of Yatta irrigation canal. The implementation and rehabilitation of stalled smallholder irrigation schemes in ASALs was also initiated. To complement all these efforts, a comprehensive legal framework was put in place. This entailed the formulation of policy documents on the National Irrigation Policy and irrigation reforms; irrigation guidelines for smallholder irrigation schemes and irrigation water users' associations; and the development of the Irrigation Training Master Plan for irrigation.

Achievements and Progress on the Implementation process

In 2004/05, the Ministry of Water and Irrigation embarked on its reform policies. The reforms

were aimed at restructuring the sector to improve its performance and address problems associated with management of resources and the delivery of water and sewerage services. The Water Act 2003 provides a legal framework for the implementation and realisation of the objectives of *Sessional Paper No. 1 of 1999*, by clarifying the roles of the various actors within the water sector and the new mechanisms to be put in place. Important milestones achieved under the water sector reforms are highlighted in this section.

With regard to the achievement of two IP-ERS water targets, one was fully achieved, while the other was partially met (see **Table 2.2**). Approximately, 53 per cent of the rural population were supplied with safe and reliable water in 2004-2005, against a target of 53 per cent (IP-ERS indicator 9). With reference to indicator 10, the proportion of urban households with safe and reliable access to water stood at 75 per cent in 2004/05 against a target of 76 per cent.

Water Sector Reforms

The formation of water service bodies such as the Water Services Regulatory Board, the Water Services Trust Fund and the Water Resources Management Authority was completed. These three bodies were commissioned in July 2004 and commenced their operational processes of recruiting managerial staff in April 2005.

The formation of water companies in the Nzoia cluster, Nairobi, Kisumu, Kericho and Nakuru was initiated and finalised during the

year under review. Furthermore, the companies signed Service Provision Agreements with their respective boards. The only companies that are yet to sign these agreements are the water companies located in Meru, Nanyuki and Mombasa. In addition, water facilities from both the Ministry and the National Water Corporation were transferred to water service boards as per the requirement of Section 113 of the Act. A rapid assessment of water facilities was also carried out for respective boards to establish the exact kind of support (in terms of facilities) required by each of the respective boards. Sensitisation workshops were held to inform the public about these reforms.

Water Quality and Pollution

To address the problem of water quality and pollution, the Department of Water embarked on the following activities:

- The inspection of several small agro-based industries, in addition to sampling and testing wastewater was undertaken;
- Sampling and testing of drinking water from water suppliers and consumer points was carried out;
- Advice was given to water operators, communities and individuals on the need to supply treated water;
- Monitoring of the quality of water bodies and pollution control inspections of industrial polluters was undertaken;
- Preparations for the 11th World Lake Conference are currently underway with sponsorship from the Ministry of Water and Irrigation, in collaboration with a number of donor bodies.

Water Resource Development

It is estimated that approximately 100 rural water supplies were rehabilitated, in addition to 25 water supplies located in urban areas. Feasibility studies were completed for the Garissa sewerage and Wajir sanitation project and one is ongoing for the Nzoia cluster. Rehabilitation work was completed for Naivasha, Karatina, Isiolo, Machakos, Kakamega, Limuru, Homa, Bay, and Sidindi Malanga sewerages.

Other achievements included: the completion of preliminary design for Ilika water project; preparation of a draft manual for water supply; a survey of sewer lines for Nkubu sewerage; designing the Kisumu Water and Sanitation project; construction of elevated steel water tanks for Mandera, Hola and Msambweni; supply and installation of pumping and generating sets to Msambweni, Vanga, Hola, Ngao and Mutomo water supplies; pumping and generating sets for Bathi, Bondo, West Karachuonyo and Mandera water supplies. Whereas the installation of pumping and generating sets for Masalani water supply in Ijara District is currently in progress, the construction of Garissa water supply is 95 per cent complete.

Surface Water

The monitoring of surface water resources was undertaken through the collection of water level and water flow data at 238 gauging stations. The data collected proved useful in decision making and consultations on surface water resource development and management during the period under review.

The information was subsequently used to:

- (i) Improve and expand water supplies based on surface water resources;
- (ii) Design water supplies based on surface water resources; and
- (iii) Influence decision making on the granting of permits for surface water abstraction required for various uses, including irrigation.

Ground Water

The monitoring and testing procedures conducted on ground water are important both for industrial and domestic use. Over the review period, the Department of Water prepared tender documents for government institutions to facilitate borehole construction. Furthermore, it supervised the drilling, construction and test pumping of boreholes, monitored 200 boreholes and carried out an audit on 50 boreholes. In addition, geo-technical surveys were conducted for groundwater recharge areas in Nakuru, Narok, Isiolo, Meru, Kajiado and Lamu districts.

National Irrigation Board

During the period under review, the board embarked on the rehabilitation of irrigation and drainage infrastructure in Mwea, Perkerra, Ahero and Bunyala irrigation schemes. Stalled agricultural activities in West Kano, Ahero and Bunyala were restarted, thereby, bringing 4,900 acres under rice production and consequently, restoring food security and income to 1251 families residing in those areas. The Board also facilitated capacity

building initiatives for farmers in Mwea, Perkerra, Ahero, West Kano and Bunyala irrigation schemes. As a result, water users associations were formed and farmers trained at a cost of KShs. 1 million.

Challenges

The Ministry has faced a number of challenges in its undertaking of the various reforms. Firstly, the WAB is not operational to date and there were delays in the appointment of a chairman. Only recently were members nominated following the appointment of a board chairman. However, the rules guiding the board's mandate still need to be prepared before it can be fully functional. Whereas the operations of water service boards have commenced smoothly, the same cannot be said of the Water Resource Management Authority. The commissioning of its operations has been very slow. This has been due to delays in the deployment of staff to regional offices. Furthermore, the Authority has not received comprehensive support from the KWSP consultants, unlike the water services boards that have consultants working on both full-time and long-term basis. Though the operational boards have signed performance contracts with the ministry, the monitoring and evaluation of these contracts is very weak due to the lack of adequate information flow between the institutions and the ministry.

Secondly, the new institutions created do not have adequate budgetary allocations. Nonetheless, the ministry mandated them to be in charge of its funds at the district level,

since budgets were not included with those of their respective boards. This was necessitated by the formal transfer of functions of the district offices to the boards. The third issue of concern revolved around inadequacies in financial and physical resources to ensure efficiency in the enforcement of monitoring and pollution control measures. As a result, the network coverage remains low. Fourthly, unreliable data due to irregular fieldwork is still a major problem which consequently, has a negative effect on decision making since it is based on limited data on surface water resources.

Lessons Learned And The Way Forward

The main challenges facing this sector revolve around inadequate finance and capacity. In addition, there is a need for continuous monitoring and assessment of the quality of water. Accordingly, the sector will continue to seek resources to ensure that there are adequate funds to enable the financing of important core poverty programmes and projects. The challenge of inadequate capacity will be addressed by ensuring that the various implementing agencies have adequate and appropriate staff for their programmes and activities. Furthermore, the acquisition of any new technology will be pegged on local needs and applicability to the intended beneficiaries. Studies will therefore be conducted to ensure that technology is matched with requirements and skills. Project beneficiaries will need to be involved at all stages in the implementation of projects to reduce the chances of breakdowns in communication between the government and local communities.

2.4 Productive Sectors

2.4.1 Introduction

The IP-ERS identified tourism, manufacturing and trade as the main drivers of the economy in terms of their contribution to economic growth and employment. In order to enhance the performance of these sectors, the government is committed to removing all barriers to investment, including lowering the cost of business to facilitate more participation from the private sector. The next section concentrates on the various strategies and policies identified in the IP-ERS, those implemented, their progress and achievements, the various constraints encountered and how they are being addressed by the various implementing agencies.

2.4.2 Tourism

Policy Review

The tourism sector has the potential for growth and the creation of more employment opportunities. However, the performance of this sector is erratic and highly dependent on security and political stability, whether real or perceived. The Government seeks to eradicate barriers that hamper growth in this sector, and strengthen linkages with other sectors of the economy. Furthermore, the Government has committed itself to fostering private sector partnerships as a means of developing and implementing a coordinated strategy to revamp the sector, following its poor performance in 2003, which was largely attributed to security threats. In addition, the

Government is unwavering in its efforts to attract tourists from a wide range of countries, diversifying tourist attractions, expanding benefits reaped to the local population, protecting the environment and improving quality and standards. In response to this resolve, the IP-ERS proposed the following specific actions:

- A full reform of the security forces; the strengthening of airport security
- The establishment of tourist and anti-terrorist police units
- Reviewing the tax structure operating in the sector and providing tax incentives for tourism infrastructure refurbishment
- Improving information systems and promoting campaigns to market the diversity of attractions available in Kenya
- Fostering community-based eco-tourism, particularly in the northern and western areas of the country
- Strengthening community-based wildlife conservation, adopting and appropriate compensation policy and taking measures to reduce human-wildlife conflicts
- Providing guidance, access to credit, and incentives to small and medium enterprises
- Reviewing the structure of park tariffs to expand tourism on less frequently visited parks
- Restructuring the Kenya Tourist Development Corporation to play a key role in facilitating local investment and provide credit to Small and Medium Enterprises (SMES)
- Establishing an integrated Coastal zone management structure to oversee development in Mombasa and Malindi
- Extending reserve areas around national parks through Government-Private sector-Community partnerships
- Expanding the facilities at Utalii College, including reviewing the proposals for establishing an additional branch in the coastal region by July 2005
- Enhancing the role of the catering levy and development trustees to provide affordable credit to local tourism operators and a regulatory framework for the standardisation of training in the sector.

All these reforms were geared towards achieving a number of objectives, such as:

- (i) increasing the annual growth rate of tourists from a baseline 1.5 per cent in 2002, to 9.7 per cent by 2007;
- (ii) increasing the number of tourists from 500,000 in 2002 to 1.5 million by 2007; and,
- (iii) doubling tourism foreign exchange earnings from KShs. 24 billion in 2002, to KSh. 48 billion in 2007.

It should be emphasized that some of the highlighted activities were realised during 2003-2004, before the formulation of this APR. They include:

- (i) the strengthening of security through launching the operations of the Tourism Police Unit and Anti-Terrorist Police Unit;
- (ii) aggressive marketing campaigns to launch the Emergency Market Recovery Programme;
- (iii) the opening of the Asian region marketing office in Hong Kong, signing of the Approved Destination Status by the Ministries of Tourism for Kenya and China

- and the commencing of direct flights to China by Kenya Airways;
- (iv) completion of a draft tourism policy paper and the launching of a new tourist circuits in Western Kenya and Mount Kenya regions;
 - (v) the renovation of Kenyatta International Conference Centre; and, (vi) the extension of grants to 7 micro and small enterprises under the Tourism Trust Fund Programme.
- On a positive note, earnings from the Tourism sector increased by 16 per cent, tourist arrivals increased by 18 per cent, while the overall employment figures in the sector rose by 3.5 per cent.

During the 2004-2005 financial year, the sector continued with the implementation of some of the activities which were started in 2003-2004, and identified more activities in pursuit of the IP-ERS objectives. These activities included:

- (i) intensifying marketing campaigns in both traditional and emerging markets;
- (ii) enhancing and creating bilateral and multilateral cooperation in tourism;
- (iii) collecting, controlling, and administering the catering, training and tourism development fund;
- (iv) establishing, equipping and controlling establishments for the training of hotel and restaurant staff; and
- (v) improving security for tourists through the

establishment of the Tourist Police Unit. The sector implemented a number of activities during the year 2004-2005, and their progress is reported in the following sub-section.

Achievements and progress on implementation

The tourism sector recorded a remarkable growth of 15.1% in 2005 (see **Table 2.4**). Tourism growth increased from 20.3 per cent in 2003, to 15.1 per cent in 2004 (IP-ERS indicator 12). The wage employment in both the private and public sector increased from 156,700 and 6,100 in 2003, to 161,700 and 6,300 in 2004, respectively. International arrivals increased from 14.5 per cent in 2003, to 18.7 per cent in 2004. The average length of stay increased from 8.4 days in 2003, to 13 days in 2004. Similarly, bed occupancy increased from 33.6 per cent in 2003, to 37.8 per cent in 2004. Tourism earnings increased by 52 per cent from KSh. 25.8 billion in 2003, to KSh. 39.2 billion in 2004. Furthermore, international conference tourism increased from 126 conferences in 2003 to 145 in 2004. This was partly due to aggressive promotion campaigns conducted, both at the local and international market levels. However, the rebound in tourism in 2004-2005 must be seen against the background of a decline in numbers of great magnitude during the previous year.

Table 2.4 IP-ERS Outcome Indicators and Targets for the Productive Sectors

IP-ERS monitoring indicator	Base value 2003	Actual 2003/04	2004/05	Targets 2004/05	2005/06	2006/07
12. Annual growth rate of tourists (%)	1.5	-20.3	15.1	10	12	9.7
13. Growth of volume of exports (%)	14.7	6.2	9.4	5.7	5.7	5.7

Source: Economic Survey 2005

Promotion and marketing campaigns

Following the poor performance of this sector in 2003, the Government invested heavily in aggressive promotion campaigns in source markets during 2004-2005. Consequently, a new tourist circuit was launched in the Mount Kenya region and road shows were organised in the USA to promote Kenya's bid to host the ATA Congress. Kenya successfully won the bid and the Congress was held in Nairobi in May 2005. Further campaigns were then carried out in source markets located in East Asia, China, USA, London, Hong Kong, South Korea, Germany, Iran, Thailand, and Japan. This resulted in the signing of a memorandum of understanding on tourism development and marketing with Iran and Thailand and the approval of the Kenya tour operators by the Chinese government to transact business with Chinese tour operators.

Besides international campaigns, domestic tourism promotion campaigns were also intensified. This led to an increase in local conference tourism activities from 805 in 2003, to 912 in 2004. During 2004, there was a significant increase (by 17.5 per cent) in the number of visitors to game parks and reserves.

Policy and Legal Reforms

During the period under review, consultations took place on the preparation of the Kenya Wildlife Management and Conservation Policy. The preparation of this policy document is scheduled to be undertaken during 2005-2006. Amongst a range of issues, the wildlife-human conflict will be addressed as a matter of priority. In an effort to foster

investment within the sector, the Government exempted hotel equipment from excise duty. In addition, approximately, 249 hotels and restaurant establishments were classified and gazetted. Furthermore, the National Tourism Policy was finalised, and is currently awaiting Cabinet approval.

Though the sector was able to implement most of the activities identified in the IP-ERS, some are yet to be implemented. This includes:

- The establishment of an integrated Coastal zone management structure to oversee development projects in Mombasa and Malindi;
- The extension of reserve areas around national parks through government-private sector-community based partnerships;
- The expansion of facilities at Utalii College, including reviewing the proposal for establishing an additional branch in the coastal region by July 2005;
- The enhancement of the role of the catering levy and development trustees to provide affordable credit to local tourism operators;
- The provision of a regulatory framework for the standardisation of training within the sector.

Challenges

Despite the impressive performance of the sector, a number of challenges need to be addressed such as:

- (i) The security and safety of tourists due to the increasing threat of global terrorism

- which out of necessity, calls for collaboration between different countries;
- (ii) Additional financial resources in order to undertake more aggressive promotion and marketing campaigns to market the industry abroad;
 - (iii) Dilapidated infrastructure, especially in tourist circuits and facilities; and
 - (iv) The lack of a national tourism policy to direct activities within the sector. The national policy on tourism is yet to be approved by the Cabinet.

Lessons Learned And The Way Forward

The tourism sector is highly susceptible to security threats, whether real or perceived. Hence, information campaigns remain invaluable to the performance of this sector. Several initiatives are currently being pursued to boost the level of tourism activity in the country. These include:

- (i) consultations with airlines that had abandoned Kenya as a profitable destination;
- (ii) the discovery and marketing of new tourist sites and products such as sport tourism;
- (iii) the exploration of new tourist markets, mainly from the Far East and the rest of Asia;
- (iv) the promotion of domestic tourism; and
- (v) strategic partnerships between the public and private sector in marketing the country abroad as a tourist destination. In addition, the modernisation of existing centres as well as the development of new ones is expected to increase further conference tourism activities in the country. The location of two UN agency

headquarters in Nairobi will also contribute to the growth of conference activities.

2.4.3 Trade and Investment

Policy Review

The key growth targets set for this sub-sector focused on:

- Increasing the growth of the volume of exports to 5.7 per cent annually;
- Diversifying away from commodity exports;
- Increasing shares in the North American market;
- Developing clear and comprehensive policy guidelines on investments;
- Introducing International Best Practice to investment promotion.

Reforms in the sub-sector have targeted barriers to investment, especially with regard to lowering the cost of conducting business in the country. This has been initiated through a comprehensive trade policy review within the context of the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC).

The IP-ERS stipulated a number of reforms for the sector that included:

- (i) reducing the top tariff rate to 25 per cent, as well as the duty on raw materials and capital goods;
- (ii) building capacity to address trade disputes and dumping claims; and
- (iii) harmonising investment incentives by 2004. The sector was also expected to review licensing agreements, provide

market information, support the private sector in identifying new markets, improve the quality of Kenyan goods, reduce non-commercial risks, organise export trade fairs, complete a trade diagnostic study by June 2004 and a Sessional paper on trade policy by September 2004. Moreover, the Government also needed to work on improving the business climate in the country, in addition to accelerating the privatisation machinery and establishing an investment authority by 2005.

During 2003-2004, the sector managed to reduce the number of tariff bands to three, the top tariff rate to 25 per cent, and the average tariff rate to 11.8 per cent. It also initiated a trade policy paper and received Cabinet approval for the National Export Development Strategy in addition to Presidential approval of the investment code. It successfully negotiated for the EU's reinstatement of Kenya's sugar quota as well as the establishment of an Anti-Counterfeit Unit within the Ministry of Trade and Industry (MoTI). Finally, it completed four Diagnostic Trade Integrated studies.

Over 2004-2005, the MoTI pursued a number of strategies such as:

- (i) the establishing of an Investment Authority as a genuine one-stop office for investors;
- (ii) expanding and strengthening partnership with the Private sector, especially in negotiating trade protocols and other business related issues;
- (iii) developing an Export Development Strategy that would incorporate all sectors

- (goods and services) for export potential as well as reviewing existing export development incentives (such as EPZs and manufacturing under bond scheme);
- (iv) increasing regional cooperation on trade issues and better trade information; and
- (v) building capacity to monitor international trade malpractices to effectively apply anti-dumping and countervailing measures to protect Kenyan products from unfair competition in the markets.

Achievements and progress on implementation

In 2004, the total value of exports grew by 17.3 per cent; up from 8.2 per cent during 2003-2004 (see **Table 2.4**). However, the target for this indicator has yet to be set, thus making it difficult to assess any progress made. The total value of imports grew by 29.2 per cent, and in so doing, expanded the merchandise trade deficit by 51.4 per cent. On the other hand, exports to COMESA recorded an increase of 21.1 per cent. The MoTI, through the Joint Loans Board, was able to extend credit facilities amounting to KSh. 19.6 million to 482 entrepreneurs throughout the country.

Public- Private Sector Partnerships

The MoTI has the mandate to spearhead development within the private sector. In concurrence with this mandate, the MoTI, in collaboration with the private sector, development partners and other Government ministries initiated the development of the Private Sector Development Strategy. The institutional framework for the preparation of this Strategy and its action plan was

formulated and subsequently, a technical committee, chaired by the Permanent Secretary of MoTI was established.

Policy and Legal Reforms

The MoTI, with financial and technical assistance from Foreign Investment Advisory Services (FIAS) and the Department for International Development (DFID), conducted a review of the administrative barriers to investment in Kenya in 2004. The study focused on the following areas:

- (i) The relevant legal framework for investment;
- (ii) Licensing and inspection procedures;
- (iii) Access to land for investment;
- (iv) Clearance procedures necessary for site development and utility connection; and
- (v) Customs procedures and trade facilitation.

Tax administration.

The findings from this study were then discussed with various stakeholders and their recommendations formed invaluable inputs which were integrated into the content of the Private Sector Development Strategy.

To streamline the regulatory environment for business activity, the government, through the Ministry of Finance, in conjunction with the Ministry of Trade and Industry constituted a working committee on business licensing, with the mandate to take stock of all licenses that impact on business transactions. The purpose of this was to provide recommendations on those that could be retained, rationalised and/or abolished. The

recommendations of the task force indicated the abolition of 35 licenses and amendment of 4 licenses during the June 2005/06 budget. Phase two of the business licensing reforms will review a further estimated 1335 licenses.

The Ministry, in collaboration with the private sector and International Trade Centre, prepared the National Export Development Strategy which was approved in 2004 by the Cabinet. Accordingly, the Ministry has prepared an action plan to implement the strategy in phases. Phase One will concentrate on the five sectors of: livestock and livestock products; fish and fish products; textiles and clothing; horticulture; and food and beverages.

In addition to these developments, a draft trade policy document, was also formulated that proposed additional reforms, including policies in the context of the EAC, COMESA and on-going trade negotiations under the World Trade Organisation and African Caribbean and Pacific-European Union agreements.

Challenges

A number of challenges hampered progress within the sub-sector. These were: a slow legislation process; high business transaction costs; unfair competition from counterfeit goods; and inaccessibility to markets in the EU, USA and Japan.

Lessons Learned And The Way Forward

To address the aforementioned challenges, the Ministry will continue with its aggressive

promotion of exports and marketing agencies, a review of the legal and regulatory framework, diversification of exports, the finalisation of a national trade policy and negotiation for better and more favourable market access opportunities with trading partners.

2.4.4 Industry

Policy Review

The performance of the manufacturing sector and its contribution to the economy has largely remained static, operating below potential. To expand its growth and employment-generating capacity, the IP-ERS identified a number of reforms for the sector. These included:

- Removing barriers to investment and lowering the cost of business within the sector through the further liberalisation of trade;
- Deepening financial markets, enhancing infrastructure and improving security;
- Facilitating the use of technology licenses;
- Reviewing mechanisms for wage determination
- Improving access to quality training and preparing (in consultation with the Private sector), an industrial master plan to inform the Sessional Paper on industrial transformation procedures;
- Undertaking benchmarking exercises for key industries, including sugar and textiles to measure the competitiveness of Kenyan industries in the international market;
- Identifying constraints to improved productivity.

The key growth targets for the sub-sector over the IP-ERS period included:

- (i) achieving an average growth rate of 8.6 per cent per annum in the manufacturing sector;
- (ii) increasing employment in medium and small enterprises, and
- (iii) formalising the informal micro and small enterprises (MSEs).

During 2003/04, a draft review of the *Sessional Paper No. 2 of 1997* and a wage framework to lower the cost of doing business were both developed, and the productivity centre of Kenya was established. Other achievements included: the extension of the sourcing of fabrics from Third World countries from 2004 to 2007, and exports to the American market from 2008 to 2015. In addition, their were duty waivers on capital goods, plant and equipment and the investment allowance was increased from 60 per cent to 100 per cent. A four year non-renewable extension in 2008 was put in place to safeguard measures for the sugar sub-sector under COMESA. Finally, a draft Bill on Labour Law was submitted to the Attorney General, and an EPZ desk was established at the MoTI to improve the business and investment climate in the country.

In order to realise the remaining reforms, the strategies identified for 2004-2005 comprised of:

- (i) a review of the industrial and labour relations framework to provide for a proactive and efficient dispute settlement mechanism;
- (ii) a review of *Sessional Paper No. 2 of 1997* on

Industrial Transformation to the year 2020 as a pre-requisite for preparing a comprehensive master plan;

- (iii) the benchmarking of key industries to international competitiveness and the structuring of recovery efforts for these industries around established international benchmark prices;
- (iv) the creation of opportunities for livestock-based industries in the Arid and Semi-Arid Lands (ASALs) by removing inhibiting policies and offering appropriate investment incentives;
- (v) a boost in the manufacturing of garments/clothes manufacturing to take advantage of the African Growth and Opportunity Act;
- (vi) the implementation of the Micro Small and Medium Enterprises (MSMEs) Competitive Project; and,
- (vii) enhanced support for research and development of industries by reviewing tax incentives for research and zero-rating research related equipment.

Achievements and progress on implementation

The real output growth of the manufacturing sector grew by 2.7 per cent in 2004. Although this was an improvement over a growth of 1.4 per cent realised in 2003, it does not compare favourably with the average target of 8.6 per cent over the IP-ERS period. The total employment in this sector rose from 239.8 thousand employees in 2003 to 243 thousand employees in 2004. Employment in EPZs accounted for 15.9 per cent of the total employment figures registered within the manufacturing sector. Although the number of

EPZs increased from 72 in 2003, to 74 in 2004, employment in the EPZs reduced to 37,723 from 38,199, due to uncertainty surrounding whether the African Growth and Opportunity Act would be extended, as well as the apprehension concerning whether the quotas on textiles would be removed. The informal manufacturing sector created 79,000 new jobs in 2004. Sales in EPZs accounted for 7.3 per cent of the total turnover of the manufacturing sector in 2004, up from 4.7 per cent recorded in 2003. Investment in EPZs rose from a revised figure of KShs 16.7 billion to 17 billion in 2004.

Policy and Legal Reforms

Various policy and legal documents were prepared and discussed. They included:

- The development of a draft Counterfeit Bill which was discussed by all the relevant stakeholders. However, it is yet to be forwarded to the Attorney General for final drafting. This notwithstanding, the Government intensified pre-shipment inspection through KRA, Kenya Bureau of Standards and the Weights and Measures Department. In addition, the Anti-Counterfeit Unit held two workshops in Nairobi and Mombasa to sensitise the various law enforcement units on the negative effects counterfeit goods have on local industries and the public in general.
- A draft review of the *Sessional Paper No. 2 of 1997* entitled: *Industrial Transformation To The Year 2020* was prepared.
- As a way of developing public-private sector partnerships, the MoTI held a workshop with members of the Kenya Association of Manufacturers with a view

to increase the competitiveness of local industries.

- The MoTI trained officers in the Department of Industry on the principles and procedures involved in benchmarking as a preliminary step, awaiting the commencement of a comprehensive programme in benchmarking techniques.

ASAL Development

MoTI officials visited a total of 39 ASAL districts and collected information on livestock production. A national report will be prepared and tabled during a key stakeholders' workshop.

Micro and Small Enterprises

The Government and the World Bank signed the MSME Competitiveness Project in 2004 and its implementation started in January 2005. The objective of this project was to increase productivity and employment in participating MSMEs. This would be achieved through reinforcing institutional support for employable skills and business management and by reducing critical investment climate constraints for MSMEs. The project focused on formal and informal micro enterprises with a high potential for dynamic growth, including graduation from informal to formal status.

Access to financial resources through sector deepening was initiated through various financial institutions. In addition, activities under the Business Development Services Programme have since been initiated in the coffee, pyrethrum and cotton sub-sectors. This includes the approval of business plans to facilitate access to matching grants.

Challenges

During the course of putting into operation each of the highlighted activities, implementing agencies faced a number of challenges that slowed down the growth and generation of employment opportunities within the sector. The major obstacles included: increased oil prices; the appreciation of the Kenyan shilling against the dollar; depressed domestic demand; poor infrastructure; and, insecurity. In particular, the increase in oil prices and appreciation of the shilling both constrained exports and further encouraged the importation of foreign goods that provided unfair competition to locally produced goods.

Lessons Learned And The Way Forward

The challenges outlined in this section are largely those that the industry sub-sector faced during the 2003-2004 period. Poor infrastructure and insecurity are problems that can only be addressed in the medium and long term. In addressing these challenges, during 2005-2006, the Ministry will continue to strengthen the enforcement of laws and processes to restrain the influx and sale of counterfeit goods and ensure strict adherence to quality product standards. Moreover, the Ministry will endeavour to strengthen linkages with research institutions as well as supporting the implementation of a framework that can facilitate pro-active dialogue with the private sector, as means of developing ways to accelerate industrial growth.

Chapter Three

3 Equity and Poverty Reduction

3.1 Investing In Human Capital

3.1.1 Education

Policy Review

The provision of universal primary education remains a top priority for the Government of Kenya (GoK), as stated in the IP-ERS. This priority is in line with the MDGs that call for Universal Primary Education (UPE), or Education for All, by the year 2015 (MDG 2) and the elimination of gender disparity, both at primary and secondary levels of education, as well as in all educational levels (as stated in MDG 3) preferably by 2005.

In order to measure the performance of the education sector in its efforts to achieve these goals, annual targets for the 5 IP-ERS education outcome indicators were set as part of the IP-ERS indicator framework. These targets were used both by the sector, as well as those providing performance-based funding to the sector to guide the planning of their activities and outputs. **Table 3.1** reflects the approved targets in 2004/05 to 2006/07 for each IP-ERS indicator. Where relevant, the information is disaggregated by gender. Moreover, targets for the incidence of primary repetition and the transition rate to secondary schools will need to be further disaggregated using a male to female ratio as a means of steering and evaluating the progress made on gender equality in education. Performance against the 2004-2005 targets is discussed in this chapter.

The first key initiative in the primary education sector took place in 2003, when the government introduced Free Primary

Education (FPE) in public schools in order to increase the enrolment rate, especially among poor households who constitute approximately 56 per cent of the population. The IP-ERS anticipated building on this success. It therefore proposed the following policy priorities for 2003-2007, with the aim of achieving universal primary education:

- A further reduction in the expenses incurred by households with regard to primary education, in addition to increasing the enrolment rate for girls, children from pastoralist communities, and children living in the streets and slum areas;
- Improvements in the quality of education and internal efficiency through teacher training and redeployment;
- Increased availability of learning and teaching materials, an improved learning environment and reforms to the curriculum to make it focus on core skills;
- A redefinition of the role of local authorities and the decentralisation of decision-making to district and school-level administrators and parents' representatives;
- A strengthened education management information system.

The majority of these priorities were pursued during 2003-2004, and to a greater extent, in 2004-2005. During the year under review, the education sector implemented reforms to further define the policy framework and establish financing and institutional arrangements to implement the relevant policies. Consequently, *Sessional Paper No. 1 of 2005 on The Policy Framework for Education, Training and Research* was developed and

approved by both the Parliament and the Cabinet. This therefore became the policy background for the adoption of a Sector Wide

Approach (SWAP), to ensure that the sector developed holistically, with the participation of all relevant stakeholders.

Table 3.1 Education IP-ERS Indicators and Targets (2004/05 – 2006/07)

ERS Outcome Indicator	Base 2003/04	Achieved 2004/05	Target 2005	Target 2006	Target 2007
Primary Net Enrolment Rate (NER)	79.8	82.1	81.5	83.2	84.4
	81.3 (M)	82.2 (M)	82.9 (M)	84.4 (M)	85.0 (M)
	78.3 (F)	82.0 (F)	80.1 (F)	81.9 (F)	82.5 (F)
Primary Net Enrolment Rate (NER) for North Eastern Province	17.6	19.6	24.5	31.5	38.5
	23.3 (M)	23.6 (M)	29.7 (M)	36.5 (M)	43.9 (M)
	12.1 (F)	14.9 (F)	19.4 (F)	26.5 (F)	33.1 (F)
Completion Rate	52.0	56.0	59.7	60	60.3
	54.5 (M)	57.1 (M)	60.3 (M)	60.4 (M)	60.5 (M)
	49.5 (F)	54.9 (F)	59.1 (F)	59.6 (F)	60.1 (F)
Incidence of Primary Repetition	9.8	9.3	9.8	7.4	4.9
Transition Rate to Secondary School	47	52	55	60.0	70

Source: MoEST, APR 2003/04

The Kenya Education Sector Support Programme (KESSP) was developed with the dual function of implementing *Sessional Paper No. 1 of 2005* and providing a framework for the implementation of the SWAP. KESSP therefore adopted a comprehensive and holistic approach to the education sector, with specific emphasis on investments targeting the poor. Accordingly, the objectives for projects categorised as part of the core poverty reduction programmes are to improve access, equity, quality, retention and completion rates at both primary and secondary school levels of education. As outlined in the Education Sector Report of 2006, current programmes targeting the poor include:

- The establishment of the Free Primary

Education Support Programme, School Instructional Materials Unit, School Feeding Health and Nutrition Programme and Special Needs Education Programme;

- The Secondary School Bursary Scheme, the provision of grants to non formal schools, secondary schools in ASAL areas as well as those operating in pockets of poverty. This also includes the disbursement of bursaries and scholarships to universities;
- The provision of science and laboratory equipment to targeted disadvantaged schools.

Such endeavours will facilitate the active support of different stakeholders in the Education and Training sector in the next 5 years (2005/2006 – 2009/2010). In addition to the sector priorities identified in the IP-ERS,

KESSP also makes reference to the development of Early Childhood Education, Secondary education, Technical, Industrial, Vocational and Entrepreneurship Education, University Education and Adult Education. With reference to institutional arrangements, the ministry was restructured into 5 directorates to enhance efficiency and effectiveness in service delivery. Furthermore, the disbursement of bursaries to secondary schools was decentralised to constituency level. The Teachers Service Commission (TSC), which manages the major part of education expenditure, is also in the process of carrying out several reform programmes aimed at enhancing service delivery. Amongst these reforms are plans to enhance the decentralisation of some of TSC's operations to the district levels, for purposes of efficiency and improved monitoring of operations. To this effect, the recruitment and deployment of teachers has since been decentralised.

Achievements and progress on implementation

Budgeting Allocations

In 2004/05, the public expenditure for all levels of education represented about 7.2 per cent of the GDP, up from 6.6 per cent in 2003/04 and 27.4 per cent of the total Government expenditure, as compared to 27 per cent of the expenditure in 2003/04. The recurrent expenditure on education has been higher than in any other social sector, accounting for 73 per cent of the total social sector expenditure. This was largely due to the increase in teachers' salaries and allowances, which account for 85 per cent of the recurrent expenditure on

education. However, measures have been instituted to reduce the share of recurrent spending, relative to the GDP. Between 2003-2004 and 2004-2005, the share of recurrent spending on both primary and university education increased by around two per cent, at the expense of general administration and secondary education. Significant under spending of the 2004/05 budget took place with regard to the Early Childhood Development and Secondary Education sub-votes, as well as the Development budget. This is reflected in **Table 3.2**.



Table 3.2 MoEST Recurrent Expenditure by sub-vote for 2003/04 and 2004/05

Sub-Vote	Actual	Printed	Actual	Over/under spending	% Split of Actual	% Split of Actual
	2003/04	2004/05	2004/05	2004/05	2003/04	2004/05
General Administration and Planning	5,189	3,556	4,006	11.2%	7.6%	5.2%
Primary Education inc. teacher salaries	36,010	42,601	42,433	-0.4%	52.7%	54.9%
Teacher Education	193	211	210	-0.4%	0.3%	0.3%
Schools for Handicapped	175	205	211	2.7%	0.3%	0.3%
Miscellaneous services	241	300	309	2.9%	0.4%	0.4%
Early Childhood Education	6	26	20	-29.3%	0.0%	0.0%
Secondary Education inc. teacher salaries	17,856	20,601	18,755	-9.8%	26.1%	24.3%
Technical Education	1,171	1,449	1,621	10.6%	1.7%	2.1%
University Education	7,470	9,720	9,735	0.2%	10.9%	12.6%
Total Recurrent	68,312	78,671	77,300	-1.8%	100.0%	100.0%
Total Development	4,076.50	3,863.40	2,863.80	-34.9%		

Source: MoEST

Note: Donor contributions that are not included in the budget are excluded from these figures

The Government's budgetary support towards FPE has been approximately KSh. 7.5 billion per annum on average. By the end of 2004/05, an estimated KSh. 22.8 billion was spent on FPE. According to the 2005 Budget Outlook Paper, the government would continue allocating over 27 per cent of the total voted provisions to education over the medium term. With this intervention in place, the goal of UPE is likely to be achieved by 2015.

Enrolment

FPE, introduced in 2003, led to a massive increase in primary enrolment by over one million students between 2002 and 2004, with the year 2002 registering an enrolment of 6,062,742 rising to 7, 159,523 in 2005 and 7,394,763 in 2006. The primary net enrolment rate (NER) in 2004-2005 was 82.1 per cent, exceeding the target of 81.5 per cent and an increase of 2.3 percentage points, as compared to the rates in 2003-2004. There was

very little difference between the male and female NERs which registered 82.2 per cent and 82 per cent, respectively. In 2004, the enrolment for boys stood at 51.6 per cent of the total enrolment, implying that the gender disparity reflected in the national enrolment figures was on the decline. The gross enrolment rate (GER) in 2004 was 104.8 per cent, as compared to 93 per cent in 2002, thereby achieving the 100 per cent target by 2005 set in the IP-ERS.

Enrolment in private schools increased by 45 per cent between 2002 and 2004, indicating a high demand for basic education, as well as a commitment by the private sector to provide basic education. The number of private schools increased by 27.6 per cent to 1,839 over the same period. In contrast, the number of public schools increased to 17678 at a relatively slower rate of 4 per cent.

Despite these commendable results on a

national scale, regional variation in enrolment rates is still a challenge as reflected in **Table 3.3**. North Eastern province continued to have the lowest NER. During 2004-2005, the NER was 19.6 per cent, which was significantly below the target of 24.5 per cent. The male NER rose by 0.3 per cent between the periods 2003-2004 and 2004-2005, whereas the female NER increased by 2.8 per cent. The enhanced school feeding program did not have a significant impact on school enrolment figures in the North Eastern Province as was anticipated. In 2004-2005, food was provided to 1,082,339 children in 29 districts located in ASAL regions and Nairobi slums. The target of one million children was exceeded largely because transportation of food to schools was very efficient. However, this caused overspending by 21 per cent of the allocated budget.

The Standard Eight completion rate increased from 52 per cent in 2003-2004, to 56 per cent in 2004-2005. However, this figure was below the 59.7 per cent target. The survival rate was on a positive trend from less than 50 per cent in the 1990s, to 65 per cent for the cohort that started Std. One in 1997, and reached Std. Eight in 2004. The increased numbers experienced in the survival and completion rates were most likely, attributable to the reduction of costs due to the abolition of school fees associated with primary school attendance. In addition, the female completion rate increased significantly by 5.4 per cent in 2003/04, to 2004/05, whereas the male completion rate increased by 2.6 per cent. The justification for these figures are that advocacy efforts targeting the rights of the

girl-child have succeeded in keeping female children in school for longer periods of time. The emphasis of these advocacy programmes has been on sensitisation efforts to eliminate negative cultural practices such as, early or forced marriages and Female Genital Mutilation (FGM).

Table 3.3 NER for 2003/04 and 2004/05 by Province and Gender

Province	2003/04		2004/05	
	Male	Female	Male	Female
Coast	66.6	60.1	72.8	67.7
Central	83.6	84.2	81.4	81.8
Eastern	90.3	90.4	91.4	91.5
Nairobi	40.3	37.7	35.9	41.1
Rift Valley	84.1	82	87.8	85.4
Western	97.5	93.2	99.3	97.2
Nyanza	96.2	95.4	96.9	96.2
North Eastern	23.3	12.1	23.6	14.9
Grand Total	80	80.8	82.2	82

Source: MoEST

Primary School Repetition Rates

The target of reducing the primary school repetition rates in 2004 was achieved and exceeded due to the improved quality of education and the availability of teaching and learning materials for pupils. The primary repetition rate was 9.3 per cent, against a target of 9.8 per cent. In addition, the policy of ranking schools in national examinations over the years led to many schools forcing pupils whom they thought would not perform well to repeat their classes as a way of ensuring that academically weak students would not lower the overall mean grade of the school. Similarly, parents also encourage their children to

repeat in order to achieve better grades. Long absenteeism from school due to either ill health or other family responsibilities such as child headed families does have a negative impact on performance and also contributes to the repetition rate. Furthermore, since there are limited places in schools with a record of good performance, adequate facilities and staff, pupils are forced to repeat (even in cases where they have scored average grades), in the hope that they would gain admission to well performing schools.

The Government is currently addressing the issue of limited facilities in a number of secondary schools as a way of reducing the facilities gap between the privileged schools (usually in located in urban and peri-urban areas), and the disadvantaged (most often district and public) schools. Furthermore, the Ministry has established a new way of ranking individual candidates, rather than the previous system of ranking schools as a whole. With these reforms and measures in place, it is anticipated that there will be further improvements in the quality of education. Moreover, the increased availability of learning materials is expected to reduce the incidences of primary school repetition even further in 2005-2006.

Transition to Secondary Education⁷

The transition rate from primary to secondary was 52 per cent in 2004-2005, against a target of 55 per cent, as shown in **Table 3.1**. This target was not met due to limitations in the number of secondary schools. Facilities were also not expanded to accommodate all the

pupils who passed their Standard Eight KCPE exams. In addition, gender and regional disparities still persist. There is therefore a need to continue with affirmative action that seek to provide an enabling environment for improvements to be registered in the transition rates for girls and young women, in their efforts to advance their education. The Ministry is faced with the challenge of improving the transitional rates from primary to secondary schools.

The current bursary system does not adequately cater for disadvantaged children in their transition from primary to secondary schools. Accordingly, the Ministry will adopt policies that target the expansion of secondary education to avail more places to deserving students, as well as improving bursary allocations to cater for all deserving children moving to secondary schools. Challenges posed by poverty and the high costs of education are currently being addressed by providing a targeted bursary programme. As projected, 70,000 poor children did benefit from bursary funds in 2004-2005. However, after PETS identified the weaknesses in the allocation of bursary schemes, they are currently under review. This review process is expected to be evaluated and revised on a regular basis.

Currently, bursaries are provided through the Constituency Bursary Scheme as a way of improving on efficiency and effectiveness in their disbursement. Consequently, disadvantaged secondary school students are catered for as follows: a minimum of KSh.15, 000 is allocated to needy students in

⁷ The transition rate is the percentage of all primary school graduates who enter (public and private) secondary schools.

National boarding schools, Ksh.10, 000 for those in Provincial schools and KSh. 5,000 for needy students in day schools. The Government further aims at improving the transition from primary to secondary level by enhancing the provision of more spacious buildings, greater availability and improved access to day schools, implementing a multi-shift and multi-stage system of education, as well as facilitating and encouraging more public-private sector partnerships.

Teacher Redistribution and Management

Considering that teachers are the most important input into the education system, the efficient management and utilisation of teachers is critical to the quality of learning outcomes. In the past, the TSC used a supply-driven method in the recruitment process, which consequently, resulted in an irregular distribution of teachers. Consequently, efficient and effective utilisation of teachers demanded a review of this uneven distribution. The current demand-driven recruitment policy therefore seeks to address the problem which has led to a shortage of teachers in certain areas. In an effort to improve the management of teaching services, the TSC produced an operational manual and guidelines for teacher management, and also decentralised the recruitment process of both primary and secondary school teachers. With these improvements in place, the pupil to teacher ratio (PTR) rose from 35:1 to 40:1 in primary schools.

The number of working hours increased to 18 hours per week for secondary school teachers

in 2004-2005. Notably, a Teachers' Staffing Norms Study carried out in 2005 by Teachers Service Commission, with support from the European Union made recommendations on policy and other changes expected to facilitate the establishment of new staffing norms, in line with sector policy. According to the proposed recommendations, teachers will be deployed to schools on the basis of 1 teacher for every 45 pupils in primary schools. In addition, multi-grade teaching will be used by teachers in schools with small classes, while secondary school teachers will have their teaching load increased to 25-30 hours per week. This will include 20 hours of classroom instruction and 5 hours of subject-based co-curricular activities.

Due to the freeze on employment, the TSC has only been replacing teachers who exit service through natural attrition. However, there are growing demands to recruit more teachers to cope with the successful implementation of Free Primary Education and the redistribution of teachers. Regional variations in PTRs still exist, with ASAL regions having fewer teachers. To ensure that teachers are willing and do not see transfer to those areas as punitive, working conditions will need to be improved by providing better hardship allowances and putting infrastructure (water, roads, electricity) in place in the ASAL regions.

Provision of Learning/Teaching Materials

The MoEST was charged with the mandate of ensuring that improvements in learning are attained. This has been achieved through the provision of learning and teaching materials.

Over 9 million textbooks were purchased for five major subjects in primary schools during 2003. English, Mathematics and Science had a text book to pupil ratio of 1:2, 1:3 and 1:3 as compared to 1:4 and 1:71 for Kiswahili and Geography, History, Civics and Religion education, respectively. Generally the text book pupil ratio was 3:1 for Standard One to Five and 2:1 for Standard Six to Eight during 2004/05. The IP-ERS target was achieved at the lower Primary levels, with the exception of Kiswahili and Geography, History, Civics and Religion. This improvement has been partly due to the establishment of a demand-based system, where schools purchase textbooks with funds flowing directly to the accounts of accredited suppliers chosen by the schools.

Furthermore, the curriculum was reviewed to improve its quality, relevance and to incorporate emerging issues. To address challenges of heavy work load on both students and teachers and affordability of education, the subjects taught and examined were reduced, both at primary and secondary school levels. In addition, Teachers Service Commission (TSC) will facilitate the hiring of part time teachers, contract teachers and sharing of teachers between schools when deemed necessary. Other anticipated policy changes will include performance-based promotion of teachers.

Challenges

Various achievements have been made particularly in the areas of increasing primary school enrolment, reducing primary school repetition, improving the quality of information and increasing the availability of

learning materials. However this sector faces several challenges as it endeavours to meet the MDGs, the IP-ERS and the EFA goals as part of its national and international commitments on education.

Firstly, although the NER target for 2004 was met, FPE has led to severe overcrowding in schools. As reported in the 2003-2004 APR, facilities are overstretched, schools are overcrowded, especially those located in urban slums. In addition, PTRs are high in densely populated areas, and the cost of special equipment for children with special needs is high. There has also been diminished community support since parents are relieved of fees following the FPE initiative. Although overcrowding was also cited as a major challenge in the 2003-2004 APR, the Ministry has begun undertaking measures to address this problem. For instance, it conducted an annual school census and initiated a school mapping exercise, which has not been finalised. After analysis, this data is expected to give the level of enrolment in each particular school as well as providing information on the conditions of facilities in schools.

The Ministry also seeks to strengthen the process of planning for physical infrastructure by working closely with MoR&PW to develop building codes for all public schools. Accordingly, plans are underway to build new classrooms and renovate the existing physical infrastructure, while making efficient utilisation of facilities. Under KESSP, the physical infrastructure investment programme has components of school improvement grants, plans for the construction of new primary schools, ongoing school constructions,

management and capacity building. According to the IP-ERS, by 2007 10,000 new classrooms are expected to be in place.

Secondly, although the EMIS is underway, it faces challenges in the aspects of supervision and quality control of data collected from schools. However; there have been challenges with regard to the M&E unit whose effectiveness has been hampered by lack of trained personnel, as well as office and equipment limitations. The relocation of the M&E unit to the Reform secretariat, and a focus on the KESSP process monitoring system is therefore a positive step towards addressing these challenges.

Thirdly, the deviation between donor commitments and disbursements has been an obstacle to the implementation of planned activities. Only 29 per cent of funds committed by development partners were actually disbursed in 2004-2005 due to unfulfilled conditions. It is therefore anticipated that the establishment of the SWAP as a sector-wide financing mechanism, will prove useful in addressing such deviations, especially those that affect pooled fund partners.

Fourthly, despite the heavy investment by the Kenyan Government in education, enrolment at various levels manifests regional and gender disparities. This mainly applies to the transition rates to secondary schools which are particularly low. In response to these persisting inequalities, non-formal education is currently being mainstreamed into the formal education system, as a possible way of improving the learning opportunities for disadvantaged children. Moreover, the school

feeding programme will continue to focus on the ASAL regions and urban slums. Disaggregating targets by gender and province will further enhance the methodology used to measure performance on a gender and regional basis. Meeting such targets could also be used to inform decisions on the allocation of intergovernmental transfers to districts.

Fifthly, the HIV/AIDS pandemic has had the devastating effect of creating an estimated 1.5 million OVCs, with little or no access to education. The sector is therefore faced with the challenge of ensuring that both orphans and vulnerable children (OVCs) have access to basic education. The education sector is currently in the process of implementing an HIV/AIDS policy.

Lastly, the wage Bill constitutes over 85 per cent of the MoEST's budget. With regard to this, the challenge faced concerns balancing the need to meet requirements that have arisen due to increased enrolment rates, while at the same time, releasing resources (which were mainly spent on salaries) for other necessary expenditures such as learning and teaching materials.

Lessons Learned And The Way Forward

There have been substantial improvements in both gross and net enrolment rates at the primary education levels, as well as in the other standard performance indicators, such as the primary school repetition rate. Such achievements augur well in the efforts to meet the objectives set out in the IP-ERS. This is particularly due to the rapid increase in

enrolment rates for primary education as a direct result of the introduction of FPE in 2003. In addition, increased access to learning/teaching materials and overall improvements in the quality of education are significant factors.

However, there is still room for further improvement on the other IP-ERS indicators such as increasing the primary school completion rate, the transition rate to secondary school and improving the NER in the North Eastern province. A review of the progress made with regard to implementation, calls for a number of revisions to be made, with regard to some of the existing targets.

Firstly, gender inequality appears to be decreasing at the national level. However, when this data is disaggregated by provinces, there is evidence of persistent disparities with reference to the education outcomes. In particular, considerable progress needs to be made to improve access to good quality education in the North Eastern Province. Free Primary Education and the School Feeding Programme alone will not suffice to achieve the target set for the NER of 38.5 per cent in 2006-2007. Revisions have been made to the targets set for 2005-2006 to 31.5 per cent nationally and 26.6 per cent for females. Similarly, the targets for 2006-2007 have been revised to 38.5 per cent and to 33.1 per cent for females (see the summarized version of these revised targets as presented in **Table 7.1** in the Chapter 7 and **Annex A**).

Secondly, the initial 2006-2007 target for the primary to secondary school transition rate

has proved to be too ambitious, going by the performance in 2004-2005. In view of this, the targets will be revised downwards from 70 per cent to 60 per cent. This therefore means that the target set in the IP-ERS projecting a 70 per cent transition rate by 2008 will not be achieved. Furthermore, the targets for the transition rate and primary repetition rate need to be disaggregated by gender. In addition, gender related targets for the completion rate need to be differentiated for 2005-2006, to 60.4 per cent for males and 59.6 per cent for females. Similarly, the targets for 2006-2007 have been revised to 60.5 per cent for males, and 60.1 per cent for females.

In 2004-2005 the Government, in collaboration with development partners and other stakeholders, prepared the Kenya Education Sector Support Programme (KESSP). The programme is expected to consolidate the gains accruing from the implementation of FPE. This will, in turn, address the main sector issues that will support the government in strengthening the management and delivery of educational services. It will also improve access to both quality and relevant education and training. In order to achieve these revised targets, the education sector will strive to ensure that in 2005-2006, the various planned activities to improve educational standards are undertaken through KESSP. They include:

- Ensuring access to quality education, especially for approximately one million children living in ASALs and urban slums. In response to this, the ministry is currently developing guidelines to support community schools in slums and other disadvantaged areas with textbooks and

school feeding commodities.

- Improving the school environment by providing enough classroom and toilet facilities.
- Creating a friendly and conducive school environment for girls and young women by providing the necessary sanitary facilities;
- Providing grants to primary schools, including non formal schools located within urban slums.
- Ensuring that secondary school education is expanded and thus, accessible to more students. The proposal to achieve this is through the creation of day-scholar wings, integrated within existing boarding schools, the implementation of double shift teaching sessions as well as through participation by non-state actors.

The MoEST, through KESSP has developed a detailed monitoring and evaluation system which will periodically assess and measure the implementation of the programme to establish the extent to which the sector is realising the IP-ERS, MDG and EFA objectives and goals during the implementation period. The system will aim at improving the reporting of performance outcomes for the 2005/06 financial year. The relevant findings will be then be used as a basis for next year's APR.

3.1.2 Provision of Health Care

Policy Review

The IP-ERS primary objective for the health sector was to enhance the accessibility and affordability of quality basic health services for all Kenyans, with special emphasis on the poor

and vulnerable. This would be achieved through a number of reforms, including:

- The introduction of a phased social health insurance scheme to make health care affordable;
- The re-allocation of resources towards promoting preventive and basic health services;
- Enlisting additional capacity through partnerships with the civil society, religious based and private sector organisations;
- Strengthening ties and collaboration across the key sectors in the area of sanitation, reproductive health care, gender concerns, HIV/AIDS, nutrition, school health, road safety and tobacco control;
- Increasing efficiency and effectiveness of the combined investments of the Government and its development partners;
- Increasing the level of total government spending on health from 5.6 per cent of total government expenditure to 12 per cent during the period 2003 – 2010.

Health sector reforms once implemented, are expected to:

- (i) Increase immunisation coverage to 85 per cent; reduce the child mortality rates for children under five years of age, to 100 per 1000 by 2008;
- (ii) reduce maternal mortality rates from 590 per 100,000 to 560 per 100,000 by 2005;
- (iii) reduce the HIV/AIDS prevalence rate by 10 per cent;
- (iv) improve the accessibility and availability of essential drugs;

- (v) reduce the mortality rate for Malaria by 10 per cent annually;
- (vi) increase the cure rate for tuberculosis; and;
- (vii) improve on health service delivery for the underprivileged rural and urban slum dwellers.

Key reforms implemented during 2003/04 included: an increased budgetary allocation to the health sector from 5.6 per cent to 7 per cent; preparation of the draft Health Strategic Plan 2005-2010; strengthening the capacity of district and provincial hospitals; and, restructuring of the Kenya Medical Supplies Agency. However, progress made in realising reforms during 2003/04 was undermined by poor human resource allocations, unethical procurement procedures, a poor drug distribution network (that resulted in leakages and wastage), and ineffective financial management systems.

In an effort to realise the IP-ERS health targets during 2004-2005, the Ministry continued to implement various recovery measures in order to facilitate the achievement of sector objectives. These measures included: the rehabilitation of existing health centres and dispensaries; streamlining procurement procedures and increasing the distribution of drugs to Public Health facilities; and enacting legislation to convert the National Hospital Insurance Fund into a National Social Health Fund.

Furthermore, the Ministry also identified the need to focus on, and commit itself to allocating more resources for:

- (i) preventive and promotive health care;

- (ii) rural dispensaries and health centres;
- (iii) primary health care, maternal and child health care and family planning; and,
- (iv) the control of TB, HIV/AIDS and Malaria.

The Ministry also developed its second National Health Sector Strategic Plan (NHSSP, 2005-2010), which outlined specific mechanisms to both reduce health inequalities, as well as reversing the downward trend in health-related outcomes and impact indicators. The NHSSP II translates the overall vision and mission of the Ministry into objectives linked to the IP-ERS and MDGs.

Achievements and progress on implementation

The performance of the health sector was evaluated using various indicators agreed upon with key stakeholders in 2003-2004. According to the results of the Kenya Demographic Health Survey (the latest data available), the modern contraceptive prevalence rate among married women increased slightly to 33 per cent in 2003, from 32 per cent in 1998. The infant mortality rate increased to 77 per 1,000 in 2003 from 62 per 1,000 in 1993, while the mortality rate for children under five years rose to 115 in 2003. Maternal mortality rates declined to 414 in 2003, from 590 maternal deaths per 100,000 in 1998. The results further revealed that in 2003, full immunisation coverage declined to under 60 per cent down from 65 per cent in 1998. The percentage of children receiving no vaccinations increased from 3 per cent to 6 per cent in 2003.

Current data from the Ministry of Health (MoH) indicates poor performance against IP-ERS targets (see **Table 3.4**). For instance, the percentage of children below one year who were fully immunised remained unchanged from the previous year and around 10

percentage points below the target (indicator 14). Similarly, the proportion of births attended to by skilled health personnel (indicator 16) was also well below target (42 per cent was achieved against a target of 70.8 per cent while, the Malaria target (indicator 17) was not met.

Table3.4 IP-ERS health Monitoring Indicators

IP-ERS Objectives	Outcome Monitoring Indicators				
	Indicators	Achieved	Targets		
		2004/05	2005	2006	2007
14. Reduce infant mortality	Fully immunised children as a percentage of the population less than 12 months	57	65 *	67 *	70 *
15. Reduce HIV prevalence	Proportion of pregnant women aged between 15 and 24 years attending ANC who are HIV positive	10.0	9.2	8.4	8
16. Reduce maternal mortality	Percentage of pregnant women attending ANC coverage of at least 4 visits	42	60 *	65 *	70 *
17. Reduce the burden of disease	Inpatient malaria mortality as a % of total inpatient morbidity	26	16 *	15 *	14 *

Source: GoK, Financing Agreement for Poverty Reduction Budget Support Programme II

Budgetary Allocations

During the period under review, the total health expenditure (recurrent and development) increased, both in absolute terms and as a percentage of the overall expenditure. As a percentage of the overall

budget, the expenditure of health care increased from 7 per cent in 2003-2004, to 7.7 per cent in 2004-2005 (against a target of 7.6). This represented a real per capita increase from USD 6.5 per person in 2003-2004, to 7.5 per cent in 2004-05.

Table3.5 Health budget allocations

Item	Actual		Target		
	2003/04	2004/05	2004/05	2005/06	2006/07
GoK budget allocation (%) to MoH	7.0	7.7	7.6	12	14
GoK expenditure on health (USD/pp)	6.5	7.5	7.2	9	11
Curative health % actual expenditure	50.3	49.6	50	48	46
Preventive and promotive health % actual expenditure	5.6	4.6	6	7	9
Rural HC and dispensaries % actual expenditure	10.9	11.7	12	16	18
Kenyatta & Moi hospitals % actual expenditure	18.6	17.9	14	13	12
Budget for drugs % actual expenditure	11.1	10.9	14	16	17

Source: Ministerial Public Expenditure Review (Health) 2006

National Social Health Insurance Fund

A Bill seeking to transform the National Health Insurance Fund to the National Social Health Insurance Fund (NSHIF) was prepared and discussed with stakeholders in 2004. The draft Bill was then presented to Parliament and was approved; it currently awaits Presidential assent. It proposes that the NSHIF be implemented in phases.

National Health Sector Strategic Plan II 2005-2010

The Ministry has developed a Second Strategic Plan (NHSSP II) covering the years 2005-2010. The NHSSP II seeks to improve on health care management and create an enabling environment for private sector and community involvement in health provision. Furthermore, it provides for the integration of an M&E framework. The ultimate goal of NHSSP II is to contribute to the reduction of health care inequalities and to reverse the downward trend in the impact and outcome indicators by addressing the major causes of morbidity and mortality. In addition, the Plan lays down modalities for involving citizens in the reduction of health inequalities by including them in decision-making and the allocation of resources.

Accordingly, NHSSP II specified six broad policy objectives to be met over the next five years. They involve:

- (i) increasing equitable access to health services;
- (ii) improving the quality and responsiveness of services in the sector;

- (iii) improving the efficiency and effectiveness of service delivery;
- (iv) enhancing the regulatory capacity of MoH;
- (v) fostering partnerships in improving health and delivery services; and,
- (vi) improving financing of the health sector.

During the implementation period of the Plan, the sector aims at making progress towards achieving the MDGs and in so doing, reduce disparities in health indices between regions and various population groups, as well as between the public and private sectors.

Staff Rationalisation

The performance of the health sector over the years has been constrained by poor human resource distribution. Consequently, as part of the health sector's reform initiative, the Ministry has embarked on staff rationalisation, which places greater emphasis on deploying the right cadres of staff within the health system and especially in rural areas. It also includes making improvements in the distribution of skilled staff, as well as through the recruitment of essential health staff.

Package of Essential Services

The Ministry has developed a package of essential services as a basis for measuring progress in meeting basic health care needs of the population. Evidence-based planning for budgeting and expenditure allocation will also be implemented. The package of essential services defines specific treatment and services to be delivered at each level of the health care system. Dispensaries and health centres are expected to provide curative,

preventive and promotive services targeting common diseases. On the other hand, hospital services are to be restricted more to handling emergency and complicated health conditions. This will apply particularly with regard to patients who are referred to district and provincial hospitals by primary health care facilities.

Challenges

Kenya has performed below par in its efforts to achieve the health care targets stipulated in the IP-ERS. The main reasons for this underachievement are due to the under-financing of the health sector, insufficient human resources, medical drugs and specialized equipment, lack of support for operations and maintenance and the slow expansion of health facilities. According to the Abuja Declaration, African governments made a commitment to allocate 15 per cent of their spending on health care. Despite the progress made during the year under review, the MoH's spending was half way off this target. Similarly, the per capita level of USD7.5 spent on health care (despite showing an improvement over the years), is still below the World Bank's recommended amount of USD12 required to provide a minimum package of health care services. Similarly, the figure ranks far below the World Health Organisation target of USD34 per capita.

Recurrent expenditure continued to absorb the largest share, with personnel emoluments taking about 54 per cent, Kenyatta and Moi referral hospitals taking 18 per cent, drugs and consumables consuming 12 per cent of the Ministry of Health's actual budget. There was

more spending on curative health services (51 per cent) than preventive and promotive health services (5 per cent), which was clearly inconsistent with the current policy shift. On the other hand, the development expenditure accounted for less than 20 per cent of the total public spending on health care. Consequently, budget re-allocation still remains a challenge in achieving the health targets.

Poor drug distribution poses an additional challenge. According to preliminary results of the PETS 2003-2004, approximately 24 per cent of medical drugs released from the district depots did not reach health centres and dispensaries. In addition, the adequate and efficient delivery of drugs to health facilities continued to be constrained by lack of transportation and delays in the release of funds.

A final challenge relates to the assessment of performance against indicators. Currently, the health sector uses proxies to assess performance (indicator 15, 16 and 17). These indicators are not comprehensive as a measure of the sector's overall performance. The problem has been further compounded by the Government's inability to conduct surveys due to financial constraints.

Lessons Learned And The Way Forward

Following the poor performance of the health sector in 2004-2005, achieving the MDGs and IP-ERS targets will remain elusive unless radical steps are taken. It is hoped that in subsequent years, the Government will significantly increase its budgetary allocations on quality health care.

In order to facilitate the MoH to perform its core functions, the provider function will be delineated. This will leave the MoH to concentrate primarily on policy regulation and preventive health care services. The organisational structures of the MoH will also be re-defined to reflect this new approach. The MoH is currently in the process of defining the most appropriate structure to follow up on its new mandate. Furthermore, the ministry will strengthen its core functions of policy formulation, regulation, resource allocation and monitoring of performance. Steps have already been put in place to implement health reforms in the areas of human resources, financial management, M&E and institutional reforms. At the same time, concrete activities are proposed for an operational SWAP to ensure the optimal use of resources. The indicators, targets and outputs of NHSSP II will also be used as a basis for the development of annual operational plans.

In order to reduce inefficiencies in dispensing and distributing medication to the various health centres, the Ministry initiated a pool-demand system, where health facilities are expected to indicate their medical requirements to the Kenya Medical Supplies Agency. Transport is then out-sourced to ensure the efficient and timely distribution of medical drugs. As a means of reducing the pilfering or disappearance of drugs between the agency depots and health facilities, structures are currently under implementation to reinforce the tracking capacity of the ministry to enhance transparency and accountability. Furthermore, district health management boards have been given the mandate to oversee the acquisition and use of medical drugs.

In an effort to address the weaknesses on indicators and targets, the Ministry is reviewing the indicators and data sources in order to improve the reporting of performance indicators in the 2005/06 APR. Accordingly, a number of health targets have been revised. They include: infant mortality (immunisation) from 74.5 to 67 per cent in 2006 and from 85 to 70 per cent in 2007. The burden of disease target has also been revised from 14.3, to 15 per cent in 2006 and from 10 to 14 per cent in 2007. In addition, the definition of the maternal mortality proxy indicator has been revised and a new set of targets produced. A summary of all these changes is presented in the Tables found in Chapter 7 and **Annex A**.

3.1.3 HIV/AIDS

HIV/AIDS is acknowledged as the greatest challenge to the realisation of health targets in Kenya. To address this pandemic in the IP-ERS, the Government made a commitment to comprehensively implement the Kenya National HIV/AIDS Strategic Plan, 2002-2005 by:

- Restructuring the National AIDS Control Council
- Empowering and protecting the most vulnerable and intensifying advocacy campaigns and education to mitigate stigma and discrimination
- Coordinating strategies for prevention, treatment and mitigation
- Developing a rollout plan for the increasing amount of resources devoted to treatment and intensifying prevention activities
- Developing capacity building plans for

private and public agencies involved in HIV/AIDS programmes

- Developing a creative and strategic approach for the care and support of a rapidly increasing number of OVCs.
- For those already infected, the Government made a commitment to making Anti-Retroviral drugs (ARVs) available to an increased number of individuals (target of 95,000 by the end of 2005), in line with World Health Organisation goals.

During 2003/04, remarkable progress was made in realising the IP-ERS reforms on HIV/AIDS. The National AIDS Control Council was strengthened through the setting up of a Cabinet committee on HIV/AIDs chaired by the President. In addition, HIV/AIDS control units were set up in all ministries, with AIDS control committees established at both the district and constituency level. Further to this, the HIV/AIDS community initiative account was established to offer support in terms of financial resources. The cost of ARVs was subsequently reduced from USD 500 to USD 50 per month. As a result, the number of ARVs users doubled to 20,000. Voluntary Counselling and Testing centres (VCT) were also established in all district hospitals and a Policy paper providing guidelines on OVCs was prepared.

During 2004-2005, the government implemented a successful multi-sector response to HIV/AIDS, intensified advocacy and campaigns; scaled up ARV therapy and fostered partnerships among stakeholders across the Government, Civil Society, private sector and development partners. The progress of these initiatives is presented in the next section.

Achievements and progress on implementation

HIV/AIDS prevalence

HIV/AIDS spread rapidly in Kenya during the 1990s, reaching prevalence rates of 20-30 per cent in certain areas of the country. However, the national prevalence rates have significantly declined, from a peak of about 13 per cent to under 7 per cent today, though revealing geographical variations. National surveys have documented changes in behaviour that lean towards fewer partners, less commercial sex, greater condom use and later age at first sex. All these factors have contributed to the decline in the prevalence rates. Results of the Kenya Demographic and Health Survey, 2003 revealed that 6.7 per cent of adults tested are infected with HIV. A reconciliation of the findings of the Kenya Demographic and Health Survey and sentinel surveillance data provide an adjusted prevalence figure of 7 per cent (range 6.1-7.5 per cent), suggesting that a total of 1.1 million adult Kenyans are infected with HIV. Approximately two-thirds of these individuals are women.

In addition, it is estimated that there are 100,000 children living with HIV. The gender difference is more pronounced among young people, between 15 to 24 years. Within this age group, the prevalence among females is nearly five times higher than among males under the age of 30 years. In 2003 alone, estimates show that approximately 65,000 adults and 25,000 children became infected. Prevalence data suggests that the majority of non-paediatric infections occur among the

youth particularly young women aged 15-24 years, and young men under 34. The IP-ERS HIV indicator 15 revealed that the HIV/AIDS prevalence rate was 10.6 per cent in 2004/05, against a target of 9.2 per cent among expectant women in the 15-24 year age group attending an ANC.

HIV/AIDS financing

The MoH's PER 2005 on HIV/AIDS indicated that by the end of 2004-2005, the overall level

of resources allocated to fight HIV/AIDS in Kenya had reached KSh.18.963 billion, representing an increase of over 800 per cent above the amount allocated during 2000-2001. Funding flows for HIV/AIDS represented KSh. 660 per capita in 2004-2005 (or USD8.47 per capita), comparable with the current level of health care spending in Kenya. As illustrated in **Table 3.6**, external resources constituted the main source (99 per cent) of financing for AIDS in Kenya.

Table 3.6 *Total HIV/AIDS resources by source of funding 2000/2001 - 2004/2005 (KShs million)*

	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2000-2005
GOK	70	10	120	40	156	396
Donors budgetary	302	1,165	1,796	2,685	6,794	12,742
Donors non-budget	1,760	3,539	4,136	5,487	11,961	26,884
NGOs	10	26	19	22	52	129
Households		4				4
Total	2,142	4,744	6,071	8,234	18,963	40,155

Source: MoH, PER for HIV/AIDS 2005

Awareness and Campaigns

A national infrastructure to fight the pandemic is now in place. This includes grass root committees such as the constituency AIDS control committees in 210 constituencies, district technical committees in 71 districts, expansions of VCT services, as well as numerous information, education and communication initiatives. Moreover, communities from all parts of the country have been mobilised, trained and resourced to fight AIDS. Community Based Organisations (CBOs), NGOs and Faith Based Organisations

implemented over 5,000 projects countrywide over the period under review. This has made it possible for those infected with and/or affected by the pandemic to break their silence about AIDS, significantly reducing the stigma associated with the pandemic. As a result, people living with AIDS are now being accepted by their communities. The quality of life for some of the infected has begun to improve and the national AIDS awareness levels are currently at over 95 per cent. On the whole, the trend of new infections is falling and is estimated to be 10.0 per cent, down from 13 per cent in 1999.

At policy level, monitoring and evaluation of the pandemic has been stepped up over the period under review. In addition, the integration and provision of ARVs and anti-retroviral therapy within the health care package has been improved, especially for those infected. Furthermore, various guidelines have been developed to manage and control opportunistic diseases and are in the process of implementation. This includes guidelines on OVCs, communications, condom use and home based care.

Challenges

In spite of progress made in addressing the AIDS pandemic; enormous challenges still persist. For instance, the rate of new infections remains rather high, and there are major differences in the risk of infection faced by different population groups. Particularly vulnerable to infection are: young girls; individuals in HIV discordant relationships; commercial sex workers and their clients; migrant workers; and, intravenous drug users. Although access to anti-retroviral therapy is increasing, the availability of affordable treatment still falls far short of the country's needs. With the rising cumulative deaths from AIDS, vulnerability to the impact of HIV/AIDS, particularly among OVCs, widows and the elderly is becoming increasingly apparent, exacerbated by the generally high poverty levels.

Lessons Learned And The Way Forward

Despite the increased levels of awareness and reductions in the prevalence rate, achieving the IP-ERS HIV targets still remains a significant

challenge for the government. In its efforts to control the pandemic, the National AIDS Control Council has put plans in place to further address the problem of stigmatisation of those infected. New infections will be reduced by establishing more VCT centres and encouraging people to visit the centres to verify their HIV status. Efforts will be accelerated to improve accessibility to ARVs and home-based care. As a way of improving accessibility and affordability of ARVs especially to the poor, the Government aims at providing more staff for anti-retroviral therapy programmes, as well as increasing the availability of drugs by improving procurement and distribution procedures at the Kenya Medical Supplies Agency. The Government will continue to provide free ARVs to expectant mothers to reduce the chances of mother to child transmission. Concerning the plight of children infected with the HIV/AIDS virus, the Government is designing a strategy to ensure that they have free access to ARVs.

Awareness and sensitization campaigns, enhanced national coordination efforts and increasing international support and resources have all created an unprecedented opportunity to prevent new infection and reduce the impact of HIV/AIDS in Kenya. To grasp this opportunity and build an effective national response, all stakeholders will need to work together within a common framework. In view of this, the Kenya National AIDS Strategic Plan 2005-2010 is expected to provide this framework.

A problem exists in the form of duplicated programmes especially by development

partners, which often results in the misallocation of resources. To address this, the Ministry will design a SWAP aimed at harmonising planning and priorities for investment. In addition, a donor mapping schedule will be developed to assist in providing information related to programmes and intervention areas.

3.1.4 Labour

Policy review

The three development outcomes that the IP-ERS aimed at achieving between 2003 and 2007 were the creation of employment opportunities, the promotion of an enabling environment for industrial development and an increase in the productivity of factors for production. With respect to the first of these outcomes, the IP-ERS proposed that 500,000 employment opportunities should be created annually, between 2003 and 2006. The second and third outcomes were to be achieved by increasing both investor confidence and industrial labour productivity. The responsibility for reaching these development outcomes would fall squarely on the Ministry of Labour and Human Resource Development (MoLHRD). Indicator 23 of the IP-ERS indicator framework focused specifically on the improvement of productivity. Unfortunately, a measure for productivity has yet to be identified.

The MoLHRD developed a Strategic Plan for the period 2004 – 2009 which identifies a number of key priorities that must be put in place in order to meet the aforementioned development outcomes. These policy

priorities are an extension of the initiatives reported in the 2003-2004 APR. Published estimates for 2004-2005 revealed that over 70 per cent of the MoLHRD's recurrent budget was directed towards MSE development and industrial and vocational training. The preliminary estimates for actual expenditure suggest that the two departments under spent by over 60 per cent. Similarly, approximately 90 per cent of the development budget remained unspent during the period under review. The 2005/06 MoLHRD budget reflects actual expenditure during 2004-2005, and therefore allocates around 25 per cent each, for planning and administration, industrial relations and industrial and vocational training.

Productivity Centre of Kenya

The IP-ERS underscored four key activities for the Productivity Centre to pursue over the medium-term. These were the implementation of a Strategic Plan of the Productivity Centre, the finalisation and dissemination of a productivity policy, an explicit evaluation of measurement for productivity and factors of production using different measurement criteria for the entire economy, and the strengthening of literacy programmes. While the IP-ERS did not indicate a time frame for the completion of the above activities, the Centre has finalised a Strategic Plan, which is currently being put into operation.

Achievements and progress on implementation

Labour market policies and the regulatory framework

The 2003-2004 APR reported that six core Acts were reviewed and forwarded to the Attorney General's Chambers in June 2003 for the drafting of a bill. Once the bills are approved and enacted by Parliament, they will provide a clear legislative framework for mainstreaming disadvantaged groups in employment. Meanwhile, *Sessional Paper No. 7 of 2005* on Employment Policy and Strategies in Kenya was approved by the Cabinet in September 2004 and has since been forwarded to Parliament awaiting debate and enactment.

On Labour Day 1st May 2004, the Minister of Labour announced that minimum wage revisions would occur after every two years. Furthermore, wage increments would be based on productivity and the rise in the cost of living, as reflected in the inflation rate. The new Labour Relations framework, reported to have been developed in the IP-ERS Annual Progress Report 2003/04, is yet to be completed and made operational.

Strategies and Mechanisms for the creation of employment opportunities

According to the *2005 Economic Survey*, there was a net increase in the number of jobs created between 2003 and 2004 to 437,900, out of which only 36,400 were created within the formal sector. The increase was mainly as a result of reforms in the transport and communications sector. The bulk of new jobs continued to be generated in the informal

sector. Conversely, the public sector experienced a -0.3 per cent decline in the number of employees. This was due to the current public sector restructuring processes, as well as the continued privatisation of non-strategic public enterprises.

The countrywide distribution of the unemployed tends to be uneven because of differences in skill levels, the disparate availability of information on employment opportunities and limited labour mobility. These problems have greatly reduced the capacity of the Ministry to assist numerous job seekers obtain employment, both locally and in other countries. In order to address these concerns several initiatives are being undertaken to reduce the prevailing mismatch between acquired skills and employment opportunities.

Industrial and Labour Relations

Reforms are underway to enhance the dispute settlement machinery, strengthen the tripartite committee secretariat, fortify the labour inspection services and reduce the backlog of workmen inspection services and compensation cases. In 2004-2005, targets set for settling trade disputes were exceeded. Approximately 980 longstanding cases were settled against a target of 800, while 900 cases were referred to the industrial court for arbitration. A further 1,049 cases were settled through pre-court conciliatory arrangements by the Minister for Labour. The target for the number of cases to be settled in 2005-2006 is 1,800. In response to this, the number of Industrial Court judges was increased from two to five. However, the number of dispute

settlement procedures was not reduced from 30 to 15 as had been proposed in the IP-ERS. Nevertheless, plans are underway to ensure that this project is completed by the end of 2005-2006. Just over 70 per cent of the targeted 12,200 workmen's compensation claims were settled. The shortfall of 3,382 claims was not achieved due to inadequate allocation of funds.

Micro and Small Enterprise Development

The *Jua Kali* sector plays a vital role in the Kenyan economy by providing employment opportunities to more than 70 per cent of the total number of employed Kenyans. It also contributes about 19 per cent of the GDP. As part of the ministry's commitment towards the creation of 500,000 jobs, a number of key initiatives were undertaken to promote and develop the MSE sector.

Key targets identified in the 2003-2004 APR were increased employment and the formalisation of informal MSEs; the establishment of an Export Processing Village for MSE producers; and the finalisation of both a Sessional Paper and the Micro Finance Bill. Whereas the export processing village was not established, the Micro Finance Bill is currently before Parliament. However, *Sessional Paper No. 2 of 2005* on MSE development was finalised, discussed and passed by Parliament during 2004-2005. Within this policy framework, the following activities took place in 2004-2005:

- The Government allocated KSh. 41.5 million to the completion and rehabilitation of 31

Jua Kali worksites. Moreover, 25 *Jua Kali* worksites were rehabilitated but are not yet ready for occupation by the MSE operators;

- 90 *Jua Kali* operators were trained on business related courses;
- 15 Associations formed a Savings and Credit Cooperative Society to enable members' easy access to financial services. Financial services were also made available to 300 MSEs through existing micro finance institutions;
- There was an improvement in the acquisition of entrepreneurship skills for 30 rural entrepreneurs, against a target of 100;
- The ability to access and use business development services by 1000 MSEs was enhanced. The Ministry also arranged a Nguvu Kazi/*Jua Kali* exhibition in December 2004, where 360 East African MSEs were present and encouraged to hold similar exhibitions in the future to assist MSEs market their products better;
- A Gender Desk was established to address MSE issues touching on women and other disadvantaged groups.

Health and Safety

According to a Sessional Paper on employment policy, approximately 100 workers die each year as a result of work-related accidents and diseases. A further 3,000 workers are victims of work-related accidents and diseases. The Department of Health and Safety met all three of their targets by taking action on all reported cases of occupational accidents, examining 1,541 hazardous equipments and approving 10 occupational health training institutions. The targets set in the 2005/06 performance contract reflect action instituted with

reference to 100 reported cases of occupational accidents, the approval of 20 occupational health training institutions, as well as the examination of 1700 hazardous equipments.

Productivity Centre of Kenya

The 2003-2004 APR recognized the Government's commitment to reinforcing the National Productivity Centre. However, no related activities were recorded during the period 2003-2004, with exception of the Labour Productivity Centre which was established. It is now operational and well supported by the private sector. In 2004-2005, the estimated budget allocation for the Centre, through the MoLHRD, was KSh. 16.2 million. Of this amount, the actual expenditure totalled KSh.14.2 million. There was no record of funding from the private sector.

Although the board of directors was expected to meet on a quarterly basis, they met for the first time in June 2005. Moreover, the Centre did not have a full time secretariat. Nevertheless, the running of the Centre was undertaken by officials from the MoLHRD, Federation of Kenya Employers and Central Organisation of Trade Unions on a part-time basis. In June 2005, two full-time staff were appointed to run the secretariat.

The main activities in 2004-2005, as stated in the Strategic Plan, were to initiate the development of a productivity policy, undertake a diagnostic survey, review institutional structures and carry out advocacy activities for laws and standards that promote best practices. From these activities, only a

situational analysis of the sugar sector was undertaken in 2003-2004 and completed in 2004-2005. While the centre was established in 2002, it is evident that little activity took place in 2004-2005, other than the strengthening of institutional arrangements.

Challenges

Creating jobs in the formal sector has proved to be a major challenge. The lack of employment opportunities has been a direct result of the weak economic performance, especially between 1990 and early 2000. However, economic growth does appear to be on the rise. Nevertheless, if employment within the formal sector is to expand significantly, then economic growth needs to be high and sustainable. The mismatch between the skills possessed by labour-market participants and those required by industry still exists. While several measures were undertaken in 2004-2005 to reduce this mismatch, progress in this area needs to be accelerated as reflected in the MoLHRD's 2005-2006 performance contracts. Furthermore, the slow enactment of the reviewed labour laws held back improvements to the labour market policy and the regulatory framework.

Although the Industrial Court was able to discharge its responsibilities satisfactorily (especially as a result of the posting of three more judges), the number of support personnel remains inadequate. Moreover, the salaries and other terms of service for the support personnel have not been reviewed, in line with similar staff working in the main judiciary. Consequently, there is a need to

review the terms of service of the Industrial Court's personnel in order to harmonise them to concur with similar paralegal staff working under the main Judiciary and at the Attorney General's Chambers. This is imperative as a means of attracting and retaining qualified personnel.

There is a backlog of workers compensation cases due to inadequate funding has remained at unacceptably high levels, to the detriment of the victims of accidents that led to such compensation cases. Consequently, a method of clearing the backlog of pending cases needs to be developed and implemented. In this regard, the proposed Workmen Injury Benefits Authority should be implemented as a matter of urgency.

The 2005 Sessional Paper on MSE development highlighted the challenges faced by the sector. Firstly, previous policy designs have been inappropriate, the implementation framework has been weak and there has been a failure to institute and effectively monitor policy implementation. Secondly, although there have been significant improvements made on the legal and regulatory environment, there are a number of existing laws that still hamper MSE development. Thirdly, lack of access to credit is a major constraint inhibiting the growth of the MSE sector, especially with reference to women entrepreneurs. Other concerns relate to limited access to markets, inadequate business skills, limited linkage with large enterprises, gender inequality, limited access to information and an unfavourable tax regime. Implementation of the policies contained in the Sessional Paper will be a positive step to facilitate achievements within the sector.

Several key challenges were faced by the productivity centre in meeting the targets as set out in the Strategic Plan. In the first place, there was an absence of appropriately skilled full-time officials, resources were limited to just physically running the centre and the tripartite collaboration was in its early stages. It therefore could not function as a cohesive body. The implication to be drawn from this scenario is that the Strategic Plan stemming from the IP-ERS may not have been very realistic with reference to the setting of activities and targets. For instance, to finalise a Productivity policy and develop indicators to measure productivity, an in-depth analysis would need to be undertaken within each of the various sectors. In view of the available resources, the preparation of the productivity policy would have to be a long-term activity, likely to be complete in 2008. This is clearly beyond the IP-ERS timeframe.

In addition, a National Productivity Baseline Survey requires considerable funding, which is currently not available. As a result, the measures of productivity were not established and measuring performance against the IP-ERS Outcome Indicator – Target 23: Improvement in Labour Productivity is currently unrealistic. It is recommended that either substantial funding be allocated for this purpose or that this indicator should be revised to reflect job creation which can be evaluated using the currently available measuring techniques.

Lessons Learned And The Way Forward

The finalisation and enactment of both the Employment policy and the amended Labour Act are critical factors towards ensuring that the rights of employees and employers are adequately protected. This is necessary in order to create opportunities to harness more employment and higher productivity.

The Ministry is developing strategies to boost the creation of jobs within the formal sector, while also supporting activities of MSEs and employment of Kenyans abroad. Furthermore, the harmonisation of skills will continue to be a key step towards reducing the number of Kenyans who are unemployed. The curricula for various programmes at every level of education will also be mainstreamed and regularly reviewed, initially to address the requirement skills of employers and then to produce internationally recognised certification standards. At the same time, the Public Service is considered to be bloated and inefficient. In response to this, the public administration sector aims at ensuring that the public service wage bill is not only more manageable, but also that it becomes more result and performance oriented.

Activities in the MSE sector over the medium term will need to focus on improving the legal and regulatory environment, enhancing linkages between small and large enterprises and increasing access to finance and business skills. The Government intends to establish a Micro Finance Trust Fund, from which micro finance institutions can borrow for on-lending to the MSEs at affordable rates. In addition, the Government will encourage commercial banks

to develop an appropriate risk classification system governing loan collateral, documentation and inspection risks for the MSE sector.

During 2005-2006, the productivity centre of Kenya has expanded the board of directors, extended their term in office by three years and has two full-time staff, all of whom are bound by performance contracts for the period 2005-2006. An in-depth situational analysis currently being undertaken by consultants in the tourism sector was scheduled for completion in March 2006. The Tripartite Collaboration is also being organized through frequent meetings and the proposal for monthly financial contributions from the Federation of Kenya Employers and the Central Organisation of Trade Unions. In this regard, an autonomous bank account has been opened. The centre has also begun a dialogue on future support from the private sector and several international donor organisations.

Now that the institutional structure is operational, it is proposed that the Centre's Strategic Plan is revised in 2005-2006 to reflect well-defined activities within appropriate timeframes. In view of the slow progress to date and limited resources, the productivity policy will be complete in 2008, which is clearly beyond the current IP-ERS timeframe. It is recommended that until such studies are complete across all sectors, the number of jobs created should be the sole indicator for measuring performance in the labour market.

3.1.5 Gender

Policy Review

The Women's Bureau was elevated to the Department of Gender in the Ministry of Gender, Sports, Culture and Social Services (MoGSCSS) in December 2004. This was done with a view to inject efficiency and effectiveness in the integration of gender dimensions in future policy formulation, planning and implementation. Alongside the department, the National Gender Commission

was established by an Act of Parliament in November 2004. Its mandate was to provide policy guidance and act as an overseer body charged with the responsibility of appraising the performance of government institutions in mainstreaming gender concerns. While it is recognised that gender issues are cross-cutting, the IP-ERS focused mainly on alleviating gender disparities in education, health, agriculture and employment. The priorities for achieving MDG 3 are shown in **Table 3.7**.

Table 3.7 Millennium Development Goal 3: Eliminating Gender Disparities

Millennium Development Goals	Indicator
MDG3: Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education by no later than 2015	Ratio of girls to boys in primary, secondary and tertiary education
	Ratio of literate females to males of 15-24 years old
	Share of women in wages employment in non-agricultural sector
	Proportion of seats held by women in national parliament

Source: Millennium Development Goals Status Report 2005

According to the Ministry's Strategic Plan (2005-2009), low levels of education attainment by women, coupled with retrogressive social and cultural practices have resulted in the low representation of women in decision-making positions, as well as their limited access to economic opportunities.

To address such inequalities, the Government and other stakeholders are committed to facilitating the smooth implementation and operations of the National Policy on Gender and Development (2003). In addition to this, the Government will initiate and reinforce existing gender interventions with specific focus on poverty reduction. Training in gender issues will also be carried out for key actors at all

levels to enhance systematic gender mainstreaming in policies, programmes and budgeting.

Furthermore, *Sessional Paper No. 5 (2005)* on Gender Equality and Development was finalised and is currently awaiting discussion in Parliament. The Sessional Paper was expected to be enacted during 2004-2005. However, it is now anticipated that the Paper will be enacted in 2005-2006. Its focus is on empowerment strategies that demonstrate understanding of the essential linkages within, and across, sectors especially in the provision of health services, education, agriculture, enhanced employment opportunities and a sound and accessible framework to seek justice and legal

redress. Accordingly, the Sessional Paper provides an update of the situational analysis presented in the 2003 National Policy on Gender and has a broader perspective on gender issues. However, though gender mainstreaming is cross-cutting in nature, it was not explicitly captured in the 31 national IP-ERS indicators.

Achievements and progress on implementation

Institutional arrangements

The Department of Gender plans to coordinate its networking activities through gender divisions in line ministries. The divisions will focus on initiating plans and strategies on gender-related initiatives within each sector. The establishment of gender divisions builds on past initiatives by the Government to set up focal points and gender units in line ministries. Efforts were made in 2004-2005 to re-establish these divisions by drafting terms of reference and preparing a Sessional Paper that would provide a sound policy framework within which such divisions would be relevant. A high-profile public launch of the divisions was expected to take place in 2004-2005. However, this has now been rescheduled to 2005-2006. The institutional arrangements will be strengthened by designating an officer on full time basis to oversee the operations of the Gender Desk. This initiative, coupled with the finalisation of the TORs for the gender officer will deepen gender mainstreaming within government policies, planning and budgeting. However, separate budget allocations will not be made specifically for gender activities; rather, gender issues will need to be

entrenched in existing sector programmes and activities.

Kenya is a signatory to various international instruments. In 2004-2005, the Ministry embarked on the preparation of the 5th and 6th reports on the Convention on the Elimination of all Forms of Discrimination against Women (CEDAW) as well as the implementation of the agreed articles over the periods 2003-2005. Furthermore, the Ministry prepared the country's report on the 12 critical areas of the Beijing Platform of Action of 1995 and participated in the main forum in New York in March 2005 dubbed: Beijing + 10.

The National Commission for Gender and Development was also established in 2004-2005. 18 commissioners and a director of the Commission were appointed in November 2004. Three employees were seconded to the Commission from the Ministry. Most of the work undertaken in 2004-2005 related to representation at national and international forums on gender issues; (details of this are provided in **Annex A**).

Gender-Disaggregated Data

The MoGSCSS developed a Gender Data Sheet, in collaboration with the CBS, which drew its analyses from the information presented in previously done surveys that adequately captured data disaggregated by gender. The primary goal of this Data Sheet was to monitor progress made towards the achievements of gender equity. It also revealed gender disparities in key sectors in order to inform policy and enable project planners and implementers to initiate more interventions

towards gender equality. In addition, the CBS has recently embarked on developing measures to capture data on the contribution made by women to the GDP into the national accounts, in addition providing regular data on the wage employment figures in both the agricultural and industrial sectors. This information derived from the surveyed data will be subsequently (and on a routine basis) disaggregated on the basis of gender.

Health

Various Government initiatives aimed at addressing the health concerns of women registered modest improvements. These efforts included: the National Hospital Insurance Fund, Constituency AIDS committees, Medical Board and MDG initiatives targeting Malaria, HIV/AIDS and TB. As indicated in an earlier section, the HIV/AIDS prevalence rate has declined slightly. However, the infection rates for women still remain higher than the prevalence rates for men. It is important to point out that gender abuse and violence continues to be widespread among Kenyan women and girls. On a positive note, the Sexual Offences Bill has been debated in Parliament and passed as a Bill, albeit with a number of modifications to the original document.

Agriculture

It is estimated that women constitute over 70 per cent of all employees in the agricultural sector, largely in form of casual or seasonal employees. However, such jobs provide minimal job security, low wages and minimal employment benefits such as pension schemes. Furthermore, due to structural and

institutional constraints, the provision of credit and extension services is skewed towards affluent, (often male) farmers with little benefit to poor women.

Education

Reforms aimed at improving access to education for all has played a significant role in reducing discrepancies in the primary NER between males and females. However, there are still large gender differences, reflected especially at secondary and higher education levels. In its attempt to address this challenge, the government has undertaken a number of positive measures to promote the education of females. This has been achieved through affirmative action at university level, the review of curriculum and learning materials to uphold gender sensitivity, allowing adolescent mothers to be readmitted back to schools, enhancing school bursaries, promoting advocacy campaigns targeting the girl-child and young women, as well as planning the construction of appropriate sanitary facilities for girls in schools.

Women in Employment

The IP-ERS made reference to the 1998/99 Labour Force Survey, which indicated that the male labour force participation rate of 74.7 per cent was higher than 72.6 per cent for females. Furthermore, the 2005 Gender Data Sheet revealed that in 2004, the labour force participation rate for males was 87.5 per cent, while the rate for females was 78 per cent. It was evident that the rate of participation by males had improved significantly more than that of females, thereby further increasing the

gap between the two. It must be pointed out that government policies which have resulted in increased investment in education and training may not have been immediately reflected in the labour participation rates. Further data from the 2005 Economic Survey shows that the proportion of women employees in the modern sector remained unchanged between 2000- 2004, at 29.5 per cent.

Candidates for positions in politics are normally not selected on an annual basis. However, in the 1997 and 2002 elections, and particularly since 2002, deliberate efforts have been made towards increasing the participation of women. In 1997, there were 9 female Members of Parliament, while in 2006, the number increased to 22 female MPs. Although gender disparities are still very evident, progress is being made, particularly in the Executive branch of Government, to increase the number of women in decision-making positions. **Table 3.8** reveals gender disparities, with more of this manifested at the sub-national level, in comparison to other levels.

Table3.8 Women in Decision Making by May 2005

Position	Female	Male	% Female
Members of parliament	18	204	8%
Ministers	3	26	10%
Assistant Ministers	4	39	9%
Permanent Secretaries	6	25	19%
Diplomatic Corps	11	25	31%
Judges	8	57	12%
Provincial Commissioners	0	8	0%
District Commissioners	2	71	3%
Chiefs	41	2424	2%
Assistant Chiefs	225	5394	4%

Source: Gender Data Sheet 2005

Challenges

Gender issues are cross-cutting and therefore, the MoGSCSS cannot be the sole implementer of all gender programmes. The role of the Ministry is mainly to sensitise and provide general direction, and thereafter, leaving stakeholders to plan and source for funding to support gender mainstreaming programmes and activities. With the proposed plan of establishing gender divisions in the entire Civil service, there is a need to provide funds for capacity building to the officers who will steer the process.

Most of the available statistics are not gender disaggregated. The department is collaborating with the CBS to ensure that all future surveys cater for gender disaggregated information wherever possible. However, the CBS is currently constrained in terms of its capacity, insufficient personnel, and a lack of adequate and relevant skills in gender analysis. Regional variations in education outcomes are apparent and therefore, more efforts need to be focused on raising awareness on the importance of gender equality. Further advocacy work will be enhanced, as a way of reducing the negative effects of archaic cultural and traditional practices that perpetuate pervasive gender stereotypes, biases and various types of abuse against women and girls.

The legal framework was reviewed and recommendations proposed by the Taskforce for the review of laws relating to women were included in the proposed Draft Constitution. However, the outcome of the Referendum on the Draft Constitution in November 2005 has

stalled the process of ensuring that there is a progressive legal framework which protects and promotes both gender equity and equality.

Lessons Learned And The Way Forward

Much of the Department of Gender's work has concentrated on policy and institutional reforms through the finalisation of a Sessional Paper, as well as the establishment of a National Gender Commission to ensure equitable participation of both women and men in development. Looking forward, the recent MDG Needs Assessment and Costing Report (2005) identifies five categories of gender related interventions that must take place between 2005 and 2015 for the MDGs to be achieved. The total cost of these interventions over this period is estimated at USD2 billion. The five categories are:

- Social mobilisation, awareness creation and sensitisation (10 per cent)
- Institutional strengthening and programme implementation (29 per cent)
- Lobbying and advocacy for gender sensitisation (13 per cent)
- Building collations and mobilising support for policy development, law reform, enactment and implementation (34 per cent)
- Research, information, monitoring and reporting (14 per cent).

The Department of Gender's core activities during 2005-2006 will be to establish gender divisions in all line ministries, carry out capacity building initiatives and facilitate the building of a system for tracking and

measuring progress in gender mainstreaming, including the identification of performance indicators for national and district reports. Once the Gender Desks are fully functional, they will enable the Ministry to have a clearer perspective of gender-related activities taking place in each sector. This is expected to be reflected in the reporting of progress on gender issues in the annual and district progress reports. Over the medium-term, the department aims at further developing and entrenching the legal framework for gender mainstreaming, as well as increasing the level of awareness on gender concerns in 71 districts.

3.2 Agriculture, Livestock, Co-Operatives and Environment

3.2.1 Agriculture

Policy Review

The Kenyan economy is predominantly agricultural, with an estimated 80 per cent of the population living in rural areas and deriving their livelihoods mainly from agricultural activities. Of the 56 per cent of Kenyans estimated to be living below the absolute poverty line, subsistence farmers and pastoralists account for over 50 per cent. The Government has made significant efforts to promote growth within the industrial sector. This notwithstanding, the agricultural sector continues to play a dominant role in contributing significantly towards increasing food security, income generation, employment creation and industrial development within the IP-ERS framework.

The Strategy for the Revitalizing Agriculture (SRA) indicated that the sector directly contributes 26 per cent of the GDP, including a 16 per cent contribution solely from crops. The sector also indirectly contributes 27 per cent of the GDP through linkages with manufacturing, distribution and other service-related sectors. In addition, the sector accounts for 60 per cent of the total national employment figures, 60 per cent of export earnings, 75 per cent of merchandise exports, 45 per cent of the annual government revenue and produces almost all the raw materials for agro-industries. Hence, efforts by the Government to address unemployment, poverty and food insecurity have embraced broad-based growth and a development strategy in agriculture, as entrenched in the SRA.

As projected in the IP-ERS, the value of agricultural exports is targeted to rise by 3 per cent annually, with the average yield of major crops rising by 5 per cent. This will enable the country to realise the MDG target of reducing the proportion of the population living below the absolute poverty line to 26 per cent by the year 2010, and the level of food-poor from the current 48.4 per cent to 10 per cent by 2015. To achieve this, the Government is committed to implementing comprehensive reforms to promote growth in productivity and lower the costs of agricultural inputs, particularly among smallholders and subsistence farmers, who account for an estimated 70 per cent of marketed agricultural production. Consequently, the proposed reforms include restructuring and rationalising the network of agricultural research institutes by consolidating operations into the Kenya Agricultural Research Institute, strengthening

the link between farmers' demands, extension provision and the direction of research.

In addition, the reforms entail increasing the productivity of public investment, as well as deepening agricultural financial services to ensure that poor farmers have access to credit and insurance. There is also an emphasis on introducing reforms to improve competition in input distribution and marketing and enforcing laws against fraudulent practices of input supplies and marketing agents. The reforms will also aim at reducing transport costs through improving rural roads, reducing fuel taxes and electricity costs, in addition to improving access to information through strengthened communication network systems.

Other reforms include:

- Giving support to cooperatives, private investors and other institutions to undertake necessary investments in marketing and value addition;
- Formulating a national land policy to address land use and administration, land tenure, and land delivery systems;
- Reviewing the law of succession to address gender land imbalances;
- Reassessing food security policies and introducing pro-poor reforms;
- Liberalising the pyrethrum sector and restricting the pyrethrum board to regulatory functions;
- Amending the coffee act to allow growers to sell coffee outside the auction and establishing an agency to operate processing, marketing and input distribution;

- Supporting plans for rehabilitation and development of irrigation systems to support the revitalisation of the cotton and rice sectors.

During 2003/04, the sector made progress in implementing some of the outlined reforms. This led to the creation of the agricultural sector coordination unit to coordinate the implementation of the SRA, and the revival and strengthening of the Agricultural Finance Corporation to provide credit to farmers. In addition, there was also a partial commercialisation of the National Cereals and Produce Board and the introduction and funding of the Special Programme on Food Security. A total of 1,421 farmers' groups were sensitized on European Retailers Produce Good Agricultural Practices compliance. Furthermore, the provision of market information by the Marketing Information Branch and Kenya Agricultural Commodity Exchange, as well as the suspension of interest and penalties owed by farmers to the sugar development fund. Finally, reviews were initiated on coffee marketing, cotton industry, pyrethrum, agricultural machinery and agricultural legislation.

Achievements and progress on implementation

In an effort to raise incomes in the agricultural sector and increase the sector growth rate by 5 per cent by 2007, various reforms were implemented during 2004-2005. The progress and achievements of this sector are presented in the next sub-section.

Sector Performance

The performance of the agricultural sector during 2004-2005 was dismal as indicated in **Table 3.9**. Growth within the various sectors slowed from 2.7 per cent achieved in 2003, to 1.4 per cent in 2004, as a result of the poor performance of major crops, notably, maize, coffee and pyrethrum. This was caused by poor rainfall distribution, use of low quality seeds and low use of inputs. This meant that the IP-ERS sector growth target (indicator 24) was not achieved, since growth was below the 3.1 per cent average annual target. This was despite the fact that the value of agricultural exports, as measured by the quantity of horticultural exports increased by 27 per cent, while marketed production increased from KSh. 85.39 billion in 2003 to 101.7 billion in 2004, translating to 19.1 per cent, respectively. The value of marketed crops increased from KSh. 85.39 billion in 2003 to 101.7 billion in 2004, while the value of exports for key commodities such as tea increased by 9%, horticulture by 8.4%, and coffee by 10.5%, from 2003 to 2004.

Table 3.9 *Agriculture and Environment IP-ERS Outcome Indicators and Targets*

IP-ERS outcome indicator	Base value	Actual		Targets		
	2003	2003/04	2004/05	2004/05	2005/06	2006/07
24. Agricultural growth is targeted to grow at average annual rate of 3.1% per annum rising to 5% by 2007	1.5	2.6	1.4	3.1 To rise by	4.0 To rise by	5 To rise by
25. Forest area protected by gazettement (ha) increase by 13000 ha annually	1,390,000 ha			13,000	13,000	13,000
26. Proportion of public sector projects subjected to environmental impact assessments						

Source: Ministry of Agriculture, Ministry of Environment and Natural Resources

Rationalisation of the Functions of the Ministry

The Ministry finalised a Strategic Plan to be used in implementing the SRA. The Plan proposed a restructuring of the Ministry of Agriculture to improve its efficiency and technical service delivery. According to the new structure, the Department of Agriculture is to be headed by the Agriculture Secretary and sub-divided into four directorates, each headed by a director. These are:

- (i) land and crop management;
- (ii) extension, technical training, and research liaison service;
- (iii) agribusiness, market development and agricultural information; and,
- (iv) the development and coordination of an agricultural policy. In addition, five support departments were included. These were the human resources, finance, administration, planning and policy, and ICT and information management departments. This new structure and functional units are expected to enhance service delivery and promote private sector participation in agriculture, including umbrella legislation

and fast tracking related activities.

Food Security

The attainment of food security still remains one of the key goals of the government. However, efforts to attain food security have been undermined by frequent droughts. This calls for a major shift from rain fed agriculture to irrigation, with more resources being diverted towards constricting water harvesting structures such as dams, water pans, ponds and water diversion canals.

During 2004-2005, a number of projects and programmes were either initiated or accelerated to facilitate the achievement of MDG-1 concerning the eradication of poverty and hunger in Kenya. These project initiatives included the following:

- Kenya Agriculture Productivity Programme (FAPP) financed by the WB, was established to cater for the needs of over 20 districts.
- National Agriculture and Livestock Extension Programme (NALEP) financed by SIDA and GoK, was expected to cover all districts in Kenya, complemented by the

SIDA component which would cover up to 54 districts.

- Agricultural Sector Support Project (ASSP) funded by DANIDA was implemented to cover 4 districts. The second Phase of this project was successfully negotiated to cover 16 districts. The implementation process commenced in 2005-2006, under the Agricultural Sector Programme Support (ASPS)
- Horticulture and Traditional Food Crops Development Project funded by IFAD was implemented to cater for over 8 districts.
- The private sector development in agriculture, funded by the GTZ was given the mandate to cater for over 20 districts.

Information and Marketing

Farmers require information to know what products to produce, what technology to use, and where to market their produce. In an effort to provide such information to farmers, the Agriculture Information Centre was restructured to establish the Agricultural Information Resource Centre. Furthermore, Information Desks were set up at the provincial, district and local levels to facilitate the smooth flow of information to farmers.

Review of Agricultural Policy and Legal Framework

Over the years, the effects of liberalisation and poor management of Marketing Boards has led to a deteriorated performance of major cash crops. To address this problem, the following initiatives were undertaken:

- A draft Cotton policy and bill were

presented to the Cabinet for approval;

- The Ahero Rice Irrigation Scheme was revived;
- A draft Sessional Paper targeting the revitalisation of the sugar industry was produced, in consultation with stakeholders. It provides recommendations on the way forward for the privatisation of sugar companies;
- A draft Bill was produced by the Ministry of Agriculture seeking the establishment of a National Grain Authority to replace the National Cereals and Produce Board;
- The Coffee Board of Kenya was restructured and the Kenya Coffee Producers and Traders Association received a legal mandate to manage the Trading Floor;
- The Kenya Coffee Auction was deregistered, and direct coffee sales were put into operation, alongside the auction system;
- Pyrethrum marketing was privatised and an asset valuation for the plant and stocks of the Pyrethrum Board of Kenya was completed. In addition, a draft Policy paper and Cabinet memorandum were prepared;
- A study to restructure the Agricultural Finance Corporation (AFC) was completed in May 2005. In addition, over the 2004-2005 period, AFC received funding of KSh 250 million to increase farmers' access to credit;
- To protect farmers from fraudulent practices of input supplies and marketing agents, the National Cereals and Produce Board intervened into market operations to stabilise the price of fertiliser.

Challenges

A number of challenges confronted the sector in the period under review. They can be summarized as follows:

- The privatisation of sugar companies was subject to the enactment of the Privatisation Bill. Due to the heavy indebtedness of the sugar companies, privatisation can only be done after cleaning the balance sheets of the targeted sugar companies (Chemelil, Sony Sugar, Nzoia, Muhoroni and Miwani). The level of indebtedness of the sugar companies currently stands at KShs30.6 billion.
- There have been insufficient funds to implement both the Njaa Marufuku Kenya programme and for the extension of services.
- The slow completion of policy and legal reviews poses a major challenge. This is partly due to lengthy stakeholder consultation and the backlog of bills accumulated during the legislative period.

There has been weak coordination of irrigation development projects in the country that, if properly managed, would have the potential of transforming the country from rain-fed production to irrigation-oriented production.

Lessons Learned And The Way Forward

In order to ensure that the Ministry effectively achieves the IP-ERS growth target, the following issues are being addressed:

- Efforts will be made to accelerate privatisation of sugar companies by the

Treasury, and in particular, the Investment Office. Furthermore, uniform methods of that relate to the handling of balance sheets will be agreed upon before the earmarked sugar companies are privatised.

- With the introduction of performance contracts and RBM, the Ministry will ensure that targets set for the review of policies and legal frameworks are achieved. More effective ways of getting stakeholder views and consensus on the review will also be adopted. The Ministry will establish an effective monitoring and evaluation system to set results and manage by result outcomes.
- The Ministry requires additional funding for strengthening extension service delivery, by providing basic facilities such as vehicles, motorcycles and computers. In addition, the Ministry requires more funds to network the districts to HQs as well as to establish effective Information Desks at all levels.
- The Kenya Agriculture Productivity Programme (KAPP) financed by the WB is expected to cover 20 Districts.
- In the absence of adequate funds to scale up the Njaa Marufuku Kenya (NMK) programme initiated in 2004-2005, the Ministry will rationalise all projects and programmes aimed at food security to avoid apparent duplication of functions as a way of maximising on returns. The programme is currently funded by the Government.
- Due to the critical importance of irrigation for sustainable agricultural development, there is an urgent need to address the challenges in the coordination of irrigation activities in Kenya.

- Further efforts need to be made to facilitate umbrella legislation for the sector as outlined in the ERS and SRA, in order to reduce future legislative loads to manageable levels.

3.2.2 Irrigation and Land Reclamation

Policy Review

About 84 per cent of Kenya is ASAL and therefore not suitable for rain-fed farming, due to low and erratic rainfall. There is therefore limited cultivation of crops in these areas. This notwithstanding, the ASALs are used by ranchers, semi-pastoralists and pastoralists as rangelands. On the other hand, rice farming and the bulk of horticulture can only be conducted under irrigation. During 2003-2004, work on the formulation of a national irrigation policy and irrigation reforms were initiated. Furthermore, guidelines for smallholder (community based) irrigation schemes and irrigation water users' associations were developed, and an irrigation training master plan was formulated.

Achievements and progress on implementation

During 2004-2005, a draft Irrigation and Drainage National Policy document and Sessional Paper were prepared by the Ministry of Water and Irrigation. Further to this:

- A memorandum on the irrigation policy was forwarded to the Cabinet for approval. The department is waiting for the approval to continue to the next stage of formulating the strategic paper and the

legal framework in the course of the next financial year (2005/06).

- A project proposal for the development of 10 smallholder irrigation schemes in the Mt Kenya Region was finalised and funding secured from the GoK and KFW. The actual implementation was scheduled to start during the 2005/2006. The major activities to be undertaken were the identification of the 10 irrigation schemes to be implemented by the project, carrying out feasibility studies for the schemes, construction of irrigation infrastructure, forming suitable farmers' organisations, training farmers, and initiating a credit system.
- During the year, a project proposal was finalised between the GoK and JICA for the development of 6 irrigation schemes within the project area in Central and Southern Kenya.
- Feasibility studies on the development of Kimira Oluch irrigation schemes in Rachounyo and Homa Bay were finalised and coordinated by the Ministry of Regional Development, with the active participation of the Ministry. The area to be irrigated will be about 1,500 ha and funding has been secured from the African Development Bank (AfDB).

The National Irrigation Board also made its contribution to the development of irrigation in the country. The initiated projects included:

- (i) rehabilitation of the irrigation and drainage infrastructure in Mwea, Pekera, Ahero, West Kano and Bunyala irrigation schemes;
- (ii) Restarting stalled agricultural activities in West Kano, Ahero and Bunyala Which has

brought 4,900 acres under rice production and restored food security and incomes to 1,251 families;

- (iii) capacity building initiatives were conducted for farmers in Mwea, Perkerra, Ahero, West Kano and Bunyala Irrigation Schemes. In addition, water users associations were formed and farmers trained.

Challenges

A number of challenges have slowed down the realisation of the IP-ERS proposal of rehabilitating 20 irrigation systems. The following obstacles expound on the challenges experienced:

- The development of new irrigation systems is hindered by the prohibitive high costs of investment. This has led to the slow exploitation of the potential area for irrigation.
- Sustainable irrigation development has been constrained by the lack of a National Irrigation Policy and Master Plan, which has resulted in problems such as the duplication of efforts, wastage of scarce resources and haphazard interventions.
- The provision of major irrigation infrastructure by the Government has been hampered by low budgetary allocations. The current level of funding is inadequate to cater for the target expansion rate of 2,500 hectares of irrigation and 2,000 hectares of drainage development per year as contained in the Seventh National Development Plan.
- Lack of access to credit: Majority of farmers lack adequate financial resources for investment in irrigation. The high interest

rates on loans and the requirement of physical assets for collateral by financial institutions exclude them from accessing credit facilities.

- Lack of co-ordination for the developments in irrigation: Currently, there are many institutions undertaking irrigation development in the country. However, efforts have been uncoordinated, resulting in overlaps and the duplication of functions, inefficiencies, conflicts of interest and wastage of resources.
- Inadequate scientific skills and information: Recent research on agronomy, water management, farm mechanisation, soils and other issues that are specific to irrigated agriculture is limited both in scope and availability. This has hindered development since inappropriate techniques are often applied leading to low yields, land degradation and other problems.
- Support services for irrigation and drainage development: Lack of adequate infrastructure such as electricity, roads, and marketing and extension services has slowed the pace of irrigation and drainage development. The provision of these services and facilities often accounts for close to 50 per cent of the total irrigation and drainage development costs, which the private sector is not able to meet.
- Inappropriate organisational set-up of public settlement schemes: The centralised management system of public settlement irrigation schemes is inappropriate in the present liberalised environment. This is an effect of the minimal involvement of beneficiaries in their planning, implementation, operation and maintenance.

- Land tenure: Security of land ownership (through the possession of an authentic land title deed), is one of the prerequisites for developing irrigation and drainage systems. This legal requirement may either lacking or incompletely transacted in some areas.

Lessons learned and the way forward

Irrigation development is one of the most promising ways of reducing pressure on agricultural land through the intensification of production in the high and medium potential areas in addition to the opening up of agricultural land in the ASALs. To guide irrigation activities, a National Irrigation Policy will be finalised and the Government will step up its efforts to finance irrigation programmes through collaboration with development partners.

3.2.3 Livestock

Policy Review

The IP-ERS identified this sub-sector as possessing a high growth potential and thus, is important especially to subsistence farmers and pastoralists. Over 80 per cent of all livestock in Kenya is found in the ASAL areas. To realise the full potential from livestock, the Government in the IP-ERS planned to implement a concerted strategy to handle disease outbreaks, prevention and control; and improve the quality and certification of Veterinary Officers. Other reforms proposed in the IP-ERS included: considering the introduction of a single permit system for cattle movement; reviewing options for a

decentralised network of slaughterhouses provided by the private sector; and, expanding access to water sources in addition to improving security.

With regard to this sector, the underlying IP-ERS target was the improvement of livestock production and marketing. The reforms undertaken during 2003-2004, led to significant achievements. For instance, a total of 47 slaughterhouse facilities out of 71 were rehabilitated. In addition, approximately 900 meat inspectors were trained. Furthermore, reviews on the national livestock development policy as well as the Kenya Dairy Board were completed and submitted to Parliament. Further to this, a Livestock Attaché Office was established in Saudi Arabia. The Government also paid the Kenya Meat Commission's unsecured creditors and appointed a CEO and the Board of Management. Finally, two abattoirs located in Garissa and Mombasa were opened and a total of 2.8 million cattle out of a targeted 8 million underwent vaccination.

To realise the remaining reforms and address the challenges encountered during 2003-2004, a number of activities were planned for implementation during 2004-2005. These included: the rehabilitation of 13 water pans and dams; the construction of district offices in three regions; the redrafting of policies; aquaculture development; and improved disease prevention and control.

- The sector continued with the implementation of the Smallholder Dairy Project and Farming in Tsetse Control Areas projects to improve the Dairy industry.
- Efforts to control and eradicate epizootic pests and infectious diseases were sustained through vaccinations, disease monitoring and surveillance, livestock movement controls and quarantines, and export/import inspection and certification.
- Data on animal health and production was gathered and the relevant information was made available to livestock owners, researchers, planners and decision-makers. This will be useful for purposes of setting priorities on resource allocation for animal health programmes and projects with a view to increasing animal productivity and facilitating trade.
- Efforts for surveillance and licensing of the trade in meat and meat products, hygiene enforcement and carcass inspection have been sustained and expanded to 54 districts. Moreover, three more districts are targeted during 2005-2006.
- Many farmers cannot access markets due to poor infrastructure; hence, most of the ASAL in northern and eastern parts of Kenya suffer from poor road networks. For instance, the northern corridor, used for transporting cattle to the port of Mombasa for export market, has no tarmac roads. Furthermore, there is a conspicuous absence of well constructed rural access roads.
- There have been inadequate disease control measures due to the exorbitant cost of drugs in relation to farmers' incomes. Yet, farmers in ASALs are entirely dependent on livestock and livestock products for their incomes.
- The high cost of breeding services such as Artificial Insemination (A.I) and breeding stock poses a major challenge. Since the privatisation of the A. I. services, the majority of farmers cannot afford them. In addition, the cost of quality breeding stock is prohibitive to most farmers.
- The unavailability of suitable credit to livestock farmers, especially the small-scale sector, remains a challenge. Most institutions are reluctant to provide credit to small scale livestock farmers. Moreover, the Agricultural Finance Corporation cannot effectively cover all farmers.
- Other constraints relate to an unfavourable international trade environment and trade barriers. Livestock products such as meat, milk hides and skins have been subjected to stringent sanitary and physo-sanitary standards and barriers, particularly those destined for the European market.

Challenges

Various challenges still continue to hold back the performance of this sector. These challenges include:

- Droughts, floods and unpredictable weather patterns have had negative effects on livestock feed and water supply. This has in turn affected the quality and quantity of production. Due to these problems, 22 ASAL districts suffered heavy losses and their productivity remained below potential.

Lessons learned and the way forward

To address these challenges, the ministry, in collaboration with the private sector, is in the process of rehabilitating the livestock handling infrastructure, such as holding grounds and stock routes. To control diseases, a mechanism for livestock movement control will be set up, once disease free zones are fully operational. Furthermore, market information will be provided, both at national and regional levels. To address exports, a proposal was put forward in 2004-2005 for the establishment of a Livestock Attaché office in the Middle East. However, no funding was provided for this initiative. The Ministry will therefore continue to agitate for the allocation of funds, in order to capture this important export market. To address the problem of credit to livestock farmers, the ASAL-based livestock rural livelihood support project, that provides small-scale credit to animal farmers, will be strengthened.

3.2.4 Fisheries

Policy Review

This sub-sector has a multiple effect on the livelihoods of a majority of Kenyan communities, especially in the Western and Coastal regions, where it functions as an important source of foreign exchange. The Government, in an effort to exploit the potential of this sub-sector, through the IP-ERS, embarked on developing an enabling environment to ensure sustainability in the development and management of fisheries.

During 2003-2004, a fisheries policy and master plan were completed, 8 fish landing sites were rehabilitated and fitted with electricity and national fish inspection and quality assurance laboratories were renovated in Mombasa and Kisumu. In addition, Kenyan fish exports received a List 1 classification by the EU, and public-private sector cooperation was enhanced through the signing of a memorandum of understanding between the Fisheries department and the Association of Fish Processors and Exporters of Kenya.

Achievements and progress on implementation

Quality assurance and management was enhanced to meet European Union standards by upgrading a number of fish landing sites in Lake Victoria and fish processing plants. This resulted in unrestricted entry of fish products from Kenya to the EU. In addition, the Government introduced beach management units which also involve fishing communities in the management, conservation and decision-making. Consequently, the value of landed fish increased by 8.4 per cent from KSh. 7.0 billion in 2003, to KSh. 7.5 billions in 2004. Moreover, the price per ton, increased from KSh. 57.4 thousand in 2003, to KSh. 60 thousand in 2004. The specific measures implemented are summarized as follows:

- In an effort to meet international hygienic requirements to avoid being banned from exporting to international markets, fish traders were trained in hygienic ways of handling fish. Approximately, 75 per cent of the nationwide aquaculture inventory exercise was undertaken.

- The monitoring, control and surveillance of the Exclusive Economic Zone was intensified. This resulted in increased collection of AIA from the previous 30 million, to 95 million by February 2005.
- The quality standards of Kenya's fish continued to enjoy the promotion to List I classification, due to enhanced quality assurance management through the upgrading of a number of fish landing sites to the EU standards. This also led to an increase in the number of fish processing plants.

Challenges

The main challenges facing the sector are:

- (i) Over-fishing in Lake Victoria which has led to over congestion and low fish harvests;
- (ii) Lack of adequate cooling plants has impacted negatively on the marketing of fish in Lake Victoria and other lakes;
- (iii) Complying with the strict international standards, poses a major challenge, especially with regard to products meant for the EU market.

Lessons and way forward

A number of initiatives are underway to address the challenges facing this sector. Firstly, entrepreneurs and investors are being encouraged to relocate to Kenya's Indian Ocean coastline so as to reduce congestion in Lake Victoria. Secondly, the installation of cooling plants has been undertaken in two fishing landing sites out of the targeted 6 along Lake Victoria in order to improve the storage, quality and marketing of fish

products. Thirdly, beach management units have been introduced along Lake Victoria and other lakes to involve the fishing communities in management, conservation and decision-making. This is aimed at meeting the international quality standards for marketing.

3.2.5 Co-operatives

Policy Review

Co-operatives are vital to the economic recovery and revitalisation of agriculture in Kenya. Furthermore, they make a considerable contribution to the agricultural sector as a whole, to food security by supplying agricultural and livestock inputs as well as marketing agricultural outputs. The policy objectives are to revitalise the cooperative movement which will, in turn spur sustainable economic growth and development in Kenya. The ultimate aim of this is to achieve the desired outcomes by strengthening the cooperative movement, facilitating cooperative extension and better services delivery, enhancing corporate governance of cooperatives and, improving access to markets and marketing efficiency by cooperatives.

There are over 10,642 cooperative societies with a membership of over 6.0 million. Cooperatives mobilise domestic savings, which are currently estimated at KSh. 105 billion. This sector employs over 250,000 besides providing opportunities for self-employment. In addition, a significant number of Kenyans, (approximately 63 per cent) draw their livelihoods, either directly or indirectly, from cooperative-based enterprises.

During 2003-2004, the Cooperative Societies (amendment) Act 2004 was enacted to improve governance within the cooperatives. This would be achieved by addressing management and stakeholder participation in cooperatives, decentralising cooperative tribunals to the province to help settle disputes. The Cooperative Training College was made semi-autonomous and the Kenya Cooperative Creameries was re-acquired by the Government and revamped. Furthermore, commodity marketing institutions were restructured for efficient marketing and the SACCO Regulatory Bill (that sought to establish a regulatory authority) was presented to Parliament.

To sustain the achievements realised in 2003-2004, more policy priorities were put in place during 2004-2005 to streamline the management of cooperative societies, regulate the operations of SACCOs in addition to enhancing the market access and marketing efficiency of cooperatives. In addition, key provisions of the Amended Cooperative Societies Act 2004 were implemented during this reporting period.

Achievements and progress on implementation

Governance

To address the governance problem in cooperatives, the following reforms provided by the Cooperatives Act 2004 were implemented:

- The process of decentralising cooperative tribunal services was reinforced, with the

establishment of 8 provincial tribunal registries in all the administrative provinces of Kenya. This has significantly reduced the cost of access to justice for purposes of settling cooperative disputes.

- The Ethics Commission for Cooperative societies was established to administer the Ethics & Governance code of conduct for cooperative leaders and staff.
- The Cooperative Audit Service was further strengthened to provide an overseer role in the financial management of cooperatives, with the elevation of the hitherto Coppertone Audit service to full departmental status under the Director of Audit Services. During the year under review, up to date audits were performed in over 50 per cent of the cooperative societies.
- The relevant by-laws that applied to all cooperatives were reviewed.
- Fresh elections were conducted in about 65 per cent of cooperative societies to bring on board responsible and accountable leadership to the cooperative societies.
- Liquidations and mergers were carried out in 10 per cent of the societies to ensure that societies that were not complying with the provisions of the amended Act and subsidiary legislation were deregistered and were consequently forced to close their operations.

Policy/legal and Institutional Reforms

The Ministry continued with the review of the Cooperatives Development Policy by focusing on streamlining cooperative management and reviving dormant societies. Under this policy,

the following reforms were undertaken:

- The Cabinet approved the introduction of the "second coffee window of sales" to operate alongside the auction system for the purpose of enhancing returns to farmers and thereby, attracting higher prices.
- The Ministry spearheaded the merger of small coffee cooperative societies into economically sustainable entities to help reduce their operational costs and instead, draw benefits from economies of scale, and in so doing, increase members' returns.
- Commodity cooperative marketing institutions were restructured for more efficient marketing.
- The *Cooperative Societies Act No.12 of 1997* was amended. In addition to this, the *Cooperative Societies (Amendment) Act No. 2 of 2004* and *New Cooperative Societies Rules 2004* were formulated, both of which became effective in November 2004. These amendments to the legal framework allow for government intervention as a means of restoring the confidence of members, in addition to providing stiff penalties on cooperative leaders found to have mismanaged their cooperatives.
- The restructuring of the KPCU is on-going, running concurrently with restructuring processes at the Coffee Board of Kenya. The Ministry has also drawn up terms of reference and presented a budget to Treasury, pending funding to procure consultants to undertake the restructuring. Parallel efforts are also being made to secure funding through SRA interventions under policy and legal reforms.
- The transitory acquisition of the new Kenya Cooperative Creameries by the Government was formalised. A baseline survey on commodities marketed through co-operatives was carried out by the marketing department to cover coffee, dairy, pyrethrum, cotton, fisheries and other produce.
- The Ministry formulated its Strategic Plan in 2004 that outlined its priority policies for the development of the Co-operative sub-sector.
- The draft SACCO Regulatory Bill was forwarded to the AG's chambers for legal drafting in December 2004. However, there has been a significant delay in processing the Bill.
- The Co-operative Development Policy draft was finalized. However, given the lapse of time (since August 2004), the Ministry proposed a further review of the draft policy paper before its submission to the Sessional Committee of Parliament for publication as a Sessional Paper.

Challenges

Despite the potential for Cooperative societies to significantly contribute to Kenya's development, their performance has been constrained by:

- (i) Poor governance and limited transparency in the management of cooperatives;
- (ii) Lack of capacity in management, market intelligence and market research;
- (iii) A weak capital base;
- (iv) Infrastructure weaknesses.

Lessons Learned And The Way Forward

Although challenges of poor management and governance of cooperatives identified in the 2003-2004 APR were partly addressed through the various reforms implemented during 2004-2005, the challenges identified in the previous section still revolve around poor management and bad governance. This therefore calls for enhanced efforts in the implementation of reforms. Accordingly, SRA priorities include:

- Building the capacity of the cooperative movement and enforcing compliance with the provisions of the amended Act and subsidiary legislation to streamline the management of the cooperative societies and improve their corporate governance.
- Conducting market research and development in addition to promoting joint ventures between the cooperatives and other investors.
- Introducing innovations in the Information and Communications technology used in cooperative management.
- Seeking for an increase in budgetary allocations through the MTEF budget to improve cooperative extension service delivery and supervision of field activities that will include public expenditure tracking.

3.2.6 Environment and natural resources

Policy Review

Kenya faces serious environmental challenges due its reduced forest cover. This has been

compounded by rampant poverty, which has led to increased use of wood fuel by the rural population and urban poor. Pollution from solid waste such as polythene and plastic generated waste is on the rise due to the lack of a national policy on the recycling of waste materials. This problem is further compounded by the presence of dysfunctional local authorities. On its part, the Government acknowledges that numerous constraints hamper development within the forestry and mining sub-sectors. The constraints touch on weak governance (especially in relation to the forestry sub-sector); an inadequate policy, legal and institutional framework governing natural resources exploitation; and the inadequate participation by relevant stakeholders in the managing environmental and natural resources.

In addressing the above challenges, the IP-ERS recommended:

- A comprehensive implementation of the National Environmental Action Plan and the Environmental Management and Coordination Act (1999)
- The commissioning of the National Environment Management Authority as well as the conducting of a natural resource inventory and valuation;
- Implementation of the World Summit on Sustainable Development, MDGs, and the Lake Victoria Environmental management project;
- Promulgation of the Minerals and Mining Act, in addition to the promotion of small scale mining, Private sector and community participation in mining;

- Implementation of the Forestry Development Policy as well as the enforcement of the Forestry Act, and promotion of private sector participation in afforestation efforts and management of forest plantations.
- During 2003-2004, the Government launched the National Environmental Action Plan implementation committee and developed an elaborate framework to guide the implementation of the National Environmental Action Plan. It also developed policies, standards, regulations, guidelines and procedures for the implementation of Environmental Management Coordination Act. Further initiatives included constituting a committee on MDGs, WSSD, and biodiversity. The United Nations Convention to Combat Desertification and other conventions under Agenda 21 were also implemented during the same period. The Lake Victoria Environmental Management Project also conducted aggressive public awareness campaigns among the lake communities and relevant stakeholders, and thereafter, undertook an inventory of the characteristics of industries, municipalities, towns some villages and settlement schemes and the liquid effluents that enter the lake.

During the same period the government also held the first National Mineral Sector Conference and continued with the review of the Mining Act and the drafting of a new Mining policy. Further awareness campaigns were conducted among small scale gold and gemstone miners and quarry operators. To further and consolidate the gains made during

2003-2004, the sector continued with the implementation of reforms whose progress is reported in the next section.

Achievements and progress on implementation

The various activities undertaken during 2004-2005 are highlighted in Annex A. On the whole, efforts focused mainly on improving environmental management, introducing the universal environmental screening of projects and improving mining activities.

Environmental Management Coordination Act

This Act provides for the establishment of an appropriate legal and institutional framework for the management of the environment. It also aims at improving the legal and administrative coordination of the diverse sector initiatives so as to enhance the national capacity for effective management. Consequently, the Ministry of Environment and Natural Resources, through the National Environment Management Authority instigated the following provisions:

- The implementation of the Environmental Impact Assessment and EA regulations.
- The drafting of regulations on water quality, water management, land use and access to genetic resources. All the mentioned drafts are awaiting gazettment.
- The National Environment Management Authority (NEMA) initiated dialogue with the Kenya Association of Manufacturers and the business community to address problems related to the disposal of used plastics.

- Provincial Directors of Environment and District Environment Officers were trained and posted in all provinces and districts.
- The second National Report to the Convention on Biological Diversity (and 3rd country report) was prepared and submitted to the United Nations Convention to Combat Desertification, as a clear sign of the country's commitment to the cause.
- The second State of the Environment Report (2004) was prepared as required by the Environmental Management Coordination Act (1999).

However, it should be emphasized that there is no available data on progress made against the IP-ERS Indicator 26, which seeks to track the proportion of public sector projects subjected to an environmental impact assessment.

National Environmental Action Plan

The National Environment Management Authority (NEMA) initiated the process of developing environment action plans through four regional training workshops in the 8 provinces. It targeted district development officers, provincial/district environment officers, lead agencies, the Civil society and the private sector, at both the provincial and district levels. A draft manual for the preparation of the environment action plans was prepared and is currently being tested in the districts selected for the pilot surveys.

Implementation of the World Summit on Sustainable Development (WSSD) and MDGs

The Government, in consultation with key stakeholders, drafted a National Strategy and Action Plan for the implementation of the outcomes of the WSSD. The two documents proposed a wide range of interventions that translate the outcomes of the WSSD into actions. They identified specific policy objectives and actions aimed at enhancing poverty eradication, conservation and management of the environment and natural resources for social economic development.

In addition to these developments within the sector, the Ministry of Environment and Natural Resources has been charged with the mandate to implement MDG 7 Target 9. One of the components of Target 9 is integrating the principles of sustainable development into country policies and programmes. The National Environment Management Authority made significant progress toward the implementation of the National Environmental Action Plan, which was designed to address this issue. The Poverty Environment Initiative (PEI), was also initiated, and is currently being implemented by the MoPND and Ministry of Environment and Natural Resources (MoENR), funded by UNDP/UNEP. In addition, the Government is also supporting a community action plan project that aimed at enhancing the use of community action plans to support the targeted sustainable programmes and projects.

Implementation of Lake Victoria Environmental Management project

The Lake Victoria Environmental Management Project - Phase II Strategy and the procurement plan were prepared. In addition, pre-qualification of the consulting firm and requests for technical and financial proposals were carried out. Evaluations and commissioning of the work will be finalized during 2005-2006.

Forestry

The reforestation programme coordinated the rehabilitation of an estimated 7,500 hectares of land. Moreover, the distribution of tree seedlings was intensified in order to support this programme. Running concurrent to these efforts, the preparation of guidelines to concede forests to the private sector is underway as a strategy to encourage private sector participation in both afforestation efforts and the management of forest plantations. In anticipation of this, the draft Forest Bill was passed into a Forest Act by Parliament and a Forest Policy is currently under preparation. This legal framework will enhance the sustainable management of forests, with particular emphasis on community participation. This is a commendable achievement, since it directly addresses the second component of MDG 7 Target 9 which seeks to reverse the loss of environmental resources. However, it should be noted that there is no data to assess progress against IP-ERS indicator 25 relating to the forest area protected by gazettelement.

Forestry Research

To support afforestation efforts, the collection of tree seedlings was intensified, with KEFRI producing 2,500kg quality tree seedlings. During the same period, pilot studies in Agro forestry were carried out using participatory forest management techniques that involved local communities in Sokoke and Mukogodo forests. This research focused on the tree species manifesting rapid growth as a cheap source of energy. Demonstrations on the farm technologies most appropriate for specific site conditions were undertaken. Furthermore, further research on the development of non wood forest products such as Gum-Arabic and Aloes was intensified. Lastly, research facilities were improved and modernized, while procedures used in the dissemination of research findings were both initiated and reinforced.

Mining

Stakeholder views were incorporated into the drafting of the Minerals and Mining policy, as well as a revised Act relevant for this sub-sector. The two documents seek, on one hand, to ensure sustainable and responsible development of mineral resources, while on the other, giving emphasis to adequate community participation.

To promote Private sector participation, consultations were held with Tiomin (K) Ltd leading to the company being issued with a mining lease amounting to a KSh. 10 billion investment in Titanium minerals, under the titanium mining project. The company also signed a fiscal agreement with the

Government. On a positive note, this is the largest mining project in Kenya since it achieved its independence and indeed, a significant private sector venture.

The first National Mineral Sector Conference was held in March 2004 and drew participation from key stakeholders from both the public and private sectors. The implementation of recommendations made by the relevant stakeholders is currently underway.

Other developments involved the organizing of awareness campaigns which consequently led to in the registration of new groups of small scale miners and quarry operators in Taita-Taveta and Kwale District. This initiative, with its particular emphasis on community participation in mineral resources development, directly addressed poverty reduction in rural settings. Furthermore, inventories of mineral resources considered to have significant mining potential are currently been undertaken.

Challenges

Despite the fact that significant milestones have been achieved, the sector faces major constraints such as:

- Limited funding that makes it difficult for the Ministry to effectively undertake its mandate.
- Lengthy gazettment procedures.
- Inadequate human and institutional capacities in the mines and geological department. The National Environment Management Authority and other related institutions were thus, encouraged to

respond to environmental and other sector challenges.

- Potential conflicts in the use of natural resources such as farming activities encroaching on forest reserves; quarrying activities close to residential areas, and mining conflicts with farming activities.
- Issues concerning poor governance. For instance, within the mineral sector, problems arise from conflicting laws that have led to uncontrolled quarrying activities. This has had devastating effects on the environment. Other issues of poor governance and conflicting laws apply to human settlements encroaching on designated forest land, illegal logging, and unwarranted excision activities.
- Poor enforcement of laws and policies in the management of solid and municipal wastes as well as industrial wastes, particularly from the micro, small and medium enterprises (SMEs).
- Inadequate information on technologies for the profitable recycling of waste; and failure to include the Informal sector, particularly slum dwellers, into viable recycling processes.
- Inadequate information and technologies for supporting artisan miners and small scale quarry operators to improve their trades.
- The lack of a comprehensive environmental policy.

Lessons learned and the way forward

A strong link exists between the environment and poverty. The poor, a majority of whom live in rural areas, mainly rely on natural resources and environmental services as a direct source

of livelihood. Since they occasionally do not use the natural resources in a sustainable way, their activities lead to the depletion of natural resources and ultimately, to the degradation of the environment. This has a negative impact on their livelihoods, rendering them poorer. Clearly, there exists a vicious cycle between the environment and poverty.

The key to eradicating poverty is to ensure sustainable economic growth through sustainable environmental management. In order to achieve Target 9 of MDG 7, there is a need for policy interventions and the applications of practical measures with a view to addressing the root cause of continued loss of environmental resources, which is poor or weak governance. Consequently, it is imperative that an extensive environmental policy is formulated as a significant step to ensuring environmental sustainability. It must be emphasized that the Ministry has initiated this process. Towards this goal, a draft paper on Environmental policy formulation, development and co-ordination has been prepared.

Although a number of policy and legal issues remain on the reform agenda, the approach to environmental conservation since the enactment of the Environmental Management and Coordination Act has undergone significant changes since 1999. The on-going changes provide opportunities to improve natural resource management and environmental conservation by:

- Contributing to environmental and mining policy development.
- Reviewing the existing laws on mining

while concurrently overseeing the operations of small scale mining and quarrying.

- Raising the levels of environmental education and increasing community awareness on the conservation of the environment.
- Facilitating capacity-building for the relevant stakeholders.
- Developing alternative income generating activities such as market-driven farm forestry and plantation development.
- Raising awareness on the importance of wetlands and minerals among the communities.

Through the Forest Act 2005, revised Mining Act and new Mining policy, the Ministry will address the challenges of population growth, high poverty levels, employment creation and efficiency in resource utilisation. This Act further seeks to enhance community participation in forest resource utilisation and conservation. These are important lessons for the sustainable management of the forest resources.

The IP-ERS explicitly stipulated as priorities, the legislation to protect the environment including catchment areas and forests. The targets associated with these priorities were identified. However, it has been a challenge providing data to report on the two IP-ERS environment indicators (numbers 25 and 26). Hence, the immediate task entails developing appropriate, measurable indicators. On the other hand, on the whole, environment factors were not well integrated into the design of the IP-ERS. In view of these shortcomings, the forthcoming IP-ERS revisions will provide an

opportunity to integrate comprehensive policies on previously ignored environmental concerns into the revised document as a matter of priority.

3.3 Poverty Targeted Programmes

3.3.1 Introduction

In order to directly address poverty, the IP-ERS identified as priority programmes, the establishment of the Social Action Fund, the development of arid and semi-arid areas, the implementation of slum upgrading programmes, and, the development of a programme to reduce the vulnerability of marginalised groups. The progress made in establishing and implementing these programmes is outlined in the next section.

3.3.2 Social Action Fund

The IP-ERS objective of establishing the Kenya Social Action Fund was to support and finance the implementation of productive and community-driven development projects in an accountable and transparent manner. During 2003-2004, the MoPND put in place a task force with representatives from the Government, the private sector and the civil society to lead the process of establishing the Kenya Social Action Fund. Following a Task Force review and study tours to Tanzania and Malawi, a concept paper was prepared.

In addition, the Government, in collaboration with the AfDB, commenced plans for the project preparation. Although no progress made during the period 2004/2005, for the period 2005/2006, the AfDB has agreed to fund the next stage. The Government also re-

launched the Poverty Eradication Commission (PEC) in January 2005, as an approach to spearheading its efforts towards the reduction of poverty by initiating some of the approaches and strategies proposed in various policy and strategy documents, including the National Poverty Eradication Plan (NPEP).

3.3.3 Arid and Semi-Arid Lands (ASAL)

Policy review

ASAL areas have a relatively high incidence of poverty and have traditionally been a low priority in public resource allocation. However, over 80 per cent of all livestock in Kenya is found in ASAL areas. Consequently, developing these regions is fundamental if poverty is to be addressed. To support these areas, the IP-ERS identified a range of activities to be implemented by the Arid Lands Resource Management Programme (ALRMP) over the review period. This involved:

- (i) rehabilitating roads and implementing a broad-based livestock development policy;
- (ii) facilitating private sector involvement in the development of the fishing infrastructure;
- (iii) strengthening community-based eco-tourism;
- (iv) developing special school programmes;
- (v) reinforcing community-based health care systems and preventive medicine; and
- (vi) improving food security.

Achievements and progress on implementation

During 2003/04, the ALRMP expanded to 22 ASAL districts covering the Rift Valley, Eastern, Central, and North Eastern Provinces. The objective of ALRMP II was mainly to enhance food security and reduce livelihood vulnerability in drought-prone and marginalised communities in the 22 ASAL districts. This was to be achieved through sustainable, people-driven development. The project undertook development and drought emergency activities through some of its components which encompassed managing and controlling the effects of drought; providing support to local development projects as well as facilitating community driven development. In 2004/05, progress made in the ASAL areas included: starting the ASAL-based Livestock Rural Livelihood Support Project in 22 districts and implementing integrated ASAL programmes such as the Coast ASAL (funded by IFAD), Kajiado ASAL, Keiyo and Marakwet ASAL, West Pokot ASAL, Jamii and Mazingira Baringo ASAL. All these projects were funded by the Dutch Government. Other project initiatives were the Baringo Integrated Development Programme, funded by JICA, and the Turkana Rehabilitation Project which was funded by the World Bank and NORAD.

These programmes all focused on the development of ASALs by supporting agriculture and livestock rearing. Under the Turkana Rehabilitation Project, over 20 wells were rehabilitated, 8 new ones built and the Katilu irrigation scheme rehabilitated. Through this project, the Ministry of Livestock

and Fisheries and the World Food Programme, reached an agreement to implement the Food for Assets project in Turkana. During the first phase (April 2004 – October 2004), the project benefited an estimated 75,000 people. The second phase of the project has been agreed upon and will target 150,000 people within and around the Kakuma area.

Challenges

In implementing the ALRMP programme, challenges were encountered. They included:

- Incidences of conflict in Mandera and Marsabit which slowed down the implementation process;
- Lengthy periods of drought, which slowed down community development initiatives; and,
- The poor road infrastructure and lack of reliable transport services caused delays in project implementation in many areas.

Lessons learned and the way forward

To address the challenges previously identified, the following actions will be undertaken:

- (i) Stakeholder consultations will continue to be undertaken to foster long-term peace-building and conflict resolution mechanisms;
- (ii) ALRMP II will continue to co-chair the Kenya food security meetings that bring together line ministries, development partners and donors;
- (iii) ALRMP II will co-ordinate the refinement of the existing draft ASAL and disaster management policies;

(iv) The ALRMP II Strategic Plan, which addresses key sector development challenges in the 22 ASAL districts was finalised. One of the sectors earmarked for immediate attention is infrastructure development. Moreover, plans have been put in place for the ALRMP II to extend the Early Warning System to cover an additional 5 districts of Coast Province in 2005/06 (Malindi, Kwale, Kilifi, Lamu and Taita Taveta).

3.3.4 Slum upgrading and low-cost housing

The IP-ERS objective related to the upgrading of slums targets improving the living conditions of millions of Kenya's urban poor who live in urban slums mainly located in Nairobi and Mombasa. This will be achieved through the development of slum upgrading projects and the finalization of relocation plans. It also entails the enactment of legislation on housing that would facilitate the private expansion of low cost housing in addition to providing financial assistance either for the construction or purchase of affordable housing. Over the review period, a number of studies were completed, with others still on-going to provide guidelines on how to implement the programme. Phase One slum upgrading project was started in Kibera in October 2004. Other slums targeted during this phase included: Soweto in Nairobi, East Mavoko in Athi River, as well as selected slums located in Mombasa and Kisumu.

3.3.5 Vulnerability

Policy Review

As part of the IP-ERS core poverty programme initiatives, the Government has implemented projects that target the marginalised and vulnerable members of society. Such projects and programmes mainly focus on OVCs, the youth, women, as well as the physically challenged. Other groups whose plight is addressed by these programmes include children with special needs, slum dwellers, retirees, and the elderly.

Achievements and progress on implementation

Orphans and Vulnerable Children

The total number of OVCs continues to grow despite a fall in the HIV/AIDS prevalence rate from a peak of about 10 per cent to under 7 per cent today. Currently, the number of OVCs is estimated at 1.9 million. The strategic plan for the National AIDS Control Council identified support for OVCs as a priority area and sought to carry out a mapping exercise to improve the targeting of these programmes.

In 2004/05 the Ministry of Home Affairs identified 10 pilot districts to implement the Cash Subsidy Programme. This programme is designed to support OVCs with a cash subsidy given to their homes as well as supporting their education requirements. The Ministry has also trained duty bearers in each of the 10 pilot districts to facilitate the implementation of the programme. In addition, UNICEF in

conjunction with the Government has initiated a cash subsidy project that supports a total of 5,000 OVCs in Nairobi Province and Kwale and Garissa Districts.

The Youth

Progress in the area of projects that target the youth in the year under review included: the development of a Youth policy; the implementation of programmes by the Ministry of Gender on street children and the youth, as well as the youth and HIV/AIDS. The Teachers' Service Commission (TSC) supplemented these efforts by organizing awareness and sensitisation campaigns on HIV/AIDS. Furthermore, the *Jua Kali* Programme implemented by the Ministry of Labour aimed at creating employment opportunities for the youth. The National Campaign against Drug Abuse programme was also instituted.

Rehabilitation of Street Families

It is estimated that there are currently about 250,000 street children in Kenya, with the number steadily increasing. In 2004/05, a number of initiatives were put in place. In particular, the submission of a Cabinet memo on the rehabilitation and resettlement of street families; and, the establishment of a Street Children Rehabilitation Programme spearheaded by the Ministry of Home Affairs. A number of street children were rehabilitated through such centres and through the National Youth Service. Moreover, the MoGSCSS did implement a programme on street children and is in the process of developing a policy on street children. The

Government, in collaboration with UNICEF and NGOs, is also working on the incorporation of the Convention on the Right of Children (CRC) into domestic legislation.

Child Labour

Child labour in Kenya is rampant in the areas of commercial agriculture, fishing and domestic services. The figure is estimated at 1.3 million children. On a positive note, the Free Primary Education Programme, (currently in the third year of implementation) has led to an increased enrolment of children at the primary level of education. The programme is therefore perceived to have influenced the reduction of child labour.

The Physically Challenged

Current data on physically challenged individuals is either unavailable or unreliable. However, according to the 1989 Population Census, an estimated 0.7 per cent of the total population are categorized as physically challenged. Progress made in this area includes the passing of the Disability Bill. The Persons With Disabilities Act, 2003 clearly outlines the rights of persons living with various kinds of disabilities. Other legislative efforts to promote opportunities for the physically challenged include the Draft Equity Bill, 2000 and a Draft Affirmative Action Bill. The draft Equity Bill 2000, deals with discrimination that occurs in the context of employment, education, health services, health care benefits, accommodation, property, associations, professions, appointments to public office, and the provisions of goods, services and facilities. This Bill aims at combating the discrimination

Lessons Learned And The Way Forward

The lessons learned must take into consideration the formulation of policies, as well as the enactment of relevant legal framework that seeks to protect the rights of vulnerable members of society. Accordingly, the following measures need to be instituted:

- Efforts need to be accelerated with regard to approving the Cabinet memorandum on the rehabilitation of street families and the subsequent drafting of a Sessional paper for implementation, as well as applying the mandate of enacted bills.
- The National Policy on Older Persons needs to be finalized to ensure efficiency in the coordination of all programmes targeting the elderly. Furthermore, the National Employment Policy and Strategy needs to be further developed, since it aims at mainstreaming special groups, including the elderly and retirees to ensure that they have access to employment without discrimination.
- There is a need to increase cash subsidies from of the Ministry of Home Affairs to cater for over 10,000 OVCs.
- An inventory of OVCs targeted by NGOs to identify those that need support through the Education and Health sectors should be undertaken as a matter of priority.
- The database on the various vulnerable groups will require updating.
- The elderly require improved access to health services through such initiatives like special counters at health centres and hospitals.
- Partnerships with development partners will be reinforced in the fight against HIV/AIDS and providing education programmes targeting older people
- The construction of houses for Civil servants will continue as planned. The first phase of this project involves the construction of houses located in Ngara (in Nairobi), while the second phase entails the planned construction of houses at Parkroad, Jogoo Road Estate, Shaurimoyo, Mbotela, Ahero flats and Nairobi West areas;
- Capacity building activities will be improved for agencies, implementing policies and programmes targeting the vulnerable groups.

Chapter Four

4 Improving Governance

4.1 Public Safety, Law and Order

Policy Review

Kenya has faced significant challenges in its efforts to improve the investment climate, service delivery and personal safety records, of the country. This has been largely due to the obstacles posed in trying to curb corruption and reduce incidences of crime. The IP-ERS focused its policy proposals on the need to restore the rule of law, maintain an efficient and motivated police force, eliminate corruption, strengthen legal and justice institutions, create an enabling legal and regulatory framework, and reduce overcrowding of prisons among other priorities. As reported in the 2003-2004 APR, a significant amount of work was carried out in designing a comprehensive institutional system with good policies and strategies, accompanied by an increase in resources and capacity building initiatives. Most of the activities planned in 2003-2004 as described in the 2005 APR, made reference to anti-corruption measures such as preparing an anti-corruption strategy and prosecuting those involved in corruption cases.

The broad sector priorities are encapsulated in a sector wide approach under the Governance, Justice, Law and Order Sector Reform Programme (GJLOS), coordinated by the Ministry of Justice and Constitutional Affairs. The programme is cross-institutional in orientation and therefore captures much more than just anti-corruption initiatives, in line with what was proposed in the IP-ERS. The GJLOS programme strives to deepen reforms in 32 departments, including the Kenya Police,

Prisons, the Immigration Department, the Kenya Anti-Corruption Commission, the Judiciary and the Department of Public Prosecutions. In 2004-2005, the pilot phase of the programme was implemented in form of the Short Term Priorities Programme (STTP).

The STTP revolved around 7 key result areas (which were also cross-institutional thematic groups). These are:

- (i) ethics, integrity and anti-corruption;
- (ii) democracy, human rights and law;
- (iii) justice, law and order;
- (iv) public safety and security;
- (v) constitutional development;
- (vi) quality services to the Government and public; and,
- (vii) leadership and change management.

A total of KSh. 3,260 million was allocated for the one year programme. From this amount, approximately, 26 per cent of the funding came from the Government, while the remainder was provided by development partners. Notably, the GJLOS programme covers about 10 per cent of the total sector funding.

In the medium term, the following GJLOS priorities reflect the priorities of this sector in its entirety. These entail:

- (i) Reforms in governance, that include intensifying the ongoing fight against corruption;
- (ii) Human rights reforms aimed at empowering the poor, marginalised and vulnerable, through rights based approaches;

- (iii) Justice reforms, including equal access to justice for all and commercial law reforms necessary for private sector development;
- (iv) Law and Order reforms focusing on crime prevention as well as broader police and penal reforms; and
- (v) Reform-oriented capacity building with an emphasis on changing sector-wide work culture attitudes and in so doing, infusing a positive work ethic.

Measuring performance against output and outcome indicators will be a significant part of the GJLOS programme. Currently, Indicator 29 (ratio of concluded cases to reported cases) captures only one dimension of the sector. Moreover, not only is the relevant data unavailable, but targets have also not been set. As a result, the GJLOS programme proposes three outcome indicators against which performance can be measured:

- The percentage changes in the overall Corruption Perception Index, conducted annually by Transparency International Kenya Chapter.
- The percentage changes in the Domestic Crime Index. This index will be based on a baseline national household survey that will measure domestic crime and the views of citizens in terms of their perceptions concerning safety in the home, in public places (such as walking on the streets) and observed safety standards on the roads.
- The percentage of citizens who report that they have access to justice through legal redress and agents of law and order in the event of dispute resolutions.

Future sector reporting will be driven by the GJLOS framework based on the IP-ERS targets and GJLOS indicators. Baseline data for the indicators will be collected during 2005-2006 and thereafter, targets will be set against which to measure progress in implementation. Achievements reported in the next section, include and go beyond what was achieved in the GJLOS programme. Three areas of focus, in line with the IP-ERS entail: security and police reforms; anti-corruption measures; and judicial reforms in the dispensation of justice.

4.1.1 Security and Police Reforms

The Government is committed to ensuring that security, peace and tranquillity prevail in Kenya, in order to provide an enabling environment for wealth and poverty reduction. Accordingly, improving security and enhancing conflict resolution initiatives are key aims of the internal security and provincial administration structure. While this section focuses largely on police reforms, it should be noted that provincial commissioners (PCs), district commissioners (DCs), district officers (DOs) and chiefs also play a significant role in the effort to improve security. With regard to this, 4,000 chiefs and assistant chiefs, 694 DOs and 70 DCs were trained to be more customer-orientated both in their methods of implementing community policing strategies as well as during conflict resolution. Notably, this government structure is complemented by the private sector security providers.

The IP-ERS set a target of reducing the number of reported crimes from 63,000 in 2001 to 35,000 in 2006. However, in the last four years, the crime rate in the country has been

increasing. The number of reported cases of crime was 73,340 in 2003, 83,841 in 2004 and 75,400 in 2005. This suggests that Kenya is not on track to meeting the above target and given the current crime records, more realistic targets will need to be set. The apparent increase in the incidence of crime is attributed to: greater awareness on the need to report crimes in addition to more friendly police stations; an inflow of illegal arms due to the instability prevalent in some neighbouring countries; and, inadequate police numbers.

The main policy approach towards reversing the current rise in the incidence of crime focuses on mapping crime spots in urban and rural areas and thereafter, deploying more police officers in all the crime prone areas in order to enhance both the visibility of police officers in the public domain, as well as their actual physical presence. This obviously requires a significant increase in the number of police officers, police vehicles, communication equipment, in addition to an improved collaboration with members of the public.

Achievements and progress on implementation

Recruitment and training

From 2003, a target number of 2,000 police officers were to be recruited annually. In 2004-2005, 1,960 officers were recruited and trained. While this target was met, this rate of recruitment has not had a great impact on the police/population ratio due to the high attrition rates (including death and retirement). Hence, in order to reduce the police to population ratio from 1:1,150 to the UN

standard ratio of 1:450, plans are underway to increase the recruitment numbers to 4,000 officers per annum, during 2005/06. Furthermore, in order to bridge the UN police/population ratio, the Government will need to expand the police training institutions and provide at least 40 new barracks that can accommodate 100 officers each. Accordingly, 2372 officers were retrained in various courses as a method of improving on service delivery.

In 2004-2005, 1482 Administration Police (AP) officers were recruited and trained against a target of 1,400 per annum. Similarly, the female ratio in the workforce increased by 17 per cent. Approximately, 2421 AP officers attended reorientation training supported by the GJLOS programme. A community based policing framework was developed and launched in April 2005.

Improving Incentives and Housing Conditions

As part of the concerted efforts being made to motivate the police force and improve their working conditions, a new Scheme of Service is currently in its developmental stages. In addition to staff salary increases of 150 per cent in 2003, staff allowances are also being reviewed. The Kenya Police Housing Inter-ministerial Taskforce was established on 5th March 2004. This taskforce was appointed to address the accommodation challenges facing the police force, carry out a study on Housing for the Police Service and come up with immediate, medium and long-term recommendations on the appropriate sustainable housing programme for police officers countrywide. The Taskforce did

complete its investigations which also involved conducting a baseline survey which shows that the Police Force has a total of 8,890 housing units (some of which are semi permanent - mud-walled) countrywide, against a population of over 40,000 police officers. Consequently, to alleviate these pressing accommodation needs, the force would require about 27,000 new housing units countrywide, 7,000 of which should be located in Nairobi.

4.1.2 Anti-Corruption measures

The Anti-corruption Programme outcomes identified in the IP-ERS were to reduce corruption incidents and thereby, lower Kenya's international rating by 50 per cent annually. According to the Transparency International Corruption Perception Index for 2005, Kenya's rating, (number 148 out of the 158 countries surveyed), was the lowest in East Africa, at par with the Democratic Republic of Congo, Somalia and Sudan. Kenya registered the same rating of 2.1 in 2004. In terms of bribery, the 2005 Kenya Bribery Index established that the level of corruption encountered by the public declined in 2004, but by significantly less than the reduction figures reported in 2003. The number of bribery situations reported declined from 40 per cent to 34 per cent of encounters with officials, in both the Public and Private sectors. Furthermore, the number of bribes paid declined from an average of 2.7 to 0.5 (i.e. one bribe for every two people who interacted with officials). While the Bribery Index demonstrates a reduction in the level of corruption experienced by citizens, challenges still persist in Kenya's efforts to improve her international

image. These challenges focus on corruption and meeting the relevant targets stipulated in the IP-ERS. As mentioned in an earlier part of this chapter, household surveys have been planned for as an improvement on the quality of information pertaining to corruption related issues.

The Kenya Anti-Corruption Commission was given the mandate to reduce incidences of corruption in the Public service by implementing the five-year Anti-Corruption Strategy implemented in the 2003-2004 APR. This Strategy reflected the concrete actions proposed in the IP-ERS such as finalising investigations on the Goldenberg scandal, replacing corrupt judges, and repossessing grabbed land and public housing. Further actions proposed included implementing the Public Officers Ethics Act, establishing an Ombudsman, and banning corrupt contractors from participating in public procurement. However, measuring the success of anti-corruption initiatives has proved to be difficult, since success is relative and gains made can be reversed by a few adverse incidents. Consequently, the Anti-Corruption Strategy needs to be reviewed every year, for an update on the progress made and also to reassess the reform measures proposed. The following section presents an overview of progress made in 2004/05.

Achievements and progress on implementation

Institutional Arrangements

The Department of Governance and Ethics became fully operational, equipped with the

necessary resources to enforce compliance with the Public Officers Ethics Act. However, the Governance and Ethics Permanent Secretary resigned in February 2005. The Public Complaints Office (Ombudsman) was administratively established on an interim arrangement within the department of Governance and Ethics. An administrative order to formally establish the office was prepared and currently awaits presidential approval before being gazetted.

Activities of the National Anti-Corruption Commission Steering Committee were constrained due to the resignation of its director and 6 of its 34 members in March 2005. In addition, the steering committee which was formed after the presentation of the 2004/05 budget only received support from GoK in January 2005. The funds were then used to set up and equip the National Anti-Corruption Commission Steering Committee secretariat. However, the Steering Committee was operating its functions without a Director and Programme Officers even after March 2005. At the time of compiling this Report, plans were at an advanced stage to recruit officers. Full operations of the Steering Committee are, therefore expected to take course during 2005-2006, including the launch of the National Anti-Corruption Campaign in 2005/06.

Investigations into Corruption

In 2004-2005, the Goldenberg Commission of Enquiry finalised its public hearings as scheduled, but the final report which was due to be released in September/October 2005, has to date, not been released. A similar case in point concerns the prosecution of 6 civil

servants in the Anglo-leasing case which is still under investigation and before the High Court. With regard to this, Kroll International, hired by (gok) is investigating resources that may have been acquired in a corrupt manner and stashed abroad, with a view to tracing and freezing such assets. The interim report was to be submitted in 2004-2005, but there were delays in finalising the investigations.

Judicial officers implicated in corruption continue to appear before the disciplinary tribunals. The Chief Justice constituted an Integrity and Ethics Committee (as anticipated), to continue the work of cleaning up the judiciary. The committee is currently holding public sessions to receive complaints against judicial officers. In total, 82 magistrates, 17 High Court judges and 6 Court of Appeal judges were implicated in alleged corruption cases, unethical conduct and judicial misconduct. About 13 magistrates, five judges of the High Court and two judges of the Court of Appeal contested the report by the Integrity and Anti Corruption Committee of the Judiciary; hence the commissioning of the Tribunals.

National Anti-Corruption Campaign

The Cabinet Committee on Anti-Corruption chaired by the Minister of Justice and Constitutional Affairs continues to provide guidance on policy and administrative interventions in the fight against corruption. The Committee recommended the implementation of the Ndungu Report on the repossession of illegally acquired land and also directed the Efficiency Monitoring Unit to analyse the level of compliance with the Public

Officers Ethics Act in terms of Declaration of Wealth. With regard to the Ndungu Report, a tribunal to vet land title deeds and identify illegally acquired property (for immediate cancellation) has been set up. Consequently, efforts to repossess illegally acquired public utility land, government houses, water catchments areas and forests are currently underway.

4.1.3 Judicial Reforms and Dispensation of Justice

The IP-ERS underscored a range of initiatives required to be undertaken as a way of strengthening the Judiciary and the dispensation of justice. These initiatives were captured in the Strategic Plans of the MoJCA and the Ministry of Home Affairs. The MoJCA focal points have been the development of an effective and efficient legal system, the promotion of a democratic and stable political environment, facilitating the Government's efforts towards fighting corruption as well as promoting and protecting human rights in the country.

The main objectives of the programmes and activity implemented by the Ministry of Home Affairs with respect to the dispensation of justice is to ensure decongestion in penal institutions through presidential paroles and offenders to serve under non-custodial sentences of the Community Service Orders programme. According to the *2005 Economic Survey*, the total prison population rose by 16 per cent between 2003 and 2004. The population of prisoners serving less than one month reduced significantly by 36.9 per cent between 2003 and 2004, largely due to

the Government's long-term strategy of decongesting prisons through community service orders.

Achievements and progress on implementation

Strengthening Public Prosecution

The office of the Director of Public Prosecutions is being strengthened to ensure effective prosecution capacity. The prosecution of all cases was enhanced, while specialised units to prosecute anticorruption, economic crimes, serious fraud prevention and asset forfeiture cases were established. Furthermore, discussions were initiated with reference to the allocation of prosecution powers to KACC. Under the GJLOS programme, a review on laws on private prosecution was completed and a report prepared by the Kenya Law Reform Commission. In addition, two volumes of Kenya law reports were published and a website for the Kenya Law Reporting Council was launched. With regard to training activities, three Workshops were held to retrain Police Prosecutors on improved approaches to dealing with civilians. To complement these efforts, 70 new magistrates were recruited.

Democracy, Human Rights and Rule of Law

The target for 2004-2005 was to facilitate the constitution making process. In this regard, consensus forums were held, the Constitution Review Act was amended to facilitate the adoption of a new constitution through a

referendum, and a roadmap for the completion of the Constitution Review Process was published.

The Kenya National Commission for Human Rights held stakeholder working sessions on penal reforms to create institutional and policy reforms that would take into account the basic human rights of an individual. It also responded to urgent human rights violations like the Meru Prison death cases. Work on the National Action Plan on Human Rights commenced and an Advisory Committee on Human Rights was also established. A report on the human rights situation in Kenya was presented to the United Nations Human Rights Committee in New York under the convention on political and civil rights. A bi-annual human rights journal was published and disseminated and annual human rights awards were publicly announced and awarded.

Decongesting Prisons and Rehabilitation of Youth

A task force on prison decongestion was formed. About 70 per cent of prisons identified as having serious congestion problems were visited and cases reviewed by the task force. Some 6,471 offenders were released on presidential parole while another 1,700 were released to serve under the Communities Service Orders Programme. The target of 12,000 was not met, since some of the inmates had either fine options, serious offences or were foreigners, and therefore, could not be pardoned. The target has since been reduced to 10,000 scheduled to be released on presidential parole in 2005/06. The

parole process at the Prisons Service has now been enhanced so that those who qualify can be pardoned.

The Community Service Orders Programme registered a total of 44,000 offenders against the targeted 35,000. This was a result of increased awareness among magistrates to commit petty offenders to serve under this non-custodial programme instead of a custodial sentence. Approximately 28 prison paralegal and liaison officers were trained to enhance access to justice among prisoners.

An estimated 300 offenders were targeted for skills and entrepreneurship training as well as support from distress relief. This target was exceeded by a further 350 offenders under this support programme due to an increase in both international and national funding. In addition, 4000 prisoners were examined in various trade tests while 57 attained professional qualifications. However, this achievement was below par since the targeted number of offenders was 10,000. It therefore became apparent that this target was unrealistic considering the number of released prisoners and lack of specified budgetary allocation for the purpose.

The National Youth Service continues to train the youth (including former street children) with a view to both rehabilitating them and improving their chances of being productive members of society. A total of 231 out of a target of 290 youth were trained in various skills and attained trade tests. In addition, a draft policy on OVCs was developed and is currently pending awaiting approval by the Cabinet and finalisation in 2005-2006.

4.1.4 Immigration

To strengthen immigration services, the IP-ERS recommended that the Ministry of Immigration and Registration of Persons should enhance its collaboration efforts with key stakeholders, computerise the institutional system and ensure that all immigrants are in possession of requisite passes and permits.

Achievements and progress on implementation

In 2004/05, several initiatives relating to the computerisation of the passport issuing system, the Visa issuing system and the Personal Identification Secure Comparison and Evaluation System were undertaken. In addition, information on the immigration procedures of three airports was monitored using the Personal Identification Comparison and Evaluation System. Consequently, the Visa issuance system will be implemented in 2006-2007. The Registration of Persons indicated that 5.5 million Kenyans were registered and issued with identification documents (IDs) against a target of 16.2 million. In addition, 12 million first generation IDs were replaced with new IDs against a target of 13.5 million.

Challenges

Whereas notable progress has been made in several areas, the sector has encountered some challenges and constraints that have hampered the pace of achievement. They include the following:

- Inadequate capacity building, negative

perceptions held with regard to Public sector operations, corruption, insufficient funding, increased incidents of sophisticated crimes, the impact of HIV/AIDS on staff, and the lack of public confidence in the police service all posed major challenge in the provision of service by the Police force.

- Occasional political interference was cited by certain governance institutions as a disruption to efficiency in service delivery.
- While the Government has commenced the development of legal aid schemes and developed legislation to establish a Small Claims Court, the cost of delivering justice continued to be expensive in most regions of the country. This is largely due to an insufficient number of judges and magistrates, poor and deplorable court buildings and equipment, outdated information processing and retrieval systems.
- Many governance institutions such as the Judiciary and State Law Office face major challenges in minimising and/or eliminating loopholes that make it easy for corruption to thrive.
- The achievement of outputs in constitutional development was affected by the stalemate in the constitution development process.
- The failure to adhere to donor-stipulated conditions, particularly those related to financing agreements, had a negative effect on the smooth implementation of programmes.
- Implementing institutions also faced capacity challenges, especially when scheduled activities could not be completed on time due to insufficient personnel.

A plausible explanation for this situation is that many departments were too ambitious during the planning process and therefore, did not carry out adequate assessments of their capacity. Future planning and budgeting should therefore be guided by the achievable outputs, taking into account their actual capacities to implement policies and activities, as well as the availability of resources.

Lessons learned and the way forward

There have been commendable efforts made to address the huge challenges faced by the public safety, law and order sector. However, challenges still exist, and more needs to be done in order to reverse the crime rate, curb deep rooted corruption as a way to improving Kenya's international image, the judicial system and the rule of law. The establishment of the GJLOS programme clearly defined sector priorities and is therefore a step in the right direction to accelerate the realisation of much needed reforms. The estimated finances required for the GJLOS programme over the medium term is KSh. 21.7 billion.

Developing the policy, legislative and regulatory framework, investing in the GJLOS infrastructure and improving access to justice are important priorities during 2005-2006. The Government's Anti-Corruption Action Plan provides guidance on actions to further strengthen and develop governance institutions. As the GJLOS programme matures, relatively more resources will be devoted to improving access to justice, continuous training, skills development and change management.

In conducting a review of the public safety, law and order sector, it is evident that the monitoring and evaluation (M&E) culture amongst officers needs to be entrenched. Baseline data should be availed to facilitate proper targeting and measurable outcome indicators useful to demonstrate tangible results. Several indicators have been proposed to measure the performance of the sector and need to be subjected to a consultative process.

4.2 Public administration

4.2.1 Public Service Reform

Policy Review

The government is committed to implementing reforms that will provide the country with a Public service that is able to effectively play its role in Kenya's socio-economic development. In the medium-term, the Government seeks to improve performance in the Public service by: downsizing the public service; reforming pay structures; reforming pensions; and, building the capacity of the Public administration. The IP-ERS indicator that relates to public administration is indicator 4, which measures public sector wages as a proportion of the GDP. Its purpose was to monitor the progress made in keeping the public sector wage bill under control. The target for 2004-2005 was 8.14 per cent and it was achieved. During 2004-2005, the Government spent 7.8 per cent of the GDP (35 per cent of the total expenditure) on the wage bill. The Teachers' wage bill in particular, accounted for over two-thirds of the total public sector wage bill.

There are several key departments oversee initiatives on public service reform. These include the Cabinet Office – Public Service Reforms and Development Secretariat (PSR&DS), Department of Personnel Management (DPM), Public Service Commission (PSC), MoF and others. The PSR&DS is responsible for overall policy guidance, coordination, monitoring and evaluation of all public sector reforms and is also leading the Results Based Management (RBM) initiative. The Government introduced RBM in 2004 to enable ministries/departments to re-focus the goals and objectives of the workforce towards cost effectiveness and responsiveness to customer demands and needs and ensure that budget executions reflect policy intentions. In addition, the Public Officers Ethics Act (2003) aims at improving service delivery by promoting transparency and eliminating corruption. Several of the activities listed in the next section were in their early stages in 2003-2004 as noted in the previous APR.

Achievements and progress on implementation

Deepening Ministerial Rationalisation

In July 2001 the Government published the Strategy for Performance Improvement in the Public Service, which promised that a results-oriented management approach would be introduced across the Public Service, and that service delivery surveys would be conducted in all ministries. The initial ministerial rationalisation and staff down-sizing exercises completed in 2000 were useful in identifying gaps in organisational structures and staffing

levels. As a result, new organisational structures and appropriate staffing levels to manage them were recommended as the way forward. Each ministerial rationalisation report made specific recommendations regarding the overlapping and duplication of functions within and between ministries. The reports also proposed the establishment of semi-autonomous government agencies and diverting non-core functions through contracting-out, privatising, or abolishing certain functions. Implementation of the recommendations started in all ministries during 2004-2005. This process is expected to continue in 2005-2006.

Voluntary Early Retirement Scheme

In order to rationalise the public service and reduce the wage bill/GDP ratio and wage bill/revenue ratio, the government developed a voluntary Early Retirement Scheme. This scheme targets cadres in bloated and non-core functional areas. The scheme was to be implemented with effect from 1st July 2004 until 30th June 2007. In response to this, a total of 21,338 employees are expected to retire. Over the same period, natural attrition is expected to reduce the size of the civil service by an additional 2,000 positions per annum without replacement. The first batch of retirees left the service from 1st July, 2005. By this date, a total of 1,395 retirees had exited the service, against a target of 3,000. Hence, to meet the stipulated target of 21,338 employees retiring by the end of 2006/07, 10,000 employees will need to retire in 2005/06 and in 2006/07.

Strategic Planning

The concept of each ministry developing both strategic plans and action plans was adopted by the Government as a fundamental process to deepen ministerial rationalisation procedures. Consequently, during 2004-2005, 80 per cent of ministries and departments had developed their strategic plans. The remaining ministries are to complete their plans in 2005-2006. Some ministries/departments also took measures and actions to divest from non-core functions previously provided. These included the transfer of staff within and between ministries/departments and contracting out some non-core services such as cleaning and maintenance services to the private sector.

A matrix for harmonising all reform initiatives including RBM, performance contracts and performance appraisal system mechanisms to enable the Government redirect resources to priority areas was developed. An action plan for updating the matrix and developing a monitoring and evaluation system is currently under preparation.

Results Based Management

The institutional structure and individual roles and responsibilities for RBM roll out were defined. The Cabinet Standing Committee on public sector reforms provides the policy direction for the implementation of the RBM in the public sector. The National Steering Committee for Public sector reforms comprising of all Permanent Secretaries (or Accounting Officers), and chaired by the Head of Public service, oversees the implementation of RBM through receiving and evaluating

result-based reports from the public sector reforms secretary on a quarterly basis. A public service reform and development Secretariat was established in November 2005 to guide the operations of RBM within the public service.

Benchmarking of the RBM with Canada and Sweden was successfully undertaken by both policy and technical teams in May 2005. Management units were then established in all ministries and departments to spearhead the RBM among other reform initiatives. A total of 102 officers were trained at Kenya Institute of Administration in July/August 2005. Training initiatives targeting management units from 9 local authorities was completed and arrangements to train the remaining local authorities and state corporations are underway in 2005-2006. The RBM policy guide, tools and instruments as well as training programmes were developed and are ready for printing and distribution. Finally, all ministries and departments were expected to conduct Public service delivery surveys to establish baseline information on current service delivery status. Unfortunately, the majority of ministries and departments did not fulfil this expectation, largely due to the lack of sensitisation on the actual benefits of in undertaking such surveys.

Performance Contracts

A new system of performance contracts is currently being implemented across the Public service, in commercial and non-commercial state corporations as well as in the core civil service. Performance contracts, which are intended to improve accountability and focus

resources on the attainment of key national policy priorities, were expected to be signed in all corporations and civil service ministries and departments by the end of June 2005.

The IP-ERS underscored the need to improve the performance of the public sector by the introduction of performance contracts for chief executives of state corporations and permanent secretaries. Thereafter, heads of departments in ministries/departments were also expected to sign performance contracts. Accordingly, the enabling legislation providing the legal framework for the distribution of performance contracts was gazetted in August 2004. By December 2004, approximately 16 state corporations were bound by the contracts. Training and sensitisation was subsequently undertaken in the remaining 120 state corporations to enable them introduce the contracts during 2005-2006.

Performance Management System

One of the major challenges facing the civil service is the development of a remuneration system which takes into consideration the worth of the job, rewards performance and is also commensurate with prevailing economic conditions. Consequently, there is a need to develop and institute a performance management system and benchmarks that will in turn, entrench a performance-related reward system within the Civil service. To this effect, a thorough job evaluation exercise was initiated in 2004-2005 to cover all cadres of employment in ministries and departments, excluding the Armed Forces. This evaluation exercise is expected to continue during 2005-2006.

In the year 2000, the Government revised the performance appraisal system to enhance the performance of Civil servants through interactive evaluation. During 2004-2005, the appraisal system was reviewed to link it to the RBM in the Public service. A performance management system, guidelines and tools to facilitate the operations of the system will be undertaken in 2005-2006. In 2004-2005, the PSC received 36,467 staff appraisal forms as compared to 8,304 annual staff reports received during the previous year. The PSC also set up a Personnel Audit Department to monitor the delegation of powers to authorised personnel who would ensure that these powers were not misused or abused.

Waste free clean up Kenya Campaign

A Waste-free Programme went through the pilot stage in 15 ministries/departments, two state corporations, one local authority, seven provincial headquarters and eight district headquarters. The Programme involved re-engineering processes and eliminating non-value added activities and waste. Consequently, this programme will be rolled out to the remaining ministries before the end of 2005-2006. However, there is need to make the process more comprehensive and institutionalise it within the Public service.

Recruitment and Training Policy

Over the years, training and capacity building efforts in the Civil service have been guided by policy guidelines contained in various government documents, reports and publications. Unfortunately, there has not been a single comprehensive policy document to

provide direction on training activities and harmonize these activities across the Service. During 2004-2005, the Government approved a comprehensive recruitment and training policy to provide a framework for effective recruitment and training in the public service. Training and capacity building for performance improvement will therefore be more demand-driven throughout the Public service.

Promoting Meritocracy in the Public Service

The Government is committed to ensuring that competent Public servants are recruited, motivated, retained and placed in the right positions to professionally manage the implementation of government policies. Towards this end, the PSC initiated the following activities:

- All Public Service Commissioners were trained on strategic management
- Recruitment and selection procedures are currently being modernised and updated
- A review of the examinations syllabus is underway
- The operations of the personnel audit function are in the process of being strengthened and improved. The motivation for this is for purposes of updating the Audit Report on the activities of 165 local authorities by 2005/06
- Basic computer equipment was acquired with a view to automate various processes. Moreover, appropriate software options are currently being implemented to further enhance efficiency in record keeping and information dissemination in various ministries and departments.

Pay Policy for the Public Service

The Government established a Permanent Public Service Remuneration Review Board (PPSRRB) in November 2003 to harmonise remuneration packages across the Public service. Accordingly, the Board prepared and presented its first report in 2004-2005 to the Government. A draft Pay policy for the Public service was finalised and submitted to the Government for necessary action. The key elements of the Pay policy are: enhancing basic pay in line with the increased cost of living; linking of salaries to performance; aligning the pay structures in the Civil service; harmonising the various pay regimes in the Public service; and relating remuneration to the availability of funds.

For the period 2004-2007, the Government made a commitment to provided KSh. 7.6 billion for the salary adjustments of Civil servants. The amount was based on the projected government revenue receipts over the same period. Consequently, in 2004-2005 the Government approved salary adjustments for various categories of personnel in the Civil service, judicial staff, the State Law Office and the Teachers' Service Commission secretariat. These salary adjustments, effective from 1st July 2004, mainly benefited the lower and middle level cadres in job groups "A" to "N". The cost of the salary adjustment during 2004-2005 was KSh. 3.4 billion. The balance, amounting to KSh. 4.2 billion was spread over the remaining two years.

The salary adjustments took cognisance of a pay structure that recognises the need to address the rising cost of living; the wide

disparity in salary differentials between the Public and the Private sectors; the need to attract, retain and motivate skilled and qualified personnel in the Public service (especially the professional, technical and managerial cadres); and the Government's ability to pay within budgetary constraints.

Pension Reform

During 2004/05, the Cabinet approved the introduction of a Contributory Pension Scheme. A number of reforms were undertaken to streamline and make the scheme sustainable. They include:

- The Pensions (Amendment) Act, 2003: This Act stipulates that retiring officers should be retained in the Service until their benefits are paid in full. It further requires that the payment of interest on delayed benefits be paid to the dependants of deceased officers.
- The current Pension Scheme should be converted into contributory and funded schemes: This necessitates that officers contribute a percentage of their basic salary towards their pension benefits, with the Government contributing the balance to fund pensions. In addition, the money contributed will be invested to build up a fund that will be managed by a board of trustees.

Schemes of Service

The primary objective of a Scheme of Service is to provide a clearly defined career structure, which will attract and facilitate the retention of suitably qualified officers in the Public service.

Consequently, revisions to Schemes of Service were carried out during 2004-2005 to ensure that different Schemes were harmonized and further, promoted horizontal equity within the Service. This would enable officers with equal qualifications and experience to enjoy similar career progression opportunities. The development of Schemes of Service for all the cadres lacking them was initiated during 2004-2005, and is expected to continue in 2005-2006.

Integrated Payroll and Personnel Database (IPPD)

The objective of the IPPD was to enable ministries and departments to maintain up-to date staff records; prepare their respective payrolls; and, better evaluate the utilisation of staff. A substantial amount of work relevant to this objective was carried out in 2004-2005. Thereafter, the system was rolled out to all except two ministries. This exercise is scheduled to continue during 2005-2006. It is estimated that 270 operatives and supervisors were trained on the system in all ministries.

Challenges

A wide range of programmes on staff rationalisation and reduction in the size of the Civil service were implemented in the period under review. However, inadequate sensitisation of ministries and departments on the reform agenda; weak implementation of guidelines on divestiture of non-core functions; and weak coordination arrangements for staff deployment/redeployment in line with recommendations of the ministerial rationalisation exercise of

1999/2000, led to slow progress towards achieving the set output targets. Furthermore, the implementation of the Voluntary Early Retirement Scheme is behind schedule due to a court case between the Government and the Union of Civil Servants that took a considerable period of time to conclude. The case was finally concluded in May 2005, thereby allowing the Government to continue its efforts at implementing the scheme.

Challenges faced revolved around inadequate provision of management consultancy services by DPM to ministries and departments, which consequently, led to delays in reviewing and developing schemes of service and career guidelines for various staff cadres. Furthermore, unreliable complement control records and the absence of an effective monitoring and evaluation system to provide feedback from ministries and departments on the implementation status of programmes/activities further complicated the situation.

The main instrument used to evaluate performance is the annual Staff appraisal form. However, this form has some inherent weaknesses which make the appraisal process largely ineffective. The first major weakness with the performance evaluation exercise is the absence of benchmarks, standards and targets for staff appraisals. Secondly, the results of the appraisal are rarely used to make decisions on staff training, promotion, discipline and redeployment. The only time that performance appraisals are deemed relevant or useful is when one is invited for an interview by the PSC. A third weakness is that at the present time, no suitable methodology

has been designed to assess the performance of officers in Job group 'F' and below.

Measures need to be undertaken to address these issues. They include:

- (i) establishing optimum staffing levels;
- (ii) issuing new establishment levels by structures in the service;
- (iii) introducing performance improvement programmes;
- (iv) implementing the new pay and benefits policy;
- (v) rationalising the operations and functions of the Civil service; and,
- (vi) institutionalising a comprehensive monitoring and evaluation system for Public service reform programmes and activities.

Lessons learned and the way forward

To reduce the Wage bill, it will be necessary to continue with the implementation of the Voluntary Early Retirement Scheme with the objective of downsizing the Civil Service by 21,000 over the medium-term. The Government will also continue with its efforts to downsize its workforce so as to create a leaner and more efficient Civil service. This will be instituted through pay reforms, the introduction of performance based management and the rationalisation of ministerial structures with the aim of reducing both the duplication of functions and non-productive functions. Due to commitments relating to the Teachers' and Civil Service salary awards, the 2005 Budget Outlook Paper proposed revisions both to the Wage bill and GDP targets over the medium term. The targets will be adjusted gradually in the period

2005-2008 as follows: 7.6 per cent for 2005/06, 7.5 per cent for 2006/07 and 7.3 per cent for 2007/08.

The implementation of the RBM was viewed as a major reform target during 2005/06. However, the change of focus from inputs and processes to outputs, results and value-for-money will be critical in reducing the mismatch between strategic plans and the progress made on implementation. This will help in monitoring the IP-ERS targets. It is envisaged that the 2005-2006 APR will draw heavily from planned activities and outputs, as stated in performance contracts. Progress will also be assessed using information derived from quarterly monitoring reports. Similarly, performance contracts will assist in developing indicators and intermediate benchmarks for the public administration sector. Furthermore, it has been recommended that preparations for the submission of IP-ERS annual progress reports be captured in the Performance contracts of ministries and departments, alongside the preparation of the ministerial public expenditure reviews, sector reports and budgets.

Reforms must be accompanied by behavioural change if they are to succeed. To do so, several concerns will need to be addressed. The relevant concerns include the following:

- There needs to be a broad sense of ownership of the reform strategy throughout the Public service.
- Structured implementation plans and institutional frameworks must be developed to include a series of detailed

guidelines on the modalities of turning strategic goals into lasting change.

- All ministries and departments should realise that day-to-day management and decision-making processes must be transferred to lower operational levels, together with appropriate accountability. This will inculcate greater responsibility and incentives, as well as a greater sense of job satisfaction.
- In order to enhance staff morale and improve performance, there is a need to develop specific performance benchmarks, standards and targets for each division. These should then be translated into individual performance targets. In addition, an appraisal system for officers in job group 'F' and below should be developed to take account of the performance indicators.
- There is need for a more effective integration of interested parties and initiatives to increase incentives which would address public sector resource management issues in a more comprehensive manner. The DPM, PSC, PSR secretariat, MPND and the MOF must work together to create a more coherent programme of reforms and incentives that will increase productivity in the public sector.
- Decentralisation and Local Government Reforms.

Policy Review

The Government of Kenya is committed to strengthening the Local Government as a matter of priority, in an endeavour to improve the overall management of the public sector.

Accordingly, the Government's assurance on the devolution of operations is underscored in the recognition of local authorities as effective partners in with regard to governance and development processes. In its policy and technical oversight role, the Ministry of Local Government (MoLG) acknowledges that decentralisation is a process which involves changes in governmental structures and entails the transfer of political, administrative and financial power, authority and responsibility to the lower levels of Government. Furthermore, the design and implementation of decentralisation and local government reforms are critical in realizing the full benefits of decentralisation, while ensuring continued macroeconomic stability, regional equity, and the reduction in incidences of corruption.

To this effect, the IP-ERS accentuated the need to accelerate the Local Government reform process as a way of improving on local service delivery, good governance and poverty alleviation. Consequently, the IP-ERS placed a high priority on facilitating operations of the Kenya Local Government Reform Programme by implementing the Local Authority Service Delivery Action Plan (LASDAP). The Integrated Financial Management Information System will be established, as well and efforts will be made towards the implementation of a comprehensive decentralisation strategy. Furthermore, the Local Government Act will be reviewed. It is anticipated that the Constitutional Review process will also be accelerated.

In 2003-2004, mechanisms were put in place at the local level to strengthen monitoring and evaluation efforts. This was achieved through a rollout of the Local Authority Integrated Financial and Operations Management System, and a review of the Local Government Act. It was envisaged that this review of the Act would be finalised after the completion of the Constitution Review Process.

Indicator 30 of the Indicator framework aimed at measuring achievements of the public sector with reference to levels of transparency and the devolution of power. Accordingly, an indicator recording the proportion of total public sector spending which was controlled and managed at the local level was approved with the objective of measuring the devolution of power. While the base data on this exists, measurements of this indicator and the setting of targets have not yet taken place. Furthermore, moving forward public sector transparency and the devolution of power should be separated, since the two objectives require different indicators to monitor and evaluate the progress made.

Achievements and progress on implementation

In 2004/05, a considerable amount of work was undertaken to ensure that the proposed new constitution would firmly establish the legal framework for decentralised governance by introducing fundamental structural changes and increasing local level expenditure and revenue responsibilities. However, the rejection of the Draft

¹¹Targets in the IP-ERS indicator framework presented in the 2003/04 APR were 7.8 per cent for 2005/06, 7.3 per cent for 2006/07 and 6.7 per cent for 2007/08.

Constitution in 2005/06 has stalled the process of establishing the necessary legal framework.

Further, the MoLG has been strengthening the institutional and policy framework, systems and capacity to effectively provide the required local governance and public services in a responsive, efficient, accountable and transparent manner. Key achievements stipulated for 2004/05 include the following:

- The dissemination of enhanced annual budget preparation guidelines and the decentralisation of the Local Authorities' annual budget evaluation to Provincial Budget Committees prior to the final approval by MoLG. (the use of local authority funds is explored in Chapter 6)
- The inclusion of projects in the Budget which target the poor make up an estimated 20 per cent of the annual budget. In addition, Local Authorities (LAs) will be expected to utilise 10 per cent of their annual budgets for debt repayments, and development of financing mechanisms.
- The development and dissemination of LASDAP guidelines is expected to continue. The LASDAP process currently involves over 43,000 citizens participating in over 1,000 community meetings nationwide. This is with a view to identify local projects for inclusion in the local authority budget priorities.
- Enhancing the periodical inspection of Local Authorities and a strengthened M&E system is considered a priority (see Chapter 6). In 2004-2005, a Financial and Operations Management System was introduced to Local Authority organs and subsequently tested in

selected authorities. Plans are underway to spread this system in 8-10 Local Authorities in 2005-2006, prior to a nation wide rollout to all LAs scheduled for 2006-2007.

- The introduction of performance contracts was also viewed as a step in the right direction. Accordingly, these contracts have been distributed in Nairobi, Mombasa, Kisumu, Nakuru and Eldoret. All workers in the affected sectors have signed their contracts with the MoLG, while the rest of the Local Authorities are expected to sign their performance contracts by 2005/06.
- The implementation of staff rationalisation and right-sizing was initiated with a view to reducing the high wage bill, and improving efficiency and effectiveness in service delivery. With regard to this, the Result-Based Management initiative was rolled out in 10 Local Authorities.
- A financial agreement with the European Union was finalized with the intended purpose of contributing to poverty alleviation and financing the Local Government Support Programme. This will ensure continuity in the on-going reforms and as well as the introduction of a Poverty Reduction Fund as a performance grant.

Challenges

In 2004/05, the Ministry experienced large variations between planned and actual expenditure, with under spending of 49 per cent in the recurrent budget and 33 per cent in the development budget. The Ministry did not have a concise set of policy objectives, output targets and performance indicators. Consequently, the planning and

implementation of most programmes was conducted in an *ad hoc* manner, characterized by either no reporting or uncoordinated efforts. To address the disconnect between budget intentions and budget executions, the MoLG prepared a five-year Strategic Plan to refocus expenditure on core functions and priority programmes.

A large number of vacant posts exist in Local Authorities at the senior managerial and technical levels. This has created an inappropriate mix of personnel with insufficient managerial and technical expertise to guide and utilise operational staff to effectively carry out required local service delivery functions. Moreover, staff rationalisation and rightsizing in all LAs has had huge financial implications, which currently can not be met by MoLG or LAs.

Lessons learned and the way forward

The success of Kenya's Local Government reforms depends on a combination of strong and sustained political and operational leadership, adequate technical and financial resources, and active citizen participation. As decentralisation evolves, more expenditure responsibilities at the local authority level will require additional financial resources from the Central Government. This will mean an increase in resource allocation or revenue assignment to local authorities, thereby further underscoring the importance of setting targets for indicator 30 of the IP-ERS APR indicator framework.

The Government recognises that improving the Local Government budget process is a

multi-year effort, given the structural constraints facing some LAs in terms of staffing, personnel costs and allowances, heavy debts, a limited resource base and financial management capacity. Through sustained efforts the MoLG is encouraging LAs to review and evaluate their expenditure and revenue decisions in order to create a more stable budgeting environment.

The Government has also introduced a number of reforms which provide an enabling environment for LAs to improve service delivery. In particular, citizen involvement in planning, implementation and monitoring through the LASDAP process has been successful, and will continue to be the key forum for bringing citizens and leaders together to enhance service delivery and accountability.

Table 5.1 **Summary of the out turn: 2003/04 to 2006/07 (KShs millions)**

	2003/04	2004/05	2005/06	2006/07
	Actual	Prel. Actual	Revised Project	Budget
Total Revenue	255,087	289,802	327,371	369,022
Expenditure and Net Lending	276,549	303,705	420,388	459,012
Project Grants	11,411	14,905	27,865	37,053
Programme Grants	4,383	0	4,781	0
Balance (cash basis including grants)	51	1,388	-60,373	-52,937
Statistical discrepancy	-4,250	-5,910	0	0
Financing	-51	-7,298	60,373	52,938
Net foreign financing	-8,860	-625	26,993	23,531
Project loans	5,646	7,238	28,976	34,004
Programme loans	5,993	0	11,272	8,120
Net domestic borrowing	8,809	-6,673	25,378	29,553
Financing gap	0	0	0	0

Source: MoF

5.3 Medium Term Expenditure Framework (2003-2007)

As highlighted in the BOPA 2005, Kenya's medium-term fiscal framework is guided by the IP-ERS principles. The overall fiscal deficit is expected to be consistent with achieving domestic debt sustainability. In addition, the composition of expenditure should be in favour of capital expenditure as opposed to recurrent expenditures. There should also be a marked shift in resources toward the social and economic sectors. In addition, external borrowing will be limited to concessional financing in order to ensure that external debt remains sustainable. To achieve these objectives, the country will require improved public expenditure management to ensure value for money. **Table 5.2** provides a

breakdown of the total actual expenditure in 2003-2004 and 2004-2005, against the projected expenditure for 2005/06 to 2006/07.

During 2005-2006, the balance is expected to increase to KSh. 93 billion; from this amount, grants from donors are estimated at KSh. 32.6 billion, whereas KShs 60 billion will be financed from other sources. Financing will comprise largely of domestic debt (42 per cent), foreign loans (44 per cent) and privatisation proceeds (13.2 percent). Despite higher domestic borrowing, the domestic debt to GDP ratio is fairly moderate in 2005-2006. However, since, the economy is projected to slow down slightly in nominal terms; further borrowing is projected to push up domestic debt to 26 per cent of GDP in 2006-2007. This is substantially higher than 17.7 per cent target set in the IP-ERS indicator framework for 2006-2007.¹²

¹²For details see the BOPA 2005.

Chapter Five

5 Financing Framework for IP-ERS

5.1 Introduction

The key strategy underlying the financing of the IP-ERS lies squarely on Kenya's ability to attain a stable macroeconomic framework that is capable of supporting the sustainable and equitable economic growth required for poverty reduction. The Strategy targeted an inflation rate of less than 5 per cent, a reduced share of domestic borrowing coupled with restructuring of domestic debt from short to long-term. Moreover, it emphasised on the availability of cheap resources as a means of fostering growth initiated by the private sector. Indeed, the financing strategy was based on the assumption that Private sector participation would meet at least KSh. 96.9 billion worth of goods and services needed to support the IP-ERS.

In recognition of prevailing financial constraints in the country, the financing strategy also emphasised the need to shift resources from consumption to investment spending, implying a reduction in the share of recurrent expenditure in order to allow development expenditure to increase over time, while concurrently, and facilitating the full funding of core poverty Programmes.

5.2 Performance 2003-2005

Revenues have consistently reached the target of about 22 per cent of the GDP (in line with the ERS target) on an annual basis. This is notwithstanding the formation of the East Africa Customs Union under the East Africa Community (EAC). Indeed, over the period, revenues have grown consistently, in line with the IP-ERS target.

With regard to domestic borrowing, the lower domestic interest rate experienced during the fiscal years 2003/04 and 2004/05 was an indication of the government's success in restructuring government debt towards longer maturing debts, which was a key strategy envisaged in the IP-ERS. However, in terms of being a source of finance, there was a shortfall largely due the depressed market for government securities. The rate of return on government paper (both treasury bills and treasury bonds) was very low resulting in a weak demand. For the period 2004-2005, domestic borrowing of KSh. 25 billion was not achieved; indeed, there was a net repayment. This in itself meant that sectors could not get funding as had been projected.

Table 5.1 **Summary of the out turn: 2003/04 to 2006/07 (KShs millions)**

	2003/04	2004/05	2005/06	2006/07
	Actual	Prel. Actual	Revised Project	Budget
Total Revenue	255,087	289,802	327,371	369,022
Expenditure and Net Lending	276,549	303,705	420,388	459,012
Project Grants	11,411	14,905	27,865	37,053
Programme Grants	4,383	0	4,781	0
Balance (cash basis including grants)	51	1,388	-60,373	-52,937
Statistical discrepancy	-4,250	-5,910	0	0
Financing	-51	-7,298	60,373	52,938
Net foreign financing	-8,860	-625	26,993	23,531
Project loans	5,646	7,238	28,976	34,004
Programme loans	5,993	0	11,272	8,120
Net domestic borrowing	8,809	-6,673	25,378	29,553
Financing gap	0	0	0	0

Source: MoF

5.3 Medium Term Expenditure Framework (2003-2007)

As highlighted in the BOPA 2005, Kenya's medium-term fiscal framework is guided by the IP-ERS principles. The overall fiscal deficit is expected to be consistent with achieving domestic debt sustainability. In addition, the composition of expenditure should be in favour of capital expenditure as opposed to recurrent expenditures. There should also be a marked shift in resources toward the social and economic sectors. In addition, external borrowing will be limited to concessional financing in order to ensure that external debt remains sustainable. To achieve these objectives, the country will require improved public expenditure management to ensure value for money. **Table 5.2** provides a

breakdown of the total actual expenditure in 2003-2004 and 2004-2005, against the projected expenditure for 2005/06 to 2006/07.

During 2005-2006, the balance is expected to increase to KSh. 93 billion; from this amount, grants from donors are estimated at KSh. 32.6 billion, whereas KShs 60 billion will be financed from other sources. Financing will comprise largely of domestic debt (42 per cent), foreign loans (44 per cent) and privatisation proceeds (13.2 per cent). Despite higher domestic borrowing, the domestic debt to GDP ratio is fairly moderate in 2005-2006. However, since, the economy is projected to slow down slightly in nominal terms; further borrowing is projected to push up domestic debt to 26 per cent of GDP in 2006-2007. This is substantially higher than 17.7 per cent target set in the IP-ERS indicator framework for 2006-2007.¹²

¹²For details see the BOPA 2005.

Table 5.2 *Projected IP-ERS expenditure (KShs millions)*

	2003/04 Actual	2004/05 Prel. Actual	2005/06 Revised Projection	2006/07 Ceilling*
EXPENDITURE & NET LENDING	276,549	303,705	420,388	459,012
Recurrent	240,793	258,078	318,365	338,923
Wages and Benefits (civil service)	95,850	105,612	116,889	126,227
Ministerial Exp (Excl FPE & Health)	275,427	312,378	359,893	347,103
Transfer Payments				
Transfer to Local Government	4,070	5,035	5,653	6,201
Transfer to Households				
Pensions	12,220	12,568	19,736	22,932
Civil Service Reforms	273	100	7,073	2,177
Transfer to Non-Profit Institutions				
Parastatals (excl. MoH)	...	14,775	13,987	6993.5**
Parastatals in MoH	...	4,647	4,647	2323.5**
Universities	...	8,642	8,642	4321**
Other ***	...	6,133	5,345	2672.5**
Interest Payments	30,811	30,802	35,092	37,753
Capital Transfers				
Development & Net Lending	35,756	45,627	100,023	118,089
Memo Items				
Core Poverty Programmes	54,551	62,988	74,840	85,666
Non-Wage Recurrent	19,693	20,982	25,043	30,516
Wage Recurrent	7,795	9,652	12,040	12,328
Development Expenditure	27,063	32,379	37,236	5,054
o/w GOK for Free Primary Education****	4,861	2,035	2,340	1,536
o/w Non Wage Recurrent Health*****	2,928	2,864	1,246	1,433
Nominal GPD	1,207,748	1,361,562	1,536,450	1,682,575

Source: MoF

* 2006/07 Budget are the ceilings from the BOPA (Dec 2005 Edition).

** Refers to the estimates for 2006/07, the BOPA 2005 forecasts that transfers to parastatals will remain broadly constant over the medium-term.

*** Refers to transfers to all parastatals except those in Ministry of Health and universities.

**** Refers to development expenditure on primary school education but does not include Curriculum Support Services, the School Feeding Programme, Early Childhood Education

***** This is non-wage recurrent expenditure under the Ministry of Health

From **Table 5.2**, it is evident that the total expenditures are projected to rise from KSh. 276,549 million or 22.8 per cent of the GDP in 2003-2004, to KSh. 459,012 million or 27.3 per cent of the GDP in 2006-2007. In the medium-term, the objective of the Government is to restructure expenditure in favour of priority areas. In this regard, development expenditure is expected to rise from KSh. 35.7 billion to KSh. 118.1 billion in 2006-2007. In contrast, the wage bill is expected to decline gradually from 7.7 per cent of the GDP in 2003-2004, to 7.5 per cent in 2006-2007. Over the medium-term, the expenditure on core poverty programmes is approximately 19 per cent of the total Government expenditure, and 5 per cent of the GDP between 2003/04 to 2006/07. This concurs with the significantly higher growth in the non-wage recurrent expenditure of 19 per cent, and 25 per cent growth for wage expenditure. In addition, it reflects the Government's commitment to cater for the increased teachers and Civil servant's salaries. Growth in expenditure on wages in core poverty programmes is severely restricted from 2006-2007 onwards, to around 2 per cent of spending on wages and salaries. In absolute terms over the period, spending on core poverty programmes is estimated to amount to KSh. 278 billion,¹³ which is KSh. 64 billion less than the estimated total cost in the IP-ERS. Furthermore, the 2005 Needs Assessment and Costing Report of the MDGs suggests that USD61 billion is needed to fund interventions to meet the MDGs between 2005 and 2015. This implies that such that the annual expenditure equals USD 5.6 billion. In comparison, the total expenditure on core poverty programmes in 2004-2005 was slightly less than USD 1 billion.

Of the total spending on IP-ERS programmes, 15 per cent went into wages and salaries, 35 per cent to non-wage recurrent expenditure and 50 per cent on the development expenditure over the implementation period. As a result, development spending was prioritised more strongly in core poverty programmes than in the general budget. Between 2003-2004 and 2004-2005, spending on core poverty programmes grew by 15 per cent as compared to growth of 10 per cent of the total government spending. Spending on the non-wage recurrent budget grew by 7 per cent, on wages by 25 per cent and on the development budget by 20 per cent.

The 2005-2006 estimates revealed a 38 per cent rise in total expenditure over 2004-2005 in line with increasing the GDP. Reflecting the IP-ERS's objective of restructuring expenditures in favour of infrastructure, this outcome was mainly due to an increase in the development expenditure of 11.9 per cent. However, the rise in development spending focuses predominantly on non-core poverty programmes. By 2006-2007, the development expenditure is projected to reach 26 per cent of the total budget, yet will remain at 50 per cent of the core poverty programmes budget.

The Government will continue with its efforts at restructuring expenditures. This is in an effort to achieve a 1.6 per cent share of transfers to state corporations. **Table 5.3** gives the expenditures proposed within the IP-ERS framework.

¹³Spending on core poverty programmes between 2003/04 – 2007/08 is estimated to equal KShs 376 billion.

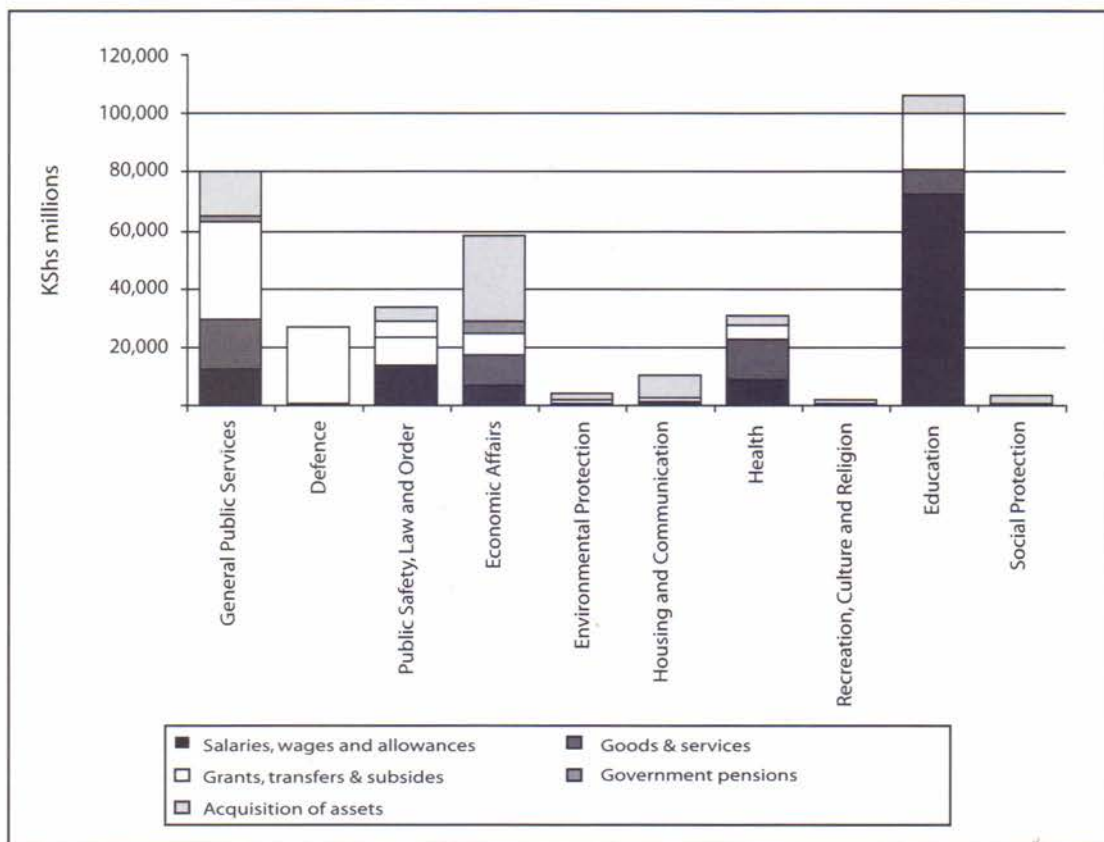
Table 5.3 Breakdown of proposed IP- ERS expenditure by pillar (%)

IP-ERS Pillars	IP-ERS	2003/04	2004/05	2005/06	2006/07
	2003 - 2007	Actual	Actual	Budget	Budget
Pillar 1: Economic Growth	31.7	43.4	17.7	20.8	21.4
Macroeconomic sector	2.5	2.2	***	***	***
Tourism, Trade and Industry	4.8	6.9	1.9	1.5	1.5
Physical Infrastructure	23.7	32.3	15.6	18.8	19.4
Information Technology	0.7	1.9	0.2	0.5	0.5
Pillar 2: Poverty Reduction	53.2	44.8	43.7	42.0	43.3
Human Resource Development	41.9	30.1	38.1	36.2	36.5
Health	7.0	***	8.6	8.6	9
Education	28.3	***	29.0	27.6	27.4
Agriculture and Rural Development	11.3	14.6	5.6	5.8	6.8
Pillar 3: Governance	15.1	11.9	29.0	26.3	25.1
Public Safety, Law and Order	12.8	11.4	15.3	14.5	13.7
Public Administration	2.3	0.5	13.7	11.8	11.4
Total	100.0	100.0	90.4	89.1	89.8

Source: IP-ERS, APR 2003/04, Budget Outlook Paper 2005

Figure 5.1 and **Table 5.3** highlight the proportional economic classification split of sector ceilings based on reorienting resource allocation towards the priority sectors identified in the IP-ERS for 2005-2006. Education was the single largest item of expenditure, followed by general public services. As expected, the education, health and public safety, law and order sectors are the more labour intensive sectors, whereas spending on housing and economic affairs is predominantly directed towards capital enhancement.

Figure 5.1 Sectoral financing framework for 2005/06 (KShs millions)



Source: Quarterly Budget Report September 2005

5.4 IP-ERS Medium-Term Resource Envelope

Over the period 2003/04 to 2006/07, the difference between government revenue and expenditure is KSh. 218 billion. To finance the balance over the whole period, the Government has identified various sources of external funding and financing including project and programme grants, largely through donor funding (46 per cent), external loans (19 per cent), domestic debt (26 per

cent), privatisation proceeds (4 per cent) and expenditure arrears securitisation (2 per cent). The framework developed in the medium-term reflects a fairly conservative expectation. Given the uncertainty surrounding donor disbursements, the medium-term projection does not include budgetary grants from bi-lateral partners. The three-year Poverty Reduction Growth Facility Support programme only assumes bi-lateral budgetary support in the form of grants to about KShs 5 billion per year for 2005/06 - 2008/09.

With a foreseen reduction in domestic borrowing in the medium-term, the assumption of no bi-lateral budgetary grant requires that revenues and expenditures close the gap. Nonetheless, having a zero financing gap does not necessarily imply that the Government has enough resources to finance its programmes. In the event that donor assistance materialises, it will be used to scale up priority sectors with a focus on MDG-related interventions and a reduction of domestic debt. The allocation of additional resources will be based on line ministries' performance against their respective IP-ERS indicators. Assuming the same amount of budgetary and project support as indicated in the Budget Strategy Paper - 2005 (BSP), 2005 (USD 450 million a year over the medium-term) then by 2006-2007 the share of resources allocated to the health sector is projected to consume 10.5 per cent of the total expenditures, Agriculture sector is expected to reach 8.2 per cent, while the Economic sectors will reach 27.2 per cent.

5.5 Challenges

Since domestic financing is assumed to remain in line with commitments under the Poverty Reduction Growth Facility arrangement, the assumption of zero bilateral budgetary grants presents a dilemma to policymakers since it implies that expenditures have to be scaled down.

According the 2005/06 - 2007/08 BSP, the wage bill, pensions and debt service will consume a larger portion of the budget. This implies that approximately two thirds of government revenue is taken up by non-

discretionary expenditure, leaving a mere one third of the amount to cater for the remaining competing needs surrounding health, education, development expenditure, security, and routine government operations. As such, the daunting challenge facing the Government is the need to contain recurrent expenditure amid reduced donor disbursements. It is fundamentally important that the wage bill is reduced over the medium-term.

Exogenous shocks such as persistent drought; a sharp deterioration in the terms of trade and a slow reduction in the growth of the tourism sector may slacken projected growth. The Government is therefore faced with the challenge of mitigating such risks.

The impact of the huge external resources required to finance the IP-ERS and MDGs could have a negative impact on the macroeconomic stability of the economy. According to the MDG Needs Assessment Report, the country needs approximately USD 61 billion by 2015 or USD 5.6 annually in order to achieve the MDGs by 2015. This is almost half of the GDP. If this is indeed the case, the Government then needs to take into account the effects of increased spending and the potential absorptive capacity constraints. Moreover, significantly increasing the spending on MDGs funded through increased aid flows may be inconsistent with export-led growth. This is because of the possible appreciation of the real exchange rate and overall macroeconomic stability.

5.6 Lessons learned and the way forward

Although the IP-ERS proposed the target that revenue (as a percentage of the GDP) was to be maintained above 22 per cent, this may not be achieved because of the harmonisation of common tariffs within the region that may require tax levels to decline, and thereby providing for a revenue to GDP ratio of not more than 22 per cent. There is therefore a need to revise this target to appropriate levels that are achievable (see revised targets in the Conclusion and **Annex A**).

The Government has put in place an ambitious framework for financing its outlays and needs. However, there is very low capacity in ministries to achieve the targets set. Certainly, the overall financing framework indicates that out of the programmed share of expenditures at 27 per cent of the GDP, the actual expenditure normally falls to 22 per cent. This is due to low absorption capacities in priority sectors (physical infrastructure, agriculture, health and education). In the MTEF framework for 2006/07 to 2008/09, the capacity issue ought to be addressed as part of the public financial management reforms. Any additional resources that are realised should strictly be channelled to areas where the IP-ERS targets can be achieved within the given time period.

Chapter Six

6 The National Monitoring & Evaluation System

6.1 Policy Review

In the formulation of the IP-ERS, the Government made a commitment to the development of a National Integrated Monitoring and Evaluation System (NIMES). Its mandate was to provide a reliable mechanism for measuring the efficiency and effectiveness of the implementation of government policies and programmes. With appropriate links to the budget and the medium term expenditure framework, the system is expected to provide useful feedback to efficiently reallocate resources over time. Furthermore, the system is also expected to provide an overall framework which integrates and complements all other existing M&E and oversight activities. This will establish a transparent process by which the Government and all key stakeholders can share views on the progress made as well as a way to ensure the timely release of information for decision making purposes.

An integrated M&E system

The overarching objective of the M&E system is to facilitate the use of data and information, to inform public policy, measure efficiency in the utilisation of available resources and achievements in poverty reduction; and, to provide feedback for policymaking, including the MTEF process.

To strengthen the M&E system, the government established an M&E Department within the Ministry of Planning and National Development to coordinate all M&E activities at national and sub-national levels. A National Steering Committee (NSC) was also formed to

provide policy direction in matters of M&E, in consultation with other existing policy oversight bodies such as the National Economic and Social Council (NESC). The specific activities scheduled to be undertaken during the IP-ERS implementation period included the following:

- developing a national research agenda in consultation and collaboration with the academia and donor communities;
- strengthening the capacity of the Poverty Analysis Research Unit;
- designing and implementing a government-wide M&E action plan;
- producing the APR on the implementation of the IP-ERS and developing protocols for the horizontal sharing of knowledge and the transfer of data within the Government;
- liaising with stakeholders to strengthen the ability of the Government to leverage outside resources; undertaking the Kenya integrated household budget survey in order to update key macroeconomic indicators and the poverty profile;
- Formulating a strategic implementation master plan for the national statistical system and developing and implementing a public information access policy.

During 2003-2004, a number of goals were achieved. They included: the establishment of a Poverty Analysis Research Unit. Its operations were reinforced with the deployment of more staff; the MED designed and implemented a government-wide M&E action plan, including conducting pilot surveys in 8 districts. In addition to this, the MED coordinated the preparation of Sector

reviews as supplementary input to the APR process, while the CBS began the Kenya Integrated Household Budget Survey.

6.2 Achievements and progress on implementation

Government-wide M&E Institutional Framework

The design of a two-tier (national and devolved) M&E system was finalised, thus enabling the preparation of the first annual progress report at both the sector and district levels. At the district level, the hitherto defunct District Monitoring and Evaluation Committees (DMECs), whose day-to-day management responsibility is delegated to the District Development Officer (DDO), were revitalised to spearhead M&E activities at that level. To support the collection of data, Methodological and Operational Guidelines (MOGs), were prepared in consultation with stakeholders. This information was then disseminated to provide standardised procedures and a harmonised report format. In addition, M&E launch workshops were held in 26 ministries and 41 districts. Arising from these activities, a synthesis report from the 8 pilot districts was prepared and the M&E system rolled out to all districts in the country.

In developing protocols for the horizontal sharing of knowledge and transfer of data within the Government, the responsibility for management of the M&E function within ministries was defined. Central planning units in line ministries were given M&E coordinating and reporting responsibilities. However, this aspect needs to be strengthened through

additional training and sensitization on M & E especially on the use of the MOGs.

Preparation of the APRs

Annual progress reports are the main monitoring tools of the IP-ERS. The first IP-ERS APR (2003/2004) was prepared and discussed in the Consultative Group meeting held in Nairobi during April 2005. It was later submitted to the World Bank and IMF who prepared a draft Joint Staff Advisory Note to guide the preparation of the 2nd IP-ERS APR (2004/05). The Report outlines achievements made as a direct effect of the IP-ERS but also raises challenges that need to be addressed. The report was disseminated at a National Stakeholders Forum and posted to the Ministry's website.

Kenya Integrated Household Budget Survey (KIHBS)

Pilot surveys of the KIHBS were carried out during October and November 2004. Subsequently, the survey was launched in May 2005. The process of data entry and analysis is currently underway. However, some preliminary analysis has been undertaken using the data collected to date. Once the survey is completed in May 2006, KIHBS will provide the relevant data required in order to estimate a range of socioeconomic indicators.

Participatory Poverty Assessment

Concurrently with the KIHBS, the CBS is also carrying out a Participatory Poverty Assessment to address the dynamics of poverty from the community perspective. The

Participatory Poverty Assessment is being conducted and is expected to be completed in the course of 2006.

Integrated Data Management System

KENINFO database: KENINFO, Kenya's Socio-Economic Indicators Database, has been further developed. KENINFO is updated on a continuous basis subject to the availability of new data. Currently, the database is able to provide comprehensive information on the core national monitored indicators for the IP-ERS reporting.

Poverty mapping: As an update to the poverty profiles, the CBS has produced a second report on the geographical dimensions of well-being for all 210 constituencies using mapping techniques. This report, the first of its kind, is being used to allocate resources targeted at pro-poor programmes such as the Constituency Development Fund. With financial support provided by the Swedish International Development Agency (SIDA) for the Rich and Poor Project, the production and dissemination of material on the second report on poverty mapping has been completed.

In an effort to consolidate data and information from various surveys, the Government, through the Integrated Management Information System, has created data bases on the: 1999, 1989 and 1979 censuses. It is estimated that only five per cent of the analysis of this work is complete. It includes demographic and Health surveys for the years 1987, 1993, 1998, 2003; the results of

a World Fertility survey; a Welfare Monitoring survey conducted in 1997; and the Labour Force survey conducted during 1998-1999. In addition, the datasets have been edited and converted to Redatam-compatible format, with databases being generated for all the datasets. Furthermore, individual databases have been linked to three main databases. This system has been demonstrated to CBS. Furthermore, staff from the United Nations Fund for Population Agency (UNFPA) have been trained on the operations of the Integrated Management Information System.

STATCAP development

In 2004-2005, a number of activities were completed under STATCAP. They included:

- (i) The preparation of a Strategic Implementation Plan for the national statistical system;
- (ii) The establishment of the Interim Project Management Unit for STATCAP;
- (iii) Initiatives were taken towards the development of a data dissemination policy;
- (iv) The establishment of the National Steering Committee for the national statistical system; and
- (v) Discussions were held with universities on the national research agenda, especially the analysis of chronic poverty.

6.3 Challenges

In the course of implementation of the various M&E activities, various challenges have slowed down the process. The challenges concern the following areas:

- **Dissemination** The implementation of the M&E system involves the establishment of a workplace culture and practice of M&E as a routine part of the planning cycle at all levels of the Public sector. In its rollout of the M&E system, MED realised that the system was being introduced into an unfavourable environment, where awareness of the role and importance of M&E was generally limited, both at the sector and district levels.
- **Limited capacity** MED is a recent development in the Public service, and many officials have not clearly understood its role. This has resulted in delayed submissions from both ministries and districts. The quality of submissions has also been very uneven, therefore, causing delays in the progress being made in reporting (see Chapter 6 for an appraisal of the district monitoring system). Consequently, there is an urgent need for reviewing systems, learning from past errors and limitations, and deepening the training of the staff responsible for M&E functions at all levels of the system. This entails taking into account both M&E in general and the specific tasks and functions called for by the MOGs. The MOGs have not been widely circulated; hence, to date, many officers are still not familiar with their content and significance.
- **Budgetary constraints:** While important

progress has been made in the implementation of M&E activities at district level, these activities continue to rely on budgetary transfers from the MED. The present level of financing for the MED and districts is inadequate to sustain the district requirements to satisfactorily conduct M&E. In conducting the KIHBS, budgetary disbursements have been slow due to the very nature of the activity. Moreover, the budget allocated for operations and maintenance has been insufficient.

- **Developing consensus on indicators:** The level of ownership and adherence to the identified 31 summary indicators used in the 2003/04 APR within the line ministries is highly variable. The indicators need to be refined and expanded through further consultations with the ministries and other stakeholders.
- **Institutionalising M & E culture:** The institutional linkages within ministries and between different activities relating to M&E have not as yet been fully resolved. In particular more attention needs to be given to the formulation of the ministries' annual work programmes as the key document that will provide a point of reference for monitoring and evaluation activities. In addition, the links between the sections responsible for the implementation of Results Based Management Performance Assessment (a new system supervised by the Office of the President) have not yet been properly linked to other forms of M&E within the ministries. Thus, a key challenge is to accelerate the implementation of fundamental planning processes based on the ministerial Strategic and Annual Work

Programmes which are necessary preconditions for the full development of the M&E system.

- **Developing an appropriate IP-ERS M&E indicator:** The current Indicator-31 for the monitoring system in the IP-ERS framework was stated as: ...“fully functioning national system of M&E operating at all levels and providing feedback to the budget by the end of 2005. “ Although significant progress has been made during the reporting period, it is not easy to judge whether this benchmark has been met. The development of measurable indicators for M&E remains a priority for the future.

6.4 Lessons learned and the way forward

M&E involves a number of institutions within the Government. The lead agencies are the Office of the President and the MPND (MED, Rural Planning Department and CBS). As such, coordination and collaboration between them is paramount if this activity is to succeed. In addition, the quality of work is highly dependent on the quality of data generated and how it is synthesised. Because this is a continuous exercise that is supposed to cover the country as a whole, periodic surveys are important to constantly update databases. This also requires substantial human and financial resources. In the absence of surveys, a number of proxies will have to be used as indicators on the progress achieved to date. Thereafter, these indicators will constantly need to be revised and agreed upon by all stakeholders to take account of new developments.

The way forward is for the CBS and the MED will continue to liaise with other organisations for resources to build their capacity both at the sector and district levels in order to collect, collate and analyse data and synchronise M&E activities with other government activities, especially within the MTEF process. A recent review of the APR process highlighted a number of ways on how it could be better integrated into the budget and planning process. (*see Box 1*). This is important if M&E reports are to inform policy and avoid duplication of efforts. The MED will be undertaking a number of activities to address these issues. They include:

- (i) establishing a sustainable mechanism of funding M&E initiatives;
- (ii) deepening the integration of M&E activities at all levels, between sectors and stakeholders;
- (iii) intensifying campaigns and advocacy for M&E policies to promote ownership and participation;
- (iv) working with line ministries to finalise IP-ERS indicator definitions and targets;
- (v) developing an appropriate M&E indicator for tracking progress in setting up a functional M&E system;
- (vi) regularly carrying out public expenditure tracking surveys;
- (vii) developing a comprehensive M&E policy; and,
- (viii) Developing a project evaluation criteria.

6.5 Findings from District Monitoring and Evaluation

The NIMES recognises the critical role played by districts in national development efforts and their uniqueness in terms of natural resource endowments and capacities. The M&E system at the districts focuses on two critical tasks. The first is the promotion of an M&E culture and practice, whereas the second task focuses on supporting the preparation of a District Annual Monitoring and Evaluation Report (DAMER). In order to create a robust and efficient devolved system, the MED initiated a pilot exercise in 8 districts during March 2005. The 8 districts were Bondo, Bungoma, Garissa, Kilifi, Meru South, Murang'a, Suba and Turkana. The principal aims of the pilot M&E were to: Clarify the objective and purpose of M&E activities at the devolved level; ascertain the scope and content of reporting activities; define the roles of various stakeholders who are potential contributors to the devolved M&E system; and, determine the appropriate reporting channels, both within the districts and to institutions in the central structure.

The pilot exercise was preceded by the identification of possible monitoring indicators in four key areas. The first indicator was enhanced service delivery by the Central Government to the districts (including the education, health, security, law and order, agriculture and environment sectors). The second indicator concerned improved infrastructure (e.g. water and sanitation, roads and electricity). The third indicator was poverty alleviation and good governance (e.g. public safety, law and order, justice,

devolution of power, gender, the electoral process and corruption).

The districts were subsequently, given operational guidelines and a checklist for the implementation of the M&E system. These guidelines specified the principal objectives for the implementation of the M&E system, expected outputs, the implementation process, reporting format and planning logistics. To ensure that comparable data was collected, a checklist for specific variables was given. It included specifications of the planning process, data and information on development activities (especially the use of local funds), the effectiveness of programmes and activities, governance issues, capacity issues and a general overview on the degree to which the IP-ERS objectives are being realised.

The pilot district reports were analysed by the MED and synthesised into a report. The pilot exercise was pivotal in the identification and documentation of both supportive and constraining factors for the devolved M&E. Subsequent to the pilot exercise, DAMERs were initiated in all districts, including the 8 pilot districts. Accordingly, districts were expected to submit their reports to the MED by September 2005 for synthesis into a summary report, the conclusions of which would be presented in the APR. By the middle of November 2005, 51 per cent of the districts had submitted their reports, among them 5 of the initial pilot districts. The rest were not able to submit their reports by the set deadline due to financial and human resources limitations. Consequently, it is not possible to provide a synthesis of key findings from the whole

country. The rest of this chapter presents a brief synthesis of a sample of the findings in 5 of the pilot districts that also submitted reports in the national rollout (Bungoma, Garissa, Kilifi, Murang'a and Turkana).

6.5.1 Summary of key findings

Use of locally managed resources

All 5 districts reported on the various devolved funds. In an attempt to report on the effectiveness of locally managed resources, the reports presented (in various formats), the allocations, disbursements, governance issues and challenges pertaining to local authority revenues, constituency development Funds, Constituency bursary funds, HIV/AIDS funds and the District Roads Maintenance Levy Fund. They generally identified the major constraints and governance issues pertaining to the management of these resources and further, made recommendations on how to strengthen management. All the districts attempted with (varying degrees of comprehensiveness and depth) to analyse the effectiveness of these funds. The general findings for the period 2004/05 are as follows:

Local Authority Revenue: The local authorities receive revenue both from levies on economic activities at the local level and transfers from the central government in the form of Local Authorities Transfer Funds. The projects financed by these funds are generally decided upon by councillors with little or no consultation with community members on the utilisation of funds. In most cases, community groups submit project proposals which are evaluated and funds are allocated to selected

groups and projects against agreed criteria. However, most of the money is generally spent on salaries, operations and debt repayment.

Several cross-cutting challenges were identified including: difficulties in getting current information from local authorities; non-uniform reporting, with some districts reporting on both LATF funds and local revenues while others reported on LATF alone; lack of effective community participation with civic leaders normally deciding which projects are to benefit, thereby promoting their own political interests; delays in the disbursement of funds; equal distribution of funds across wards, resulting in low impact; limited collaboration with other development stakeholders due to protective political interest of civic leaders; and apparent misappropriation of funds.

Constituency Development Fund: Various districts reported the amounts allocated to various projects for the year 2003/2004. However, since not all of them had received funds for the year 2004/2005. The reports reveal that the funds were used to finance a variety of projects, majority being in water, education and health. On the whole they point to four challenges:

- There was widespread perception that MPs have too much influence on the funds especially on the appointment of committee members, targeting and prioritisation of projects. This view had been previously reiterated an earlier report entitled: The Kilifi Report.

- There was a general lack of constituency long-term plans.
- A detailed CDF evaluation mechanism was lacking in addition to insufficient financial support.
- There was inadequate involvement of technical staff at district level in the making of managerial decisions, thus making it impossible to monitor and evaluate the progress. (Bungoma Report).

On the whole, the reports indicate that there is great potential for this fund to achieve the desired development outcomes.

HIV/AIDS Fund: All the five districts reported on this fund which is disbursed through CBOs or other groups. However, it is evident that: there is a lot of political interference in the disbursement of funds; no assessment has been conducted to ascertain the impact of funding on communities; there is an apparent lack of transparency in the disbursement and utilisation of funds; and, the presence of capacity limitations among the majority of CBO officials and members.

District Roads Maintenance Levy Fund: Some of the districts did not provide an account of the nature of activities funded. However, those submitted reports, were able to indicate the type and quantity of activities undertaken. On the whole, monitoring the maintenance of roads is a relatively straightforward task.

District Bursary Funds: These funds were received and allocated in all the districts and the record of beneficiaries and level of funding shown. However, it was generally

acknowledged that the amount allocated to each beneficiary was inadequate to take them through schooling. Although needy and disadvantaged children are the target beneficiaries, there is significant level of political interference that hampers the transparent allocation of these bursaries to deserving pupils.

Summary of reporting on locally managed funds

Locally managed and controlled funds both have great potential to bring about positive development outcomes at the community level, especially if community participation is sufficiently enhanced and political interference reduced. It is noted that: there are no proper systems put in place to monitor and evaluate the effectiveness of the use these funds. The committees formed at the constituency level are poorly composed and are not technically qualified to evaluate projects being undertaken. Furthermore, they do not have adequate personnel and other resources needed for the task. (Bungoma Report). In addition, the preparation of the DAMER is currently slowed down by the reluctance of some heads of departments and agencies to provide adequate and timely information.

The initial pilot synthesis report did not come up with reliable conclusions that could be monitored and evaluated. However, it highlighted the main challenges facing the management and administration of these funds. From the information presented from the second round of district monitoring and evaluation by five of the 8 pilot districts, there

is no convincing evidence that these challenges have been minimised in this second reporting period. Moreover, it is difficult to judge the quality of data presented to support the activities that are being reported.

It must be emphasized that, except for generalized presentations, no attempt has been made to seriously analyse the effectiveness of these programmes. Only raw statistics were submitted, with no clear measure of outcomes. Furthermore, the reports were most likely based on departmental routine statistics. The activities that were funded had no direct link with any of the monitoring indicators. Similarly, no robust methodology was used to analyse exactly what was meant by the term: "effectiveness".

Performance of key sectors

Agriculture: All the five districts reported activities undertaken during the review period in efforts to achieve the IP-ERS objective of reducing food insecurity by 10 per cent, increasing the income of farmers by 3 per cent and increasing Value Added to agricultural products. The activities on which funds were used varied across districts. For example, Murang'a reported that 75 per cent of the allocated funds was used for soil conservation work and training farmers in improved farming methods while 25 per cent was spent on transport and other operation and maintenance costs. Kilifi reported activities undertaken that included extension delivery, research extension liaison, food security initiatives, Value Added to agricultural products and processing and gender issues with a detailed assessment of the IP-ERS

outcomes and outcome indicators for 2004/05 as well as targets for 2005/06 and 2006/07.

Health: Districts reported the number of health related statistics (such as the percentage of fully immunised children, doctor-population ratio, mortality rates, etc), the timeliness and adequacy of drug supply to various health facilities and the challenges facing the sector.

Education: Districts reported various developments in this sector. They showed the sources of funding and indicated that the majority of funds came from Treasury allocations. Other sources included the various bursary funds and Parents-Teachers Associations (PTAs). Districts also reported on the status of free primary education and especially on funds received as well as enrolment levels. In general, it can be concluded that there was a noticeable increase in enrolment but there are challenges concerning the adequacy of teachers and physical facilities.

Security: Bungoma and Kilifi districts did not submit reports on this aspect. The other districts reported on various security-related issues, generally concluding that the level of insecurity had increased due to high unemployment rates among the youth and elevated poverty levels. A few cases of political incitement and inadequate policing were also cited as influencing factors.

Infrastructure: Bungoma district did not report any activities in this area. Other districts reported continuity in their routine operations in the maintenance of roads showing the

amount of funds made available, the nature of work and the quantity achieved. However, the challenge faced is that the various district reports were not compiled and formulated in a harmonized format that would allow easy comparisons to be made.

Summary of Sector Reporting

The main challenge inhibiting a good analysis of the performance of selected key sectors is that there is no standard format for drafting and submitting reports. Consequently, districts have been reporting differently in terms of content and emphasis, thus making it difficult to either do a thorough comparative analysis or compare the results against the IP-ERS development outcomes.

Reporting on the Monitoring Indicators

None of the five districts reported adequately on all the specific indicators that were suggested. Education and health statistics seem to be the more readily available, reporting on poverty alleviation and good governance prove to be more challenging. A scrutiny of the district reports revealed that although some effort was put into reporting according to the suggested indicators on average, the analysis and reporting falls far short of being satisfactory. In addition, there was a great diversity in the comprehensiveness of coverage. Lastly, two of the five districts proposed a variation in the indicators. This implies that there is a need to adjust indicators to suit local circumstances. However, without a core set of standardised district level indicators, it will not be easy to synthesise or compare the operations of different districts.

6.5.2 Challenges

Although the quality of the DAMERs is varied, and some useful conclusions can be drawn, there are a number of issues that to be addressed. They include the following:

- It is clear that the district level M&E function needs to be strengthened since the systems are not adequately developed, leading to a weak capacity. As one report notes: The committees formed at the constituency level are poorly composed and are not technically qualified to evaluate the projects being undertaken. This seems to be the general conclusion for most activities in all the districts.
- Indicators are not comprehensively and consistently reported.
- The quality and extent of coverage in the reports reflects significant differences in the interpretation of issues, as well as differences in analytical skills.
- Evidently, more effort needs to be put into developing a methodology for analysing the effectiveness of devolved development efforts.
- There is a need to synchronise the monitoring indicators used at the district level, with those used at the national level.
- It is not clear how the DAMER feeds into, and informs, the district budget and planning process.
- Only 51 per cent of all the districts and 5 of the 8 pilot districts had prepared and returned their DAMERs by the stipulated deadline. This alluded to managerial challenges.
- The lack of reporting by non-state actors on their resources and disbursements needs to be addressed.

6.5.3 Lessons learned and the way forward

All the districts concur on the need to strengthen the functions of the district M&E secretariat. This could be achieved by recruiting and training the right people, providing adequate financial and office infrastructural support and institutionalising the activities to feed into the national APR. Consequently, the following activities are recommended:

- Establishing strong and well-trained district teams which are conversant with the national monitoring indicators;
- Providing adequate funding, transport and equipment to facilitate efficient M & E;
- Improving the concepts and methodologies for obtaining data at the district level, as well as harmonising of indicators and reporting formats across districts;
- Setting up a clear timetable for monitoring and evaluation which is well synchronised with district level work plans;
- Developing an enforceable official mechanism to oversee and provide guidelines for data collection and methods of consolidated information collected from district level;
- Involving communities in project identification, planning, implementation, monitoring and evaluation;
- Setting up a national programme for the dissemination of methodological operational guidelines for the devolved M&E structure;
- Establishing a mechanism to enforce reporting by all stakeholders;

- Integrating the district M&E system into the planning and budgeting framework; and,
- Harmonising the reporting system for all the funds at the district and constituency level.

The effective management of this endeavour across all the districts is an enormous undertaking for the MED. Consequently, during 2005-06 it will be necessary to:

- (i) review the role of the DAMER in both the district and national monitoring systems;
- (ii) explore how the DAMERs can be synthesised for the APR;
- (iii) prioritise which elements of the DAMERs are the most important;
- (iv) examine ways of harmonising indicators at the district and national levels; and,
- (v) roll out the district monitoring and evaluation system in a carefully sequenced manner, in line with the capacity of the MED and key partners in the M & E work.

Box 1: The APR process and the Budget cycle: Recommendations

In early 2006, the MED undertook a review to identify ways of integrating the APR better into the budget and planning process. The report proposed a number of revisions to the APR preparation process, information flows and the involvement of government institutions.

1. **The APR information gathering process should start in June and the report finalised by September.** The Consultative Group meeting can be held in November where development partners announce multilateral and bilateral support, which will be incorporated into the fiscal framework presented in the budget outlook paper. The current budget calendar does not make any reference to the APR.
2. **Sector working groups (SWGs) should manage and coordinate APR sector submissions prior to submitting the information to the MED.** In doing so, the findings of the APR can feed directly into the budget process and reduce the areas of duplication in reporting. This requires the SWGs to be established in June of each year rather than September as stated in the current budget timetable.
3. **Annual work and Strategic plans should be closely aligned with the IP-ERS and affordable, taking into account past and proposed budget constraints.** Proposed activities should therefore not form long 'wish lists' of what the Ministry would like to do. Annual work plans and performance contracts should also distinguish between key IP-ERS and non-key IP-ERS activities and outputs, including the preparation of APR submissions.
4. **APR submissions should draw on quarterly and annual reports on implementing performance contracts.** The APR submissions should provide a high level overview of the achievement of IP-ERS activities and outputs. When preparing their submissions between June and August, ministries will then have feedback information to adequately assess their performance within the first three-quarters of the financial year.
5. **The APR submissions should build on the activities and outputs by linking them, on the one hand, to policies and, on the other, to specified outcome indicators.** The latter will be done by measuring the achievement made against related targets. The achievement of targets should feed into indicative expenditure ceilings by the MoF. Revisions to policies, indicators and targets will still be made at this stage and should therefore, inform decisions on the strategic allocation of resources by the MoF.
6. **SWGs will collate the information provided by each line ministry in the sector, in line with key priorities of the IP-ERS.** The SWGs will submit their sector submissions to the monitoring and evaluation department, which will prepare the final report, take on recommendations on revisions to policies, indicators and targets and subject them to a consultative forum.
7. **Following the finalisation of APR sector submissions, the SWGs should embark on the coordination of the Ministerial Public Expenditure Review (MPER).** MPERs should build on the information in the APR by analysing financial inputs in relation to service delivery. This will provide a good basis from which to discuss future resource requirements and revisions to budgetary allocations in the medium term expenditure framework. Few public expenditures reviews currently focus on operational efficiency or value for money. Detailed information on the review of outputs and outcomes will not be necessary here. The APR and MPERs will feed into sector reports, the budget strategy paper and budget submissions.

Chapter Seven

7 Conclusions and Way Forward

7.1 Introduction

The IP-ERS presented a strategy that outlined the agenda of stimulating economic recovery and creating wealth and employment. This process was to be established on the three pillars of: promoting economic growth, reducing poverty and inequality and promoting good governance. The final section of this report compiles conclusions integrated from key findings of the report with respect to progress made in each of the three areas during 2004/05.

The NIMES provided a list of indicators and targets as starting points for assessing progress in the implementation of the IP-ERS as presented in **Annex 2B** of the 2003-2004 APR. A summary of the status of the 2004-2005 figures against the original targets is included in Chapter 1, even though some of the targets were revised during the period under review. **Table 8.1** presents the revised targets (marked R) which will form the starting point of analyses for the 2005-2006 APR.

7.2 Progress on Economic Growth

The IP-ERS underscored the revitalisation of economic growth for wealth and employment creation with the related long-term objective of reducing poverty. Key areas with respect to this objective were macroeconomic stability, financial sector development, development of infrastructure through private sector initiatives, in addition to revitalising the trade, tourism and manufacturing sectors.

Macroeconomic Performance: The economy performed well in the period under review, growing by 4.3 per cent (against an IP-ERS revised target of 3.1 per cent). This was partly attributable to the economic and structural reforms implemented since the National Rainbow Coalition Government came to power. Achievements made, with respect to other macroeconomic targets were diverse. Inflation was above target (5.8 per cent against a target of 5 per cent), the goal for domestic debt/GDP was met (18.5 per cent against a target of 22.2 per cent) but PEM reforms undershot the number planned (only 6 were met against a target of 7). However, the target for public sector wages/GDP was met (7.8 per cent against a target of 8.14 per cent) and the goal for revenue expansion was nearly met (21.3 per cent against a target of 21.4 per cent).

Key constraints during 2004-2005 included: the slow disbursement of donor funds; continued political disharmony (especially around the constitutional review process); drought and food shortages; Parliaments' inability to enact the Privatisation Bill; (The Privatization Bill was enacted in December 2005) high oil prices; and, limited progress with regard to infrastructure development. During 2005-2006, the Government aims at further consolidating and strengthening its efforts towards greater economic recovery, with expectations that the GDP growth rate will be raised to 5 per cent. Key structural reforms projected for the coming year include public expenditure and financial management; privatisation of public enterprises; and, financial sector reforms.

Public Expenditure Management: The IP-ERS emphasized the importance of the efficient use of public resources and sound PEM in stimulating economic growth and alleviating poverty. During 2004-2005, the Government did implement a number of significant reforms. Nevertheless, the Government does recognise the slow progress made on the IFMIS, the lack of momentum on PETS and the effects that a weak budget execution could have on budget credibility. Accordingly, the 2005 budget speech emphasized the need to:

- (i) ensure that those responsible for financial management strictly adhere to the financial regulations including procurement guidelines; implement a cash management system to ensure the timely release of resources to line ministries;
- (ii) carry out PETS to improve utilisation of public resources;
- (iii) roll out IFMIS to line ministries; and,
- (iv) introduce a risk-based internal audit system. In order to meet all 16 PEM-AAP benchmarks by 2008/09, intermediate annual targets for indicator 6 of the IP-ERS framework will need to be revised. Moreover, accelerated efforts need to focus on making improvements with regard to budget formulation.

Infrastructure: Improving Kenya's infrastructure (transport, water, energy, telecommunications and information technology) is one of the main goals of the IP-ERS. Over 2004/05, progress has been made in the development, rehabilitation, and maintenance of roads across the country. The target for IP-ERS indicator number 7 (the proportion of the road network in poor

condition) was achieved. An estimated 32 per cent was considered to be in deplorable condition, against a target of 35 per cent. Although an objective of the IP-ERS was to reduce the number of fatalities from road accidents, there was no data to assess this (indicator 11). The main challenge to improving the nation's infrastructure is the significant under-funding of the sector. Other constraints made reference to delays in the enactment of the Privatisation Bill, lengthy procurement procedures and a weak institutional framework.

A number of reforms were implemented in the energy sector and the IP-ERS target (indicator 8) for power coverage in rural areas was met (5 per cent against a target of 5 per cent). However, the energy sector faces a number of challenges, including: high oil prices, weak transmission and distribution infrastructure, and an inadequate legal and regulatory framework. The GoK will intensify reforms within this sector, with a view to fostering competition, diversifying sources of energy and reducing on costs.

Water and Sanitation: The IP-ERS recognised the potential for this sector to substantially improve the lives of Kenyans through increased access to clean water and better sanitation facilities. Whereas one of the IP-ERS water targets was achieved, the other was only partially met. Some 53 per cent of the rural population were served with safe and reliable water in 2004-2005, against a target of 53 per cent (IP-ERS indicator 9). With respect to indicator 10, the proportion of urban households with safe and reliable access to water, stands at 75 per cent in 2004/05 against a target of 76 per cent. The main challenges

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facing the water sector revolved around financing and capacity. This sector will therefore continue to seek resources to ensure that there are adequate funds to enable the financing of important core poverty programmes and projects. The challenge of capacity-building will be addressed by ensuring that the various implementing agencies have adequate and appropriate staff for their programmes and activities.

Productive Sectors: The IP-ERS identified tourism, manufacturing and trade as the main drivers of the economy. With respect to this, the Government is indeed, committed to removing barriers to investment and lowering the costs of conducting business in the country. The tourism sector performed well over 2004-2005 and the annual growth rate of tourists (IP-ERS indicator 12) was 15.1 per cent as compared to -20.3 for the previous year. However, significant challenges remain with respect to security, poor infrastructure as well as the lack of a national tourism policy to guide the sector. Trade performance was above expectations, and the IP-ERS indicator performed well. The growth of export volume was 9.4 per cent compared with 6.2 per cent in the previous year (against a target of 5.7 per cent). However, the performance of the manufacturing sector largely remained static, operating below its actual potential. The key constraints facing this sector included: increased oil prices; the appreciation of the Kenyan shilling against the US dollar; depressed domestic demand; poor infrastructure; and, insecurity.

7.3 Progress on Equity and Poverty Reduction

The second pillar of the IP-ERS was equity and poverty reduction. This encompassed: investing in human resources (health and education); promoting agriculture, livestock and the environment; and, establishing effective targeted poverty programmes.

Education: The provision of primary education **remains** a key priority for the Government of Kenya. The primary net enrolment rate (NER) in 2004/05 was 82.1 per cent, exceeding the IP-ERS target (indicator 18) of 81.5 per cent and an increase of 2.3 percentage points compared to 2003/04. However, the performance against other IP-ERS education targets was not as impressive. The target NER for North Eastern province was not met (indicator 19 – only 19.6 was achieved against a target of 24.5). The Standard Eight completion rate increased from 52 per cent in 2003/04 to 56 per cent in 2004/05, but did not meet the IP-ERS target of 59.7 per cent. Although the target for the incidence of primary repetition was exceeded (indicator 21 – 9.3 against a target of 9.8), this was not the case with respect to the rate of transition from primary to secondary education, where performance was below target (indicator 22 – 52 per cent against a target of 55 per cent). Some of the education targets have subsequently had to be revised.

A number of constraints continue to confront the sector. They include: overcrowding in schools arising from FPE, the occasional withholding of funds by development partners, marked gender and regional

enrolment disparities which pose major challenges and the impact of HIV AIDS leading to a large number of OVCs. A major initiative to improve performance in the coming years is the Kenya Education Sector Support Programme (KESSP) which aims at strengthening the management and delivery of educational services, improving access, quality, and relevance of education and training.

Health: The IP-ERS primary objective for the Health sector was to enhance accessibility and affordability of basic health services for all Kenyans, with special emphasis on the poor and vulnerable. Although the Government was successful in increasing health expenditure compared to the previous year (from 7 to 7.7 per cent of GDP), performance in terms of outcome indicators was poor. Current data from the Ministry of Health (MoH) indicated a poor performance against stipulated IP-ERS targets. For instance, the percentage of children under one year fully immunised (indicator 14) remained unchanged from the previous year and around 10 percentage points below the target.

Similarly, the proportion of births attended by skilled health personnel (indicator 16) was also well below target (42 per cent was registered, against a target of 70.8 per cent). Likewise, the Malaria target (indicator 17) was not met (26 per cent against a target of 15.2 per cent). Under-financing within this sector remains a significant challenge. Health targets have also been revised downwards and there is concern that unless decisive steps are taken, Kenya will not meet its health MDG targets. One notable achievement was the approval by Parliament

of the Bill proposed for the National Social Health Insurance Fund. In addition, the Ministry has developed the second Strategic Plan (NHSSP II) which seeks to enhance management, create an enabling environment for the Private sector and community involvement in health provision, as well as establishing an M&E framework.

Although commendable progress has been made in addressing HIV/ AIDS, the rate of new infections remains significantly high. The IP-ERS target for HIV prevalence amongst 15-24 year old women attending ANC was not met since it remained at 10.0 against a target of 9.2. The roll out of the National AIDS Strategic Plan 2005-2010 is therefore, considered fundamental to addressing this issue.

Labour: Key goals of the IP-ERS were the creation of employment opportunities, the promotion of an enabling environment for industrial development and an increase in the productivity of factors of production. To this effect, the IP-ERS proposed that 500,000 jobs should be created annually between 2003 and 2006, that investor confidence should increase and also that industrial labour productivity should rise. Over the period 2003 – 2004, the number of jobs created significantly increased to 437,900 out of which 36,400 were created within the formal sector. Although the IP-ERS indicator concerned itself with the improvement of productivity, a methodology to for measure this aspect is yet to be identified. Moreover, creating jobs within the formal sector poses a major challenge. The lack of employment opportunities has been a direct result of weak economic performance, especially in the late 1990s and early 2000s.

Although economic growth has been on the rise, it will need to be enhanced and sustained, in order to create an enabling environment for the expansion of employment opportunities in the Formal sector.

Gender: While it is widely acknowledged that gender issues are cross-cutting, the IP-ERS focused primarily on alleviating gender disparities in education, health, agriculture and employment. Much of the Department of Gender's work has concentrated on policy and institutional reforms. This has been achieved through the finalisation of a Sessional Paper as well as the establishment of a National Gender Commission to ensure equitable participation of both women and men in development. Consequently, core activities planned for 2005-2006 will be to establish gender divisions in all line ministries, carry out capacity building initiatives and continue to build a system for tracking and measuring progress in gender mainstreaming. Once the Gender Desks are fully functional, the Ministry hopes to have a better picture of gender-related activities in each sector. This will be reflected in the reporting of progress on gender issues in the annual progress report.

Agriculture: The agricultural sector continues to play a dominant role in contributing significantly towards increasing food security, income generation, employment creation and industrial development within the IP-ERS framework. The performance of this sector during 2004/05 was dismal. Sectoral growth slowed from 2.7 per cent (achieved in 2003) to 1.4 per cent (in 2004) as a result of the poor performance of major crops, such as, maize, coffee and pyrethrum. This was due to poor

rainfall distribution, the use of low quality seeds and the low use of inputs. This meant that the IP-ERS sector growth target (indicator 24 – 3.1 per cent) was not met. In addition to unfavourable weather conditions, an array of constraints, could account for this weak performance. They include: the slow growth of private sector institutions, delays in the restructuring of government institutions, poor and low density of rural infrastructure, the slow pace in the enactment of agricultural Acts and high competition from synthetic products. It should be noted that there are two important environment indicators (numbers 25 and 26) for which data was either unavailable or inadequate to assess progress.

Poverty Targeted Programmes: In order to directly address poverty, the IP-ERS identified, as priority programmes, the establishment of the Social Action Fund, the development of arid and semi-arid lands (ASAL), the implementation of slum upgrading programmes, and, the development of a programme to reduce the vulnerability of marginalised groups. With respect to the Social Action Fund, no significant progress was registered during the period 2004-2005. However, for the period 2005/2006 the AfDB has agreed to fund its development. To support ASAL areas, the IP-ERS identified a range of activities to be implemented by the Arid Lands Resource Management Programme (ALRMP). This included rehabilitating roads; implementing a broad-based livestock development policy; facilitating Private sector development of the fishing infrastructure; strengthening community-based eco-tourism; developing special school programmes; strengthening

community-based health care systems and preventive medicine; and, improving food security. Good progress was therefore made with respect to each of these areas.

Slum Upgrading: Over the review period, a number of studies were completed, with others underway to guide implementation of the slum upgrading programme. Phase One of the Slum Upgrading Project started in Kibera in October 2004. Other slums targeted during this phase were: Soweto slum in Nairobi, East Mavoko slum in Athi River and selected slums in Kisumu.

Vulnerable groups: With reference to this category, the Government is in the process of implementing projects that aim to improving the living standards of marginalised and vulnerable members of society as part of the IP-ERS core poverty-based programmes. These projects and programmes mainly focus on OVCs, the youth, women, and the disabled. Other groups whose plight is addressed by these programmes include children with special needs, slum dwellers, retirees, and the elderly. Although a variety of initiatives were undertaken, a number of challenges still prevail. They include: the lack of a policy framework in certain areas; inadequacies in the technical and financial capacity of implementing agencies; and, the lack of reliable statistics on the various vulnerable groups impedes efficient planning and budgeting.

7.4 Progress on Improving Governance

The IP-ERS asserted that poor economic governance, including corruption and poor management of public resources, is one of the key impediments to economic and social development. Reforms were therefore recommended with reference to: public safety, law and order; the civil Service, as well as decentralisation of operations as reflected in the proposed reforms within the local Government.

Public Safety Law and Order: Kenya has struggled to improve the investment climate, service delivery and personal safety largely due to the great challenges faced in curbing corruption and reducing the incidence of crime. In response to this scenario, the IP-ERS focused its policy proposals on the need to restore the rule of law, maintain an efficient and motivated police force, eliminate corruption, strengthen legal and justice institutions, create an enabling legal and regulatory framework, and reduce overcrowding in prisons. One IP-ERS indicator (29 - the ratio of concluded cases to reported cases) relates to this; however, data on targets and achievements is as yet, not available.

A number of additional indicators for this sector have now been agreed upon, but targets have not been proposed as yet. However, the crime rate in the country has been increasing. The numbers of reported cases of crime were 70,423 in 2003, 77,340 in 2004 and 83,841 in 2005. Progress, with respect to reforms during 2004/05 has been reasonable, and there are accelerated efforts

being made to address the immense challenges encountered. However, much more needs to be done in order to reverse the crime rate, curb deep rooted corruption and improve Kenya's international image. Further efforts also need to be made to strengthen the judicial system and the rule of law. Consequently, the establishment of the GJLOS programme is a step in the right direction in accelerating the realisation of the much needed reforms.

Public Service Reform: The Government is committed to the implementation of substantive reforms that will provide the country with a public service that is able to effectively play its role in Kenya's socio-economic development. The IP-ERS therefore proposed that in the medium-term, the Public service would improve its performance by: downsizing the public service; reforming pay structures; reforming pensions; and, building the capacity of the public administration. A wide range of programmes on staff rationalisation and reducing the size of the public service were implemented over 2004/05. However, inadequate sensitisation of ministries and departments on the reform agenda; weak implementation of guidelines on divestiture of non-core functions; and weak coordination arrangements for staff deployment/redeployment in line with recommendations of the ministerial rationalisation exercise of 1999/2000 led to slow progress towards achieving the set output targets.

Public sector wages as a proportion of the GDP was 7.8 percent (35 per cent of total expenditure) against a target of 8.14 percent. To

reduce its wage bill, the Government will fully implement the Voluntary Early Retirement Scheme with the objective of downsizing the Public Service by 21,000 over the medium-term. Furthermore, the Government will continue to strive for a leaner and more efficient Public Service through pay reforms, the introduction of performance based management and the rationalisation of ministerial structures in order to reduce duplication of functions as well as removing non-productive functions.

Decentralisation and Local Government Reforms: Strengthening the local government is an important priority for the GoK in its efforts to improve the overall public sector management. To this end, the IP-ERS underscored the need to accelerate the local government reform process in order to improve on local service delivery, good governance and poverty alleviation. In 2004/05, considerable work was undertaken to ensure that the proposed new constitution would firmly establish the legal framework for decentralised governance. However, the rejection of the Draft Constitution in 2005-2006 has stalled the process of establishing the necessary legal framework.

As a strategy to measure the devolution of power, an indicator recording the proportion of total Public sector spending controlled and managed at a local level was approved (indicator 30). However, while the base data exists, measurement of this indicator and the setting of targets have not yet taken place. The success of Kenya's Local Government reforms depends on a combination of strong and sustained political and operational leadership, adequate technical and financial resources,

and active citizen participation. As decentralisation evolves, more expenditure responsibilities at the local authority level will require additional financial resources from the Central Government.

Monitoring and Evaluation: The Government is committed to establishing a functional M&E system (IP-ERS target 31). To this effect, significant progress has been made in designing the M&E institutional framework and system to track progress, in line with the 31 priority IP-ERS indicators. Unfortunately, the system is currently being introduced in an unfavourable environment, characterized by ignorance of the operations of the M&E. This is coupled with limited capacities and lack of a work culture and ethic on the need to submit regular reports on achievements and challenges encountered.

Consequently, reports from ministries and districts are of varied quality and do not sufficiently adhere to set timelines. The need for consensus on the reporting framework, including agreements on the indicators for both central and devolved levels is paramount. The Government's focus in the coming year will therefore be on intensifying the institutionalization of the M&E, building capacity within ministries and departments, refining the IP-ERS indicators and disseminating M&E reports.

Table 7.1 The IP-ERSAPR Indicators including Performance Revised Targets (R)

No.	IP-ERS objective	Outcome indicator	Actual	Target		
			2004/05	2004/05	2005/06	2006/07
1	Accelerate economic growth	Real annual GDP growth rate (%)	4.3	3.1 (R)	5 (R)	5.1 (R)
2	Achieve and maintain price stability	Annual underlying rate of inflation (%)	5.8	Below 5	Below 5	Below 5
3	Control and reduce the burden of domestic debt	Stock of Domestic debt/GDP (%)	18.5	22.4 (R)	22.4 (R)	5.1 (R)
4	Control public sector wage bill	Public Sector Wage Bill/GDP (%)	7.8	8.14	7.6 (R)	7.3 (R)
5	Expand revenue sources	Revenue/GDP (%) (including Aia/GDP ratio)	21.3	21.5 (R)	21.3 (R)	22.2 (R)
6	Reform public expenditure management	Benchmark score on PEM-AAP	6	7	13 (R)	15 (R)
7	Rehabilitate the road network	Proportion of road network in bad/poor condition (%)	32	35	28	20
8	Increase power coverage in rural areas	Percentage of rural households served (%)	5	5	7	8
9	Increase rural water coverage	Percentage of rural households with safe and reliable water (%)	51	53	56	60
10	Increase urban water coverage	Proportion of urban households with safe and reliable access to water (%)	75	76	80	83
11	Enhance safer road system	Number of fatalities on the road annually	2,676 (53/10,000 vehicles)	2,100 (60/10,000 vehicles)	1,700	1,300
12	Enhance tourism	Annual growth rate of tourists (%)	15.1	10	12	9.7
13	Strengthen trade and industry	Growth of volume of exports (%)	9.4 (2004)	5.7	5.7	5.7
14	Reduce infant mortality	Fully immunized children as % of less than 1 yrs pop.	57	65 (R) (2005*)	67 (R) (2006*)	70 (R) (2007*)
15	Reduce HIV/Aids prevalence	Proportion of pregnant women aged between 15 - 24 years attending ANC who are HIV positive (%)	10.0	9.2 (2005*)	8.4 (2006*)	8.0 (2007*)
16	Reduce maternal mortality	Percentage of pregnant women attending ANC (at least 4 visits) (R)	42	60 (R) (2005*)	65 (R) (2006*)	70 (R) (2007*)

No.	IP-ERS objective	Outcome indicator	Actual	Target		
			2004/05	2004/05	2005/06	2006/07
17	Reduce the burden of disease	Inpatient malaria morbidity as a percentage of total inpatient morbidity	26	16 (R) (2005*)	15 (R) (2006*)	14 (R) (2007*)
18	Improve primary net enrolment (NER)	Primary net enrolment rate (%)	82.1	81.5	83.2	84.4
			82.2 (m)	82.9 (m)	84.4 (m)	85.0 (m)
			82.0 (f)	80.1 (f) (2005*)	81.9 (f) (2006*)	82.5 (f) (2007*)
19	Increase North Eastern Province net enrolment rate	Primary net enrolment rate for NEP (%)	19.6	24.5	31.5 (R)	38.5 (R)
			23.6 (m)	29.7 (m)	36.5 (m)	43.9 (m)
			14.9 (f)	19.4 (f) (2005*)	26.6 (f) (R) (2006*)	33.1 (f) (R) (2007*)
20	Reduce the rate of primary school drop outs	Primary school completion rate (%)	56.0	59.7	60.0	60.3
			57.1 (m)	60.3 (m)	60.4 (m) (R)	60.5 (m) (R)
			54.9 (f)	59.1 (f) (2005*)	59.6 (f) (R) (2006*)	60.1 (f) (R) (2007*)
21	Reduce the incidence of primary repetition	Primary repetition rate	9.3	9.8 (2005*)	7.4 (2006*)	4.9 (2007*)
22	Increase transition rate of pupils to secondary school	Primary to secondary school transition rate (%)	52	55 (2005*)	60 (2006*)	65 (R) (2007*)
23	Strengthen employment creation and productivity	Measured labour productivity in formal sector				
24	Raise incomes of small holders	Agricultural sector growth rate (%)	1.4	3.1	4	5
25	Improve environmental management	Forest area protected by gazettement (Ha)		To rise by 13,000	To rise by 13,000	To rise by 13,000
26	Introduce universal environmental screening projects	Proportion of public sector projects subjected to environmental impact assessments				
27	Reduce absolute poverty	Proportion of people below absolute poverty line (%)				
28	Reduce prevalence of underweight children in under 5 yrs of age	Prevalence rate of underweight children in under 5yr olds (%)				10
29	Enhance more expeditious justice	Ratio of concluded cases to reported cases (%) (These 4 indicators revised)				60
		% change in Domestic Crime Index by 2009				
		% change in overall Corruption Perception Index				
		% of citizens who report that they have access to justice systems to resolve disputes				

No.	IP-ERS objective	Outcome indicator	Actual	Target		
			2004/05	2004/05	2005/06	2006/07
30	Public sector transparency and devolution of power	Proportion of total public sector spending controlled and managed at local level (based on LAs, LATF, DRCS and CDF)				
		Public sector wage bill/GDP (%)	7.8	8.1	7.6 (R)	7.9 (R)
31	Creation of national monitoring and evaluation system	Fully functioning national system of M & E operating at all levels and providing feedback to the budget by the end of 2005				

ANNEX A: IP-ERS Input/Output and Outcome Indicators

No.	IP-ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
1	Accelerated economic growth	Implementation of full set of IP-ERS macroeconomic activities		Real annual GDP growth rate (%)	2.8 (R)	4.3	3.1 (R)	5 (R)	5.1 (R)	BOPA
2	Achieve and maintain price stability	Strengthen Monetary Policy Committee	A new Monetary Policy Advisory Committee appointed on 1st August 2005 with 3 yr office tenure	Annual rate of inflation (%)	8.2	5.8	Below 5	Below 5	Below 5	CBK Annual Report (AR)
3	Control and reduce the burden of domestic debt	Lengthen maturity of domestic debt	Government has a strategy in place of restructuring domestic debt to long term instruments	Stock of Domestic debt/GDP (%)	23.4 (R)	18.5	22.4 (R)	22.4 (R)	21.5 (R)	CBK AR
4	Public sector wage bill under control	Refer to section on public administration below	Refer to section on public administration below	Public Sector Wage Bill/GDP (%)	7.9 (R)	7.8	8.14	7.6 (R)	7.3 (R)	BOPA
5	Expand revenue sources	Constrain govt. spending within sustainable fiscal framework	On-going	Revenue/GDP (%) (including AIA/GDP ratio)	22.4 (R)	21.3	21.5 (R)	21.3 (R)	22.2 (R)	CBK AR, MoF QBR
		Modernise tax administration, including computerisation of the KRA and systems enhancement support to income tax and VAT functions.	Completed							
		Consolidate revenue collection in KRA, improve incentives for revenue collection and forecasting	On-going							
		Improve structure of taxation; undertake an assessment of tax policy, its impact on the economy, and optimal tax rates.								

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/ outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
7	Rehabilitate the road network	Rehabilitate 2,815 km of rural roads and create 18,800 jobs during 2003-06 under Roads 2000 programme	5 donors committed KShs 6.24 bn over five years to cover 37 districts	Proportion of road network in bad/poor condition (%)	38	32	35	28	20	KRB,MIS MR&PW
		Rehabilitate and upgrade key road links	5,040 kms rehabilitated							
		Rehabilitate 368 kms of Mombasa-Nairobi - Malaba road over the next five years costing US\$ 275 mn from WB & NDF								
		Rehabilitate 131 kms of Sultan Hamud -Mito Andei at a cost of KShs 4.6 bn from EU	77 kms completed and open to motorists							
		Reconstruction of 95kms of Maai-Mahiu-Naivasha-Lanet at a cost of KShs 4.7bn.	Reconstruction commenced in March 2005							
		Feasibility study/design of Athi River -Namanga section by October 2005	Draft feasibility study/design report submitted							
		Carry out a study on Master Plan								
8	Power coverage in rural areas	Improve access to markets and social services for rural communities								
		Develop energy sector development strategy	Sessional Paper No. 4 on energy approved by Parliament	Percentage of rural households (hhds) served (%)	4	5	5	7	8	MoE
		Arusha - Nairobi electricity interconnection	Dutch government has offered to provide financing							

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
		Increase installed solar capacity	Installed solar capacity increased by 1.26 MW							
		Extension of Kenya Uganda Oil Pipeline from Eldoret to Kampala	Preparation of bids for procurement of a private sector investor on going							
		Complete and implement the liquefied petroleum gas study including standardising valves	Study completed and a cabinet paper prepared to seek authority for implementation							
		Drilling of wells	Appraising sub basins							
9	Rural Water Coverage	Rehabilitate 100 Rural water supplies countrywide	100 Rural water supplies Rehabilitated	Percentage of rural hlds with safe and reliable water (%)	51	53	53	56	60	MoW&I APR 03/04
		Rehabilitate and augment 6 irrigation schemes	6 irrigation schemes rehabilitated and augmented							
		Construct 2 irrigation schemes infrastructure through the Rapid Results Initiative (RRI)	2 irrigation schemes infrastructure constructed through RRI							
		Drill and equip 650 boreholes	31 boreholes drilled and equipped; 20 well rehabilitated; 8 new ones built; 5 pans constructed; and 1 dam desilted							
		Supervise the drilling, construction and test pumping of 20 boreholes	20 boreholes supervised, drilled, constructed and test pumping done							
		Rehabilitation and construction of water harvest structures and community wells	10 water harvest structures were rehabilitated and constructed							

No.	IP-ERS objective	Planned activities/outputs	Actual activities/outputs	Outcome indicator	Actual	Target					Data Source
		2004/05	2004/05			2003/04	2004/05	2004/05	2005/06	2006/07	
		Rehabilitate and Construct 10 water harvesting structures and community shallow wells.	Rehabilitated and constructed 10 water harvesting structures and community shallow wells.								
10	Urban water coverage	Rehabilitate approximately 25 urban water supplies	25 urban water supplies rehabilitated	Proportion of urban hhds with safe and reliable access to water (%)	74	75	76	80	83		MoW&I APR 03/04
		Rehabilitate 5 sewerage schemes	5 sewerage schemes rehabilitated								
		Collect and test 3000 waste water samples from agro based industries	2,000 waste water samples and tested. Reports dispatched								
		Test 4,000 samples of drinking water from water supplies and consumer points	3,000 drinking water samples collected and tested								
		Monitor water quality of water bodies and pollution control inspections of industrial polluters (2,000 visits targeted)	500 visits made and 1,000 samples taken and tested for water quality and industrial pollution								

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data
					2003/04	2004/05	2004/05	2005/06	2006/07	Source
11	Safer road system	Increase road safety awareness by road users		Number of fatalities on the road annually	2,676 (53/ 10,000 vehicles)	2,100 (60/ 10,000 vehicles)	1,700	1,300	2,676 (53/ 10,000 vehicles)	2,100 (60/ 10,000 vehicles)
		Concessioning of the Mombasa Malaba highway	Prequalification of the concessioning on-going							
12	Enhance tourism	Aggressive promotion & marketing campaigns in source markets (East Asia, China and USA)	50% of Kenyan tour operators were approved by Chinese government to transact business with Chinese Tour Operators	Annual growth rate of tourists (%)	-20.3	15.1	10	12	9.7	
		Diversification and improvement of tourist products	Ministry led a high level promotional campaign to Hong Kong, China, South Korea and Japan							
			Ministry participated in World Travel Market in London in November 2004							
			MoU on tourism development and marketing were signed with Iran and Thailand							
		Organise road shows in America to promote Kenya's bid to host ATA congress	ATA congress held in Nairobi in May 2005							
		Finalise National Tourism Policy	National Tourism Policy finalised and awaiting Cabinet approval							
		Launch of new tourist circuits	The Mt. Kenya tourist circuit was launched							

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual	Target				Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
	Publish gazetted classification of hotels and restaurants	249 hotel and restaurant establishments were classified and gazetted								
13	Strengthen trade and industry	Finalise investment code	Investment Promotion Act enacted	Growth of volume of exports (%)	6.2 (2003*)	9.4 (2004*)	5.7	5.7	5.7	
		Strengthen partnership with the private sector	A draft private sector development strategy developed							
		Identify and develop zones to serve as incubators for SMEs	52 locations identified but not developed							
		Develop export development strategy that considers all sectors of export potential	The National Export Development Strategy Implementation Action Plan Phase I prepared							
		Review the existing export development incentive schemes (EPZ & MUBs)	EAC harmonised as one customs area for EPZA firms							
		Complete the Sessional Paper on MSEs.	Sessional Paper approved by cabinet and parliament							
		Promote backward linkages in textile industry to exploit AGOA	Final report of the feasibility study with a 5 yr action plan completed, viable projects cost of rehabilitating RIVATEX identified							
		Review and update eligibility criteria	Cost of production addressed through increase in import duty on second hand clothes in June							

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
14	Reduction in infant mortality	Advocate and intensify immunisation in the country	National full immunisation coverage worsened from 60% to 59%	Fully immunised children (FIC) as % of less than 1 yrs pop.	57	57	65 (R) (2005*)	67 (R) (2006*)	70 (R) (2007*)	KEPI Records, HMIS
		Timely supply of vaccines to HC and Dispensaries								
		Further decentralise IMCI services								
		Ensure availability of vaccines in HC and Dispensaries								
15	Reduce HIV/AIDS prevalence	Establish VCT sites in all parts of the country	Decentralised HIV/AIDS coordination structures in place (District technical committees and Constituency AIDS Control Committees)	Percentage of pregnant women attending ANC who are aged 15-24 who are HIV infected	13	10.0	9.2 (2005*)	8.4 (2006*)	8.0 (2007*)	NASCOF Annual Survey
		Further reduce the cost of ARV/ART								
		Disseminate Guidelines on HIV/AIDS	Communities mobilised, trained and resourced							
		Intensify training on VCT counsellors	5000 intervention projects implemented countrywide							
16	Reduce maternal mortality	Strengthen family planning services		Percentage of pregnant women attending ANC (at least 4 visits) (R)	42	42	60 (R) (2005*)	65 (R) (2006*)	70 (R) (2007*)	RH Records, HMIS
		Intensify training and advocacy for reproductive health								
		Timely supply of contraceptive in								

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
17	Reduce the burden of disease	Timely supply of anti-malaria drugs		Inpatient malaria morbidity as a percentage of total inpatient morbidity (R)	30	26	16 (R) (2005*)	15 (R) (2006*)	14 (R) (2007*)	HMIS
		Advocacy on use of LLITN								
18	Improve primary net enrolment (NER)	Free Primary Education through provision of capitation grants	Primary fees abolished by introducing Free Primary Education (capitation grants)	Primary net enrolment rate (%)	79.8	82.1	81.5 (2005*)	83.2 (2006*)	84.4 (2007*)	MoEST
					81.3 (m)	82.2 (m)	82.9 (m)	84.4 (m)	85.0 (m)	
					78.3 (f)	82.0 (f)	80.1 (f) (2005*)	81.9 (f) (2006*)	82.5 (f) (2007*)	
		Rationalise teacher recruitment	Staffing norms study completed							
		Operationalise Sessional Paper No.1 of 2005 on Policy Framework for Education, Training and Research	Sessional Paper operationalised							
19	Increase North Eastern Province net enrolment rate	School feeding programme to cater for 1 million children in ASAL and urban slums region. Support to boarding schools	Food provided to 1,082,339 children in 29 districts and Nairobi slums	Primary net enrolment rate for NEP (%)	17.6	19.6	24.5 (2005*)	31.3 (R) (2006*)	38.5 (R) (2007*)	
					23.3 (m)	23.6 (m)	29.7 (m)	36.5 (m)	43.9 (m)	MoEST
					12.1 (f)	14.9 (f)	19.4 (f)	26.6 (f)	33.1 (f)	
20	Reduce the rate of primary school drop outs	Enhance quality of primary education	Increased learning/teaching materials	Primary school completion rate (%)	52.0	56.0	59.7	60.0 (R)	60.3 (R)	MoEST
					54.5 (m)	57.1 (m)	60.3 (m)	60.4 (m)	60.5 (m)	

No.	JP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data
					2003/04	2004/05	2004/05	2005/06	2006/07	Source
21	Reduce the incidence of primary repetition	Teacher deployment and efficient utilisation	Staffing norms study complete. Teacher redistribution is on going	Primary repetition rate	9.8	9.3	9.8 (2005*)	7.4 (2006*)	4.9 (2007*)	MoEST
		Increased provision of teacher and learning material. Pupil/ text book ratio raised to 3:1 for std 1-5 and 2:1 for std 6-8	Pupil/text book ratio raised to 3:1 for std 1-5 and 2:1 for std 6-8							
		Introduction of alternative methods of education	NFE has been mainstreamed							
		Curriculum review	Curriculum reviewed to improve relevance							
22	Increase transition rate of pupils to secondary school	Increased bursaries	Bursaries were given to 70,000 needy students	Primary to secondary school transition rate (%)	47	52	55 (2005*)	60 (2006*)	65 (R) (2007*)	MoEST
		40:1 pupil/teacher ratio in high population areas and 25:1 in ASAL areas	40:1 (primary) 18 hours per week (secondary)							

NB: (2005), (2006), and (2007) are calendar years.

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
23	Strengthen employment creation and productivity	Draft and finalise new employment policy	Sessional Paper No. 7 of 2005 on Employment Policy approved by cabinet	Measured labour productivity in formal sector						Eco. Survey
		Prepare bills on reviewed labour laws	No progress reported on preparation of bill							
		30,000 trade test examinations. Plan 600 industrial attachments. Train 400 people industrial skills. Audit 45 employment agencies.	31,400 trade test examinations. 691 industrial attachments. 454 people trained on industrial skills trained. 45 employment agencies audited.							
		Reduce no. of dispute settlement procedures to 15								
		Settle 800 longstanding trade disputes and investigate, conciliate or refer 1,000 new disputes to industrial court	980 long standing cases settled. 900 case referrals to industrial court arbitration and 1,049 cases settled through voluntary agreements							
		Increase no. of judges from 2 to 5	No. of industrial court judges increased from 2 to 5							
		Settle 12,200 workmen's compensation claims	Settled 8,818 claims							
		Finalise MSE Policy	Sessional paper No. 2 of 2005 on MSE development passed by Parliament							
		Undertake Phase I of rehabilitation and completion of 28 Jua Kali sheds/worksites	Phase I of 25 worksites rehabilitated							

No.	IP-ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
24	Raise incomes of small holders	Restructure and rationalise agricultural research	Three research institutions KARI, KETRI and KEVEVAPI merged,	Agricultural sector growth rate (%)	2.6	1.4	3.1	4	5	Eco. Survey
		Implement National Agriculture Extension Policy (NAEP)	NAEP being implement through the following programmes; NALEP SIDA and GoK, ASPs, KAPP and PSDA.							
		Carry out a PRA throughout the country	the above programmes have being using PRAs in all areas of operation							
		Develop a strategy for deepening markets for agricultural financial services	this has been partly achieved through SRA and strengthening of AFC							
		Refinancing of Agricultural Finance Corporation (AFC)	Loan portfolio increased from KShs 1.25 billion to KShs 1.5 billion							
		Liberalise and regulate input markets	Government intervened through NCPB to stabilise fertiliser prices							
		Promote commercialisation of farm products including reducing transport costs by improving rural roads and reducing fuel taxes, reducing irrigation and factory operating costs by bringing down electricity costs; and improving access to market information by strengthening communication	A new directorate of agribusiness, Market Development and Agricultural information has been formed to effectively handle marketing and information dissemination							
		Develop strategy to improve	The Strategy for Revitalising Agriculture (SRA) has been							

No.	IP -ERS objective	Planned activities/outputs	Actual activities/outputs	Outcome indicator	Actual		Target			Data
		2004/05	2004/05		2003/04	2004/05	2004/05	2005/06	2006/07	Source
25	Improved environmental management	Implement National Environmental Action Plan	Training of district workshops held to train DEOs and DDOs, and to sensitise key stakeholders on development of EAPs	Forest area protected by gazettement (Ha)			To rise by 13,000	To rise by 13,000	To rise by 13,000	Forestry Dept. records
		Implement Environmental Management Coordination Act (1999)	Dialogue initiated with Kenya Association of Manufacturers and the business community Training and posting of provincial Directors of Environment and District Environment Officers done 2 nd national report to the CBD and 3 rd country report to the UNCCD prepared and submitted and prepared the second SOE report							
		Promote private sector participation in reforestation and management of forest plantations	Funds received from FAO to hire a consultant to prepare guidelines for leasing forests to private sector							
		Implement Lake Victoria Environmental Management project (LVEMP)	LVEMP II strategy and the procurement plan have been prepared.							
		Develop and implement Community Action Plans (CAPs)	A draft CAPs project document developed							
		Carry out a natural resources inventory by 2007								

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
27	Reduce absolute poverty	Higher agriculture growth rate and higher crop yield		Proportion of people below absolute poverty line (%)	56 (2003*)					KIHBS
28	Reduce prevalence of underweight children in under 5 yr olds			Prevalence rate of underweight children in under 5yr olds (%)	19				10	KDHS

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
29	More expeditious justice	Recruit 1,400 new administrative police officers per annum	1482 were recruited	nb. indicators revised						
	Strengthen security force	Hire additional 2,000 police staff annually to reduce the Police/ population ratio from 1:1,100 to 1:450	1,960 officers recruited	% change in Domestic Crime Index by 2009						
		Launch and entrenchment of community based policing (CBP)	CBP developed and rollout in progress. 700 officers trained							
		Retrain all police officers to improve service delivery	2,372 officers retrained at KPC in various courses							
		Improve condition of service	A new scheme of service for KP being developed. Staff allowances being reviewed							
	Strengthen ethics, integrity and anti-corruption	Establish a Committee to investigate corruption cases involving judges and other judicial staff and hold countrywide public sessions	The Chief Justice constituted an Integrity and Ethics Committee to clean up judiciary. Committee is holding public sessions to receive complaints against judicial officers							
		Finalise public hearings of the Goldenberg Enquiry	Finalised public hearings and report was due in September/ October 2005							
		Investigate and prosecute suspects involved in the Anglo-leasing saga	Anglo-leasing cases investigated and prosecution of six civil servants on-going							
		Receive interim report from Kroll International on looted national resources	Report is not yet ready							
		Establish a secretariat for National	Secretariat for National Anti -							

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
		Implement recommendations on repossessing grabbed land and public housing contained in the Ndungu court	A tribunal to vet land title deeds and identify illegally acquired ones (for cancellation) set up. Work on repossession of illegally acquired public utility land, government houses, water catchments started							
	Strengthen democracy, justice, rule of law and human rights	Facilitate the Constitution making process. Complete constitutional review and new constitution in place by June 2004	Consensus building forums held. Constitution Review Act amended to allow for a referendum. Published road map of completion of constitution review process	Ratio of concluded cases to reported cases (%)	21 (1999*)				60	
		Review of laws on private prosecution	Review on laws on private prosecution completed and report prepared by Kenya Law Reporting Council	% of citizens who report that they have access to justice systems to resolve disputes						
		Improve legal education, recruit and train new judicial personnel	Task force appointed to review policy and legislate the framework for legal education.							
		Mainstream human rights discourse to the public through education and awareness raising activities	A bi-annual human rights journal published and annual human rights awards were publicly announced and awarded. Public forums and media debates on human rights held	% change in overall Corruption Perception Index - annually conducted by Transparency International Kenya Chapter						
			KNCHR responded to urgent human rights violations like the Mary Dicks death cases							

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
30	Public sector transparency and devolution of power	Establish legal framework for decentralised governance by introducing fundamental structural changes through constitutional review process	Three tiers of local government were proposed, with increased local level expenditure and revenue responsibilities in draft new constitution	Proportion of total public sector spending controlled and managed at local level (based on LAs, LATF, DRCS and CDF)						
			Issuing of enhanced annual budget preparation guidelines							
			Decentralisation of local authorities? annual budget evaluation to Provincial Budget Committees prior to the final approval by MoLG							
			Introduction of pro-poor projects in the budget worth at least 20 per cent of the annual budget							
			LAs to utilise 10 per cent of their annual budgets for debt repayments							
			Development and dissemination of the LASDAP guidelines							
		Preparation of Integrated Financial and Operation Management System (LAIFOMS)	LAIFOMS tested in few LAs							
		Prepare operational manual for LAIFOMS	Draft manual complete							

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
		Deepen ministerial rationalisation: Undertake feasibility studies on functions identified for divestiture. Contract-out and privatise non-core functions	Process started in some ministries	Public sector wage bill/GDP (%)	7.9 (R)	7.8	8.3 (R)	7.6 (R)	7.9 (R)	
		Implement Voluntary Early Retirement Scheme. 3,000 retirees to exit the service	1,395 exited the service. 21, 338 employees to retire by the end of 2006/07							
		Development of strategic plans for all ministries/departments. All Ministries/ Departments to undertake public service delivery surveys and to design and develop performance improvement programmes	Most Ministries and Departments had developed strategic plans							
		Performance contracts: Chief Executives of State Corporations and Accounting Officers on contracts	Legal framework for performance contracting gazetted. 123 state corporations on performance contracts							
		Performance appraisal system: Review appraisal instrument. Train users and implement	Appraisal system reviewed to link it to RBM							
		Job evaluation: Prepare guidelines for job descriptions and specifications and concept paper on Job Evaluation. Strengthen capacity to undertake the Job Evaluation Exercise. Harmonise and implement new grading structures	Job evaluation concept paper was developed. Thorough job evaluation exercise was initiated (excluding Armed Forces)							

No.	IP -ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data
					2003/04	2004/05	2004/05	2005/06	2006/07	Source
		Implement Waste Free Programme	Piloted in 15 ministries/ departments, 2 state corporations, 1 local authority, 7 provincial headquarters and 8 district headquarters							
		Finalise the development of a comprehensive training and capacity building policy. Develop manual on training and capacity building	Comprehensive Recruitment and Training Policy approved							
		Undertake/coordinated training needs assessment. Identify training needs. Relate training to identified priorities	Needs assessment was undertaken in all Ministries/Departments. Human resource development officers trained							
		Draft pay policy for public service. Validate draft policy at stakeholder forum. Prepare final draft report and submit to cabinet for necessary action	A draft pay policy for the public service was prepared and submitted to cabinet.							
		Review salaries for civil servants and implement phase I of salary adjustment for civil servants.	The government implemented phase I. Salary adjustment, effected on 1st July, 2004, benefited lower and middle level cadres in job groups "A" to "S"							
		Implement contributory scheme for civil servants	Implementation has not been effected due to its legal and financial implications							
		Identify status of IPPD system	IPPD rolled out to all Ministries							

No.	IP-ERS objective	Planned activities/outputs 2004/05	Actual activities/outputs 2004/05	Outcome indicator	Actual		Target			Data Source
					2003/04	2004/05	2004/05	2005/06	2006/07	
31	Creation of national monitoring and evaluation system	Finalisation of the design of the National Integrated Monitoring and Evaluation System (NIMES) and rolling out to all ministries and districts	MED established MOGs finalised and disseminated in preparation of the rolling out of the NIMES The central and devolved level M&E system rolled out to 26 ministries and 41 districts.	Fully functioning national system of M&E operating at all levels and providing feedback to the budget by the end of 2005						
		Piloting of the devolved level M&E	Devolved M&E system piloted in 8 districts. 8 district annual M&E reports for 03/04 prepared and a synthesis report prepared and disseminated.							
		Finalisation of the 1 st IP-ERS APR for 2003/04	1 st APR 2003/04 finalised							

*This is a Calendar Year Indicator

ANNEX B: Enhanced Public Expenditure Management Action Plan

Ref	SHORT TERM MEASURES 2004/05	MEDIUM TERM MEASURES 2005 - 2007	LEAD DEPT.	STATUS
BUDGET FORMULATION				
GOVERNMENT POLICIES, PLANS AND RESOURCE FORECASTS				
F1	Develop and implement mechanisms to ensure that government policies are accurately and consistently reflected and costed in long, medium and short term plans at both the national and sector level and are linked to resource availability Develop a training manual for those that are engaged in budget preparation Capacity building through government on costing of programmes Improve budget costing particularly of utilities and development projects Building capacity in the Budget department as well as the sectoral departments of the MoPND for sectoral analysis and improved budget features Limit the frequency of virement by an act of Parliament		BSD	Trainers manual on costing has been finalised by the Ministries but has not been published There is ongoing training programs for other Ministries Budget implementation circular issued on 1 st August 2005 (includes all aspects of budget implementation)
F2	Improve resource forecasting at the macroeconomic level (continuous improvement to the KIPPRA Treasury Model)		Macro	• KTMM is being improved to be in line with SNA 93
F3	Create Capacity in MoF for Development of tax policy and tax analysis Training officers in EAD on revenue analysis and Forecasting Research in Policy analysis Hold regular seminars and workshop on revenue analysis and forecasting Create capacity by posting more economists to EAD		EAD	Tax Policy has been re-engineered and is ongoing Only 2 officers have received training Seminars and workshops not yet held 8 officers have been posted in the department
COMPREHENSIVENESS				
F4	Prepare an annual consolidated general Government fiscal table, which includes Government, E.B.F.s and statutory institutions	Include budgets of the SAGAs Ex- Ante in the budget documents submitted to Parliament using standard classification	BSD	A task force has been put in place. This taskforce which is composed of members from Accountant General BSD, and EAD is working on TOR to procure a consultancy to look at the issue of SAGAs and the modalities of including them in the annual budget documents. Quarterly Budget Review has a list of the SAGAs and their budgets for 2005/06. In addition, the Quarterly Budget Review is also reporting the budget for the previous years
F5	Include detailed statements on all central Government extra budget funds in annual budget and document for information purposes Expedite receiving execution reports from fund accounts	Consolidate the reports from SAG As funds accounts and LA accounts Prepare quarterly reports for all general Government accounts	BSD	When above is accomplished then this will also be met
F6	Review current strategy for external resources management Develop appropriate systems Form Review team on external resources management strategy Engage consultant to assist Review Team through donor support	Update procedures for identification, monitoring and capture of donor (development partner) funds Operationalise the proposed donor		A task force has been constituted A draft has been submitted to cabinet ERD officers were trained on the CS – DMRS – 2000+ data system and installation was completed in

Ref	SHORT TERM MEASURES 2004/05	MEDIUM TERM MEASURES 2005 - 2007	LEAD DEPT.	STATUS
F8		Develop and implement plan to significantly reduce the use of AIA (recurrent) and change to revenue Itemise and detail earmarked revenue and any other possible sources of ministerial AIA	AGD	- Plans are underway to review all AIAs - A review has been ongoing
CLASSIFICATION				
F9	Review economic classification for consistent and comprehensive use across central government	Implement the new IFMIS soft ware	AGD	GFS coding in use for 2005/06 The roll-out of IFMIS is ongoing
F10	Extend the Economic classification to all parastatals	Extend economic classification to general government include LAs & FAs & SAGAs		Done through GFS coding in 2005/06 budget
F11	Adopt COFOG functional classification and map to existing budget items	Extend the functional classification to LAs, FAs and SAGAs	BSD	Current years budget is in GFS classification (mapped) The government has adopted COFOG and analysis has been made of the budget using COFOG and has been posted in the latest QBR. The Government will be including a summary based on COFOG on the annual budget publications.
F12		Adopt programme budget approach based on policy objectives and outputs and implement pilot bias	BSD	
F13	Complete reassessment and identification of core poverty programmes and include in annual budget statement Revise the core poverty programmes in line with the ERS		BSD	A new list of core poverty programmes is ready which has taken into account the IP-ERS and the PER work. This new list includes wages and salaries as well as new programmes that were not there
F14		Once COFOG adopted use for mapping of core poverty programmes	BSD	All of central government budget has been mapped onto COFOG
F15		Expand definition of core poverty programmes to include general government expenditure	BSD	The criteria developed can be used for general government and therefore done.
PROJECTIONS				
F16	Complete MTEF review and prepare and implement action plan focused on key issues including MTEF institutional framework, Parliamentary approval of MTEF envelopes and on costing and budget preparation in ministries Disseminate MTEF review report Implement recommendation		BSD	Done. A new budget preparation calendar has been adopted and starts early the financial year. Also the BOPA and BSP are part of the MTEF calendar Treasury has been working with the Cabinet sub-committee on economic management and parliamentary committee on finance planning and tourism Sector ceilings are issued upfront
F17	Carry out organisational changes that would enable an effective interaction of policy and strategy in resources in the budgeting process		FS/PS	Since October 2004 all the departments involved in budget preparation and monitoring have been consolidated within the Ministry of Finance. Now the MTEF secretariat is part of the Budget Department forming the Budget Policy Division, and the budget monitoring department has been merged with the Department of Economic Affairs.

Ref	SHORT TERM MEASURES 2004/05	MEDIUM TERM MEASURES 2005 - 2007	LEAD DEPT.	STATUS
E2	Introduce new accounting standards in realistic and achievable time scale i.e. moving from cash base accounting to accrual accounting concept Establish a steering Committee to identify the steps to be followed Conduct overview of the existing Accounting standards Identify the requirements for either modification or complete change		AGD	Review is ongoing
E3	Ensure that fiscal issues are adequately considered in the implementation of the government's policy on decentralisation Monitor funds transferred to LAs	Review the LATF and LATF reporting arrangements to achieve quarterly fiscal reporting from LAs using standard budget classification	AGD	Monitoring is being done (short term)
E4	Agree in conjunction with MLG and CAG appropriate account standards for LAS Propose special report to parliament on the status of LA Audits Outsource and begin audit of LAS accounts from the year 2000 Reconciliations		AGD	The process is ongoing but there is need for further monitoring
E5	Link weekly exchequer releases to line ministries and agencies to submission of timely delivery & verification of monthly accounts and associated bank reconciliation - update bank reconciliation at Ministry level	Ensure wide access to IFMIS generation of monthly accounts as the main source of reporting and analysis	AGD	Line ministries are updated and advised on any arrears of two months and that their credit limit with CBK will be suspended Exchequer release system has been replaced by credit lines Line ministries are required to prepare quarterly projections to from a basis of monthly credit lines as spelt out in the treasury circular on budget implementation Ministries are also required to submit monthly returns to the treasury to continue accessing their credit lines
E6	Establish routine reconciliation between expenditure reports		EAD	Being done by BSD Reconciliation of expenditures has been initiated
E7	Establish a system for monthly reconciliation by AGD/MOF of KRA payments to Central Bank Establish a system for monitoring and updating records of inflow of revenue from KRA through CBK to Exchequer Commitment Control		AGD	The KRA/CBK and MoF committee is established and meet weekly
E8	Strengthen commitment control procedures Urgently improve monthly reporting and analysis of outstanding commitments and arrears by ministry Use sanctions to enforce timely and accurate submissions by ministries		AGD/BSD	On 1st of August 2005 a Treasury circular was issued giving guidelines to ministries on commitment control as well as on regular reporting on expenditures and arrears The BSD is regularly analysing arrears and giving recommendations on what to be done The level of arrears has gone down
E9	Complete verification of stock of pending bills for both recurrent and development budget and finalise strategy for clearing outstanding bills		BSD	The work by the pending bills closing committee is still ongoing The budget has an allocation of KShs 2 billion in 2005/06 to clear any of the bills passed by the closing committee and another KShs 3 billion is provided for the 2006/07 to clear the balance. It is envisaged

Ref	SHORT TERM MEASURES 2004/05	MEDIUM TERM MEASURES 2005 - 2007	LEAD DEPT.	STATUS
	Debt Management			
E11	Develop and implement improved debt management system Prudent management of contingent liability Review of project of project portfolio Carry out a Debt Sustainability Assessment		DMD	Strengthening of Department and improvement of the Operating System (Back office operations) Draft operations manual for back office operations complete Doing parallel runs of CS-DRMS 7.2 and 2000+ versions with a view to fully migrating to CS-DRMS 2000+ Data validation exercise is ongoing Officers trained on CS-DRMS 2000+ external debt module Payments and data recording operations in the back office have been synchronised. Fibre optic connectivity to CBK to be done this financial year Establishment of a DMO under progress with funding from World Bank/DFID DMD website being developed Training on CS-DRMS domestic debt module to be conducted in February 2006 Workshop on CS-DRMS management tools and Debt Sustainability Analysis to be held in October 2006 Setting up of domestic debt database (including data upload from existing system) Procure and install a centralised server before end of June Validation of grants and on-lending database Auditing of contingent liabilities and loans Debt data owed by parastatals reconciled
	Procurement			
E12	Develop and implement improved procurement systems and procedures Expedite enactment of the procurement law Carry out country procurement assessment exercise		DPP	Procurement Act passed
	Cash Planning and Management			
E13	Improve cash/treasury management systems and procedure		AGD	A cash flow planning system is in place from 1st July 2005 and a zero balance drawing account arrangement with CBK has been established
	Project Management			
E14	Improve the management and accounting for projects Establish a project implementation system		MED	
	Payroll Management			
E15	Review the procedures for accounting for payroll and pensions and ensuring the integrity information related to salaries wages and pensions		IAD	This is being handled by IPPD now under DPM.
E16	Review procedures for accounting for pensions and improving the quality of information related to pensions Periodical review of payroll records from paying agents to safeguard against loss of public funds and for timely payment of pensioners			An external auditor to be appointed enhance capacity in handling payroll to carry out pay roll cleansing to ensure that no ghost pensioners exist All pensioners including those using the Postbank are now required to open bank accounts. Transfer of funds by Electronic Accounts with effect from 1st July 2005

Ref	SHORT TERM MEASURES 2004/05	MEDIUM TERM MEASURES 2005 - 2007	LEAD DEPT.	STATUS
MONITORING AND EVALUATION				
	Internal Audit			
M1	Improve awareness and understanding of the role of internal audit through government and continue to strengthen capacity of the internal audit service to undertake system audits. Local training seminars and workshops Sponsorship to local institutions for internal auditor's course Training of auditors in computer assisted auditing techniques Preparation of Audit Manual and guidelines	Harmonise Audit regulations for Internal Audit School Auditors and Efficiency Monitoring Unit	IAG	Held various seminars/workshops up to June 2005. This has to continue to update internal auditors on new development in Auditing. Sponsored 85 Auditors for CPA, CIA & CISA courses and internal audit course at KIA. This is continuous Trained 212 auditors on CAATS. This is to continue. Audit manual and guidelines in Final Draft and forwarded to PS (Treasury) for approval.
M2	Train additional auditors Provide more resources for internal Audit service to verify pending bills	Gradually devolve internal audit responsibilities to line ministries and review, rationalise and regulate all in year audit and internal control functions	IAG	Continuous Internal Auditors participated in the verification of pending bills.
M3		Develop indicators and collect appropriate data to assess for example government wide error rates by system		
	Monitoring			
M4	Develop expenditure tracking system (PETS). Pilot the system on selected core poverty programmes Review PETS work done by KIPPRRA Use the methods to carry out such an exercise on selected core poverty Programmes	Develop monitoring poverty programmes in the framework of ERS Develop a rolling work programme for annual PETS exercise over the next three years Undertake tracking surveys in other Ministries	BSD	The 2004 PETS has been finalised and printed and remains circulation
	Reporting			
M5	Improving BSD reporting system to make it more frequent comprehensive timely and accurate and implement better information sharing			BMD staff were absorbed in EAD and some of their functions are being done by BSD
M6		Prepare semi annual reports on general government budget execution	AGD	To be implemented under the new Government of Kenya Financial Act which is to come into effect on 1st November 2005?
M7	Prepare and issue a detailed implementation plan and associated time table for IFMIS roll out. Acquisition of software Training of IFMIS implementation team Train supervisors Piloting of system in Finance and Planning		AGD/IFMIS Team	The implementation plan and timetable for IFMIS roll out has been prepared and implemented. Software has been acquired Training of IFMIS implementation team has been done Supervisors are yet to be trained The pilot exercise for IFMIS in Finance and Planning has been successfully completed in 2004

Ref	SHORT TERM MEASURES 2004/05	MEDIUM TERM MEASURES 2005 - 2007	LEAD DEPT.	STATUS
	management of financial resources			
M12	Develop and implementation formal arrangements for ensuring timely exchange of information between all stakeholders in the planning and budget preparation process		FS	MTEF calendar outlining the process
M13	Institute mechanisms for improved exchange of information within MoF and between accounting and finance officers in line ministries and MoF		BSD/AGD	Carried out ongoing joint team building workshops between Finance officers and accountants as a mechanism to improve exchange of information between MoF and between accounting and finance officers Joint Training between Finance and Accounting officers on Government Finance Statistics (GFS) classification is ongoing
M14	Undertake a review of available and required financial management skills and other associated resources and develop and implement a plan at both the central and line ministry level (accountants and finance officers) to ensure that relevant mandates are achieved with respect to financial management		BSD/AGD	AGD: A needs assessment has been undertaken and a training intervention to address gaps has been developed (for accounting officers) 200 officers have attended professional studies (CPA) over the period of two semesters (each semester covers 6 months) 4 officers are pursuing MBAs (ongoing) 3 managerial courses were offered (1 in Senior Financial Management and 2 in Middle Financial Management) targeting 35 officers for each course. 8 Officers attended financial management training in South Africa 3 job related courses were held targeting Accounts Assistants to Accountants 1 (60 officers per course) Carried out expenditure control training and examination for all accounting officers Held financial training workshops for all District Accountants and all heads of units
	State Corporations			
S1	Competitive recruitment of Chief Executives/Chairpersons and Board members Establish policy guidelines on appointment of chief Executive/Chairman/Board members Set up and maintain a database of qualified candidates for parastatal board and senior management posts		DGIPE	Competitive, transparent and professional recruitment based on competence, relevant skills and experience is now the norm This has been done as per the advice and recommendations of State Corporations Advisory Committee.
S2	Review overall policy on government investments and improve the quality of boards and knowledge of financial management of chief executives Develop performance contract for chief executives Negotiate and sign performance contracts with chief executives and board members Monitoring performance of parastatals against the set targets Formulate dividend and policy Review of State Corporations Act		DGIPE	All state corporations are on performance contracts with effect from 1st July, 2005 based on predetermined performance targets All state corporations boards have signed performance contracts with their respective chief executives. Continuous submission and evaluation of quarterly performance reports of parastatals By 3rd Quarter 2005/06 By 3rd Quarter 2005/06
S3	Develop and implement privatisation policy Enactment of Privatisation Bill Establishment of Privatisation Commission Continuation of Privatisation		DGIPE	A Privatisation Strategy has been developed and will be taken over by the privatisation commission upon the commission being established The Privatisation Act, 2005 has been published By 3rd Quarter 2005/06
S4	Implement Parastatal rationalisations and restructuring Retrenchment of staff		DGIPE	To be done as per the Privatisation Strategy

Ref	SHORT TERM MEASURES 2004/05	MEDIUM TERM MEASURES 2005 - 2007	LEAD DEPT.	STATUS
	Enhance capacity of DGIPE through recruitment of qualified personnel & training Develop and implement MS for DGIPE Review the information required for DGIPE			Recruitment of senior officers and promotion has been done and assessment of DGIPE's staff requirements has also been done DGIPE's information requirements have been assessed. Action likely to be accomplished in the 3rd Quarter 2004/05 Action likely to be accomplished in the 1st Quarter 2005/06
S8	Prepare and implement a plan for elimination of the back log of the audit reports of the SAGAs Take necessary steps to ensure that all defaulting institutions prepare time bound plans for the submission of any outstanding accounts Establish the extend of contingent liabilities		DGIPE	• Ongoing

ANNEX C: Government of Kenya Comprehensive Anti-Corruption Strategy

ACTION PLAN FOR APRIL 2005 - JUNE 2006

This annex identifies specific time-bound actions that the Government of Kenya plans to implement during April 2005-June 2006 in the following five areas that constitute the pillars of the comprehensive anticorruption strategy it has pursued since 2003:

- Enactment of the necessary legislation to establish a legislative platform on which to anchor the war on corruption;
- Vigorous enforcement of anti-corruption laws through investigation of offences of corruption and economic crimes as well as recovery of corruptly acquired property;
- Identification and sealing of corruption loopholes through institution of effective public sector management controls;
- National public education aimed at stigmatising corruption and inducing behavioural change; and,
- Implementing macroeconomic and structural reforms to reduce the incidence and demand for corruption by scaling down the role of the public sector and bureaucracy.

	Action	Lead Responsibility	Timing (Month/Yr)	June 2005 Status/Comments	Way forward
A. Further Strengthen the Legislative Platform					
1.	- Expand the jurisdiction of special Magistrates and to enable them to deal with corruption and economic crimes. - Empower the High Court to appoint a receiver of property suspected to have been obtained through corruption. - Permit the KACC to take over investigation involving corruption commenced by the police. - Enable the public access to the declarations of assets made by Public Officers.	State Law Office (SLO)	Submit to Parliament by April 2005	The Statute Law (Miscellaneous) Bill was gazetted on April 6, 2005. It amends, among others, the Anti-Corruption and Economic Crimes Act (2003) and the Public Officers Ethics Act (2003). See separate entry on increase in the number of judges, etc. Request has been made by the Attorney General to withdraw the Bill in order to include further amendments. Government to prepare regulation for streamlined public access.	
2.	Establish an autonomous Public Procurement Oversight Authority that will be responsible for the regulation of procurement in the public sector.	MOF, SLO	Submit to Parliament by April 2005	The Public Procurement and Disposal Bill 2005 had its first reading in Parliament on 5th April 2005 and it will shortly come up for the second reading. The Bill provides specific provisions for procurement of security goods, works and services, which shall be subjected to classified audit and presented to Parliament. This will enhance value for money, accountability and transparency.	The Bill was passed by Parliament on 4th August 2005. The next step is to get Presidential Assent to the Bill.
3.	Provide for the privatisation of public assets and operations including state corporations, by requiring the formulation and implementation of a privatisation programme by a Privatisation Commission	MOF, SLO	Submit to Parliament by April 2005	A draft revised Privatisation Bill has been prepared.	The Bill was passed by Parliament on 10th August 2005. Being prepared. Next step is to get Presidential Assent to the Bill.
4.	Introduce legislation for witness and whistle blower protection.	SLO, MOJCA	Submit to Parliament by April 2005	The initial Witness Protection Bill was published on 24th March 2005. The Bill has not yet been considered by Parliament.	
5.	Provide for regulation, disclosure, expenditure limits and state subsidies financing of political parties.	MOJCA	Submit to Parliament by December 2005	The Political Parties Bill is currently being validated by the various political parties.	Awaiting publication
6.	Introduce legislation to address money laundering and proceeds of crime.	MOF, SLO	Submit to Parliament by	The bill has been validated and is awaiting publication. Cabinet has approved the Anti-Money Laundering and Proceeds of Crime Bill.	Awaiting publication

	Action	Lead Responsibility	Timing (Month/Yr)	June 2005 Status/Comments	Way forward
6.	Implement the main recommendations of Presidential Commission on Illegal and Irregular Allocations of Public Lands (Ndung'u Committee), namely: repossess illegally allocated public lands.	Ministry of Lands; KACC	March 2006	The TORs of the Advisory Task Force have been presented to Cabinet committee on public utility land. A Bill to establish the land Titles Tribunal is ready for publication. A draft work plan and budget to implement the recommendations is also ready. The Ministry of Lands is implementing the necessary measures of recovery and restitution of assets suspected to be illegally or irregularly acquired. The Ministry has constituted a Committee which KACC is represented to consider and advice on the modalities of recovery of such property. So far 133 Title Deeds have been surrendered voluntarily	On March 14 th 2006 KACC through a public notice directed Kenyans who illegally/irregularly acquired public land to surrender them within 30 days.
7.	Completion of the Goldenberg Commission of Inquiry and preparation of an Action Plan for Implementation.	Office of the President	July 2005 October 2005	Report to be finalised. Action Plan for implementing recommendations to be developed. Government to consider public disclosure of the report and administrative action against those implicated in the report.	
8.	Enhance prosecution capacity by, among others, recruitment, review of remuneration and assessment of training needs.	SLO	December 2005	The Department of Public Prosecutions in the Office of the Attorney General has been thematically reorganised to create a special Anti-Corruption, Economic Crimes, Serious Fraud Prosecution and Asset Forfeiture Section. The Attorney General has received 57 files from KACC and the CID. Six files from KACC have been taken back to CID for re-evaluation. The Attorney General has taken 35 cases to court comprising of 26 from KACC and 9 from CID. Of the other 22 files, 14 will be closed due to lack of evidence as recommended by KACC; administrative action will be taken on three cases while five cases will be prosecuted shortly. The persons already taken to court include 6 Permanent Secretaries, 14 Parastatal Heads as well as business tycoons and professionals.	Awaiting comments from DPP
9.	Automate recording of court proceedings.	MOJCA, Judiciary	December 2005	Initiate 6 pilots.	

	Action	Lead Responsibility	Timing (Month/Yr)	June 2005 Status/Comments	Way forward
2.	Achieve outstanding Public Expenditure Management Action Plan benchmarks	MOF	June 2005	Seven (7) benchmarks to be achieved Six were achieved.	
			June 2006	Thirteen (13) benchmarks to be achieved	
			June 2007	Fifteen (15) benchmarks to be achieved	
			June 2008	All Sixteen (16) benchmarks to be achieved	
3.	Roll out of IFMIS to all Accounting Units	MOF	June, 2007	IFMIS Implementation in Six (6) Ministries Complete	
4.	Harmonise the granting of discretionary exemptions with the new exemptions regime of the EAC Customs Union in order to eliminate the use of such discretionary powers.	MOF	June 2005	The exemptions regime has been harmonized with the 5th schedule of exemptions under the EAC Customs Union.	
5.	Verify and develop payment plan for pending bills.	MOF	December 2005	Pending Bills Closure Committee already constituted and verification action in progress.	
6.	Full compliance with Public Audit 2003.	KNAO	December 2006	Clearance of backlog of audits of the Central Government (CG) and the Semi-Autonomous Government Agencies (SAGAs) is substantially complete. Work on clearing backlog of audits of Local Authorities (LAs) is in progress. - Audit of CG for 2003/04 is complete; reported to be submitted to Parliament by end September 2005. Audit for 2004/05 in ongoing and to be completed by November 2005. Report to be ready by December 31, 2005 - Backlog on the audit of SAGAs –2002/03 cleared; 2003/04 substantially cleared; 2004/05 to be substantially cleared by December 31, 2005. - Good progress made in the clearance of audit of LAs. A number of LAs audits now cleared to 2003/04.	

D. Conduct Public Education to Stigmatise Corruption and Induce Behavioural Change

1.	Spearhead a countrywide public education campaign against corruption.	MOJCA, KACC	August 2005	A baseline survey has been undertaken and a strategic plan has been developed. Clarify the roles of KACC and the National Anti-Corruption Campaign. Launch anti-corruption campaigns	
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	Action	Lead Responsibility	Timing (Month/Yr)	June 2005 Status/Comments	Way forward
2.	Enhance public interaction with the government on governance by establishing a Public Complaints Unit (PCU) to serve as a central referral and a Monitoring and Evaluation unit.	MOJCA	June 2005	Executive Order for establishing the PCU has been developed and sent to the AG for verification. Next it will be signed by the President for gazettelement. Executive Order has been forwarded to the president	
E. Scale Down the Role of the Public Sector and Bureaucracy					
1.	Adopt and publish (by the Government) a time-bound restructuring and privatisation programme for the state-influenced banks.	MOF	June 2005	Programme is under preparation to improve governance and enhance efficiency in the banking sector.	
2.	The Government undertakes to overhaul business licensing with a view to reducing the number of licenses and the time taken to a minimum.	MOF, MTI, IPC	December 2005	About 50 of the approximately 600 licenses to be abolished under an ongoing pilot program. A working committee on Regulatory Reform for Business Activity reviewed 86 licences and forwarded its recommendation to MOF. The recommendations were incorporated in the FY2005/06 budget speech. 35 licences to be eliminated. Out of these 9 horticulture licenses were eliminated effective from June 8, 2005	
3.	Embed ethical, transparent and accountable behaviours across the public service	Office of the President, MOF	December 2005	This will include review of existing provisions governing the conduct of public servants to ensure that they support the effective implementation of the action plan. Such a review will address issues such as conflict of interest; adherence to relevant Codes of Ethics; and efficiency, accountability and transparency in the conduct of public affairs. Government to seek the cooperation and assistance of donors to examine such practices in the projects they finance (including through forensic audits).	

Ministry	Recurrent			Development			Total		
	Target	Actual	Variance	Target	Actual	Variance	Target	Actual	Variance
O.O.P	27,696	26,243	-5%	5,475	3,866	-29%	33,171	30,109	-9%
State House	602	583	-3%	250	113	-55%	852	696	-18%
DPM	1,211	828	-32%	946	478	-49%	2,157	1,306	-39%
Foreign Affairs & Int. Co-op	5,954	5,831	-2%	100	30	-70%	6,054	5,861	-3%
OVP & MHA	6,944	8,148	17%	923	477	-48%	7,867	8,625	10%
Planning	837	755	-10%	1,301	716	-45%	2,138	1,471	-31%
Finance	10,997	10,219	-7%	19,953	17,272	-13%	30,950	27,491	-11%
Department of Defence	21,219	21,066	-1%	0	0	0%	21,219	21,066	-1%
Regional Development	631	330	-48%	202	162	-20%	833	492	-41%
Agriculture	3,807	3,215	-16%	2,763	589	-79%	6,570	3,804	-42%
Health	17,516	18,326	5%	4,458	595	-87%	21,974	18,921	-14%
Local Government	5,499	2,780	-49%	1,741	1,174	-33%	7,240	3,954	-45%
Roads and Public Works	10,344	12,700	23%	9,128	3,766	-59%	19,472	16,466	-15%
Transport	3,048	3,035	0%	1,604	490	-69%	4,652	3,525	-24%
Labour & Human Resources	850	836	-2%	124	48	-61%	974	884	-9%
Trade & Industry	2,105	1,680	-20%	459	355	-23%	2,564	2,035	-21%
Justice & Const. Affairs	1,239	626	-49%	1,233	366	-70%	2,472	992	-60%
Gender, Sports, Culture & SS	1,589	1,515	-5%	164	137	-16%	1,753	1,652	-6%
Fisheries & Livestock Development	2,292	1,819	-21%	1,040	276	-73%	3,332	2,095	-37%
Water Resources and Irrigation	2,158	1,993	-8%	4,254	4,058	-5%	6,412	6,051	-6%
Environment & Natural Res.	2,263	2,180	-4%	686	383	-44%	2,949	2,563	-13%
Co-operative Development	577	494	-14%	1,467	131	-91%	2,044	625	-69%
East African Cooperation	528	203	-62%	0	0	0%	528	203	-62%
State Law Office	422	123	-71%	125	5	-96%	547	128	-77%
Judicial Department	1,338	1,199	-10%	287	190	-34%	1,625	1,389	-15%
Public Service Commission	170	165	-3%	0	0	0%	170	165	-3%
National Audit Office	1,097	939	-14%	0	0	0%	1,097	939	-14%
National Assembly	5,500	4,375	-20%	0	0	0%	5,500	4,375	-20%
Energy	258	246	-5%	5,906	6,365	8%	6,164	6,611	7%
Education, Science & Tech	78,810	77,380	-2%	5,883	3,554	-40%	84,693	80,934	-4%
Electoral Comm. of Kenya	1,274	1,178	-8%	0	0	0%	1,274	1,178	-8%
Lands & Housing	1,774	1,174	-34%	269	111	-59%	2,043	1,285	-37%
Information & Communication	644	248	-61%	27	2	-93%	671	250	-63%
National Security Intell. S	4,195	4,189	0%	0	0	0%	4,195	4,189	0%
Tourism & Wildlife	1,698	1,755	3%	1,214	756	-38%	2,912	2,511	-14%
Total	227,086	218,376	-4%	71,982	46,465	-35%	299,068	264,841	-11%

Under Education there is variation between budgeted and AIA due to: Expenditures released by some donors directly are not captured in the ministry's Accounting Records, delays in release of funds by some donors, and delay/ non release of programme/ project funds from the exchequer.



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