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REPUBLIC OF KENYA

MINISTRY OF PLANNING AND NATIONAL DEVELOPMENT

ANNUAL PROGRESS REPORT: 2004/2005

INVESTMENT PROGRAMME FOR
THE ECONOMIC RECOVERY STRATEGY FOR
WEALTH AND EMPLOYMENT CREATION

2003-2007

May 2006

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List of 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
OVC	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	Teacher 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

Executive Summary

Background

This is the second Annual Progress Report (APR) which reviews progress made during 2004/05, the second year of implementation of the Investment Programme for the Economic Recovery Strategy (IP-ERS). 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 following the methodology proposed in the National Integrated Monitoring and Evaluation System (NIMES). The NIMES evolved from an intense consultation process involving all key players in government, private sector, civil society, and development partners.

The IP-ERS is Kenya's medium-term strategy to foster economic growth and reduce poverty. Poverty is defined as inability to command resources and is a multidimensional phenomenon, a characteristic that makes those afflicted face multiple deprivations due to interactions of economic, political and social processes. The poor are not only people with less income but are also disadvantaged in accessing productive resources such as land, credit, health and education, and are vulnerable and powerless to changes in system wide institutions besides their inability to influence key decisions. 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 in the IP-ERS.

To enhance Economic Growth, the government envisages strengthening the macroeconomic framework, a more responsible fiscal policy stance and the unleashing of private sector participation and investment. **To improve equity and reduce poverty**, the programme focuses on universal primary education, improved access to basic health, 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 governance**, the programme proposes reforms in the judiciary, strengthening of the rule of law and security, as well as implementing reforms in public administration systems that are critical to the improvement of government transparency and accountability.

Poverty Update

The Ministry of Planning and National Development is currently conducting the Kenya Integrated Household Budget Survey (KIHBS) and participatory Poverty Assessment (PPAs) which will help update information on poverty (ERS indicator 27) among other uses. While awaiting the KIHBS, the Central Bureau of Statistics (CBS) has combined the WMS III and the 1999 population and housing census to produce two reports giving poverty profiles at constituency level. The findings of the reports indicate that poverty varies widely among 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 of Nyanza province experience double the poverty incidence faced by their least poor rural counterparts in Central province. Among the 210 constituencies, the poverty headcount ratio ranges between 16.5 per cent for the least poor constituency (Kabete) and 84 per cent for the poorest constituency (Ganze).

Further analysis based on Gini coefficients for constituencies indicates low levels of poverty exhibit highest levels of inequality and vice versa. For instance Ganze with a poverty index of 84 per cent (highest in the country) has the lowest inequality index of about 0.33 whereas Kabete constituency with the lowest poverty index of 16.5 per cent has the highest inequality index of 0.43. This implies that resources in poorer areas are more equitably distributed as opposed to non poor areas where resources are held by few individuals.

Performance against the Three Pillars

The IP-ERS presents a strategy to bring about economic recovery and create wealth and employment based on three pillars namely: promoting economic growth, reducing poverty, and promoting good governance. The pillars provide the annual basis for assessing progress against the agreed IP-ERS APR indicators (see Annex B). The targets for some of the indicators were revised in 2004/05. Table 8.1 below includes the revised targets (marked R) and will be used as the starting point for the 2005/06 APR.

Progress on Economic Growth

The IP-ERS gives a high priority to revitalisation of economic growth and creation of wealth and employment as a strategy to reduce poverty. Key areas with respect to this objective are: macroeconomic stability, financial sector development, infrastructure development through private sector participation and revitalisation of trade, tourism and the manufacturing sectors.

Macroeconomic Performance: Against a background of changed methodology in national accounts which resulted in inclusion of new economic activities hitherto not included such as the informal sector, the 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, in part attributable to the economic and structural reforms implemented since the National Rainbow Coalition Government came to power. Achievement with respect to other macroeconomic targets was mixed. Inflation was 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 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; continued negative political climate (especially around the constitutional review process); drought and food shortages; parliamentary inability to enact bills such as the privatisation bill; high oil prices; and, limited progress with infrastructure development. Looking forward to 2005/06, government seeks to consolidate and strengthen the economic recovery, with expectations that GDP growth can be raised to 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 highlights the importance of the efficient use of public resources and sound PEM in stimulating economic growth and alleviating poverty. During the 2004/05, the government undertook a number of significant reforms. However, government recognises the slow progress made on implementation of IFMIS, the lack of momentum on PETS and the effects of weak budget execution on budget credibility. Therefore, the 2005 budget speech outlined the need to: ensure that those responsible for financial management strictly adhere to the financial regulations including procurement guidelines; implement a cash management system to ensure timely release of resources to line ministries; carry out PETS to improve utilisation of public resources; roll out IFMIS to line ministries; and, introduce a risk-based internal audit system. To meet all 16 PEM-AAP benchmarks by 2008/09, budget formulation needs to be accelerated.

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 was 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: 32 per cent was in poor condition against the target of 35 per cent. Fatalities arising from road accidents reduced from 3,004 in 2003 to 2,628 in 2003/2004 and 2,676 in 2004/05 following introduction of reforms in the public transport. The main challenge to improving the nation's infrastructure is inadequacy of funding, delay 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 government will be deepening reforms in the sector to foster competition, diversify sources of energy and reduce costs.

Water and Sanitation: It is recognised in the IP-ERS that the sector has the potential to substantially improve the lives of Kenyans by ensuring access to clean water and improved sanitation facilities. One of the IP-ERS water targets was met and the other was nearly met. Some 53 per cent of the rural population were served with safe and reliable water in 2004/05 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 facing the water sector revolve around financing and capacity. 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 capacity 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 identifies tourism, manufacturing and trade as the main drivers of the economy. The government is committed to the removal of barriers to investment and lowering the costs of doing business. The tourism sector performed well over 2004/05 and the annual growth rate of tourists (IP-ERS indicator 12) was 15.1 per cent against -20.3 the previous year. However, significant challenges remain with respect to security, infrastructure as well as the lack of national tourism policy to guide the sector. Performance in trade was above expectations, with export volume growing at 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, remaining below potential. Key constraints included: increased oil prices; the appreciation of the Kenyan shilling against the dollar; depressed domestic demand; poor infrastructure; and, insecurity.

Progress on Equity and Poverty Reduction

The second pillar of the IP-ERS is equity and poverty reduction. Focuses on 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 is 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, performance against other IP-ERS education targets was not as good. 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 8 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 school repetition was exceeded (indicator 21 - 9.3 against a target of 9.8), this was not the case for transition to secondary education, where performance was below target (indicator 22 – 52 per cent against a target of 55 per cent). A number of constraints confront the 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, with a high number of OVC. A major initiative to improve performance in the coming years is the Kenya Education Sector Support Programme (KESSP) which will support government in strengthening the management and delivery of educational services and improve access, quality, and relevance of education and training. KESSP, launched in 2005, is a five year plan employing a sector wide approach. KESSP, launched in 2005 is a 5 year plan which employs a Sector Wide approach.

Health: The IP-ERS primary objective for the sector is to enhance the accessibility and affordability of quality basic health services for all Kenyans with special emphasis on the poor and vulnerable. Although government was successful in increasing the spending on health 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) indicate poor performance against IP-ERS targets. For instance, the percentage of children under one year fully immunised (indicator 14) was 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 achieved 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 of the sector remains a significant challenge. Health targets have been revised downwards and there is concern that unless decisive steps are taken, then 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 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 and establish an M&E framework.

With respect to HIV, although good progress has been made, the rate of new infections remains significantly high. The HIV prevalence 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 are job creation, the promotion of an enabling environment for industrial development and an increase in the productivity of factors of production. The IP-ERS proposes that 500,000 jobs should be created annually between 2003 and 2006, that investor confidence should increase and industrial labour productivity should rise. There was an estimated net increase in the number of jobs created between 2003 and 2004 to 437,900 of which 36,400 were created in the formal sector. A methodology for measuring productivity has been commissioned and the next step is to develop it.

Gender: While it is recognised that gender issues cut across several sectors, the IP-ERS focuses 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 the 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 main planned activities for 2005/06 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 gender desks are fully functioning, the ministry will have a better picture of gender-related activities taking place in each sector and 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. Growth in agriculture slowed from 2.7 per cent achieved in 2003 to 1.4 per cent in 2004 as a result of 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 meant that the IP-ERS sector growth target (indicator 24 – 3.1 per cent) was not met. An array of constraints, underpin weak performance including: slow growth of private sector institutions, the slow restructuring of government institutions, poor and low density of rural infrastructure, the slow pace of enactment of agricultural acts and high competition from synthetic products.

Poverty Targeted Programmes: In order to directly address poverty, the IP-ERS identified 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 a programme to reduce the vulnerability of marginalised groups as priority programmes. With respect to the Social Action Fund, there was no progress 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): 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; and, improving food security. Good progress was made.

Regarding slum upgrading, over the review period, a number of studies have been completed and others are on-going to guide implementation of the slum upgrading programme. Phase one of slum upgrading was started in Kibera in October 2004. Other slums targeted in this phase include: Nairobi Soweto, East Mavoko in Athi River, and some in Mombasa and Kisumu.

On **vulnerable groups**, government has been implementing projects to target the marginalised and vulnerable as part of the IP-ERS core poverty programme. These projects and programmes mainly focus on OVC, the youth, women, and the disabled. Although a variety of initiatives have been undertaken, a number of problems are faced: the lack of a policy framework in some areas; inadequate technical and financial capacity within the implementing agencies; and, lack of statistics on vulnerable group hampers planning and budgeting. In addition, the Poverty Eradication Commission (PEC) was re-launched in January 2005 to spearhead the poverty war especially in trying out approaches to boost people's incomes through the promotion of income generating activities.

Progress on Improving Governance

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

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. The IP-ERS focuses 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 along with other priorities. There is one relevant IP-ERS indicator (29 - the ratio of concluded cases to reported cases) but data on targets and achievements are not yet available. A number of additional indicators for this sector have now been agreed but targets have not yet been set. 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 reforms during 2005/06 has been reasonable and there is momentum in addressing the huge challenges. However, much more needs to be done in order to reverse the crime rate, curb deep rooted corruption and improve Kenya's international image, strengthen the judicial system and the rule of law. The establishment of the GJLOS programme is a step in the right direction in accelerating the realisation of the much needed reforms.

Public Service Reforms: 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 proposes that in the medium-term the public service will improve performance by: downsizing of the public service; reforming pay structures; reforming pensions; and, building the capacity of public administration. A wide range of programmes on staff rationalisation and reducing the size of the civil service have been implemented over 2004/05. However, inadequate sensitisation of ministries/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 set output targets.

There is one current IP-ERS indicator (number 4) that is relevant for public administration: public sector wages as a proportion of GDP. The target for 2004/05 was 8.14 per cent. During 2004/05 the target was met: government spent 7.8 per cent of GDP (35 per cent of total expenditure) on the wage bill. To reduce the wage bill, it will be necessary to continue to implement the Voluntary Early Retirement Scheme with the objective of downsizing the public service by 21,000 over the medium-term. 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 duplication of functions and non-productive functions.

Decentralisation and Local Government Reforms Strengthening local government is an important priority for the GOK in its efforts to improve overall public sector management. To this end, the IP-ERS stresses the need to accelerate the local government reform process in order to improve local service delivery, 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 2005/06 stalled the process of establishing the necessary legal framework. 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, 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 central government.

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

No.	IP-ERS objective	Outcome indicator	Actual	Target		
			2004/05	2004/05	2005/06	2006/07
1	Accelerated 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	Public sector wage bill under control	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	Public expenditure management reform	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

No.	IP-ERS objective	Outcome indicator	Actual	Target		
			2004/05	2004/05	2005/06	2006/07
8	Power coverage in rural areas	Percentage of rural households served (%)	5	5	7	8
9	Rural water coverage	Percentage of rural households with safe and reliable water (%)	51	53	56	60
10	Urban water coverage	Proportion of urban households with safe and reliable access to water (%)	75	76	80	83
11	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			9.7
13	Strengthen trade and industry	Growth of volume of exports (%)	9.4 (2004)	5.7	5.7	5.7
14	Reduction in 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*)
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	Target		
			2004/05	2004/05	2005/06	2006/07
18	Improve primary net enrolment (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	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 the 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 incomes of small holders	Agricultural sector growth rate (%)	1.4	3.1	4	5

No.	IP-ERS objective	Outcome indicator	Actual	Target		
			2004/05	2004/05	2005/06	2006/07
25	Improved 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 yr olds	Prevalence rate of underweight children in under 5yr olds (%)				10
29	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				
		% 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				

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

Developments in Monitoring and Evaluation

Substantial progress has been made towards 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 include: the design and roll out of a two-tier M&E system at national and district level; the preparation of the 2003/04 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, MED faces a number of challenges, including: 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; lack of an M & E policy framework defining the working relationships between 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 has two tasks, namely: the promotion of an M&E culture and practice; and, supporting the preparation of a District Annual Monitoring and Evaluation Reports (DAMERs). In order to create a robust and efficient devolved system, the MED initiated a pilot exercise in 8 districts in March 2005. This initial M & E efforts were rolled out to all other districts in the country culminating into the preparation of District Annual Monitoring and Evaluation Reports for each district.

A synthesis of a sample of the first district reports indicates that locally managed and controlled funds have great potential in bringing about positive development outcomes at the community level, especially if community participation is sufficiently enhanced and political interference minimised. However, the reports recognised the inadequacy of the systems to monitor and evaluate the effectiveness of the funds. The committees formed at the constituency level are poorly composed and are not technically qualified to evaluate projects being undertaken both in terms of technical know-how, and numbers. In addition, the preparation of the DAMER is currently being hampered by hesitancy of some heads of departments and agencies to provide adequate and timely information. The initial pilot synthesis report despite having no firm monitorable conclusions highlighted the main challenges facing the management and administration of these funds.

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

During 2005/06 it will be necessary to: review the role of the DAMER in both the district and national monitoring systems; explore how the DAMERs can be synthesised for the APR; prioritise which elements are the most important; examine ways of harmonising indicators at district and national level; and, a further roll out the district monitoring and evaluation system in a carefully sequenced manner, in line with the capacity of MED and collaborating partners.

IP-ERS Financing

Revenues have not only consistently reached the target of 22 per cent of GDP on an annual basis, but also increased consistently in line with the IP-ERS target thus significantly contributing to the financing of the IP-ERS. The formation of the East Africa Customs Union under the East Africa Community (EAC) however makes it fairly difficult to meet this target in the immediate future owing to the envisaged lower taxes arising from the harmonisation of common tariffs within the region. The target for indicator 5 has therefore been revised to make it more realistic.

With regard to domestic borrowing, the lower domestic interest rate experienced during the fiscal years 2003/04 and 2004/05 was an indication of government's success in restructuring government debt towards longer maturing debt, 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 weak demand. For the period 2004/5, domestic borrowing of Kshs. 25 billion was not achieved; indeed, there was a net repayment. The Kshs 25 billion target of domestic borrowing for 2004/05 was not achieved largely due to lower than expected government expenditure. This could be traced to low absorptive capacity of development expenditure by line ministries.

1. Background

1.1 The 2004/05 APR

This is Kenya's second Annual Progress Report (APR) which reviews progress made during 2004/05, the second year of the Implementation of the Investment Programme for the Economic Recovery Strategy (IP-ERS). The APR has been 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 by every country that is involved in the implementation of a poverty reduction strategy paper, like the IP-ERS. Poverty reduction strategy papers sets out a comprehensive poverty reduction strategy which covers a three to five year period. In each of the intervening years, APRs are produced with the aim of reporting on implementation and updating near term priorities. Where appropriate, APRs are used by governments to assess progress and set the agenda for the year ahead.

Although there is no required format for an APR, it is expected to include three elements namely: 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 being used to provide information on implementation progress to key domestic and external stakeholders. Where necessary, they suggest modifications to strategies, policies, targets, and indicators and provide updates on poverty or other relevant analysis. APRs can also play a wider role with respect to donor co-ordination and harmonisation, thereby reducing the need for additional reports for development partners.

1.1.2 The IP-ERS

The IP-ERS is Kenya's medium-term strategy to foster economic growth and reduce poverty. Poverty is defined as inability to command resources and is a multidimensional phenomenon, a characteristic that makes those afflicted face multiple deprivations due to interactions of economic, political and social processes. The poor are not just people with less income, they are also disadvantaged in accessing productive resources such as land, credit, health and education, and are vulnerable and powerless to changes in system wide institutions - the poor cannot influence key decisions. 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 in the IP-ERS.

To enhance economic growth, the government envisages strengthening the macroeconomic framework, a more responsible fiscal policy stance and the unleashing of private sector participation and investment. Improvement of equity and reduction of poverty are to be achieved by focussing on primary education, improved access to basic health, expanded productive capacity in agriculture, development of traditionally overlooked arid and semi-arid areas, and upgrading the living conditions of the urban poor. Enhancement of governance is to be addressed through reforms in the judiciary, strengthening of the rule of law and security, as well as implementation of reforms in public administration systems that are critical to the improvement of transparency and accountability in public service. The APR is prepared around 31 summary indicators representing all the major sectors of the economy.

Reporting on progress in the implementation of the IP-ERS also presents substantive information on the achievements of the MDGs since the former broadly covers 10 out of the 12 targets of the latter. In preparing the IP-ERS efforts were made to reflect on MDG concerns which are largely long-term national aspirations, as opposed to the medium term nature of the former. As such, the IP-ERS is MDG-based, reflecting the necessary ambition and realism needed to meet the MDGs.

The IP-ERS therefore identifies a wide range of sectoral and cross-cutting policies and reform issues whose implementation cuts across many stakeholders. This report covers progress in the implementation of the IP-ERS discussed under its three broad pillars namely; economic growth, equity and poverty reduction, and governance.

1.1.3 Methodology used to prepare this APR

Preparation of this APR was informed by the Methodological and Operational Guidelines (MOGs) of the national integrated monitoring and evaluation system1. The NIMES provides a mechanism for feedback on the budget allocation system to ensure that future expenditures are tailored to maximise their impact on IP-ERS targets. The M&E system is based on both central and devolved reporting. A key output of the central level system is annual submissions by ministries on progress against IP-ERS objectives and the achievements of targets. The sectoral chapters of this report are developed from these submissions. With respect to the devolved structure, a system of district monitoring was set up over 2005 and District Annual Monitoring and Evaluation Reports (DAMERs) prepared for 2004/05. Although not fully rolled out by the end of 2005, preliminary findings from this level of reporting are summarised in this report.

This report mainly focuses on 31 IP-ERS outcome indicators and targets broadly identified as suitable for summarising national performance on a sectoral basis. The indicators were used in the first APR though some revisions were done on the targets for purposes of the second APR as reflected in the report. A more comprehensive presentation of the indicator framework is included as Annex A.

1.1.4 New issues of the APR 2004/05

Based on the findings, a best practice review and feedback on the 2003/04 APR, an amended APR structure has been developed for 2004/05 to include the following changes: A chapter on the status of monitoring and evaluation at both central and devolved levels; restructured growth, equity and governance chapters; more detailed content on the sectoral sections covering policy objectives and targets, achievements to date challenges, lessons learnt and way forward (2005-06); a focus on sectors and not ministries; more gender analysis; weaknesses in the governance section of the

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

previous report substantially addressed; and, provision of a new table format on progress against indicators (Annex A).

1.1.5 The Relationship between APR process with budgeting and planning

The APR process needs to be fully integrated 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. 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 the report.

1.2 Poverty Update

As noted 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 these periods that impacted negatively on the poor. To measure poverty and determine its causes, the government conducted three welfare monitoring surveys in the 1990s. However, an important point to note is that the profiles constructed from the three welfare monitoring surveys (WMS I, II, III) are not fully comparable due to differences in sampling, the quality and quantity of the data collected, and the areas covered. In spite of this, available profiles reveal that poverty is widespread across all districts, and that the poor can be identified by region of residence and socio-economic characteristics. The three surveys indicate that an estimated 56 per cent of the population are absolutely poor and the majority to be found among the subsistence farmers, the illiterate, landless, female headed households, large households, widows, 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 department is currently conducting the Kenya Integrated Household Budget Survey (KIHBS) and Participatory Poverty Assessments (PPAs) to update the data on poverty. Until this data is available it is not possible 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, CBS has combined the WMS III and the 1999 population and housing census to produce two reports giving poverty profiles at constituency level. The second report, developed during 2004/05, presents the results of the analysis of poverty estimates and concentration, and socio-economic dimensions of poverty and inequality at constituency level. The findings of the report, summarised below, indicate that poverty varies widely among 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 of Nyanza province experience double the poverty incidence faced by their least poor rural counterparts in Central province. Among the 210 constituencies, the poverty headcount ratio ranges between 16.5 per cent for the least poor constituency (Kabete) to 84 per cent for the poorest constituency (Ganze).

The analysis of Gini coefficients for constituencies indicates that the index ranges between 0.30 and 0.43 (the higher the figure, the higher the inequality). Areas with low levels of poverty exhibit highest levels of inequality whereas the opposite is true of areas with highest poverty levels. Ganze with a poverty index of 84 per cent (highest in the country) has the lowest inequality index of about

0.33 whereas Kabete constituency with the lowest poverty index of 16.5 per cent has the highest inequality index of 0.43.

The CBS poverty profiles at constituency level highlight some of the socio-economic dimensions of poverty as: Households headed by individuals with educational attainment at the secondary level or above are better off than those headed by individuals with primary education; within each province, households headed by individuals with no education depict the highest poverty incidence; Controlling for education, poverty rates vary substantially amongst constituencies – this suggests that there is a substantial variation in returns to education across constituencies; there are no significant differences between the poverty levels of male and female headed households; and, that some categories of female headed household are particularly vulnerable - a more disaggregated analysis of this category is necessary.

Table 1.1 Poverty estimates 1999/2000

Province	Number of Constituencies	Constituency poverty head count range (% below poverty line)			Rank
		Lowest	Highest	Mean	1=least poor
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 Annex 2B in the 2003/04 APR - this lists 31 indicators, baselines and targets. This is the framework used for the review of the IP-ERS progress during 2004/05. This data is reproduced in Table 1.2 below together with actual data for the current year, 2004/05. In addition, where updates have been made to baselines or 2003/04 data, they have been included in the table. However, only the original targets set in the last APR have been used for this review whereas several targets revised over the last year have been flagged in the table in the conclusion chapter and in Annex A. These tables will be the starting point for the next APR (2005/06). In sum, no revised targets have been used for the analysis in this report. Where revisions to targets have been made, they have been noted in the table in the conclusion (reproduced in the executive summary) and in Annex A. In the sectoral chapters that follow, revisions to targets are flagged only in the lessons learned and way forward section.

2. Economic Growth

2.1 Economic Performance

Policy Review

The IP-ERS gives a high priority to the revitalisation of economic growth to create wealth and employment that will lead to poverty reduction and the enhancement of the standard of living of Kenyans. The cornerstones to achieve higher growth are: (i) the commitment by the state to facilitate private sector growth and investment (ii) the consistent and firm resolve by government to strengthen its policy and regulatory functions. Four development outcomes are specifically stated:

1. Macroeconomic Stability: The overall objective is to *"restore economic growth within a sustainable framework of low inflation, declining fiscal imbalances, declining net domestic borrowing and healthy balance of payments."* In addition, government intends to: increase domestic savings and investment; improve accountability in the use of public resources; and, restructure and reform public spending towards priority areas and activities (especially the areas that would have a direct bearing on the achievement of the MDGs).

These objectives are to be achieved through the use of both fiscal and monetary policies. **On the fiscal side**, government is committed to reducing national debt, increasing expenditure on development, increasing the efficiency and effectiveness of public expenditure, setting expenditure ceilings and increasing revenue earnings. **On the monetary side**, government aims to keep overall inflation and underlying inflation at less than 5 per cent and at 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.

2. Financial Sector Development: Since this is generally an intermediation sector, its development supports a positive environment for private savings and investment. The government is committed to implementing two measures. First, improving governance by strengthening supervision and enforcement of prudential and legal provisions as well as tightening regulations for the sector. Second, addressing 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; privatisation and restructuring of state-owned banking institutions; and, streamlining the microfinance sub-sector.

3. Participation of the private sector in infrastructure: The commitment of government is to use infrastructure as a key pillar to support economic growth. Thus, the government's intentions are to achieve: an expanded and well maintained road network; improved safety of both urban and rural transport; increased access to water resources; increased availability, reliability and affordability of energy; efficient telecommunications services; and, a vibrant information technology sector. It is for this reason that government is committed to providing a conducive environment to increase private sector participation and investment in the main sectors of water, energy, roads, transport and communications. The basis for the right investment environment is considered to be the creation and maintenance of a satisfactory regulatory and legal framework and the privatisation of selected key operations.

4. Revitalisation of Trade, Tourism and the Manufacturing Sectors: Recognising the importance of these sectors, the government is committed to supporting them 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 cost of doing business.

2004/2005 budget speech

While the IP-ERS is the government's policy statement for the period 2003-2007, it is operationalised through the annual budget statements. For the year under review, the relevant operationalisation instrument is the 2004/05 budget statement. The statement was prepared against the background of increasing international oil prices and 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 of the statement is in line with the objectives of the IP-ERS. It stipulated that the government would, for the fiscal year 2004/05, aim 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 included the continued privatisation of public enterprises, the strengthening of tax policy administration, enhancing efficiency in the management of public enterprises and the continuation of financial sector reforms.

Achievements

According to the 2003/04 APR, a number of macroeconomic targets were exceeded. These include Gross Domestic Product (GDP) growth rate, revenue as proportion of GDP, private sector credit, foreign exchange reserves and underlying inflation. The other targets (including investments as a proportion of GDP, savings as a proportion of GDP, expenditure as a proportion of GDP, deficit as a proportion of GDP, net domestic borrowing by government, net domestic debt as a proportion of GDP, money supply growth, export volume and net external inflows) were not met for various reasons. The main reasons included: low public investment; low donor disbursements (which undermined the achievements of government investment targets); a significant increase in credit to the private sector due to lowering of the cash ratio; a significant appreciation in the real exchange rate; underperformance in the coffee sub-sector; and negative net foreign borrowing. Notwithstanding the mixed achievements during the 2003/04 review period, the government remained committed to implementing the various growth supporting fiscal and financial sector reforms as stipulated in the IP-ERS.

General economy

The economy performed very well during the period under review compared to the previous period. Real GDP grew by 4.3 per cent in 2004 compared to 2.8 per cent in 2003 and a 2004/2005 revised target of 3.1 per cent. The main sectoral contributors 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) and transport and communications (9.7 per cent). The manufacturing sector's performance is attributed to the increased output of cigarettes, cement, transport equipment, agro-processing industries (sugar, milk, grain milling, fish and tobacco), and output from Export Processing Zones (EPZs). This sector continued to perform well during the first half of 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 by aggressive marketing, enhanced security associated with strengthening of the Tourist Police Unit, and opening of direct flights to some parts of Asia (Budget Speech 2005/06). Although agriculture is an important sector of the economy and the government is committed to transforming it into a profitable, commercially oriented and internationally competitive economic activity, the sector did not perform as well. It grew by only 1.4 per cent in 2004 compared to 2.7 per cent in 2003, owing largely to drought – the worst performing sub-sectors being maize, coffee and pyrethrum.

The continued economic recovery, with 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, backed by strong performance in sugar production, coffee and horticulture exports and a drought recovery. Besides, the continued strong performance in the manufacturing sector (dairy processing, beer and cigarette production, cement, etc) is expected to propel the industrial sector growth to over five per cent in the same period. The building and construction and the energy (especially, electricity) sectors, which complement the industrial sector, are expected to also register strong output growth. The auxiliary service industry also continues to experience a flurry of activity, with the rejuvenated tourism sector receiving arrivals of about 20 per cent higher, through to July 2005 as compared to the same period in 2004. Developments in the telecommunication sector continue to be dominated by the increasing number of subscribers in the mobile telephone industry. As of October 2005, there were five million subscribers as compared to 2.2 million in August 2004. The improved cargo handling (8 per cent growth) by Kenya Ports Authority, 11 per cent output growth in Kenya Pipeline Company transportation and 18 per cent increase in new motor vehicles registration account for the robust growth in 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 2004/05, mainly due to the rise in oil prices and higher food prices.

Other indicators of macroeconomic performance show that: government expenditure as a proportion of GDP contracted marginally to 22.3 per cent of GDP in 2004/05 compared to 22.9 per cent of GDP in 2003/04. Government debt decreased as domestic borrowing declined during the period. Broad money expanded by 11.3 per cent in the 12 months to June 2005 compared with a target of 7.5 per cent. This reflected a decline of credit to 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 compared to 23.5 per cent in June 2004.

Regarding the participation of the private sector in the economy, the government enacted the investment law and created the Investment Promotion Authority to be a one stop shop for all the foreign investors that have an interest in the country. The privatisation process has also intensified with the concessioning of Kenya Railways. However, licensing of the second fixed line telephone operator failed as well as licensing the third mobile phone operator. Furthermore, the privatisation of Telkom Kenya, which was scheduled for June 2005, was not achieved. The privatisation of strategic sectors such as water was effected through the creation of autonomous water and sewerage services boards. However, the challenge of providing 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 was identified as a key issue. While the bill was not enacted in 2004/05, it is expected to be enacted during 2005/06.

Fiscal Strategy

The IP-ERS fiscal strategy is built around three areas: (i) A **revenue policy framework** that seeks to maintain revenues to GDP at above 21 per cent to enable the bulk of domestic expenditures to be met from domestic resources. (ii) An **expenditure strategy** that gradually reduces the level of recurrent expenditure to GDP to allow for a rapid increase in development expenditures. Public expenditure management reforms (see following section) and the IP-ERS will 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 GDP in 2003/04 to below 3 per cent of GDP by 2005-06 and focusing deficit financing on concessional external borrowing to allow for a reduction in the level of domestic debt to GDP and for the maintenance or lowering of the net present value of overall debt to GDP.

Revenue 2004/05 revenue as a percentage of GDP was 21.3 per cent - this compares favourably with the overall revenue/GDP target of 21.4 per cent in the IP-ERS (see Table 2.1).During the year, value added tax (VAT) and import duty exceeded their targets while excise duty and income tax fell marginally below the targets. As a ratio of GDP, VAT collection amounted to 5.79 per cent compared to a target of 5.73 per cent and import duty totalled 1.85 per cent of GDP, which was higher than the target of 1.69 per cent. However, excise duty and income tax revenue totalled 3.47 per cent and 7.39 per cent compared to targets of 3.93 per cent and 7.51 per cent respectively.[2]

Revenue performance will be further enhanced through the success of recent tax administration reforms implemented by Kenya Revenue Authority and by further expansion of the tax base through improved compliance. In addition, the streamlining of the exemptions regime to harmonise it with other East African Community partner states should generate additional revenues. Appropriate tax policy reform measures have also been implemented to protect the revenue base, promote efficiency for increased investment and economic growth, while at the same time cushioning the poor.

As part of the wider governance reform efforts, the government has also implemented a number of tax administration reforms to reduce corrupt practices, lower compliance costs, and improve the business environment. These reform measures have resulted in marked improvement in revenue collection and efficiency in service delivery. The most significant ones are:

- 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.

[2] Source: Quarterly Budget Review Q4, 2004/05.

- Implementation of Customs Modernisation Reforms to reduce corruption and facilitate trade and introduction of simplified customs processing procedures for imports and exports, supported by verifiable performance indicators. The specific customs modernisation reforms implemented include the introduction of mobile scanners that have minimised wrong declaration of imports and new customs software for clearing imported goods.

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 Overall expenditures were projected to remain about the same level because a substantial increase in development expenditure was supposed to have been offset by lower recurrent expenditure. This is notwithstanding the view expressed in the IP-ERS that Kenya's expenditure levels have been significantly above the target for low-income countries. The principal areas of expenditure which have specific targets included (i) raising the level of development expenditure from 4.3 per cent in 2002/03 to 6.7 per cent by 2006/07, (ii) maintaining core poverty expenditure at four per cent of GDP, (iii) ensuring the proportion of wage bill to GDP declines to 8.5 per cent by 2005/06, (iv) maintaining the level of expenditure on primary education and, (v) increasing expenditure on health to 12 per cent of total expenditures by 2010.

According to the BOPA 2005, the Government has made a deliberate move to increase spending towards the social and economic sectors. For instance, the share of total resources going to the health, education and agriculture is expected to increase from 8.6 per cent, 27.6 per cent, and 3.1 percent in 2004/05 to 9.4 per cent, 28.2 per cent, and 3.5 per cent in 2008/9 respectively. Moreover, government intends to sharply reduce further expenditure on motor vehicle purchases and other transport related costs. The Budget Speech 2005/06, envisages that government will start by restricting the number of official cars at the disposal of senior government officers to two and reduce transfers to those parastatals that have capacity to generate own resources by 15 per cent. The other expenditure controls will be directed towards travel and accommodation and telephone usage. The release of resources from these expenditure measures will facilitate additional government expenditure allocation to infrastructure, core poverty programmes and other poverty-targeted programmes in the Arid and Semi-arid areas. Another government policy geared towards expenditure restructuring is its endeavour to eliminate the stock of pending bills and resolving stalled projects, which lead 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:

1. Overall government expenditure as a percentage of GDP decreased from 22.9 per cent in 2003/04 to 22.3 per cent in 2004/05, and the total expenditure was lower than targeted by KShs 30,888 million due to the low disbursement of external funds.[3]
2. The overall fiscal deficit (before grants) narrowed from 1.8 per cent of GDP in 2003/04 to 1 per cent of GDP in 2004/05. However, including grants, the fiscal position moved to a surplus of 0.1 per cent of GDP in 2004/05. This improved fiscal performance has facilitated a decline in the ratio of net domestic debt to GDP from 21.4 per cent in June 2004 to 18.8 per cent in June 2005.

[3] Figures obtained from Ministry of Finance, Budget Outlook Paper 2005

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

The wage bill together with non-discretionary expenditure such as debt service payment and pension obligations, takes up two-thirds of revenues, leaving only one-third to fund priority areas. However, some progress with respect to the IP-ERS public sector wages/GDP target of 8.14 per cent for 2004/05: 7.8 per cent was achieved in 2004/05 against 7.9 per cent for 2003/04 (see Table 2.1).

In spite of these achievements, the 2005/06 budget statement noted that (i) recurrent expenditure increased by 2.7 per cent mainly on account of additional expenditure required for drought related expenses and wage adjustments for civil servants and (ii) the development budget was scaled down by 17 per cent to reflect trends in donor disbursements and slow progress in project implementation.

Debt and Aid Policy: Donor support was projected to be US $ 4.1 billion for the period 2004-2006, based on the attainment of a good relationship with donors and especially with Kenya accessing the IMF Poverty Reduction and Growth Facility and the conclusion of a successful consultative group meeting in November 2003. This implied enhanced expectations of better resource flows in 2004/2005. Besides the IMF, the other big lenders during the period were the IDA, Japan and the African Development Bank. Notwithstanding the governance concerns, which tended to cause delays in disbursements, there were commitments for budget support from both bilateral and multilateral development partners amounting to KShs 46.7 billion for 2004/05. Assuming that there would be faster disbursement of the funds pledged to enable the government to finance the planned development programmes, the 2004/05 budgetary provisions left KShs 57.9 billion of which KShs 22 billion would be financed through domestic borrowing and the balance through development partners.

According to the Quarterly Budget Review, Fourth Quarter 2004/05, total domestic debt marginally decreased from KShs 254,647 million to KShs 253,493 million due to a lower than expected decline in borrowing through Treasury bills and bonds. On the other hand, external debt stood at KShs 434,453 million with more than 57 per cent and more than 36 per cent owed to multilateral and bilateral creditors, respectively.

It should, however, be noted that the total public debt as a percentage of GDP decreased gradually from 64 per cent in June 2003 to 62 per cent in June 2004 to 58 per cent in June 2005. This was as a result of higher GDP, reduced domestic borrowing, and appreciation of the Kenya shilling that reduced the stock of external debt in local terms. Specifically, overall public and publicly guaranteed debt decreased from KShs 749,400 million in June 2004 to KShs 745,000 million in June 2005 (compared to KShs 654,759 million in June 2003). The prospects in the public debt portfolio for fiscal year 2005/06 are that domestic debt would increase by KShs 25.3 billion while external debt would increase by KShs 23.4 billion (CBK, Annual Report 2005).

Financial sector reform

Many activities were planned for the period 2003 – 2007 aimed at strengthening and enhancing competitiveness in the financial sector. They were classified into **Monetary Policy-Related Activities and Financial Sector-Related Reforms**. The Central Bank has a strong commitment to maintain low and stable inflation in order to facilitate a faster growth of the economy thereby enhancing higher employment and poverty reduction. Hence, the Central Bank's monetary policy aimed at keeping inflation below five per cent. Consistent with this objective, growth in money supply (M3X) and reserve money were targeted at 7.5 per cent and 3.8 per cent respectively, and as a result private sector credit was expected to grow by 8.9 per cent (CBK, Annual Report, 2005). These were to be achieved using four monetary policy instruments, namely: open market operations, discount window operations, reserve requirements and foreign exchange market operations.

Monetary Policy Framework: The main monetary policy activities were: (i) monetary policy operations to influence the level of money supply, (ii) appointment of the Monetary Policy Advisory Committee, (iii) Strengthening monitoring of the Central Bank of Kenya balance sheet and (iv) production of macroeconomic and monetary forecasts.

Financial Sector Reform and Regulations: On the other hand, the planned financial sector reform activities included: (i) developing a financial sector strategy; (ii) developing a state-influenced bank restructuring and privatisation policy; (iii) establishing a highly professional unit to advise and provide operational support to authorities throughout the restructuring and privatisation process; (iv) privatising three commercial banks, restructuring one development finance institution and the recapitalisation of one commercial bank; (v) reducing non-performing loans; (vi) carrying out a comprehensive diagnostic of the condition of the small and medium sized banks and enforcing remedial measures on undercapitalised institutions; (vii) establishing a credit reference bureau to improve credit evaluation; (viii) strengthening the Deposit Protection Fund; (ix) strengthening judicial infrastructure for commercial dispute resolution; (x) enacting a microfinance institutions Act, (xi) building institutional capacity to deliver resources to the poor and survey level of access to financial services by households and businesses; (xii) completing Central Depository System, strengthen disclosure rules and their enforcement and introduce a second tier market to allow medium firm access to capital markets; (xiii) developing comprehensive strategy for insurance services development; (xiv) transferring banking system licensing, regulatory and disciplinary authority from the Ministry of Finance (MoF) to the Central Bank of Kenya; (xv) removing regulation on banks charges and commissions and tighten provisioning regulations to conform to international debt practice; (xvi) implementing anti-money laundering legislation; (xvii) developing a modern national payment system, (xviii) building a CBK research department capacity; and (xix) determining the geographical distribution of formal and semi-formal financial services.

Arising from the favourable macroeconomic environment, the banking sector remained substantially stable during 2004/05 fiscal year. It is noted that not all the planned activities had been satisfactory implemented by the end of the review period. However, since most of the activities and policies were process orientated, it is fair to conclude that a sizeable number of them had been implemented or are in the process of being implemented. As a consequence of maintaining the stated policy stand, some notable achievements were realised: money supply growth declined from 12.9 per cent in 2003/04 to 11.3 per cent in 2004/05 mainly due to increased net foreign assets; and, credit to the private sector expanded by 20.9 per cent, significantly exceeding the target of 8.9 per cent.

The financial sector reforms were aimed at creating an enabling environment for private sector savings and investments, and lowering interest rate levels and spreads. The key area targeted by proposed reforms was the establishment of a new regulatory framework that would enhance good governance and competitiveness. The government has implemented a number of measures to strengthen the financial system and create a predictable environment for private sector development. Reforms initiated in 2003/04 were aimed at 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 Bank Restructuring and Privatisation Unit in the MoF to develop and implement restructuring reforms for state owned banks;
- Submission to Parliament for enactment of the Micro Finance and Savings and Credit Co-operatives (SACCO) Bills;
- Building capacity to fight money laundering and terrorism , including: gazetting 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 drafting the Suppression of Terrorism Bill (2003); and
- Modernising the financial system, including drafting a specific bill on Electronic Money Transfer, amendment of the Banking Act and Central Bank Act to transfer all regulatory and supervisory role from the MoF to the CBK, and introducing a new regulation tightening loan provisioning and classification.

However, there were other financial sector reforms that were not implemented as envisaged during both 2003/04 and 2004/05 periods. These include: introduction of a contributory pensions system; a comprehensive strategy for insurance services market development; reforming capital markets; and initiatives to improve claims settlement procedures in the pension's department.

General progress during the review period against IP-ERS macroeconomic indicators can be summarised as follows (Table 2.1):

- The economy grew by 4.3 per cent compared to a revised growth of 2.8 per cent the previous year and 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 into power. The government's programme with the IMF is on course and is largely contributing to the economic recovery being realised currently. 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 Kshs 3 billion.
- The underlying rate of inflation rose from 3.1 per cent in 2003/04 to 5.8 per cent in 2004/05. 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, increases in oil prices and higher expansion in money supply.
- The target for domestic debt/GDP was met. A percentage of 18.5 per cent was achieved against an IP-ERS target of 22.2 per cent.

- Regarding public sector wage control, the ratio of public sector wages to GDP was met: 7.8 per cent was achieved against a target of 8.14 per cent (see also discussion of this indicator in Chapter 4)
- The target for revenue expansion was close to being nearly met with the revenue/GDP ratio reaching 21.3 per cent against a target of 21.4 per cent. This was on account of improved tax administration.
- The target for Public Expenditure Management (PEM) reform was nearly reached in that 6 of the PEM-AAP benchmark indicators were met against a target of 7 (see PEM section below). The aim is to achieve all 16 benchmarks by 2008/09; therefore progress 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. Accelerated 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.	BOPA2005
2. Achieve and maintain price stability	Rate of inflation (underlying)[4]	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.	BOPA2005
4. Public sector wage bill under control	Public sector wages/GDP	9 %	7.9% (R)	7.8%	8.14%	7.83%	7.28%	Target met	BOPA2005
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. PEM reform	Benchmark score on PEM-AAP	3	4	6	7	9	10	Target not met	BSP

[4] The 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

Challenges

The following were the main challenges that inhibited the full implementation of the activities planned for 2004/05:

- The slow pace of disbursement of donor funds, mainly because of pending or emerging governance issues.
- Persistent drought and food shortages and funding upward adjustments in civil service salaries necessitating adjustments in budgetary provisions that were unfavourable to the development agenda.
- Non enactment of the Privatisation Bill which was a critical facilitator to the success reforms in key sectors including energy, water, transport and communications.
- The non-implementation of programmes in other sectors especially infrastructural development
- The high cost of production associated with persistent oil prices.
- Encouraging private sector participation in infrastructure investment, identified in the 2003/04 APR, remains a challenge. 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 and way forward

The way forward was articulated during the 2005/06 budget speech. It sets priorities which take into account the macroeconomic performance and challenges for 2004/05. Overall, the government's top priority is the consolidation and strengthening of recent economic recovery efforts. 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. First, fiscal and monetary priorities which includes:

- Enhancing revenue collection to at least 22.8 per cent of GDP;
- Ensuring a significant shift in resources expended towards sectors, e.g. Improving 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; and,
- Maintaining a monetary policy stance geared towards low and stable interest rates, maintaining a three-month worth of international reserves, ensuring a 12 per cent growth in

credit to private sector, keeping core inflation at no more than five per cent and containing money supply at 8 per cent.

Second, other structural reforms that include:

- Public expenditure and financial management reforms (see next section);
- Privatisation and public enterprise reforms;
- Financial sector reforms and especially the implementation of the comprehensive sector strategy for improving efficiency in financial intermediation (for example, restructuring and/or privatisation of state-owned banks, preparation of a sacco bill and enactment of micro finance Bill).

In addition, the Central Bank continues to enhance stability and soundness of 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 is being done with the technical assistance from IMF-East Afritac. Financial Institutions Supervision department will issue risk management guidelines to the sector during the third quarter of 2005, and implement pilot Risk Based Examination by end of 2005.
- Introduction of more advanced inspection techniques. Central Bank Supervisors are currently embracing the use of Computer Assisted Audit Techniques. Bank examiners use Audit Command Language to interrogate computer files in the banking institutions and produce exception reports.
- The parallel run of the Banking Supervision Application system is expected to be completed by third quarter of 2005. With full implementation of the system, it is expected that data processing and monitoring of work flows will be enhanced.
- Implementation of the remaining Basle I Core principles for effective banking supervision in order to improve supervisory oversight and ensure compliance with international best practice.
- Strengthening the inspection follow up process to ensure that financial institutions promptly address weaknesses observed during on-site examination.
- Continued publication of bank charges to increase customer awareness of products and services offered and their associated costs with a view to increasing competition in the sector.
- Working closely with other government agencies in 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 should be noted that a number of the IP-ERS macroeconomic targets have subsequently been revised – please see the table in the conclusion and Annex A for details.

2.2 Public Expenditure Management Reform

Policy Review

The IP-ERS demonstrates the importance of the efficient use of public resources and sound public expenditure management in stimulating economic growth and alleviating poverty. More specifically, the strategy views the 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. PEM reforms began around 2000/01 with the adoption of the MTEF. Based on the achievements made by 2003 as well as the weaknesses existing in the PEM system at the time, the IP-ERS proposed the following key priorities to provide the future direction for reforms. The key IP-ERS priority actions are:

- 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 through including all government spending and extra budgetary funds in the budget;
- The introduction of Integrated Financial Management Information System (IFMIS);
- The implementation of the Enhanced Action Plan for Financial Management (EAPFM); and
- 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 has 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 included a focus on creating an institutional and legislative framework to improve the use of public resources. Of the above planned actions, the key achievements made by government in 2003/04 were:

- The institutionalisation of the PER process which was rolled out to all ministries and integrated with MTEF process;
- Procurement of the IFMIS and training of staff;
- Strengthening legislation by enacting the Anti-Corruption and Economic Crime Act, Public Officers Ethics Act, Government Financial Management Act, and Public Audit Act; and,
- Initiation of 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 2004/05 was for 7 out of the 16 benchmarks to be met. To meet these benchmarks, government developed and operationalised the more comprehensive EAPFM. The main objectives of EAPFM are to focus resources within realistic fiscal constraints on core priorities by strengthening budget preparation; reducing pending bills, broadening commitment control and strengthening financial discipline resulting in improved budget execution; and, improving the quality and timeliness of information available for financial decision-making.

In 2003/04, four out of the 16 PEM-AAP benchmarks were met. The four indicators related to budget classification, internal control, in-year reporting and final audit accounts. In 2004/05, two further benchmarks were met. 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; however it will aim to meet all the benchmarks before 2008/09. Several diagnostic studies will be taking place over the next few years such as the Public Expenditure and Financial Accountability Assessment, thereby giving government the opportunity to reassess the appropriateness of the PEM reform indicator in the IP-ERS indicator framework.

Achievements and progress on implementation

During the 2004/05 budget cycle, the government undertook many reforms. This section provides a broad overview of the activities undertaken. Further detail is provided in Annex B which presents an update of the EAPFM.

Budget formulation

A key reform in 2004/05 was the consolidation of all the departments involved in budget preparation and monitoring within the MoF in order to enable effective integration of the policy, planning and budgeting functions. The MTEF secretariat is now part of the Budget Department forming the Budget Policy Division, and the Budget Monitoring Department was merged with the Department of Economic Affairs. To strengthen coordination and management between the MoF and MoPND, the sector convenors and co-convenors of sector working groups during 2004/05 were drawn from both ministries, as opposed to all the sector convenors being MoPND officials, as was previously the case.

Secondly, the budget timetable was revised so that the budget preparation stage started earlier in the year (in October rather than December). This should allow more time to feed the findings of the PER process into the preparation of macroeconomic and fiscal framework and sector expenditure ceilings. The revised timetable also captures changes to budget documents. To kick start budget preparation, the government issues a Budget Outlook Paper (BOPA) in October indicating sector ceilings and national priorities. Line ministries should use the BOPA to prepare their PERs within an indicative resource constraint. The ministerial PERs lead into the development of sector reports whose findings are captured in a budget strategy paper which provides firm expenditure ceilings and priorities. The revised budget timetable also allows for more extensive consultation and participation by a wider cross-section of key stakeholders. In particular, the BOPA is taken to cabinet for approval in order to gain political endorsement and commitment.

In 2004/05, the MoF made significant progress in adopting the full Government Finance Statistics approach for economic classification of expenditures and developed a bridge matrix to allow 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. Budget execution began to improve after 2003/04 following reform initiatives pursued by government.

The Government has also made progress since June 2004 in developing a commitment control system (in line with the IMF programme). In this respect, 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. In addition, as mentioned earlier, from 2004/05 reconciliation of fiscal and banking records is undertaken routinely.

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 and will ensure that the procurement process of security related contracts, among others, are transparent and contracted accordingly.

Monitoring and Evaluation (M&E)

Monitoring and evaluation is a mechanism for identifying areas of weakness within the budget and provides for an effective management feedback process within the financial management reform programme in order to take corrective steps. The EAPFM does not indicate any large reforms or changes that took place in M&E in 2004/05, however the following did take place:

- To strengthen M&E, a number of activities were carried out as part of the annual progress review of IP-ERS as described in Chapter 5. The first APR was published in 2004/05 although somewhat delayed, and the development of the M&E framework was initiated. These activities need to be further integrated into the budget cycle and identified in the EAPFM.
- The rollout of the IFMIS was initiated in 2004/05. Completion and roll-out of the IFMIS to the line ministries, originally scheduled to be completed by 2003, was rescheduled for 2004/05, but has still not been achieved as of June 2005.
- Work on PETS was covered in the 2003/04 APR. The 2004 PETS has been finalised and printed. A rolling work programme needs to be developed for annual PETS exercise over the next three years.

Institutional and Human Resources

During 2004/05, capacity building activities were undertaken in tax policy, payroll management, debt management, and internal audit within the MoF. Furthermore, an assessment of available and required financial management skills was undertaken and training plans at both the central and line ministry level for accounting officers has been developed to ensure that relevant mandates are achieved with respect to financial management.

State Corporations

All state corporations are on performance contracts with effect from 1st July 2005 based on predetermined performance targets. A privatisation strategy has been developed and will be operationalised by the Privatisation Commission once the commission is established. The Privatisation Act, 2005 has been published. The provisions for transfers to state corporations were reduced by 15 per cent of their total budget during 2005/06 from the printed estimates.

Challenges

The revised budget timetable does not yet capture the preparation of the APR or the consolidated government PER. The APR identifies IP-ERS targets and indicators and sets some benchmarks which need to be met each year if IP-ERS priorities are to be achieved. Adhering to the budget timetable in the first year of implementation has appeared to be challenging, however the budget process has been much more transparent than in previous years. The delay in issuing the BOPA 2004 affected the quality of public expenditure reviews and sector reports. The inadequate identification and costing of programmes was exacerbated by late indication of sector priorities and a lack of ministerial ceilings. The BOPA 2005 now provides ministerial ceilings. Furthermore, in 2004/05 sector working groups were not meeting on a regular basis and many struggled to fulfil their role of determining intra-sectoral trade-offs in line with policy priorities and within a hard budget constraint.

Reducing the variation between the approved and actual budget is still a challenge. Annex D provides data on budget execution at a ministry level. Five ministries have under spent their total budget by over 60 per cent. The 2005 BOPA identifies the main reasons for large variations between the approved and actual budget as: (i) weak budget preparation; (ii) lack of restrictions on requests for virements and supplementary budgets; (iii) problems in disbursement of donor funds; and (iv) problems in forecasting non-tax revenues by ministries. To reduce the extent of in-year reallocations, the BOPA 2005 states that from 2006/07 onwards budget reallocations will be limited to no more than 8 per cent. Reallocations will not apply to new programmes and virements involving core poverty programmes will not be permitted.

Lessons and way forward

While a number of key reforms were implemented and achievements made in 2004/05, the government recognises the slow progress made on IFMIS, the lack of momentum in 2004/05 on PETS and the effects of weak budget execution on budget credibility. Therefore, the 2005 budget speech outlined the need to:

- Ensure that those responsible for financial management strictly adhere to the financial regulations including procurement guidelines, as outlined in the Financial Management Act;
- Implement a cash management system to ensure timely release of resources to the line ministries;
- Carry out PETS to improve utilisation of public resources;
- Roll out IFMIS to line ministries; and,
- Introduce a risk-based internal audit system.

By the end of 2004/05, two of the 7 PEM-AAP budget formulation benchmarks were met, two of the four budget execution benchmarks were met and two of the four reporting benchmarks were met. The government is committed to improving public expenditure and financial management to ensure improved service delivery in the key priority areas of health, education, infrastructure and agriculture. Therefore the Government aims to meet all the benchmarks before 2008/09 and has revised intermediate annual targets for indicator 6 of the IP-ERS framework accordingly. The revised target for 2005/06 is the achievement of 13 benchmarks and a further two benchmarks by 2006/07 (see table in conclusion and Annex A).

2.3 Restoring and Expanding Infrastructure

2.3.1 Introduction

The IP-ERS identified infrastructure (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. The IP-ERS objectives for this sector include: an expanded and well-maintained road network; improved safety of urban transport; increased access to water resources; increased availability, reliability and affordability of energy; an efficient telecommunications services; and, a vibrant information technology sector through increased private sector participation and investment.

The IP-ERS proposals to realise the above objectives include 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, outlined below.

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 have been identified in the IP-ERS as: 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. For roads, activities include: formulation of a long-term road sector strategy and a multi-agency model for managing responsibilities and financing for trunk roads, highways, park roads and rural roads; rationalisation of the number of agents responsible for rehabilitation, construction and development of urban roads under the Kenya Roads Board Act; completion of a road inventory and condition survey study; reducing the audit backlog for the road levy fund and improving public information on the use of the fund; establishing a new road safety authority; enforcing axle load control limits; and launching a national road safety campaign. Selected targets over the IP-ERS period include rehabilitation of 2,815 km under the Roads 2000 Programme, reconstruction of 150 km of trunk roads per annum and the concessioning of up to 1,208 km of trunk road during 2004-07.

To improve rail services, the government is committed to the completion of the concessioning of the Kenya Railways Corporation. 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, government is committed to converting it to a landlord port, equipment modernisation, and finalising Maritime Sector Policy paper. In addition government is committed to purchase two new ferries to enhance safety.

During 2003/04, the proportion of roads in poor condition was reduced from 43 per cent to 38 per cent. Some 188 km of trunk road were rehabilitated against a target of 150 km per annum. An estimated 78 km under national parks were improved, 1,314 km graded and 37.3 km patched by Kenya Wildlife Services. Other achievements include the auditing of the Roads Levy Fund and the launching of road safety campaigns and financing agreements reached under the East African Road Network with various development partners. Over 2004/05, government continued with the construction and rehabilitation of roads and laying down modalities to foster private sector participation.

Achievements and progress on implementation

Road Transport

During the review period, 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: some 32 per cent of roads were in poor condition against a target of 35 per cent (see Table 2.2). No data is available to assess progress 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 is to enhance domestic and regional trade through improvements in the transport system in the Northern Corridor, which connects the port of Mombasa with Nairobi, Uganda, Rwanda, Burundi and the Democratic Republic of Congo. The project is being implemented with the support of 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 US$ 275 million. Specific sections of the road will be rehabilitated by different donor as specified below:

- 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 completed and contract 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; and,
- The reconstruction of Maai Mahiu-Naivasha-Lanet section (95 km) commenced in March 2005 at a cost of KShs4.7 billion.

Development of roads under the East African Road Network Project

The East African countries have 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), has been prepared and submitted to the East African Community Secretariat. AFDB will also be financing 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). Works are under the process of procurement.

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

Accelerating the implementation of Roads 2000 Programme

The Roads 2000 Programme emphasises the use of labour-based methods, supported with appropriate tools and equipment, in the improvement and maintenance of the country's road network. During 2004/05, various development partners pledged a total of KShs 6.3 billion to provide support to the programme in various districts for the next five years. These development partners include KfW, AfDB, AFD, SIDA (Nyanza) and the EC (Phase 2). Overall, under the Roads 2000 Programme some 207 km of road were rehabilitated in 2004/05. Table 2.3 outlines the districts to be covered during the financial year with a budget summary.

Table 2.3 Summary of 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 Nadir, 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 ongoing under Japan International Cooperation Agency (JICA) financing. The intended goal of the study is the 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, the road concessioning study is now complete and the consultants are embarking on the next phase. An investment conference was held in November 2004.

To improve road safety by halving fatalities from 3,000 deaths per annum and reducing the road fatality rate from 60 deaths per 10,000 vehicles to 45 deaths per 10,000 vehicles, the government sensitised police officers on the implementation of legal notice no.161 of October 2003 and carried out national campaigns. For the proper inspection of vehicles, the computerisation of vehicle inspection is being undertaken. On overloading, weighing motion bridges were procured before the end of the review period.

Railway Transport

To improve efficiency in rail transport the government undertook a number of reforms which included the following:

- The valuation of assets to be transferred to the workers' pension scheme has been completed;
- A staff rationalisation exercise to determine the optimal size of the workforce was undertaken;
- The rehabilitation of locomotives is on-going; and,
- The government initiated seamless transport services whereby dedicated trains ferry cargo from the port of Mombasa directly to Nairobi and Kampala.

Air Transport

The objective of the sub-sector is to achieve International Civil Aviation Organisation category 1 status. To realise this, the following reforms have been undertaken:

- The Kenya Civil Aviation Authority (KCAA) developed a 5 year plan for 2005/06 –2009/10 and a 15 year Kenya Air Space master plan covering the 2005 –2020 aimed at improving communication, navigation surveillance and air traffic management (CNS/ATM) systems;
- KCAA is reviewing the optimal number of staff; and,
- Kenya Airport Authority is in the process of awarding a tender for the erection of a security fence around Jomo Kenyatta International Airport.

Maritime and Port Services

To review maritime legislation and improve efficiency in cargo handling and clearance, the following reforms were undertaken:

- The Kenya Ports Authority has undertaken equipment modernisation programme;
- A Master Plan for Kenya Ports Authority was developed and circulated to stakeholders for comments and is awaiting cabinet approval;
- The Kenya Maritime Authority, a maritime regulation body has been established to enhance maritime safety and security and increase Kenya's seaborne trade; and,
- Three maritime bills have been prepared and submitted to parliament for enactment.

Challenges

The main challenges to transport development are the inadequacy of both funding and the institutional framework. These have hindered the quick realisation of expected development in the sector. The specific challenges include:

- Road maintenance and development is grossly under-funded. Recent findings have shown that nearly KShs100 billion is required to bring the current road network to a maintainable state. However, the current funding arrangements allow for about KShs 28 billion annually for both maintenance and development of the road network.
- The current institutional framework also poses a challenge in the delivery of infrastructure. Overloading by heavy goods vehicles, for example, has led to the deterioration of the network over a period of time.
- There is a need for a legal framework to give judges powers to impose stiffer penalties and review both the Traffic Act and the Transport Licensing Act.
- Lengthy procurement procedures result in slow implementation of donor-funded programmes.
- The delay in the enactment of the privatisation bill has held back the implementation of privatisation reforms.

Lessons and way forward

The development of infrastructure is a labour-intensive activity that also requires significant levels of funding. These two characteristics mean lengthy procurement procedures that necessitate a proper institutional framework to guarantee the efficient and effective use of resources. To address the challenges outlined above, the government will continue utilising funds from the Roads

Maintenance Levy Fund which contributes nearly KShs 9 billion annually to maintain roads and to foster partnerships with development partners and the private sector to address the financing problem. In order to implement the privatisation reforms, the government will pursue the enactment of the privatisation bill and review both the Traffic Act and the Transport Licensing Act to mandate judges to impose stiffer penalties on road users.

2.3.3 Communications and Information

Policy Review

Expansion of the telecommunications sector is recognised in the IP-ERS as one of the necessary conditions for accelerating growth in other productive sectors of the economy. Strategies identified to realise this objective include: introducing competition to end the Telkom monopoly through the licensing of other operators of fixed telephone services outside Nairobi; issuing a license to 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 transparent, equitable regime; and, supporting the development of a submarine cable on the east coast of Kenya.

Information and communications technology (ICT) is important not only for improving performance of the productive sectors and government but also as a potentially fast growing and employment-generating industry. The realisation of the potential of the 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 for the operationalisation and management of internet technology, communications and radio/television. Other measures provided in the IP-ERS include: investment in adequate ICT education and training by streamlining the education curriculum to incorporate IT studies; implementation of a well-targeted tax reduction and /or tax incentives on both computer software and hardware to make them affordable to micro-enterprises and lower income earners; removal of impediments that discourage adoption and use of e-commerce; and, completion of the introduction of e-government by June 2004.

Over 2003/04, the ICT policy was finalised and approved by cabinet, an e-government committee were set up and an e-government implementation strategy was completed. Consequently, 50 per cent of government institutions were cabled. To increase access and adoption of ICT, government removed taxation on computer importation of both software and hardware, and allowed ISPs to develop their own gateway facilities and infrastructure in an effort to end the Telkom monopoly. On broadcasting, 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 and revision of the education curriculum to incorporate ICT education and training was started.

During 2004/05, the sector priority was to increase investment and expand the stock of national infrastructure resources as a prerequisite towards growth in the sector. The key strategies identified included: increasing efficiency in the provision of communication services; improving access to information and increasing the use of ICT through licensing more players; enforcing license obligations; and, identifying additional investment opportunities and involvement of other stakeholders in regulatory policy initiatives. Progress against these objectives is reported below.

Achievements and progress on implementation

During 2004/05 government re-organised the sector by amalgamating information, communications and broadcasting functions into a new ministry. The overall contribution of transport and communications to GDP rose from 9.9 per cent in 2003/04 to 10.3 per cent in 2004/05. The Communications Commission of Kenya continued to facilitate investment in the sector through licensing and regulatory activities. The total number of mobile subscribers grew by 9.6 per cent from 3.83 million in 2003/04 to 4.99 million in 2004/05, whereas fixed line services declined from 3.0 million to 2.9 million. Consequently, the overall teledensity grew from 8.09 per cent in 2003/04 to 15.7 per cent in 2004/05. In an effort to increase the fixed line networks and facilities, one regional telecommunications operator is in the process of laying its network for the provision of fixed telecommunication services in North Eastern Province. Similarly five additional local loop operators were licensed.

The Communications Commission of Kenya continued to support the Kenya Education Network and Kenya Domain Name Registration projects. The internet (Posta Surf) connectivity through Very Small Aperture Terminal technology has been rolled out and a total of 347 offices were connected by end of June 2005. In addition, the Commission conducted its Universal Access Study and developed a plan and funding mechanisms. The study outlines a five-year universal strategic plan for the country, which includes 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 the sector, a number of challenges are yet to be addressed for the sector to realise its full potential. They include:

- Litigations surrounding the licensing of the Second National Operator and the 3rd mobile operators slowed down the pace of overall investments in the sector;
- The declining rate of fixed lines has 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;
- The lack of adequate and reliable data on licensees' investment programmes to provide reasonable indication of quantifiable progress towards the creation of an "infrastructure" needed to service a modern economy;
- The inadequate supply of electricity in rural areas to facilitate Very Small Aperture Terminal connectivity; and,
- The privatisation of Telkom is long overdue - this has hampered its ability to acquire funding to turnaround performance.

Lessons and way forward

Legal battles concerning further mobile operators have impacted negatively on both investments and efficiency in the sector. To address the challenges, the Commission is making plans to acquire and install modern monitoring equipment for the purpose of improving service quality and reliability. Moreover, it is expected that the new licensing framework being developed by the Commission will lead to timely and effective licensing and regulation, thereby creating an environment more conducive to both domestic and foreign investment, all of which will boost activities in the sector.

2.3.4 Energy

Policy review

Electricity

The IP-ERS objective in this sector is to: enhance the reliability of service supply; increase access to electricity in rural areas by 1 per cent annually (from 3.8 per cent in 2003 to 8 per cent in 2006); lower energy costs through expanded private sector participation; strengthen the regulatory functions of the Electricity Regulatory Board; reduce government direct equity in the Kenya Power and Lighting Company from 51 per cent to below 39 per cent; restructure the Kenya Electricity Generating Company and create a special body, the Rural Electrification Authority; and, accelerate the pace of rural electrification and 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 2003/04, a sessional paper for the energy sector was developed and approved by cabinet, a resource mobilisation programme targeting Olkaria I and II were started, funding for the Sondu Miriu Hydropower project was resumed, and optimisation of the Kiambere power plant for capacity enhancement from 144 MWh to 164 MWh was completed.

Petroleum, Coal and Geothermal

The objective is to improve service delivery and expand existing facilities including the financing and management modalities for the extension of the oil pipeline from Eldoret to Kampala. Reforms in this sector are to address the problems of poor competition, safety standards and high barriers to entry, and promotion of LPG consumption. During 2003/04, the government completed studies on petroleum potential of Anza Basin and Lamu Basin to enhance investor interest in exploring and development of indigenous energy sources to reduce high energy importation bills. In addition, some 10 sites were drilled in the Mui Basin to explore for coal with encouraging results. Seams of coal were found in half of the sites. Finally, 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 responsible for significant deforestation and 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. The Government is also committed to the development of indigenous energy resources especially 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 industrial, commercial and domestic sectors. These include: efficient wood conservation technologies and licensing of charcoal trade to encourage sustainable biomass production and use; and, and increasing the co-generation capacity to 300 MW by 2005. During

2003/04 the Ministry of Energy completed the preparation of a broad wind resource atlas and established a steering committee and a detailed plan on how to set up a national centre of excellence in renewable energy technologies. A monitoring and evaluation system was also set up to enhance the information flow on projects.

Achievements and progress on implementation

During 2004/05, the government continued with the implementation of various reforms in the energy sector as envisaged in the Sessional paper No 4 on energy sector. These include:

Electricity

- The power coverage in rural areas increased from 4 per cent in 2003/04 to 5 per cent in 2004/05 – this meets the target for IP-ERS indicator 8 (see Table 2.2 above)
- The Energy Sector Recovery Project has been launched to enhance the policy, institutional and regulatory environment, promote the efficient expansion of power generation capacity, increase access to electricity, and improve efficiency and reliability of the power system.
- Fast tracking the least cost power projects and exploring opportunities for increased power imports and other links to regional power pools.
- The government of Japan has offered funds for phase II of the Sondu Miriu Hydropower Project.
- Kenya Power and Lighting Company (KPLC) negotiated with Ibeafrica in 2004 for a reduction in bulk tariff from US $ 395 /KW/year to US $ 197.5/KW/year with a view to reducing the cost of power.
- A draft energy bill has been prepared.

Petroleum and Coal

- Liquefied petroleum gas consumption has also increased from 32,000 tons to 45,000 tons.
- 12 firms were short listed to bid for private sector participation in the Kenya-Uganda oil pipeline extension project from Eldoret to Kampala.
- To increase liquefied petroleum gas consumption, a study on liquefied petroleum gas and standardisation of values was completed and a cabinet paper seeking authority to implement the study prepared.
- In an effort to discover commercial coal deposits, 8 sub basins within Mui basin were established. Their economic value is being assessed.
- A comprehensive assessment of the technical and economic viability of the KPRL in Mombasa was completed in April, 2005. Funds are now being sourced for the refinery modernisation.
- The Kenya Bureau of Standards prepared a standard for the “unified” valve for LPG cylinders (KBS 201:2004) for the Kenyan market.
- Twelve firms were short listed to bid for private sector participation in the Kenya Uganda oil pipeline extension project from Eldoret to Kampala.

New and Renewable Energy

- Preparation of a broad wind resource atlas was completed. Arrangements to undertake regular updates of wind regimes were initiated.
- A programme to install solar photo-voltaic (PV) systems in boarding schools in North Eastern and Eastern provinces was started during the year under review and is still ongoing.

Challenges

A major challenge facing the energy sector is the weak transmission and distribution infrastructure arising from limited investment in power system upgrading. Consequently, the economy has been experiencing high electric power system losses estimated at 18.2 per cent of net generation, extreme voltage fluctuations and intermittent power outages which impose significant costs on production. These power system weaknesses, coupled with the high cost of power from independent power producers, contribute to the high cost of doing business in Kenya. Other power sub-sector challenges 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 the limited supply of facilities for fuel including liquefied petroleum gas, domestic production of motor fuels which do not meet international quality standards, inadequate distribution of infrastructure in the remote parts of the country (which contribute to high product prices), price leadership which inhibits competition, and an inadequate legal and regulatory framework to guide sub-sector operations. In addition, and as result of inadequate legal and regulatory framework, 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 of excellence in renewable energy has not taken place.

Other key challenges in the sector include: Inefficient procurement system leading to stock outs of some of the materials, limited natural resources for electricity generation, over-reliance on hydro-power and high cost of fossil fuel.

Lessons and way forward

High energy costs continue to impact negatively on the cost of Kenyan goods and services, and therefore 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, notably: 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 Kenya Electricity Generating Company; creation of a rural electrification authority; unbundling of Kenya Power and Lighting Company into two entities and, assisting KPLC in financing training of designers.

The other measures to be undertaken include: enhancement of private participation in oil exploration through upgrading of the current database and review of the existing incentives; promotion of new and renewable energy sources; divestiture of government interests in oil refining and marketing, and in Kenya Pipeline Company; enhancement of exploration for fossil fuels;

provision of requisite support for research and development in emerging technologies; construction of the necessary LPG infrastructure; deploy a new rig to increase government's drilling capacity alongside contracted drilling; and, mobilise resources for the development of geothermal potential in the Rift Valley. These reforms are expected to foster competition in the sector, diversify sources of energy and reduce costs.

2.3.5 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. It has strong linkages with agriculture, livestock and health. The IP-ERS objectives include increasing the rural water coverage from the 2003 baseline of 50 per cent for rural households with safe and reliable water to 60 per cent by 2006/07, increasing urban water coverage from 73 per cent in 2003 to 83 per cent in 2007, and establishing water management systems as provided for in the Water Act 2002. IP-ERS reforms, which are based on the Water Act, call 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 are aimed at making water and sanitation services autonomous, mobilising investment for construction and rehabilitation and entering into partnerships with community-based organisations to expand services to urban poor and rural communities, in line with target 10 of MDG goal 7.

Specific targets over the IP-ERS period include: rehabilitation of 200 hydrological and quality water monitoring stations countrywide; analysis of 1,200 water samples annually; reduction of 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 100 small dams and water pans annually; and drilling and equipping/rehabilitating and handing over to local communities 500 boreholes annually.

During 2003/04, the government made progress in achieving the objectives of the sector. This included: development of an operational strategy to implement the Water Act 2002; establishment of 10 out of 11 institutions created under the Water Act; commercialisation of water services in Nairobi, Nyeri, Kisumu, Nakuru, Eldoret and Meru; finalisation of the sector's investment plan and strategy; rehabilitation of 45 hydrological and quality water monitoring stations; analysis of 600 water samples; and, completion of rehabilitation and augmentation of water and sanitation in 32 urban water supply and 44 sanitation schemes.

In rural areas and ASALs, 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, rehabilitation and construction of flood dykes in Nyando and River Nzoia were completed, rehabilitation and augmentation of Yatta irrigation canal was completed, implementation and rehabilitation of stalled smallholder irrigation schemes in ASALs was started. In addition, the following was initiated: policy documents on the national irrigation policy and irrigation reforms; irrigation guidelines for smallholder irrigation schemes and irrigation water users' associations; and, development of the irrigation training master plan for irrigation.

Achievements and progress on the implementation

In 2004/05, the Ministry of Water and Irrigation pursued its reform policies. The reforms were aimed at restructuring the sector to improve its performance and address the problems associated with the 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 in the water sector and the new mechanism to be put in place. Important milestones achieved under the water sector reforms are highlighted below.

With respect to the achievement of the two IP-ERS water targets, one was met and the other was nearly met (see Table 2.2). Some 53 per cent of the rural population were supplied with safe and reliable water in 2004/05 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.

Water Sector Reforms

The formation of water service boards, Water Services Regulatory Board, Water Services Trust Fund and Water Resources Management Authority was completed. The latter three bodies were operationalised in July 2004 and started recruitment of management staff in April 2005.

Formation of water companies in the Nzoia cluster, Nairobi, Kisumu, Kericho and Nakuru started and was completed during the year under review. The companies also signed service provision agreement with respective boards. The only companies that are yet to sign service provision agreements are Meru, Nanyuki and Mombasa water companies. Water facilities from both the Ministry and 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 nature of support required by each board in terms of facilities. 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 carried out the following:

- Inspected several small agro-based industries, sampled and tested the wastewater;
- Sampling and testing of drinking water from water suppliers and consumer points was carried out.
- Advice was given to the water operators, communities and individuals on the need to supply water of good quality.
- Water quality monitoring of water bodies and pollution control inspections of industrial polluters was carried out.
- Preparation for the 11th World Lake Conference is on-going with sponsorship from the Ministry of Water and Irrigation with support from a range of donors.

Water Resource Development

It is estimated that approximately 100 rural water supplies were rehabilitated as well as 25 in urban areas. Feasibility studies were completed for the Garissa sewerage and Wajir sanitation project and one is ongoing for Nzoia cluster. Rehabilitation work was completed for Naivasha, Karatina, Isiolo, Machakos, Kakamega, Limuru, Homa, Bay, and Sidindi Malanga sewerages. Other achievements include: completion of preliminary design for Ilika water project; preparation of a draft manual for water supply; a survey of sewer lines for Nkubu sewerage; the design of 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; and, pumping and generating sets for Bathi, Bondo, West Karachuonyo and Mandera water supplies. The installation of pumping and generating sets for Masalani water supply in Ijara District is ongoing and the construction of Garissa water supply is 95 per cent complete.

Surface Water

Monitoring of surface water resources was undertaken through the collection of water level and water flow data at 238 gauging stations. This data was used in decision making and advising on surface water resource development and management during the period under review. For example the data was used for:

- The improvement and expansion of water supplies based on surface water resources;
- Designing water supplies based on surface water resources, and
- Decision making on granting permits for surface water abstraction for various uses, including irrigation.

Ground Water

Monitoring and testing of ground water is important both for industrial and domestic use. Over the review period, the Department of Water prepared tender documents for government institutions for borehole construction, supervised the drilling, construction and test pumping of boreholes, monitored 200 boreholes and audited 50 boreholes. In addition, geo-technical surveys were carried out in Nakuru, Narok, Isiolo, Meru, Kajiado and Lamu districts for groundwater recharge areas.

National Irrigation Board

During the period under review the board undertook rehabilitation of irrigation and drainage infrastructure in Mwea, Perkerra, Ahero and Bunyala irrigation schemes. Restarting of stalled agricultural activities West Kano, Ahero and Bunyala was undertaken thus bringing 4,900 acres under rice production and restoring of food security and income to 1251 families in those areas.

The undertook capacity building for farmers in Mwea, Perkerra, Ahero, West Kano and Bunyala irrigation schemes. Water users Association were formed and farmers trained at a cost of Ksh. 1 million.

Challenges

In undertaking the reforms, the ministry had faced a number of challenges. First, the WAB has not been operationalised. There was a delay in appointment of the chairman. In addition, the members have just been nominated following appointment of Board Chairman. However, the rules to guide the conduct of the board still have to be prepared before it is made fully functional. Whereas the water service boards have taken off well, the same cannot be said of the Water Resource Management Authority. The operationalisation has been slow. The problem has been delay in deployment of staff to the regional offices. In addition the authority has not received full time support from the KWSP consultants, unlike the Water Services Boards that have full time long-term consultants. Though the operational boards have signed performance contracts with the ministry, the monitoring and evaluation of these contracts very weak due to lack of adequate information flow between the institutions and the ministry.

Third, the new institutions created do not have adequate budgetary allocations. However, the ministry mandated them to be in charge of the ministry's funds at the district level, since budgets were not included in those of their respective boards. This was necessitated by the formal transfer of the functions of the district offices to the boards. Fourth, inadequate financial and physical resources to ensure the efficient monitoring and pollution control enforcement is an issue. As a result, the network coverage remained low. Fifth, unreliable data due to irregular fieldwork remains a problem. This affects decision making as it is based on limited data on surface water resources.

Lessons and way forward

The main challenges in this sector revolve around financing and capacity. There is a need for the continuous monitoring and assessing of water quality. 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 capacity will be addressed by ensuring that the various implementing agencies have adequate and appropriate staff for their programmes and activities.

Acquisition of any new technology will be pegged on local needs and applicability to intended beneficiaries. Studies will be conducted to ensure that technology is matched with requirements and skills. Project beneficiaries will be involved at all stages of projects to eliminate any misunderstanding between government and local communities.

2.4 Productive Sectors

2.4.1 Introduction

The IP-ERS identifies tourism, manufacturing and trade as the main drivers of the economy in terms of their contribution to economic growth and employment. To enhance the performance of these sectors, the government is committed to the removal of barriers to investment and the lowering of the cost of business to allow for private sector participation. The section below looks at 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 employment generation. However, growth in this sector is erratic and highly dependent on security and political stability, whether real or perceived. To address the barriers to growth in the sector, and strengthen linkages with other sectors of the economy, the government has committed itself to fostering private sector partnerships to develop and implement a coordinated strategy to revamp the sector following its poor performance in 2003 (which was largely attributed to security threats). In addition, the government has also committed to attract tourists from a wide range of countries, diversify tourist attractions, expand the benefits to the local population, protect the environment and improve quality and standards.

The specific actions identified in the IP-ERS include: full reform of the security forces; the strengthening of airport security; the establishment of tourist and anti-terrorist police units; reviewing the tax structure in the sector and providing tax incentives for tourism infrastructure refurbishment; improving information systems and promotion campaigns to market the diversity of attractions available in Kenya; fostering community-based and eco-tourism, particularly to 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 visited parks; restructuring of the Kenya Tourist Development Corporation to play a key role in facilitating local investment and provide credit to small and medium enterprises; establishing an integrated coastal zone management structure to oversee development in Mombasa and Malindi; the extension of reserve areas around national parks through government-private-community partnerships; expanding the facilities of Utalii College, including reviewing the proposals for establishing an additional branch in the coastal region by July 2005; and 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 are geared towards achieving a number of objectives, namely: increasing the annual growth rate of tourists from a baseline 1.5 per cent in 2002 to 9.7 per cent by 2007; increasing the number of tourists from 500,000 in 2002 to 1.5 million by 2007; and, doubling tourism foreign exchange earnings from Kshs 24 billion in 2002 to Kshs 48 billion in 2007.

Some of the activities identified above were realised during 2003/04, the year preceding this APR. These included: the strengthening of security through the operationalisation of the Tourism Police Unit and Anti-Terrorist Police Unit; aggressive marketing campaigns that show the launch of the Emergency Market Recovery Programme; opening of the Asian region marketing office in Hong Kong, signing of *"Approved Destination Status"* by the Ministries of Tourism for Kenya and China and starting direct Kenya Airways flights to China; completion of a draft tourism policy paper; launching new tourist circuits in Western Kenya and Mount Kenya regions; renovation of Kenyatta International Conference Centre; and, extension of grants to 7 micro and small enterprises under the Tourism Trust Fund Programme. Overall, tourism earnings increased by 16 per cent, tourist arrivals by 18 per cent, and overall employment in the sector by 3.5 per cent.

During financial year 2004/05, the sector continued with the implementation of some of the activities commenced in 2003/04 as well as identifying more activities in pursuit of the IP-ERS objectives. These activities included: intensifying marketing campaigns in both traditional and emerging markets; enhancing and creating bilateral and multilateral cooperation in tourism; collecting, controlling, and administering the catering, training and Tourism Development Fund; establishing, equipping and controlling establishments for the training of hotel and restaurant staff; and, protection of tourist lives through the establishment of the Tourist Police Unit. The sector implemented a number of activities during the year 2004/05, and their progress is reported below

Achievements and progress on implementation

The tourism sector recorded a remarkable growth of 15.1% in 2005 (Table 2.4). Tourism growth increased from – 20.3 per cent in 2003 to 15.1 per cent in 2004 (IP-ERS indicator 12), 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 from increased from 14.5 per cent in 2003 to 18.7 per cent in 2004, the length of stay increased from 8.4 days in 2003 to 13 days in 2004, 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 Kshs 25.8 billion in 2003 to Kshs 39.2 billion in 2004, and international conference tourism increased from 126 conferences in 2003 to 145 in 2004. This was partly a result of aggressive campaigns both in local and international markets. However, the re-bound in tourism in 2004/05 must be seen against the background of a decline in numbers of greater magnitude the previous year.

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

IP-ERS monitoring indicator	Base value	Actual		Targets		
	2003	2003/04	2004/05	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 the sector in 2003, the government invested in aggressive promotion campaigns in source markets during 2004/05. 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 won the bid and the congress was held in Nairobi in May 2005. Further campaigns were carried out in source markets (East Asia, China, USA, London, Hong Kong, South Korea, Germany, Iran, Thailand, and Japan) resulting in:

- The signing of a memorandum of understanding on tourism development and marketing with Iran and Thailand; and
- 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 and this resulted in increased local conference tourism activities from 805 in 2003 to 912 in 2004 and an increased number of visitors to game parks and reserves by 17.5 per cent in 2004.

Policy and Legal Reforms

During the period under review, consultations were on-going on the preparation of the Kenya wildlife management and conservation policy. The preparation of this policy document if is being undertaken in 2005/06. Amongst a range of issues, wildlife-human conflict will be addressed.

To foster investment in the sector, the government exempted hotel equipment from excise duty; some 249 hotels and restaurant establishments were classified and gazetted and the National Tourism Policy was finalised and is awaiting cabinet approval.

Though the sector has been able to implement most of the activities identified in the IP-ERS, some are yet to be planned for. These include: the establishment of an integrated coastal zone management structure to oversee development in Mombasa and Malindi; extension of reserve areas around national parks through government-private-community partnerships; the expansion of facilities of Utalii College, including reviewing the proposal for establishing an additional branch in the coastal region by July 2005; and, 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.

Challenges

Despite the good performance of the sector, a number of challenges need to be addressed. These include:

- The security and safety of tourists due to the increasing threat of global terrorism - this calls for collaboration between different countries;
- Inadequate financial resources, especially to carry out aggressive promotion and marketing campaigns to market the industry abroad;
- Dilapidated infrastructure, especially in tourist circuits and facilities; and,
- The lack of a national tourism policy to direct activities in the sector - the National Policy on Tourism is yet to be approved by cabinet.

Lessons learned and way forward

The tourism sector is highly susceptible to security threats whether real or perceived and information campaigns remain invaluable to the performance of the sector. Several initiatives are currently being pursued to boost the level of tourism activity in the country. These include: consultations with airlines that had abandoned Kenya as a destination; discovery and marketing of new tourist sites and products such as sport tourism; the exploration of new tourist markets, mainly from the Far East and the rest of Asia; the promotion of domestic tourism; and, strategic partnerships between the public and private sector in marketing the country abroad as a tourist destination. In addition, modernisation of existing and development of new centres is expected to increase further conference tourism activities in the country. In addition, 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 for the sub-sector include: increasing the growth of the volume of exports to 5.7 per cent annually; diversification away from commodity exports; an increased share of the North American market; spelling out a clear and comprehensive policy direction on investments; and, bringing international best practice to investment promotion. Reforms in the sub-sector have targeted barriers to investment, especially the lowering of the cost of doing business 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 spells out a number of reforms for the sector namely: reducing the top tariff rate to 25 per cent, and the duty on raw materials and capital goods; building capacity to address trade disputes and dumping claims; and, 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. In addition, the government also needed to work to improve the business climate, speed up privatisation and the establishment of an investment authority by 2005.

During 2003/04, the sector managed to: reduce the number of tariff bands to three, the top tariff rate to 25 per cent, average tariff rate to 11.8 per cent; initiated a trade policy paper; received cabinet approval of the National Export Development Strategy and presidential approval of the investment code; successfully negotiate for reinstatement by the EU of Kenya's sugar quota; established an Anti-Counterfeit Unit within the Ministry of Trade and Industry (MoTI); and, completed four Diagnostic Trade Integrated studies.

Over 20004/05, the MoTI pursued the following strategies: establishment of an Investment Authority as a genuine one-stop office for investors; expanding and strengthening partnership with the private sector, especially in negotiating trade protocols and other business related issues; developing an export development strategy that considers all sectors (goods and services) for export potential and reviewing the existing export development incentives (such as EPZs and manufacturing under bond scheme); increasing regional cooperation on trade issues and better trade information; and building capacity to monitor international trade malpractices to effectively apply anti-dumping and countervailing measures to ensure that Kenyan products are not unfairly driven out of 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 in 2003/04 (Table 2.4 above). However, the target for this indicator has yet to be set so it is not possible to assess progress. The total value of imports grew by 29.2 per cent thereby expanding the merchandise trade deficit by 51.4 per cent. Exports to COMESA recorded an increase of 21.1 per cent. In addition, the MoTI, through the Joint Loans Board, was able extend credit facilities amounting to KShs 19.6 million to 482 entrepreneurs throughout the country.

Public Private Sector Partnership

The MoTI is mandated to spearhead private sector development. The MoTI, in collaboration with the private sector, development partners and other government ministries have initiated the development of a Private Sector Development strategy. The institutional framework for the preparation of the strategy and action plan was established and 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 administrative barriers to investment in Kenya in 2004. The study covered the following areas:

- Legal framework for investment;
- Licensing procedures and inspection
- Access to land for investment;
- Site development clearances and utility connection;
- Customs procedures and trade facilitation; and
- Tax administration.

The findings from this study were discussed with various stakeholders and the recommendations will form invaluable inputs into 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 mandated to take stock of all licenses that impact on business with a view to recommending those that can be retained, rationalised and/or abolished. The recommendations of the task force indicate the abolition of 35 licenses and amendment of 4 licenses during the June 2005/06 budget. Phase II 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. The strategy was approved in 2004 by cabinet. The ministry has prepared an action plan which will implement the strategy in phases. Phase one will concentrate on five sectors namely: livestock and livestock products; fish and fish products; textiles and clothing; horticulture; and food and beverages.

A draft trade policy document setting out additional reforms including policy 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 has also been prepared.

Challenges

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

Lessons and way forward

To address these challenges, the ministry will continue with the aggressive promotion of exports and marketing agencies, a review of the legal and regulatory framework, the diversification of exports, the finalisation of national trade policy and negotiation for a better and 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, remaining below potential. To expand its growth and employment generating capacity, the IP-ERS identified a number of reforms, namely: removing the barriers to investment and lowering the cost of business in the sector through further liberalising trade; deepening financial markets; enhancing infrastructure; improving security; facilitating the use of technology licenses; reviewing mechanisms for wage determination; improving access to quality training; preparing (in consultation with the private sector) an industrial master plan to operationalise the sessional paper on industrial transformation; undertaking benchmarking exercises for key industries, including sugar and textiles to measure Kenyan industries' competitiveness in the international market; and, identify constraints to improved productivity. The key growth targets for the sub-sector over the IP-ERS period include achieving an average growth rate of 8.6 per cent per annum in the manufacturing sector and increase employment in medium and small enterprises and formalisation of the informal micro and small enterprises (MSEs).

During 2003/04 a draft review of the Sessional Paper No. 2 of 1997 was developed, a wage framework to lower the cost of doing business was developed, and the Productivity Center 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; duty waivers on capital goods, plant and equipment; increasing the investment allowance from 60 per cent to 100 per cent; and a four year non-renewable extension to 2008 of safeguard measures on sugar under COMESA. In improving the business and investment environment, a draft Bill on Labour Law was submitted to Attorney General, and EPZ desk established at the MoTI.

To realise the remaining reforms, the strategies identified for 2004/05 include: a review of the industrial and labour relations framework to provide for a proactive and efficient dispute settlement mechanism; a review of the Sessional Paper No. 2 of 1997 on Industrial Transformation to the year 2020 as a pre-requisite for preparing a comprehensive Master Plan; benchmarking of key industries to international competitiveness and the structuring of recovery efforts for these industries around established international benchmark prices; creating opportunities for livestock-based industries in the Arid and Semi-Arid Lands (ASALs) by removing inhibiting policies and offering appropriate investment incentives; focusing on garments/clothes manufacturing to take advantage of the African Growth and Opportunity Act; implementing the Micro Small and Medium Enterprises (MSMEs) Competitive Project; and, enhancing support for research and development for industries by reviewing tax incentives for research and zero-rating research related equipment.

Achievements and progress on implementation

Real output growth in 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. Total employment in manufacturing rose from 239.8 thousand persons in 2003 to 243 thousand persons in 2004. Employment in EPZs accounted for 15.9 per cent of total employment in 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 in African Growth and Opportunity Act extension and fear of removal of quotas in textiles. The informal manufacturing sector created 79,000 new jobs in 2004. Sales in EPZs accounted for 7.3 per cent of total turnover of 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:

- A draft counterfeit bill was developed, discussed by stakeholders but 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 effects of counterfeit goods on the local industries and on the public in general.
- A draft review of the Sessional Paper No. 2 of 1997 on Industrial Transformation to the year 2020 was done.
- To develop public-private partnerships, the MoTI held a workshop with the members of Kenya Association of Manufacturers on increasing the competitiveness of local industries.
- The MoTI has trained officers in the Department of Industry on the principles and techniques of benchmarking in preparation to starting a comprehensive programme of benchmarking.

ASAL Development

MoTI officials visited a total of 39 ASAL districts and collected information on livestock production. A national report is being prepared to be tabled during a stakeholder's 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 the project is to increase productivity and employment in participating MSMEs by strengthening institutional support for employable skills and business management and by reducing critical investment climate constraints for MSMEs. The project will focus on formal and informal micro enterprises that have high potential for dynamic growth, including graduation from informal to formal status.

Access to financial resources through sector deepening has been initiated through various financial institutions. Activities under the Business Development Services Programme have been initiated in the coffee, pyrethrum and cotton sub-sectors. These include the approval of business plans to facilitate access to matching grants.

Challenges

During the course of implementation of the above activities, implementing agencies faced a number of challenges that slowed down the growth and generation of employment opportunities in the sector. These included: increased oil prices; the appreciation of the Kenyan shilling against the dollar; depressed domestic demand; poor infrastructure; and, insecurity. The increase in oil prices and appreciation of the shilling constrained exports and encouraged importation of goods that compete with locally produced goods.

Lessons and way forward

The challenges listed above are largely those that faced the sub-sector during 2003/04. Poor infrastructure and insecurity are problems that can only be addressed in the medium- and long-term. In addressing these challenges, the ministry will continue in 2005/06 to strengthen the enforcement of the laws and processes of curbing counterfeit goods, ensure that products standards are adhered to, strengthen linkages with research institutions and support the institutionalisation of a framework for pro-active dialogue with the private sector to develop ways to facilitate industrial growth.

3. Equity and Poverty Reduction

3.1 Investing In Human Capital

3.1.1 Education

Policy Review

The provision of universal primary education is 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 in primary and secondary education preferably by 2005, and in all levels of education by 2015 (MDG 3).

In order to measure the performance of the sector in reaching these goals, annual targets for the 5 IP-ERS education outcome indicators were set as part of the IP-ERS indicator framework. These targets have been used by the sector to guide the planning of their activities and outputs and by those providing performance-based funding to the sector. Table 3.1 below reflects the approved targets between 2004/05 to 2006/07 for each IP-ERS indicator and, where available, these are disaggregated by gender. Moving forward, targets for the incidence of primary repetition and the transition rate to secondary schools will need to be disaggregated by males and females to further guide and measure progress on gender equality in education. Performance against the 2004/05 targets is discussed below.

The first key initiative in the primary education sector was in 2003, when the Government of Kenya introduced Free Primary Education (FPE) in public schools in order to increase enrolment, especially among poor households that constitute about 56 per cent of the population. The IP-ERS hoped to build on this success and suggested the following policy priorities for 2003 – 2007 to achieve universal primary education:

- A further reduction in costs of primary education to households and increased enrolment of girls, pastoralist, street and slum children;
- 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 reform of the curriculum to focus on core skills;
- Redefinition of the roles of local authorities and decentralisation of decision-making to district and school-level administrators and parents' representatives; and,
- A strengthened education management information system.

Many of these priorities were pursued in 2003/04 and to a greater extent in 2004/05. During the year under review, the education sector underwent accelerated reforms to define further the policy framework and establish financing and institutional arrangements to implement the policies. The Sessional Paper No. 1 of 2005 on the Policy Framework for Education, Training and Research was developed and approved by both the Cabinet and Parliament. This has become the policy background for the adoption of a Sector Wide Approach (SWAP), which will enable the sector to develop in a holistic manner by ensuring that all stakeholders work together.

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 81.3 (M) 78.3 (F)	82.1 82.2 (M) 82.0 (F)	81.5 82.9 (M) 80.1 (F)	83.2 84.4 (M) 81.9 (F)	84.4 85.0 (M) 82.5 (F)
Primary Net Enrolment Rate (NER) for North Eastern Province	17.6 23.3 (M) 12.1 (F)	19.6 23.6 (M) 14.9 (F)	24.5 29.7 (M) 19.4 (F)	31.5 36.5 (M) 26.5 (F)	38.5 43.9 (M) 33.1 (F)
Completion Rate	52.0 54.5 (M) 49.5 (F)	56.0 57.1 (M) 54.9 (F)	59.7 60.3 (M) 59.1 (F)	60 60.4 (M) 59.6 (F)	60.3 60.5 (M) 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

To implement the Sessional Paper No. 1 of 2005 and to provide a framework for the implementation of the SWAP, the Kenya Education Sector Support Programme (KESSP) has been developed. KESSP takes a comprehensive approach to the sector and includes explicitly pro-poor targeting of investments. Objectives for projects categorised as part of the core poverty reduction programmes are to improve access, equity, quality and retention and completion rates at primary and secondary school levels. As outlined in the 2006 Education Sector Report, the current pro-poor programmes are: Free Primary Education Support Programme; School Instructional Materials Unit; Grants to non formal schools; School Feeding Health and Nutrition Programme; Special Needs Education; Secondary School Bursary Scheme; Science Equipment / Laboratory in Targeted Schools; Grants to ASAL Secondary Schools and those in pockets of poverty; and University Bursaries and Scholarships.

The programme allows different stakeholders to support education and training sector in the next 5 years (2005/06 - 2009/10). In addition to the sector priorities identified in the IP-ERS, KESSP also focuses on early childhood development, secondary education, technical, industrial, vocational and entrepreneurship education, university education and adult education. In terms of institutional arrangements the ministry has been restructured into 5 directorates for efficient and effective service delivery and the secondary school bursary disbursement has been decentralised to the constituency level. The Teacher Service Commission (TSC), which manages the major part of education expenditure, is carrying out several reform programmes aimed at enhancing service delivery. Among them are plans for deepening decentralisation of some of its operations to the district levels for efficiency and ease in monitoring. Teacher recruitment and deployment has already been decentralised.

Achievements and progress on implementation

Budgeting Allocations

In 2004/05, public expenditure for all levels of education represents about 7.2 per cent of GDP up from 6.6 per cent in 2003/04 and 27.4 per cent of total government as compared to 27 per cent in 2003/04 expenditure. Recurrent education spending has been higher than any other social sector accounting for 73 percent of total social sector spending. This is largely due to teachers' salaries and allowances, which account for 85 per cent of recurrent expenditure on education. Efforts are underway to reduce the share of recurrent spending relative to GDP. Between 2003/04 and 2004/05, 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 in the early childhood development and secondary education sub-votes and on the development budget as shown in Table 3.2 below.

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	2004/2005	2004/2005	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

Government's budgetary support towards FPE has been averaging at about KShs 7.5 billion per annum. By the end of 2004/05 about KShs 22.8 billion has been spent on FPE. According to the 2005 Budget Outlook Paper, Government will also 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 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 2004/05 was 82.1 per cent, exceeding the target of 81.5 per cent and an increase of 2.3 percentage points compared with 2003/04. There was very little difference between the male and female NERs at 82.2 per cent and 82 per cent, respectively. In 2004, the enrolment for boys stood at 51.6 per cent of total enrolment depicting the gender disparity in national enrolment figures has been falling. 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 high demand for basic education as well as commitment by the private sector to provide basic education. The number of private schools has increased by 27.6 per cent to 1,839 over the same period. In contrast, the number of public schools has increased at a relatively slower rate of 4 per cent to 17,678.

Despite these commendable results at a national level, regional variation in enrolment rates is still a challenge as seen in Table 3.3. North Eastern province continues to have the lowest NER. The NER in 2004/05 was 19.6 per cent, significantly below the target of 24.5 per cent. Male NER rose by only 0.3 per cent 2003/04 and 2004/05 whereas the female NER increased by 2.8 per cent. The enhanced school feeding programme has not had as great an impact on enrolment in the North Eastern Province as anticipated. In 2004/05 food was provided to 1,082,339 children in 29 districts 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 resulted in overspending of the allocated budget by 21 per cent.

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 Completion and Survival Rates

The standard 8 completion rate increased from 52 per cent in 2003/04 to 56 per cent in 2004/05, however this was below the 59.7 per cent target. The survival rate has been on a positive trend from less than 50 per cent in 1990s to 65 per cent for the cohort that started Std. one in 1997 and reached Std. 8 in 2004. Increases experienced in the survival and completion rates have been most probably due to the reduced costs arising from the elimination of school fees associated with attendance of primary schools. In addition the female completion rate increased significantly by 5.4 per cent between 2003/04 to 2004/05 whereas the male completion rate increased by 2.6 per cent. Girl and young women advocacy has assisted in keeping females in school for a longer period of time. The advocacy focuses on sensitisation to eliminate negative cultural practices, such as, early marriage and Female Genital Mutilation.

Primary Repetition

The target of reducing the primary repetition rate in 2004 was exceeded through improved quality of education and availability of teaching/learning materials to pupils. The primary repetition rate was 9.3 per cent against a target of 9.8 per cent. The policy of ranking schools in national examinations over the years led to many schools forcing their pupils whom they thought would not perform well to repeat so that they do not end up lowering their mean grade. Parents also encourage pupils to repeat so that they may have better grades. Long absenteeism from school due to either ill health or other family responsibilities such as child headed families affects performance and therefore encourages repetition. The fact that there are fewer places in the "good schools" makes pupils repeat even when they have scored good grades in the hope that they would access admission to the well performing schools. The Government is currently addressing the issue of facilities in secondary schools as a way of reducing the facilities gap between the 'good' schools usually in urban and peri –urban and those other schools like district public schools. The Ministry has already established a new way of candidate ranking rather than school ranking. Therefore it is hoped that these measures along with further improvements in the quality of education and increased availability of learning materials will reduce the incidence of primary repetition even further in 2005/06.

Transition to Secondary Education[5]

The transition rate from primary to secondary was 52 per cent in 2004/05 against a target of 55 per cent, as shown in Table 3.1. The target was not met due to limited number of secondary schools as facilities did not expand to accommodate all the pupils who passed their standard eight exams. Gender and regional disparities also exist and there is need to continue with affirmative action to enable the girl and young women to improve transition rates. The ministry faces a challenge in improving the transitional rates from primary to secondary schools. Also the current bursary system does not cater well for disadvantaged children transiting to secondary schools. The Ministry will adopt policies that seek to expand secondary education to avail more places as well as enhance bursary allocations to cater for all deserving children transiting to secondary schools. The issue of poverty and cost of education is currently being addressed by providing a targeted bursary programme. As projected, 70,000 poor children were provided with a bursary in 2004/05. Following the weaknesses identified through PETS in 2005, bursary schemes are have and continue to be reviewed. Currently, bursaries are provided to the needy secondary school students (minimum of KShs 15,000 for national boarding schools, 10,000 for provincial schools and KShs 5,000 for day schools) through the constituency bursary scheme to improve efficiency and effectiveness. The Government aims at further improving the transition by ensuring provision of more spacious buildings, greater availability and improved access to day schools, multi-shift and multi-stage system of education, and enhanced Public Private Partnerships.

Teacher Redistribution and Management

Teachers are the most important input into the education system and, therefore, 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 of recruiting teachers which resulted in uneven distribution of teachers. Efficient and effective utilisation of teachers called for correction of this uneven distribution. The current demand-driven recruitment policy seeks to address the uneven distribution of teachers and teacher shortages. In an effort to improve teacher management the TSC has produced an operational manual and guidelines for teacher management, and decentralised the recruitment of both primary and secondary school teachers. With improved teacher management, the pupil to teacher ratio (PTR) rose from 35:1 to 40:1 in primary schools and hours worked increased to 18 hours per week for secondary school teachers in 2004/05. In addition, a teachers'

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

staffing norms study has been carried out and the recommendations and policy changes are expected to facilitate establishment of new staffing norms in line with sector policy. According to the recommendations, it is expected that teachers will be deployed to schools on the basis of 1 teacher for every 45 pupils in primary schools, multi grade teaching will be used by teachers in schools with small classes, and secondary school teachers will have a load of 25-30 hours per week including 20 hours of class 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 teacher redistribution. Regional variations in PTR's still exist with ASAL regions having fewer teachers. To ensure that teachers are willing and do not see transfer to those areas as punitive, there is need to improve working conditions by providing better hardship allowances and putting infrastructure (water, roads, electricity) in place in the ASAL regions.

Provision of Learning/Teaching Materials

The MoEST has been ensuring that learning achievement is improved. This has been achieved through provision of learning /teaching material. 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 6-8 during 2004/05. The IP-ERS target was achieved in lower primary except for 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 incorporate emerging issues. To address the issue of heavy work load on students and teachers alike and affordability of education, the subjects taught and examined have been reduced both in primary and secondary schools.

In addition, Teachers Service Commission (TSC) will facilitate the hiring of part time teachers, contract teachers and sharing of teachers between schools as and when necessary. Other policy changes will include performance based teacher promotion.

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 the sector is faced with several challenges as it endeavours to meet the MDGs and the IP-ERS and EFA goals as part of its national and international commitments on education.

First, although the NER target for 2004 was met, FPE has led to overcrowding in schools. As reported in 2003/04 APR, facilities are overstretched, schools are overcrowded, especially those in urban slums, the PTRs are high in densely populated areas, the cost of special equipment for children with special needs is high and there is diminished community support as parents are relieved of fees following the FPE initiative. Although overcrowding was also cited in the 2003/04

APR as a challenge, the ministry has begun to undertake measures to address this problem. It has undertaken an annual school census and a school mapping exercise which has yet to be finalised. The data when analysed will give the level of enrolment in each particular school and should also provide information on the conditions of the facilities. The ministry will strengthen the process of planning for physical infrastructure by working closely with MoR&PW to develop building codes for all public schools. Plans are in place 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, New Primary School Construction, Ongoing School Construction, and management and capacity building. According to the IP-ERS, by 2007 10,000 new classrooms should be in place.

Second, although EMIS is underway, it faces a challenge of supervision and quality control of data collection at school level. Furthermore, the work of M & E has been hampered by lack of staff, office and equipment. The relocation of M & E unit to the reform secretariat and a focus on KESSP process monitoring system is a major step towards addressing these challenges.

Third, the deviation between donor commitments and disbursements has been an obstacle in implementing planned activities. Only 29 per cent of funds committed by development partners were actually disbursed in 2004/05 due to conditionalities not being met. The establishment of the SWAP as a sector wide financing mechanism will hopefully assist in addressing such deviations especially for pooled fund partners.

Fourth, despite the Kenyan government's heavy investment in education, enrolment at various levels is characterised by regional and gender disparities. The transition rates to secondary schools are still low coupled with gender and regional disparities. In response to these persisting inequalities, non-formal education is being mainstreamed to the formal education system to improve learning opportunities for disadvantaged children and the school feeding programme will continue to focus on the ASAL regions and urban slums. Disaggregating targets by gender and province will assist in measuring performance on a gender and regional basis. Meeting such targets can also inform decisions on the allocation of intergovernmental transfers to districts.

Fifth, the HIV/AIDS pandemic has had a devastating effect creating an estimated 1.5 million OVC who have little or no access to education. The sector is therefore faced with a challenge of ensuring both the OVC and vulnerable children have access to basic education. The education sector is currently implementing an HIV/AIDS policy. Lastly, the wage bill makes up over 85 per cent of the MoEST's budget. There is a challenge of balancing the need to meet requirements as a result of increased enrolment rates and at the same time freeing up the resources which are spent on salaries for other necessary expenditures such as on learning teaching materials.

Lessons and way forward

There have been substantial improvements in both gross and net enrolment rates at the primary education levels, as well as in other standard performance indicators, such as the primary school repetition rate in order to meet the objectives set out in the IP-ERS. This is particularly due to a rapid increase in enrolment in primary education resulting from the introduction of FPE in 2003 and due to the increase of learning materials and improvement on the quality of education. .

However there is still some way to go on the other IP-ERS indicators, such as, further increasing the primary school completion rate, the transition rate to secondary school and improving the NER in the North Eastern province. Having reviewed progress with implementation, the following revisions will be made to some of the existing targets.

First, gender inequality appears to be falling at a national level. However when the data is disaggregated by provinces there seems to be some persistent disparities in 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 be enough to assist in achieving the target set for the NER of 38.5 per cent in 2006/07. The targets have been revised for 2005/06 to 31.5 per cent nationally and 26.6 per cent for females and for 2006/07 to 38.5 per cent and to 33.1 per cent for females (see the summary Table in the conclusion and Annex A for revised targets).

Second, the initial 2006/07 target for the primary to secondary school transition rate is too ambitious following performance in 2004/05. Therefore the target will be revised downwards from 70 per cent to 60 per cent. This however means that target set in the IP-ERS of a 70 per cent transition rate by 2008 will not be met. Furthermore, the targets for the transition rate and primary repetition rate need to be disaggregated by gender. Lastly, the gender related targets for the completion rate will be differentiated for 2005/06 to 60.4 per cent for males and 59.6 per cent for females and for 2006/07 to 60.5 per cent for males and 60.1 per cent for females.

In 2004/05 the Government, in collaboration with development partners and other stakeholders, prepared the Kenya Education Sector Support Programme (KESSP). The programme will consolidate the gains accruing from the implementation of FPE to address the main sector issues and support the government in strengthening the management and delivery of educational services. It will also improve access, quality, and relevance of education and training. In order to meet the revised targets proposed, through KESSP the education sector will strive to ensure that in 2005/06 the following planned activities are undertaken:

- Quality and access to education especially for about one million children living in ASALs and urban slums is enhanced (the ministry is currently developing guidelines to support community schools in slums and other disadvantaged areas with textbooks and school feeding commodities);
- The school environment is improved by providing enough classrooms and toilets;
- A friendly school environment is created for the girls and young women by provision of necessary sanitation facilities;
- Grants to primary schools are provided including the non formal schools in urban slums which serve as re-entry points.
- Secondary education expanded through opening day wing/ schools within existing boarding facilities, use of double shifts, and greater participation of non state actors.

The MoEST through KESSP has developed a detailed monitoring and evaluation system which will periodically assess and measure 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 to improve the reporting of performance for the 2005/06 financial year and the findings will be fed into next year's APR.

3.1.2 Health

Policy Review

The IP-ERS primary objective for the health sector is to enhance the accessibility and affordability of quality basic health services for all Kenyans with special emphasis on the poor and vulnerable. This will be achieved through a number of reforms, including: the introduction of a phased social health insurance scheme to make health affordable; the re-allocation of resources towards promotive, preventive and basic health services; enlisting additional capacity through partnerships with civil society, faith based, and private sector organisations; strengthening ties and collaboration across sectors in the area of sanitation, reproductive health, gender, HIV/AIDS, nutrition, school health, road safety and tobacco control; increasing efficiency and effectiveness of the combined investments of the government and its partners; and, increasing the level of total government spending on health from 5.6 per cent of total government expenditure to 12 per cent from 2003 to 2010.

These Health sector reforms, once implemented, will: Increase immunisation coverage to 85 per cent; reduce under five child mortality rate to 100 per 1000 by 2008; reduce maternal mortality rate from 590 per 100,000 to 560 per 100,000 by 2005; reduce HIV/AIDS prevalence rate by 10 per cent and improve accessibility and availability of essential drugs; reduce mortality rate for malaria by 10 per cent annually; increase the cure rate for tuberculosis, and; and improve the health service delivery for the underprivileged rural and urban slums.

Some of the key reforms implemented during 2003/04 include: 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; strengthened capacity at district and provincial hospitals; and, restructuring of the Kenya Medical Supplies Agency. Progress during 2003/04 in realising reforms was hampered by poor human resource allocations, poor procurement, poor drug distribution that resulted in leakages and wastage, and ineffective financial management systems.

In an effort to realise the IP-ERS health targets, the ministry during 2004/05 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; strengthening procurement and distribution of drugs to public health facilities; and enacting legislation to convert the National Hospital Insurance Fund into a National Social Health Fund. In addition, the ministry also identified the need to focus on, and commit to, allocating more resources to preventive and promotive health care, rural dispensaries and health centres, primary health care, maternal and child health and family planning, and the control of TB, HIV/AIDS and malaria. In addition, the ministry also developed the second National Health Sector Strategic Plan (NHSSP, 2005-2010), which sets out mechanisms to reduce health inequalities and to reverse the downward trend in health-related outcome and impact indicators. 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 is based on various indicators agreed upon with stakeholders in 2003/04. According to the results of the Kenya Demographic Health Survey (the latest data available), 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, and under five mortality rose to 115 in 2003. Maternal mortality 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 with the percentage of children receiving no vaccinations increasing from 3 per cent to 6 per cent in 2003.

Current data from the Ministry of Health (MoH) indicate poor performance against IP-ERS targets (see Table 3.4 below). For instance, the percentage of children less than one year fully immunised was unchanged from the previous year and around 10 percentage points below the target (indicator 14). Similarly the proportion of births attended 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, total health expenditure (recurrent and development) increased both in absolute terms and as a percentage of overall expenditure. As a percentage of the overall budget, expenditure in health increased from 7 per cent in 2003/04 to 7.7 per cent in 2004/05 (against a target of 7.6). This represented a real per capita increase from USD 6.5 per person in 2003/04 to 7.5 per cent in 2004-05.

Table3.5 Health budget allocations

	Actual		Target		
Item	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 the course of 2004. The bill was presented to parliament and approved and is awaiting presidential assent. It is proposed that the NSHIF be implemented in phases.

National Health Sector Strategic Plan II 2005-2010

The ministry has developed the second strategic plan (NHSSP II) covering the years 2005 - 2010. NHSSP II seeks to enhance management, create an enabling environment for the private sector and community involvement in health provision and provides for a M&E framework. The ultimate goal of NHSSP II is to contribute to the reduction of health 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 puts down modalities for involving citizens in the reduction of health inequalities through inclusion in decision-making and the allocation of resources. NHSSP II specifies the following six broad policy objectives to be met over the next five years:

- Increase equitable access to health services;
- Improve quality and the responsiveness of services in the sector;
- Improve the efficiency and effectiveness of service delivery;
- Enhance the regulatory capacity of MoH;
- Foster partnerships in improving health and delivery services; and,
- Improve financing of the health sector.

Over the course of implementation of the plan, the sector will be able to make progress towards the MDGs and reduce disparities in health indices between regions, between various population groups and between the public and the private sectors.

Staff Rationalisation

Performance of the health sector in the past has been constrained by poor human resource distribution. As part of the health sector reform initiative, the ministry has embarked on staff rationalisation, which places greater emphasis on deploying the right cadres of staff in the health system and especially in the rural areas, including improvement 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 needs of the population, and evidence-based planning for budgeting and expenditure allocation. 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 to provide curative, preventive and promotive services targeting common diseases, while hospital services are to be restricted more to handling emergency and complicated conditions. This is especially for those patients referred by primary care facilities to the district and provincial hospitals.

Challenges

Kenya is significantly under-achieving against its health IP-ERS targets. Under-financing of the health sector with respect to human resources, the supply of drugs and equipments, support for operations and maintenance and the expansion of health facilities is partly to blame. According to the Abuja Declaration, African Governments have committed to spending 15 per cent of their spending on health. Clearly, despite the progress that was made in the year under review, the MoH's spending is half way off this target. Similarly, the per capita level spend on health of USD 7.5, despite showing an improvement over the years, is nevertheless below the World Bank's recommended USD 12 needed to provide a minimum package of health care services and far below the World Health Organisation target of $34 per capita.

Recurrent expenditure continues to absorb the largest share, with personnel emoluments taking about 54 per cent, Kenyatta and Moi Referral Hospitals18 per cent, drugs and consumables 12 per cent of the Ministry of Health's actual budget. There is high spending on curative (51 per cent) than preventive and promotive health services (5 per cent), which does not match with the policy shift. On the other hand, development expenditure only accounts for less than 20 per cent of total public spending in health. Thus, budget re-allocation still remains a challenge in achieving the health targets.

Poor drug distribution is another challenge. According to the preliminary results of the PETS 2003/2004, about 24 per cent of drugs released from the district depots did not reach health centres and dispensaries. In addition, delivery of drugs to health facilities has been 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 as comprehensive as a measure of the sector's overall performance. The problem has been further compounded by the inability of the government to conduct surveys due to financial constraints.

Lessons and way forward

Following poor performance in the health sector in 2004/05, achieving the MDGs and IP-ERS targets remains a daunting task unless radical changes are made. It is hoped that in the subsequent years, government will continue to significantly increase health financing.

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

To address poor drug distribution, the ministry has initiated a pool demand system where heath facilities indicate to the Kenya Medical Supplies Agency their drug requirements and the out-sourcing of transport to ensure timely distribution of drugs. On leakage of drugs between the agency depots and health facilities, efforts are being put in place to strengthen tracking capacity to enhance transparency and accountability. Also the District Health Management Boards have been mandated to oversee the acquisition and use of drugs.

In an effort to address the weaknesses on indicators and targets, the ministry will review the indicators and data sources in order to improve the reporting of performance indicators in the 2005/06 APR. It should be noted that the following health targets have been revised: 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 been revised from 14.3 to 15 per cent in 2006 and from 10 to 14 per cent in 2007. The definition of the maternal mortality proxy indicator has been revised and a new set of targets produced. These changes are reflected in the summary tables in the conclusion chapter and Annex A.

3.1.3 HIV/AIDS

HIV/AIDS has been acknowledged as the greatest challenge to the realisation of health targets in Kenya. To address the pandemic, the government committed in the IP-ERS to a comprehensive implementation of the Kenya National HIV/AIDS Strategic Plan, 2002-2005 by: restructuring the National AIDS Control Council; empowering and protecting the most vulnerable; intensifying advocacy campaigns and education to mitigate stigma and discrimination; coordinating strategies for prevention, treatment and mitigation; developing a roll out plan for the increasing amount of resources devoted to treatment; intensifying prevention activities; developing capacity building plans for private and public agencies involved in HIV/AIDS programmes; and developing a creative and strategic approach for caring for and supporting the rapidly increasing number of OVC. For the infected, the government committed to making Anti-Retroviral Drugs (ARVs) available to an increasing number (target of 95,000 by the end of 2005) in line with World Health Organisation goals.

During 2003/04, good 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; AIDS control units were set up in all ministries and AIDS control committees in districts and constituencies; the HIV/AIDS community initiative account was established to offer financial resources; ARV costs were reduced from USD 500 to USD 50 per month and the number of ARVs users doubled to 20,000; Voluntary Counselling and Testing (VCT) was established in all district hospitals; and, a policy paper and guidelines on OVC and vulnerable children was prepared.

During 2004/05, the government implemented a successful multi-sectoral response to HIV/AIDS, intensified advocacy and campaigns; scaled up ARV therapy and fostered partnerships among stakeholders across government, civil society, the private sector and development partners. The progress of these initiatives is presented below.

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 some areas of the country. National prevalence has declined significantly from a peak of about 13 per cent to under 7 per cent today with geographical variations. National surveys have documented changes in behaviour toward fewer partners, less commercial sex, greater condom use and later age at first sex, which have all contributed to this decline. Results of the Kenya Demographic and Health Survey, 2003 revealed that 6.7 per cent of adults tested are infected with HIV. Reconciliation of Kenya Demographic and Health Survey and sentinel surveillance data gives an adjusted prevalence of 7 per cent (range 6.1-7.5 per cent) implying a total of 1.1 million adult Kenyans are infected with HIV, of whom, about two-thirds are women. In addition, there are estimated to be 100,000 children living with HIV. A gender difference is more pronounced among young people, mostly in the 15 – 24 age groups, with the prevalence among females being 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, especially young women aged 15-24 years, and young men under 34. The IP-ERS HIV indicator 15 indicates that HIV prevalence among 15-24 year old pregnant women attending an ANC is 10.6 per cent in 2004/05, against a target of 9.2 per cent.

HIV/AIDS financing

The MoH's PER 2005 on HIV/AIDS indicates that by the end of 2004/2005, the level of overall resources allocated to fight HIV/AIDS in Kenya reached KShs18.963 billion, representing an increase of over 800 per cent above the amount allocated in 2000/01. Funding flows for HIV/AIDS represent KShs 660 per capita in 2004/05 or USD8.47 per capita, comparable with the current level of health spending in Kenya. As shown in Table 3.6, external resources constitute the main source (99 per cent) of financing for AIDS in Kenya. Table3.6 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

The national infrastructure to fight the pandemic is now in place. These include 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. Consequently, 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 accepted by their communities. The quality of life for some of the infected has begun to improve and the national AIDS awareness levels are now at over 95 per cent. Overall, the trend of new infections is falling and is currently estimated at 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, integration and provision of ARVs and anti-retroviral therapy in the health care package has been improved especially for those infected, and various guidelines have been developed for opportunistic diseases and are now being implemented. This includes guidelines on OVC and vulnerable children, communications, condom use and home based care.

Challenges

In spite of the progress made in addressing the AIDS pandemic; enormous challenges still remain. The rate of new infections remains unacceptably 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, injecting drug users. Although access to anti-retroviral therapy is increasing, the availability of affordable treatment still falls far short of needs. With the rising cumulative deaths from AIDS, vulnerability to the impact of HIV/AIDS, particularly among OVC, vulnerable children, widows and the elderly is becoming increasingly apparent, exacerbated by high general poverty levels.

Lessons and way forward

Despite the increased level of awareness and decline in the prevalence rate, achieving the IP-ERS HIV targets still remains an overwhelming challenge for government. In addressing the pandemic, the National AIDS Control Council will step up the national response to address stigmatisation and new infections through setting up of more VCT centres and encouraging people to visit the centres, improving accessibility to ARVs and strengthening home-based care. In improving accessibility and affordability to ARVs, especially to the poor in society, the government will provide more staff for anti-retroviral therapy programmes and also ensure the availability of drugs through improving procurement and distribution procedures in the Kenya Medical Supplies Agency. In addition, government will continue to strengthen the implementation of prevention of mother to child transmission through the free provision of ARVs to expectant mothers. For HIV infected children the government is designing a strategy to ensure that they get access to free ARVs.

Advances in understanding, better national coordination and growing international support and resources have 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, enhanced national response, all stakeholders will need to work together within a common framework. The Kenya National AIDS Strategic Plan 2005-2010 is intended to provide this framework.

To address the issue of duplication of programmes, especially by development partners, which often results in the misallocation of resources, 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

Job creation, the promotion of an enabling environment for industrial development and an increase in the productivity of factors of production are three development outcomes that the IP-ERS aims to achieve between 2003 and 2007. The IP-ERS proposes that 500,000 jobs should be created annually between 2003 and 2006, that investor confidence should increase and industrial labour productivity should rise. The responsibility for reaching these development outcomes lies predominantly with the Ministry of Labour and Human Resource Development (MoLHRD). Indicator 23 of the IP-ERS indicator framework focuses specifically on the improvement of productivity; however, a measure for productivity has not yet been identified.

The MoLHRD has developed a strategic plan for the period 2004 – 2009 that identifies a number of key priorities in order to meet the above development outcomes. These policy priorities are an extension to the initiatives reported in the 2003/04 APR. The printed estimates for 2004/05 show that over 70 per cent of the MoLHRD's recurrent budget was directed to MSE development and industrial and vocational training. The preliminary estimates for actual expenditure suggest that these two departments under spent by over 60 per cent. Around 90 per cent of the development budget was also not spent during the period under review. The 2005/06 MoLHRD budget reflects actual expenditure in 2004/05, and so allocates around 25 per cent each to planning and administration, industrial relations and industrial and vocational training.

Productivity Centre of Kenya

The IP-ERS highlights four key activities for the Productivity Centre to pursue over the medium-term. These are the implementation of a strategic plan of the productivity centre, the finalisation and dissemination of a productivity policy, the measurement of the productivity of factors of production using different measurement criteria for the entire economy and the strengthening of literacy programs. While the IP-ERS does not indicate timelines for the completion of the above activities, the centre has finalised a strategic plan, which is currently being operationalised.

Achievements and progress on implementation

Labour market policies and the regulatory framework

The 2003/04 APR reported that 6 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, the Sessional Paper No. 7 of 2005 on Employment Policy and

Strategies in Kenya was approved by cabinet in September 2004 and has been forwarded to parliament for debate and enactment.

On Labour Day 1st May 2004, the Minister of Labour announced that minimum wage revisions would occur after two years. Wage increments will 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 completed and operationalized.

Strategies and Mechanisms for job Creation

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 in 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 provided in the informal sector. The public sector experienced a -0.3 per cent decline in the number of people employed due to public sector restructuring and 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 many job seekers to obtain jobs, both locally and abroad. In order to address these concerns several initiatives are being undertaken to address the mismatch between 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 2004/05 targets set for settling trade disputes were exceeded. Some 980 longstanding cases were settled against a target of 800, 900 cases were referred to the industrial court for arbitration and 1,049 cases were settled through voluntary agreements under conciliation of the pre-industrial court minister's recommendation. The target for the number of cases to be settled in 2005/06 is 1,800. The number of Industrial Court judges increased from two to five however the number of dispute settlement procedures has not yet been reduced from 30 to 15 as proposed in the IP-ERS. This should be completed by the end of 2005/06. 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 Eenterprises Development

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

The key targets identified in the 2003/04 APR are increased employment and increased formalisation of informal MSEs; the establishment of export processing village for MSE producers; the finalisation of a sessional paper and the finalisation of the Micro Finance Bill. The export processing village was not established and the Micro Finance Bill is before Parliament. The

Sessional Paper No. 2 of 2005 on MSE development was finalised, discussed and passed by Parliament in 2004/05. Within this policy framework, the following activities took place in 2004/05.

- The government allocated KShs 41.5 million for the completion and rehabilitation of 31 Jua Kali worksites. 25 Jua Kali worksites were rehabilitated but are not yet ready for occupation by MSE operators.
- 90 Jua Kali operators were trained on business related courses.
- 15 Associations formed a Savings and Credit Cooperative Society thus enabling members to access financial services. Financial services were made available to 300 MSEs through existing micro finance institutions.
- Improved entrepreneurship skills of 30 rural entrepreneurs against a target of 100.
- Improved ability to access and use business development services by 1000 MSEs. The ministry arranged a *Nguvu Kazi/Jua Kali* exhibition in December 2004 where 360 East African MSEs were present and encouraged other such exhibitions for MSEs to market their products.
- A gender desk was established to address MSE issues related to women and other disadvantaged groups.

Health and Safety

According to the Sessional paper on employment policy, it is estimated that a 100 workers die each year as a result of work-related accidents and diseases and 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 are action on 100 reported cases of occupational accidents, 20 occupational health training institutions to be approved and 1700 hazardous equipments to be examined.

Productivity Centre of Kenya

The 2003/04 APR states that the government has made a commitment to strengthen the National Productivity Centre; however, no activities were recorded during the period 2003/04 in this regard other than that the labour productivity centre was established and operational and well – supported by the private sector.[6] In 2004/05 the estimated budget allocation for the centre through the MoLHRD was KShs 16.2 million. Of this, actual expenditure was KShs 14.2 million. There was no funding from the private sector.

Although the board of directors were to meet quarterly, they met for the first time in June 2005. 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.

[6] Annex 2A: Input/Output and Outcome Indicators, Annual Progress Report 2003/04

The main activities in 2004/05, 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 the above only a situational analysis of the sugar sector was undertaken in 2003/04 and completed in 2004/05. While the centre was established in 2002, it is evident that little activity took place in 2004/05 other than strengthening institutional arrangements.

Challenges

Creating jobs in the formal sector is 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. Economic growth appears to be picking up; however, for the formal sector employment to expand significantly 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 have been taken in 2004/05 to reduce the mismatch, progress in this area needs to be accelerated as reflected in the MoLHRD's 2005/06 performance contract. Furthermore, the slow enactment of the reviewed labour laws has held back improvements to the labour market policy and the regulatory framework.

Although the Industrial Court has been able to discharge its responsibilities satisfactorily especially as a result of posting three more judges, the number of support personnel has remained inadequate. The pay and other terms of service of the support personnel have not been reviewed in line with similar staff working in the main judiciary. There is need therefore, to review the position of the court's personnel so as to harmonise them with those of similar paralegal staff under the main Judiciary and at the Attorney General's Chambers. This is important as it will enable the Court to attract and retain qualified personnel.

The backlog of workmen compensation cases due to inadequate funding has remained at unacceptably high levels to the detriment of the victims of the accidents that may have led those compensation cases. Ways of clearing the backlog should be developed and implemented. In this regard, the proposed Workmen Injury Benefits Authority should be established as soon as possible.

The 2005 Sessional paper on MSE development highlights the challenges faced by the sector. First, previous policy design has been inappropriate, the implementation framework has been weak and there has been a failure to institute and effectively monitor policy implementation. Second, while there have been some improvements to the legal and regulatory environment, there are a number of existing laws that inhibit MSE development. Third, lack of access to credit is a major constraint inhibiting the growth of the MSE sector, and more so for 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 able to improve achievements in the sector.

Several key challenges were faced by the productivity centre in meeting the targets as set out in the strategic plan. Firstly there were no appropriately skilled full-time officials, resources were limited to just physically running the centre and the tripartite collaboration was in its early stages and therefore did not function as a cohesive body. It is felt that the strategic plan stemming from the IP-ERS is somewhat unrealistic in the setting of activities and targets. For example, to finalise a productivity policy and develop indicators to measure productivity, in-depth analysis first needs to be undertaken within sectors. Given the available resources the preparation of the productivity policy is a long-term activity which would be complete in 2008, which is 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 have not been established and measuring performance against the IP-ERS Outcome Indictor – 'Target 23: Improvement in Labour Productivity' is unrealistic for the time being. It is suggested that either substantial funding should be allocated for this purpose or that this indicator should be revised to reflect job creation which is currently measurable.

Lessons and way forward

The finalisation and enactment of the employment policy and the enactment of amended Labour Act are critical factors to ensuring that the rights of employees and employers are adequately protected and for creating opportunities to harness employment creation and higher productivity.

The ministry is developing strategies to boost the creation of jobs in the formal sector while also supporting activities of MSEs and employment of Kenyans abroad. Skills harmonisation will continue to be important in reducing the number of Kenyans who are unemployed. The curricula for various programmes at all levels of education will be mainstreamed and regularly reviewed to address the skills requirements of employers and to produce internationally recognised certification. At the same time, the public service is considered to be bloated and inefficient. The public administration sector aims to ensure that the public service wage is more manageable and the public service is more results and performance oriented.

Activities in the MSE sector over the medium term will focus around improving the legal and regulatory environment, enhancing linkages between small and large enterprises and increasing access to finance and to business skills. The government will establish a Micro Finance Trust Fund from which micro finance institutions can borrow for on-lending to the MSEs at affordable rates. In addition, government will encourage commercial banks to develop an appropriate risk classification system governing loan collateral, documentation and inspection risks for the MSE sector.

So far in 2005/06, 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 a performance contract for 2005/06. An in-depth situational analysis is currently being undertaken by consultants in the tourism sector which is due to be completed March 2006. The Tripartite Collaboration is being strengthened by 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 with 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 2005/06 to reflect well-defined activities within appropriate timeframes. For example, given the slow progress to date and limited resources the productivity policy will be complete in 2008 which is beyond the current IP-ERS timeframe. It is recommended that until such studies are complete across all sectors that the number of jobs created should be the sole indicator for measuring performance in the labour market for the time being.

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 to improve the efficiency and effective 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 to provide policy guidance and act as an oversight body in terms of appraising performance of government institutions in mainstreaming gender concerns. While it is recognised that gender issues cut across several sectors, the IP-ERS focuses mainly on **alleviating gender disparities in education, health, agriculture and employment**. The priorities for achieving MDG 3 are reflected in Table 3.7.

Table3.7 Millennium Development Goal 3: Eliminating Gender Disparities

Millennium Development Goals	Indicator
MDG 3: 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 wage 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 low participation by women in decision-making positions and lack of access to economic opportunities. To address these inequalities, government and other stakeholders will:

- Ensure operationalisation of the National Policy on Gender and Development (2003);
- Initiate and strengthen existing gender interventions with explicit focus on poverty reduction; and,
- Offer gender training for key actors at all levels to enhance systematic gender mainstreaming in policies, programmes and budgeting.

Furthermore, the Sessional Paper No. 5 (2005) on Gender Equality and Development has been finalised and is currently awaiting discussion in parliament. The Sessional paper was due to be enacted in 2004/05 however it is now hoped the paper will be enacted in 2005/06. The paper focuses on empowerment strategies that demonstrate understanding of the essential linkages within, and across, sectors especially in terms of health, education, agriculture, employment and justice. The paper updates the situational analysis presented in the 2003 national policy on gender and has a broader perspective on gender issues. Given the cross-cutting nature of gender mainstreaming, it is 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 and experience by government to set up focal points and gender units in line ministries. Work in 2004/05 was undertaken to re-establish these divisions by drafting terms of reference and preparing the Sessional paper to provide a sound policy framework within which these divisions can work. A high-profile public launch of the divisions was to have taken place in 2004/05. However, this has now been postponed to 2005/06. The institutional arrangements will be strengthened by designating an officer on full time basis to be in charge of the gender. This coupled with the finalisation of the TORs for the gender officer will deepen gender mainstreaming within government policies, planning and budgeting. Separate budget allocations will not be made specifically for gender activities, but rather gender issues will need to be entrenched in existing sector programmes and activities.

Kenya is a signatory to various international instruments. In 2004/05, 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) on implementation of the agreed articles over the periods 2003-2005. Further, 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 "Beijing + 10".

The National Commission for Gender and Development was also operationalized in 2004/05. Some 18 commissioners and a director of the commission were appointed in November 2004 and three employees were seconded to the commission from the ministry. Most of the work undertaken in 2004/05 related to representation at national and international forums on gender issues as detailed in Annex A.

Gender-Disaggregated Data

The MoGSCSS has developed a gender data sheet, in collaboration with CBS, drawing information from available surveys which capture data disaggregated by gender. The data sheet intends to monitor progress made towards the achievements of gender equity, show gender disparities in key sectors in order to inform policy and enable project planners and implementers to initiate interventions for the achievement of gender equality. The CBS has recently embarked on developing measures to capture data on women's contribution to GDP into the national accounts, in addition to regular data on wage employment in both agricultural and industrial sectors and routine disaggregating of survey data by sex.

Health

There are various government initiatives aimed at improving the women's health that have realised modest improvements. These include: the National Hospital Insurance Fund, Constituency AIDS Committees, Medical Board and MDG initiatives targeting Malaria, HIV/AIDS and TB. As noted above, the HIV/AIDS prevalence rate has declined slightly, however it is still higher for women than men. Gender abuse and violence continues to be widespread among Kenyan women and girls. The Sexual Offences Bill is currently being discussed in parliament.

Agriculture

It is estimated that women constitute over 70 per cent of all employees in the agricultural sector, largely in the form of casual or seasonal employees. However, they have little security around these jobs, wages are low and there are no employment benefits such as a pension scheme. Furthermore, due to structural and institutional constraints, credit and extension service provision is skewed towards rich, often male farmers with little benefit to poor women.

Education

Reforms aimed at improving access to education for all has assisted in reducing differences in the primary NER between males and females. There still large gender discrepancies, however, at secondary and higher education levels. The government has taken measures to promote the education of females through affirmative action at university level, the review of curriculum and learning materials to ensure gender sensitivity, encouraging re-entry to school of adolescent mothers, enhancing school bursaries, promoting girl and young women advocacy and planning the construction of appropriate sanitary facilities for girls in schools.

Women in Employment

The IP-ERS states that in the 1998/99 Labour Force Survey, the male labour force participation rate of 74.7 per cent was higher than 72.6 per cent for females. The 2005 gender data sheet indicates that in 2004 the labour force participation rate for males was 87.5 per cent and for females was 78 per cent. The rate of participation by males appears to have improved significantly more than that of females, thereby further increasing the gap between the two. Government policies which have resulted in increased investment in education and training may not be immediately reflected in labour participation rates. Further data from the 2005 Economic Survey shows that the proportion of women employees in the modern sector has remained the same between 2000 and 2004 at 29.5 per cent.

Candidates for positions in politics are not normally selected on an annual basis however between 1997 and 2002 elections and since 2002 ***greater efforts have been registered towards increasing the numbers***. In 1997, there were 9 female members of parliament. Currently there are 22 female members. While the gender disparities are still quite large, progress is being made especially in the executive branch of government to increase the number of women in decision-making positions. As demonstrated in Table 3.8, gender disparities at the sub-national level appear to be much greater.

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 hence the MoGSCSS is not the sole implementer of all gender programmes. The role of the ministry is mainly to sensitise and provide general direction, thereby 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 for the officers who will steer the process.

Most of the available statistics are not gender disaggregated. However the department is collaborating with CBS in order to ensure that all future surveys will cater for gender disaggregated information where possible. The CBS is however constrained by its current capacity, insufficient staffing, and lack of skills in gender analysis.

Regional variations in education outcomes are stark and more needs to be done to raise awareness on the need for gender equality. Further advocacy work to reduce the influence of old cultural and traditional practices that perpetuate pervasive gender stereotypes, biases and abuses against women will be encouraged.

The legal framework has been reviewed and the recommendations proposed by the Taskforce for the Review of Laws relating to Women were included in the proposed draft constitution. The result 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 gender equality.

Lessons and way forward

Much of the Department of Gender's work has concentrated on policy and institutional reforms through the finalisation of the 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 need to take place between 2005 and 2015 for the MDGs to be met. The total cost of these interventions over this period is estimated at US$2billion. 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); and,
- Research, information, monitoring and reporting (14 per cent).

The Department of Gender's main planned activities for 2005/06 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 including identification of performance indicators for national and district reports. Once gender desks are fully functioning, the ministry will have a better picture of gender-related activities taking place in each sector and this will be reflected in the reporting of progress on gender issues in the annual and district progress reports. Over the medium-term, the department will aim to further develop the legal framework for gender mainstreaming and increase 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 largely from agriculture. 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. Government efforts to promote growth in the industrial sector 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) notes that the sector directly contributes 26 per cent of GDP, including a 16 per cent contribution by crops alone. The sector further indirectly contributes 27 per cent of GDP through linkages with manufacturing, distribution and other service related sectors. In addition, the sector accounts for 60 per cent of total national employment, 60 per cent of export earnings, 75 per cent of merchandise exports, 45 per cent of annual government revenue and produces almost all the raw materials for agro-industries. This is why efforts by government to address unemployment, poverty and food insecurity have embraced broad-based growth and a development strategy in agriculture entrenched in the SRA.

As outlined in the IP-ERS, the value of agricultural exports is targeted to rise by 3 per cent annually and the average yield of major crops by 5 per cent. This will enable the country to realise the MDG target of reducing the proportion of the population 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 the implementation of comprehensive reforms to promote productivity growth 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. Proposed reforms include: restructuring and rationalising the network of agricultural research institutes by consolidating operations into the Kenya Agricultural Research Institute, to strengthen the link between farmers' demands, extension provision and the direction of research and increase the productivity of public investment; deepening agricultural financial services to ensure poor farmers have access to credit and insurance; putting in place reforms to improve competition in input distribution and marketing and enforcing the law against fraudulent practices of input supplies and marketing agents; reducing transport costs through improved rural roads and reduced fuel taxes, electricity costs; and, improving access to information through strengthened communications.

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; and, supporting plans for rehabilitation and development of irrigation systems to support the revitalisation of cotton and rice sectors.

During 2003/04, the sector made progress in implementing some of the reforms outlined above. This resulted in the creation of the Agricultural Sector Coordination Unit to coordinate the implementation of the SRA, the revival and strengthening of the Agricultural Finance Corporation to provide credit to farmers, partial commercialisation of the National Cereals and Produce Board, the introduction and funding of the Special Programme on Food Security, training a total of 1,421 farmers' groups on European Retailers Produce Good Agricultural Practices compliance, the provision of market information by the Marketing Information Branch and Kenya Agricultural Commodity Exchange, the suspension of interest and penalties owed by farmers to the Sugar Development Fund and the commencement of reviews 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 sectoral growth rate by 5 per cent by 2007, various reforms were implemented during 2004/05 and their progress and achievements are reported below.

Sector Performance

The performance of the agricultural sector during 2004/05 was dismal as indicated in Table 3.9 below. 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, notably, maize, coffee and pyrethrum 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 met as growth was below 3.1 per cent average annual target despite the fact that the value of agricultural exports, as measured by the quantity of horticultural exports increased by 27 per cent and marketed production, increased from Kshs 85.39

billion in 2003 to 101.7 billion in 2004 translating to 19.1 per cent respectively. Value of marketed crops increased from Kshs 85.39 billion in 2003 to 101.7 billion in 2004; and the value of exports for key commodities such as tea increased by 9%, horticulture by 8.4%, and coffee by 10.5% from the period 2003 to the year 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	4.0	5
25. Forest area protected by gazettement (ha) increase by 13000 ha annually	1,390,000 ha			To rise by 13,000	To rise by 13,000	To rise by 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 which is to be used in implementing the SRA. The plan provides for 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 Agriculture Secretary and sub-divided into four directorates, each headed by a director. These are: Land and Crop Management; Extension, Technical Training, and Research Liaison Service; Agribusiness, Market Development and Agriculture Information; and, Agricultural Policy and Development Coordination. In addition, five support departments were proposed: human resources; finance; administration; planning and policy; and, ICT and information management. The new structure and functional units being implemented aim to enhance service delivery and promote private sector participation in agriculture including umbrella legislation and fast track activities.

Food Security

Attainment of food security still remains one of the key goals of the government. However, efforts to attaining food security are undermined by frequent droughts. This calls for a major shift from rain fed agriculture to irrigation. More resources should therefore be put in constricting water harvesting structures such as dams, water pans, ponds and water diversion canals.

During 2004/05 a number of projects and programmes were initiated or scaled up to facilitate achievement of MDG – 1 on eradicating of poverty and hunger in Kenya. These include:

- Kenya Agriculture Productivity Programme (FAPP) financed by the WB and Covers 20 Districts
- National Agriculture and Livestock Extension Programme (NALEP) financed by SIDA and GoK covers all districts in Kenya, with SIDA component covering up to 54 districts
- Agricultural Sector Support Project (ASSP) funded by DANIDA covering 4 districts. Second Phase of this Project was successfully negotiated to cover 16 districts and

implementation commenced in 2005/06 under the name Agricultural Sector Programme Support (ASPS)

- Horticulture and Traditional Food Crops Development Project funded by IFAD and covers 8 districts.
- Promotion of Private Sector Development in Agriculture funded by the GTZ and covers 20 districts.

Information and Marketing

Farmers need information to know what products to produce, what technology to use, and where to market. In an effort to provide information to farmers, the Agriculture Information Centre was restructured to establish the Agricultural Information Resource Centre. Furthermore, information desks have been established at provincial, district and local levels to improve the flow of information.

Review of Agricultural Policy and Legal Framework

Over time, due to liberalisation and the poor management of the marketing boards, the performance of major cash crops has deteriorated. 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 revived.
- A draft Sessional paper for the revitalisation of the sugar industry, taking into account the way forward for the privatisation of the sugar companies, was produced in consultation with stakeholders.
- A draft bill for the establishment of the National Grain Authority to replace the National Cereals and Produce Board was produced by the Ministry of Agriculture.
- The Coffee Board of Kenya was restructured and the Kenya Coffee Producers and Traders Association was legally mandated to manage the trading floor.
- The Kenya Coffee Auction was deregistered, and direct coffee sales were operationalised alongside the auction system.
- Pyrethrum marketing was privatised - asset valuation for plant and stocks of the Pyrethrum Board of Kenya was completed and the 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 2004/05 period, AFC received funding of KShs 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 in the market to stabilise the price of fertiliser.

Challenges

A number of challenges confronted the sector in the period under review:

- The privatisation of the 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 target sugar companies (Chemelil, Sony Sugar, Nzoia, Muhoroni and Miwani). The level of indebtedness of the sugar companies currently stands at KShs30.6 billion.
- Lack of adequate funds to implement the *Njaa Marufuku* Kenya.
- There has been lack of funds for the extension services.
- The slow completion of policy and legal reviews is a challenge. This is partly due to lengthy stakeholder consultation and backlog of bills during the legislative period.
- Weak coordination of irrigation development in the country leading to transformation from rain-fed production to irrigated oriented production.
- Weak coordination of irrigation development in the country leading to slow transformation from rain-fed production to irrigated production.

Lessons and way forward

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

- Fast tracking privatisation of the sugar companies by the Treasury, particularly the Investment Office, will be undertaken. Ways of handling cleaning of the balance sheets will be agreed upon before the earmarked sugar companies are privatised.
- With the introduction of performance contracting and RBM, the ministry will ensure that targets set for review of policies and legal frameworks are met. More effective ways of getting stakeholder views and consensus on the review will be adopted. The ministry will establish an effective monitoring and evaluation system to set results and manage by results
- The ministry requires additional funding for strengthening extension service delivery, through provision of basic facilities such as vehicles, motorcycles and computers. The ministry is seeking for funds for networking of the districts to HQs and creating effective information desks at all levels.
- Kenya Agriculture Productivity Programme (KAPP) financed by the WB and Covers 20 Districts
- In absence of adequate funding directed specifically to scale up the Njaa Marufuku Kenya (NMK) programme initiated in 2004/05, the ministry will rationalise all projects and programmes geared towards food security to avoid apparent duplication and therefore maximise returns. The programme is currently funded by the Government
- Due to the critical importance of irrigation to sustainable agricultural development, there is need to address the challenges of coordination of irrigation development in Kenya.

- Fast tracking enabling umbrella legislation for the sector as outlined in the ERS and SRA in order to reduce future legislative load to manageable level

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, even though there is limited cultivation of some crops. This notwithstanding, the ASALs are used by ranchers, semi-pastoralists and pastoralists as rangelands. On the other hand, rice farming and much of horticulture can only be done under irrigation. During 2003/04 work on the formulation of a national irrigation policy and irrigation reforms was initiated, guidelines for smallholder (community based) irrigation schemes and irrigation water users' associations were developed, and an irrigation training master plan was drawn up.

Achievements and progress on implementation

During 2004/05, the following achievements were realised: A draft Irrigation and Drainage National Policy document and Sessional paper were prepared by the Ministry of Water and Irrigation.

- A cabinet 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 will start in the 2005/2006. The major activities to be undertaken are 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.
- Also, 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 contributed to the development of irrigation in the country. The following projects were undertaken:

- Rehabilitation of the irrigation and drainage infrastructure in Mwea, Pekera, Ahero, West Kano and Bunyala Irrigation Schemes.
- Restarting stalled agricultural activities in West Kano, Ahero and Bunyala. This has brought 4,900 acres under rice production and restored food security and incomes to 1,251 families.
- Capacity building for farmers in Mwea, Perkerra, Ahero, West Kano and Bunyala Irrigation Schemes. 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. These include:

- The development of new irrigation systems is hindered by the high cost of investment required. This has led to the slow exploitation of the potential area for irrigation.
- Sustainable irrigation development has been constrained by lack of a National Irrigation Policy and Master Plan, which has resulted in problems such as duplication of effort, 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.

Other challenges include the following:

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 for physical assets for collateral by financial institutions preclude them from accessing credit facilities.

Lack of co-ordination of irrigation development. Currently, there are many institutions undertaking irrigation development in the country. However, efforts have been uncoordinated resulting in overlaps, duplication, inefficiencies, conflicts of interest and wastage of resources.

Inadequate scientific skills and information Currently 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 hampered development in that 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 account 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 in that there is minimal involvement of beneficiaries in their planning, implementation, operation and maintenance.

Land tenure; Security of land ownership (land Title), one of the prerequisites for development in the irrigation and drainage, is either lacking or incomplete in some areas. 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 and opening up of agricultural land in the ASALs. To guide irrigation activities, the 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 having high growth potential and of priority importance 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 for disease outbreak, prevention and control; and improve the quality and certification of vets. Other reform proposals set forth in the IP-ERS include: considering the introduction of a single permit system for cattle movement; reviewing options for a decentralised and private sector provided network of slaughterhouses; and, expanding access to water sources and improving security.

The underlying IP-ERS target is the improvement of livestock production and marketing. Reforms undertaken during 2003/04, achieved the following: a total of 47 slaughterhouse facilities out of 71 were rehabilitated; 900 meat inspectors were trained; reviews of national livestock development and the Kenya Dairy Board were completed and submitted to parliament; a livestock attaché office was established in Saudi Arabia; the government paid the Kenya Meat Commission's unsecured creditors and appointed a CEO and the board of management; and, two abattoirs were opened, one each in Garissa and Mombasa and a total of 2.8 million cattle were vaccinated out of a targeted 8 million.

To realise the remaining reforms and address the challenges encountered during 2003/04 a number of activities were planned for implementation in 2004/05. These included: the rehabilitation of 13 water pans and dams; construction of district offices in three regions; the redrafting of policies; aquaculture development; and, disease prevention and control.

Achievements and progress on implementation

Resulting from the implementation of various activities as detailed in Annex A, the progress and achievement made during 2004/05 includes the following.

Value addition

Efforts for value addition of hides and skins raw materials for export were encouraged and facilitated through the introduction of a tax regime on export of raw hides and skins. Due to this, the country is currently earning an average of KShs 4 billion annually from hides, skins and leather industry and contributing 4 per cent to GDP. The industry provides employment to over 30,000 people in the formal sector (tanneries, hides and skins curing/ storage facilities, export go-downs and slaughter houses/ slabs). Further, it creates indirect employment to over 150,000 people in the informal sector (leather craft dealers, shoe repairers, cobblers, second hand leather goods and footwear trade and transport as well as thousands of pastoralists in the ASAL areas who depend on this sub-sector for their livelihood).

Rehabilitation of Water Pans and Dams

During 2004/05, work was completed in 10 out of 13 dams, water troughs and pans planned to be rehabilitated. This programme is being implemented in 22 ASAL districts in Northern and Eastern provinces.

Review of Policy and Legal Framework

A number of policy reviews were undertaken during 2004/05. These included redrafting the dairy policy which is in its final stage; the on-going drafting of the animal breeding and animal feeding policy; and, a draft policy document on fisheries development.

Decentralisation and Private Sector Provision of Slaughterhouses

All the slaughterhouses (except Kenya Meat Commission) were decentralised and are privately managed. The provision of slaughterhouses by the private sector has been undertaken in Lodwar by an NGO (Norwegian Mission); however work on the Wajir slaughterhouse has not yet begun.

Veterinary disease outbreak, prevention and control

In addressing diseases and to conform to international export requirements, the following were achieved:

- A ministerial task force was appointed to study the viability of Disease Free Zones. Consequently, disease free/export zones were created in an effort to facilitate access to external market, mainly to neighbouring countries and the middle-east;
- ASAL-based Livestock Rural Livelihood Support Project was negotiated with various donors and started in 22 districts;
- 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 notifiable diseases were sustained through vaccinations, disease monitoring and surveillance, livestock movement control and quarantines, and export/import inspection and certification;
- Data on animal health and production has been gathered and information provided to livestock owners, researchers, planners and decision-makers for priority setting and resource allocation for animal health programmes and projects with a view to increasing animal productivity and facilitating trade; and,
- 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 and three more districts are planned for in 2005/06.

Challenges

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

- Droughts, floods and unpredictable weather patterns that have direct effects on livestock feed and water supply and consequently the quality and quantity of production. Due to these problems, 22 ASAL districts have suffered heavy losses and their productivity has remained below potential.
- Many farmers cannot access markets due to poor infrastructure. Most of the ASAL in northern and eastern parts of Kenya suffer from poor road networks. The northern corridor, which is used in transporting cattle to the port of Mombasa for export market, has no tarmac and there are no well constructed rural access roads.

- Inadequate disease control due to high cost of drugs in relation to farmers' incomes. Farmers in ASALs are entirely dependent on livestock and livestock products for their incomes.
- High cost of breeding services i.e. Artificial Insemination (A.I) and breeding stock is an issue. 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 and the Agricultural Finance Corporation cannot effectively cover all farmers.
- Other constraints are the unfavourable international trade environment and trade barriers. Livestock products such as meat, milk hides and skins have been subjected to stringent sanitary and physosanitary standards and barriers particularly to the European market.

Lessons and way forward

To address these challenges, the ministry, in collaboration with the private sector, is in the process of rehabilitating livestock handling infrastructure such as holding grounds and stock routes. To control diseases, a mechanism for livestock movement control will be established once disease free zones are fully established. Market information will be provided both nationally and regionally. To address exports, a proposal was put forward in 2004/05 for the establishment of a livestock attaché's office in the Middle East but funding was not provided. The ministry will continue to push forward 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 multiplier effect on the livelihoods of a majority of Kenyan communities, especially in Western and Coastal regions and is a source of foreign exchange. To exploit the potential of the sub-sector, the government in the IP-ERS set out to develop an enabling environment to ensure sustainability in fisheries development and management.

During 2003/04, a fisheries policy and master plan were completed, 8 fish landing sites were rehabilitated and fitted with electricity, national fish inspection and quality assurance laboratories were renovated in Mombasa and Kisumu, 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 though upgrading of a number of fish landing sites in Lake Victoria and fish processing plants to meet European Union standards. 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 management, conservation and decision-making. The value of fish landed increased by 8.4 per cent from KShs 7.0 billion in 2003 to KShs 7.5 billions in 2004 and the price per tonne from KShs 57.4 thousand in 2003 to KShs 60 thousand in 2004. Specifically:

- In an effort to meet international hygienic requirements to avoid being banned from exporting to the international markets, fish traders were trained in hygienic ways of handling fish and about 75 per cent of the nationwide aquaculture inventory exercise under taken;
- Fish traders were trained on hygienic ways of handling fish and about 75 per cent of the nationwide aquaculture inventory exercise was done;
- 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; and,
- Kenya fish quality standards continued to enjoy the promotion to List I classification due to enhanced quality assurance management through upgrading of a number of fish landing sites to the EU standards, as was the number of fish processing plants.

Challenges

The main challenges include:

- Over-fishing in Lake Victoria has led to congestion and low harvest;
- Lack of adequate cooling plants has impacted negatively on the marketing of fish in Lake Victoria and other lakes; and,
- Compliance with strict international standards, especially for the EU market, is an issue.

Lessons and way forward

To address these challenges are a number of initiatives are underway. First, entrepreneurs and investors are being encouraged to relocate to the Indian Ocean Kenyan coastline so as to reduce congestion in Lake Victoria. Second, 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 storage, the quality of fish and marketing. Third, 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 economic recovery and revitalisation of agriculture in Kenya. They make a considerable contribution to the agricultural sector as a whole, as well as to food security by supplying agricultural and livestock inputs and marketing agricultural outputs. The policy objective is to revitalise the cooperative movement to spur sustainable economic growth and development in Kenya with a focus of achieving desired outcomes through the strengthening of the cooperative movement, improving cooperative extension services delivery, improving 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 is currently estimated at KShs 105 billion. The sector employs over 250,000 besides providing opportunities for self-employment. Also a significant number of Kenyans, approximately 63 per cent draw their livelihoods either directly or indirectly from cooperative-based enterprises.

During 2003/04, the Cooperative Societies (amendment) Act 2004 was enacted to improve governance in the cooperatives by addressing management and stakeholder participation in cooperatives, cooperative tribunals were decentralised to the province to help settle disputes, the cooperative training college was made semi-autonomous, Kenya Cooperative Creameries was re-acquired by government and revamped, 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 2003/04, more policy priorities were put in place during 2004/05 to streamline the management of cooperative societies, regulate SACCOs and to improve market access and the 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 decentralisation of Cooperative Tribunal services was further reinforced with the establishment of 8 Provincial Tribunal Registries in all administrative provinces in Kenya - this has since significantly reduced the cost of access to justice for the purpose of settlement of 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 oversight 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;
- Relevant bylaws of 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; and,
- Liquidations and mergers were carried out in 10 per cent of societies to ensure that societies that are non compliant with the provisions of the amended Act and subsidiary legislation are deregistered and wound up.

Policy/legal and Institutional Reforms

The ministry continued with the review of the Cooperatives Development Policy by focusing on streamlining cooperative management and the revival of dormant societies. Under this, the following were achieved:

- 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 attract higher prices.
- The ministry spearheaded the merger of small coffee cooperative societies into economically sustainable entities to help reduce their operational costs and benefit from economies of scale, thereby enhancing members' returns.
- Commodity cooperative marketing institutions were restructured for efficient marketing.
- The Cooperative Societies Act No.12 of 1997 was amended vide the Cooperative Societies (Amendment) Act No. 2 of 2004 and New Cooperative Societies Rules 2004 made, both of which became effective in November 2004 - the amended legal framework provides for the intervention of government to restore members' confidence and provides stiff penalties on cooperative leaders found to have mismanaged their cooperatives.
- The restructuring of the KPCU is on-going concurrently with Coffee Board. The Ministry has drawn up terms of reference and presented a budget to Treasury and is awaiting 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 has been formalised. A baseline survey on commodities marketed through co-operatives was done by the Marketing Department covering coffee, dairy, pyrethrum, cotton, fisheries and other produce.
- The ministry formulated its strategic plan in 2004 that highlights 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 significant delay in finalising the bill.
- The final Co-operative Development Policy draft is ready. However, given the lapse of time (since August 2004), the ministry would like to review the draft policy paper further before eventual submission to the Sessional committee of parliament for publication into a Sessional Paper.

Challenges

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

- Poor governance and limited transparency in the management of cooperatives;
- Lack of capacity in management, market intelligence and market research;
- The weak capital base; and,
- Infrastructure weaknesses.

Lessons and way forward

Although the challenge of poor management and the governance of cooperatives identified in the 2003/04 APR has partly been addressed through the various reforms implemented during 2004/05, the challenges identified above still point to poor management and governance. This calls for enhancement in the implementation of reforms. SRA priorities include:

- Building 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 and promoting joint ventures between the cooperatives and other investors;
- Introducing of information and communications technology in cooperative management; and,
- Seeking for increased budgetary allocation through the MTEF budget to improve cooperative extension service delivery and supervision of field activities including public expenditure tracking.

3.2.6 Environment and natural resources

Policy Review

Kenya faces a serious environmental challenge due to low forest cover. This has been compounded by rampant poverty, which has resulted in the 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 increase due to lack of a national policy on recycling of waste materials and dysfunctional local authorities. Government further recognises that the forestry and mining sub-sectors are faced with many constraints that hamper their development. These constraints include weak governance (especially in relation to the forestry sub-sector); an inadequate policy, legal and institutional framework governing natural resources exploitation; and, inadequate stakeholders participation in the management of environmental and natural resources.

In addressing the above challenges the IP-ERS proposals include: a comprehensive implementation of the National Environmental Action Plan and the Environmental Management and Coordination Act (1999); operationalisation of the National Environment Management Authority; carrying out of a natural resource inventory and valuation; implementation of World Summit on Sustainable Development, MDG, and Lake Victoria environmental management project; promulgation of the minerals and Mining Act, promotion of small scale mining, private sector and community participation in mining; and implementation of the forestry development policy, enforcement of the forestry Act, and promotion of private sector participation in afforestation and management of forest plantations.

During 2003/04, 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; developed policies, standards, regulations, guidelines and procedures for the implementation of Environmental Management Coordination Act; instituted a committee on MDGs, WSSD, biodiversity, United Nations Convention to Combat Desertification and other conventions under Agenda 21; and in implementing the Lake Victoria environmental management project, conducted aggressive public awareness campaigns among the lake communities and relevant stakeholders, an inventory and characteristics of industries, municipalities, towns some villages and settlement schemes and their liquid effluents that enter the lake. During the same period the government also held the 1st National Mineral Sector Conference, continued with the review of Mining Act and drafting of a new mining policy, conducted awareness campaigns among small scale gold and gemstone miners and quarry operators. To further and consolidate the gains made during 2003/04, the sector continued with the implementation of reforms whose progress is reported below.

Achievements and progress on implementation

The various activities undertaken during 2004/05 are detailed in Annex A. Broadly, efforts were focussed 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. In order to improve the legal and administrative coordination of the diverse sectoral initiatives so as to enhance the national capacity for effective management, the Ministry of Environment and Natural Resources through National Environment Management Authority implemented the following provisions:

- Implementation of Environmental Impact Assessment and EA regulations;
- Regulations on water quality, water management, land use and access to genetic resource have been drafted and are awaiting gazettment;
- National Environment Management Authority (NEMA) initiated dialogue with the Kenya Association of Manufacturers and the business community in addressing the problem of disposal of used plastics;
- Provincial Directors of Environment and District Environment Officers have been trained and posted in all provinces and districts;
- Prepared and submitted the 2nd national report to the Convention on Biological Diversity and 3rd country report to the United Nations Convention to Combat Desertification as a commitment; and.
- Prepared the second State of the Environment Report (2004), as required by Environmental Management Coordination Act (1999).

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

National Environmental Action Plan

National Environment Management Authority initiated the process of developing Environment Action Plans (Provincial and Districts) through four regional training workshops in the 8 provinces targeting District Development officers, Provincial/District Environment officers, lead agencies, civil society and the private sector at provincial and district level. A draft manual for the preparation of the environment action plans has been prepared and this is being tested in the piloted districts.

Implementation of 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 strategy and action plan proposes a wide range of interventions that translate the outcomes of the WSSD into actions. It identifies specific policy objectives and actions aimed at enhancing poverty eradication, conservation and management of the environment and natural resources for social economic development.

The Ministry of Environment and Natural Resources is mandated 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 has been designed to address the issue. The Poverty Environment Initiative (PEI), being implemented by the MoPND and Ministry of Environment and Natural Resources (MoENR), funded by UNDP/UNEP was also initiated. The government is also supporting a Community Action Plan project that aims at enhancing the use of community action plans to support 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 have been prepared. In addition, Pre-qualification of the consulting firm and requests for technical and financial proposals has also been done. Evaluations and commissioning of the work will be done in 2005/06.

Forestry

In the reforestation programme some 7,500 ha of land was rehabilitated. Tree seed distribution was intensified to support this programme. Meanwhile, the preparation of guidelines for concessioning of forests to the private sector is underway to facilitate promotion of private sector participation in afforestation and the management of forest plantations. The draft forest bill was passed by parliament into a Forest Act; a forest Policy is under preparation. These two seek to among other things ensure sustainable management of forests with particular emphasis on community participation. This is significant 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 gazettement.

Forestry Research

To support reforestation, tree seed collection was intensified with KEFRI producing 2,500kg of quality tree seed. During the same period piloting of participatory forest management involving local communities was undertaken in Agro forestry in sokoke and Mukogodo forests. Research was focused on the fast growing tree species as a cheaper source of energy. Development and demonstration of appropriate on farm technologies suited to specific site conditions were carried out .Research on development of non wood forest products such as gum Arabic and aloes was intensified and improvement of research facilities, stated strengthening of dissemination of research findings was initiated.

Mining

Stakeholder views for incorporation into the drafts of minerals and mining policy and revised Act were obtained. The two documents will seek among other things to ensure sustainable and responsible development of mineral resources, while giving emphasis on adequate community participation.

To promote private sector participation, consultations were held with Tiomin (K) Ltd leading to company being issued with mining lease for Ksh. 10 billion investment in Titanium minerals under the titanium mining project and to a fiscal agreement with the government. This is the largest mining project in the country since independence and a major private sector venture overall.

The 1st National Mineral Sector Conference was held drawing participation from key stakeholders in both the public and private sector. Implementation of recommendation made by stakeholders is underway.

Meanwhile, awareness campaigns were held resulting in registration of new groups of small scale miners and quarry operators in Taita / Taveta and Kwale District. The initiative, with particular emphasis on community participation in mineral resources development, directly addresses poverty reduction in rural area setting. Inventory of mineral resources in five areas considered to be important potential continued.

Challenges

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

- Limited funding for the ministry to effectively undertake its mandate;
- The length of the gazettement process;
- Inadequate human and institutional capacity in the mines and geological department, National Environment Management Authority and other related institutions to respond to environmental and other sector challenges.
- Potential conflicts in the use of natural resources e.g. farming with forest land; quarrying with estates for housing, mining and mining with farming.
- Poor governance (Which in the mineral sector arises from conflict of laws e.g. in quarrying), resulting in adverse impact on the environment - this has led to forest encroachment, illegal logging, and unwarranted excision and uncontrolled quarrying;
- Lack of enforcement of laws and policies in 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; and,

- Inadequate information and technologies for supporting artisan miners and small scale quarry operators to improve their trades.

- Lack of an overarching environmental policy.

Lessons and way forward

A strong linkage 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 sometimes do not use the natural resources in a sustainable way, their activities lead to the depletion of natural resources and degradation of the environment. This impact negatively 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 need for policy interventions and undertaking of practical measures with a view to addressing the root cause of continued loss of environmental resources, namely poor or weak governance. Therefore, critical is development of an overarching environmental policy which is key to ensuring environmental sustainability. It is worth noting that the ministry has initiated the process. 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, revision of the mining law, raising levels of environmental education; increasing community awareness; capacity building for stakeholders; developing alternative income generating activities; market driven farm forestry; plantation development; improvement of small scale mining and quarrying and, 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. The 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 has clearly articulated forestry and environmental impact legislation as priorities and their associated targets have been identified. However, it has not been possible to provide data to report on the two IP-ERS environment indicators (numbers 25 and 26). Developing appropriate, measurable indicators will be a priority. However, it is arguable that, on the whole, environment is not well integrated into the IP-ERS. The upcoming IP-ERS revision provides an opportunity to integrate improved environmental concerns into the document through prioritised and carefully considered policies.

3.3 Poverty Targeted Programmes

3.3.1 Introduction

In order to directly address poverty, the IP-ERS identified 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 as priority programmes. Progress in establishing and implementing these programmes is presented below.

3.3.2 Social Action Fund

The IP-ERS objective of establishing the Kenya Social Action Fund is to support and finance the implementation of productive community-driven development projects in an accountable and transparent manner. During 2003/04, the MoPND put in place a task force with representatives from government, the private sector and 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, began project preparation. There was no progress during the period 2004/2005 but for the year 2005/2006 the AfDB has agreed to fund the next stage. Also, the government re-launched the Poverty Eradication Commission (PEC) in January 2005 to spearhead efforts towards the reduction of poverty through trying out of various approaches/ strategies proposed in various poverty 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. Thus, development in these regions is important in addressing poverty. 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: 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; and, 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 is to enhance food security and reduce livelihood vulnerability in drought-prone and marginalised communities in the 22 ASAL districts through sustainable people-driven development. The project undertakes development and drought emergency activities through some of its components: drought management; support to local development; and, 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 funded by the Dutch), the Baringo Integrated Development Programme (funded by JICA) and the Turkana Rehabilitation Project (funded by the World Bank and NORAD). These programmes are 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. The Ministry of Livestock and Fisheries, through this project and 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 some 75,000 people. Phase II 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 a number of challenges were encountered. These include:

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

Lessons and way forward

To address the challenges identified above the following will be undertaken:

- Stakeholder consultations will continue to be undertaken to foster long-term peace-building and conflict resolution mechanisms.
- ALRMP II will continue to co-chair the Kenya Food Security Meetings that bring together line ministries, development partners and donors.
- ALRMP II will co-ordinate the refinement of the existing draft ASAL and disaster management policies.
- The ALRMP II Strategic Plan which addresses key sector development challenges in the 22 ASAL districts has been finalised and one of the sectors earmarked for immediate attention is infrastructure development.
- ALRMP II plans to extent 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 of slum upgrading is to improve the living conditions of millions of urban poor that live in urban slums mainly in Nairobi and Mombasa through the development of slum upgrading and relocation plans and the enactment of housing legislation to facilitate the private expansion of low cost housing and housing financing. Over the review period, a number of studies were completed and others are on-going to guide implementation of the programme. Phase one of slum upgrading was started in Kibera in October 2004. Other slums targeted in this phase include: Soweto in Nairobi, East Mavoko at Athi River, and some in Mombasa and Kisumu.

3.3.5 Vulnerability

Policy Review

Government has been implementing projects to target the marginalised and vulnerable as part of the IP-ERS core poverty programme. These projects and programmes mainly focus on OVC and vulnerable children, 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.

Achievements and progress on implementation

Orphans and Vulnerable Children

The total number of OVC and vulnerable children 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 OVC and vulnerable children is estimated at 1.9 million. The strategic plan for the National AIDS Control Council identified support for OVC 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. The programme is designed to support OVC with a cash subsidy in 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 OVC in Nairobi Province and Kwale and Garissa Districts.

Youth

Progress in the area of youth in the year under review includes: development of a youth policy; implementation of programmes by the Ministry of Gender on street children and youth, and youth and HIV/AIDS; Teachers' Service Commission (TSC) sensitisation campaigns on HIV/AIDS; the *Jua Kali* Programme implemented by the Ministry of Labour aimed at creating employment; and, the National Campaign against Drug Abuse programme.

Rehabilitation of Street Families

It is estimated that there are about 250,000 street children in Kenya and the number is increasing. In 2004/05, a number of initiatives were put in place: submission of a cabinet memo on the rehabilitation and resettlement of street families; and, the establishment of street children rehabilitation programme by the Ministry of Home Affairs. A number of street children have been rehabilitated through such centres and through the National Youth Service. Also, the MoGSCSS has been implementing a programme on street children and is in the process of developing a policy on street children. In addition, government, in collaboration with UNICEF and NGOs, is 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 commercial agriculture, fishing and domestic service. It is estimated to be about 1.3 million in total. The free primary education programme now in its third year of implementation has led to the increased enrolment of children in primary education. The programme is believed to have reduced child labour.

Physically Challenged

Recent data on physically challenged is either unavailable or unreliable. However, according to the 1989 Population Census, an estimated 0.7 per cent of the total population is disabled.

Progress in this area includes the passing of the Disability Bill. The Persons with Disabilities Act, 2003 sets out the rights of persons with disabilities. Other legislation to promote opportunities for people with disabilities has been drafted e.g. 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. The bill aims to combat discrimination faced by various marginalised groups, including the disabled. The draft Affirmative Action Bill guarantees minority groups, including disabled people, a minimum of 33 per cent of representation in parliament and on local authorities.

Slum Dwellers

Government has been implementing the slum-upgrading/rehabilitation programme through the Ministry of Lands and Housing. In addition, government is in the process of enacting a housing bill to enable the private sector to develop low cost housing for the poor.

The Elderly

In Kenya, older people (those aged over 60 years) represent 4 per cent of the total population. The demographic shift towards older people has to be seen within the context of rapid economic change including urbanisation, shifting attitudes within communities and population movements. The rural-urban migration has led to changes in family structures, leaving older persons to manage economic and social affairs in the rural areas. This has further weakened traditional support systems, often rendering older people vulnerable and destitute. Government is committed to ensuring that the elderly lead meaningful and fulfilling lives while enjoying all rights without discrimination and facilitating the creation of an environment in which they continue to utilise their knowledge, experience and skills. The challenge posed by increasing numbers of older people calls for the provision of policies and programmes that are required to deal with their needs.

Progress has been made towards improving the welfare of the elderly. Government and other stakeholders has prepared strategies to be included in the National Housing Policy, that will among other things, ensure that matters pertaining to housing for older people are addressed comprehensively.

Challenges

Challenges with respect to implementing vulnerability programmes include:

- The lack of a policy framework in some areas is impeding the implementation of programmes;
- Inadequate technical and financial capacity within the implementing agencies; and,
- Lack of statistics on vulnerable group is hampering planning and budgeting.

Lessons and way forward

These include the following:

- Approving the cabinet memorandum on the rehabilitation of street families and consequently drafting a sessional paper for implementation;
- Operationalising enacted bills;
- Preparing and completing the national policy on older persons to ensure the proper coordination of all programmes for older persons;
- Developing the national employment policy and strategy, which mainstreams special groups, including older people and retirees to ensure that they have access to employment without discrimination;
- Scaling up by the ministry of home affairs of cash subsidies to cover 10,000 OVC;
- Undertaking an inventory of OVC targeted by NGOs to identify those that need support through education and health sectors;
- Updating the vulnerable groups' database;
- Ensuring that older people have access to health services through such initiatives like special counters at health centres and hospitals;
- Strengthening partnership with development partners in the fight against hiv/aids and providing education programmes targeting older people;
- Houses for civil servants continue to be constructed at ngara as phase one whereas phase ii is intended to cover houses at Parkroad, Jogoo road estate, Shaurimoyo, Mbotela, Ahero flats and Nairobi west; and,
- Capacity building for agencies implementing vulnerable groups' policies and programmes.

4. Improving Governance

4.1 Public Safety, Law and Order

Policy Review

Kenya has continued to struggle with improving the investment climate, service delivery and personal safety largely due to the great challenges faced in curbing corruption and reducing the incidence of crime. The IP-ERS focuses 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 2003/04 APR, much work has been carried out in designing a comprehensive institutional system with good policies and strategies and accompanied by an increase in resources and capacity building initiatives. Most of the activities planned in 2003/04 as described in last year's APR relate 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 and therefore captures much more than anti-corruption in line with what is proposed in the IP-ERS. The GJLOS programme strives to deepen reforms in 32 departments, including the Kenya Police, Prisons, Immigration Department, Kenya Anti-Corruption Commission, the Judiciary and Department of Public Prosecutions. In 2004/05, the programme implemented the pilot phase in the form of the Short Term Priorities Programme (STTP).

The STPP revolves around 7 key result areas (which were also the 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 government and public; and, vii) leadership and change management. A total of KShs 3,260 million was allocated for the one year programme, of which around 26 per cent of the funding was provided by the government and the remainder by development partners. The GJLOS programme covers about 10 per cent of the total sector funding.

In the medium term, the GJLOS priorities stated below reflect the priorities of the sector as a whole:

- Governance reforms, including intensification of ongoing fight against corruption;
- Human rights reform aimed at empowering the poor, marginalised and vulnerable, through rights based approaches;
- Justice reforms, including equal access to justice for all and commercial law reforms for private sector development;
- Law and order reforms focusing on crime prevention as well as broader police and penal reforms; and,
- Reform-oriented capacity building emphasising sector wide attitudes and cultural change.

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 only captures one dimension of the sector. The data is not available and targets have not been set. As a result, the GJLOS programme proposes three outcome indicators against which performance can be measured:

- % change in overall Corruption Perception Index – annually conducted by Transparency International Kenya Chapter.
- % change in Domestic Crime index – the index will be based on a baseline national household survey that will measure victimisation and the perceptions of citizens in terms of safety in the home, public places, walking on the streets and safety whilst on the roads.
- % of citizens who report that they have access to justice systems to resolve disputes.

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 2005/06 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. The three areas of focus, in line with the IP-ERS, are i) security and police reforms; ii) anti-corruption measures; and, iii) judicial reforms and dispensation of justice.

4.1.1 Security and Police Reforms

The government is committed to ensuring security; peace and tranquillity prevail in Kenya to provide an enabling environment for wealth and poverty reduction. 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, district commissioners, district officers and chiefs also play a significant role in the effort to improve security. 4,000 chiefs and assistance chiefs, 694 DO's and 70 DC's were trained to be more customers focussed, on implementation of community policing strategy and conflict resolution. The government structure is complemented by private sector security providers.

The IP-ERS had set a target of reducing the number of reported crimes from 63,000 in 2001 to 35,000 in 2006. 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.[7] Kenya is not on track to meeting the above target and given the current crime records more realistic targets will need to be set moving forward. The apparent increase in the incidence of crime is attributed to i) greater awareness on the need for reporting and friendlier police stations, ii) an inflow of illegal arms due to instability in neighbouring countries and (iii) inadequate police numbers.

The main policy thrust towards reversing the current rise in the incidence of crime is on mapping crime spots in urban and rural areas and deploying more police officers in all the crime prone areas in order to enhance police visibility and police physical presence. This requires a significant increase in the number of police officers, police vehicles, communication equipment and greater collaboration with members of the public.

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[7] Statistics from the police department

Achievements and progress on implementation

Recruitment and training

Since 2003, a target number of 2,000 police officers were to be recruited annually. In 2004/05, 1,960 officers were recruited and trained. While the 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). Therefore, 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 recruitment to 4,000 officers per annum starting 2005/06. Further, to bridge the UN police/population ratio, the government also needs to expand the police training institutions and provide at least 40 new barracks that can accommodate 100 officers each. In addition, 2,372 officers were retrained in various courses for the purpose of improving service delivery.[8]

In 2004/05, 1482 Administration Police (AP) officers were recruited and trained against a target of 1,400 per annum. Moreover, the female ratio in the workforce increased by 17 per cent. Some 2,421 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 a concerted effort to motivate the police force and improve working conditions, a new scheme of service is being developed. 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. The taskforce was appointed to address police housing problems, carry out a study on housing in 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 has completed these activities and carried out a baseline survey which shows the police force as having 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. To alleviate these accommodation problems, the force would require about 27,000 new housing units countrywide, 7,000 of which should be in the Nairobi area.

4.1.2 Anti-Corruption measures

The anti-corruption programme outcomes identified in the IP-ERS are to reduce corruption incidents and 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, and was the lowest in East Africa at par with the Democratic Republic of Congo, Somalia and Sudan. Kenya achieved the same rating of 2.1 in 2004. In terms of bribery, the 2005 Kenya Bribery Index found that the level of corruption encountered by the public declined in 2004, but by significantly less than the reduction reported in 2003. The number of bribery situations reported declined from 40 per cent to 34 per cent of encounters with officials, both public and private. 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

[8] Details of other training that took place can be provided by OP-Internal security

reduction in the level of corruption experienced by citizens, there is still some way to go in improving Kenya's international image on corruption and meeting the targets set in the IP-ERS. As mentioned earlier, household surveys have been planned to improve the quality of information on corruption related issues.

The Kenya Anti-Corruption Commission has been tasked with reducing corruption in the public service by implementing the five-year anti-corruption strategy presented in the 2003/04 APR. The plan reflects concrete actions proposed in the IP-ERS such as finalising the investigation of the Goldenberg scandal, replacing corrupt judges, repossessing grabbed land and public housing, 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 is very difficult as success is fragile and gains can be changed by a few adverse incidents. Nevertheless, the anti-corruption strategy should be revisited every year to update progress and 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 and was equipped with the necessary resources needed 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 has been prepared and 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 used to set up and equip the National Anti-Corruption Commission Steering Committee secretariat. The steering committee was operating without a director and programme officers after March 2005. At the time of reporting, however plans were at an advanced stage to recruit officers. Full operations of the steering committee are therefore expected to take course in 2005/06 including the launch of the National Anti-Corruption Campaign in 2005/06.

Investigations into Corruption

In 2004/05, the Goldenberg Commission of Enquiry finalised its public hearings as planned but the final report which was due in September/October 2005 and is yet to be released. The prosecution of 6 civil servants in the Anglo-leasing case is still on-going. 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 2004/05, 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 planned 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 appeal judges were implicated in alleged corruption, unethical conduct and judicial misbehaviour. Some 13 magistrates, five judges of high court and two judges of appeal contested the report by the integrity and anti corruption committee of the judiciary hence the setting up 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 on 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 wealth declarations. With regard to the Ndungu report, a tribunal to vet land title deeds and identify illegally acquired ones (for cancellation) has been set up. Work on repossession of illegally acquired public utility land, government houses, water catchments areas and forests has already started.

4.1.3 Judicial Reforms and Dispensation of Justice

The IP-ERS spells out a range of initiatives that need to be undertaken to strengthen the judiciary and the dispensation of justice, and these have been captured in the strategic plans of the MoJCA and the Ministry of Home Affairs. The MoJCA main focus areas have been the development of an effective and efficient legal system, promotion of a democratic and stable political environment, facilitation of the Government's efforts towards fighting corruption and promotion and protection of 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. Prosecution of all cases has been enhanced while specialised units to prosecute anticorruption, economic crimes, serious fraud prevention and asset forfeiture cases have been established. Furthermore, discussions have been initiated with regard to the issues of giving prosecution powers to the KACC. Under the GJLOS programme, a review on laws on private prosecution was completed and a report prepared by 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. On training, three workshops were held to retrain the police prosecutors on civilian approaches and a further 70 newly recruited magistrates.

Democracy, Human Rights and Rule of Law

The target for 2004/05 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 human rights friendly institutional and policy reforms and 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 as some of the inmates had either fine options, serious offences or were non-Kenyans hence could not be pardoned. The target has been reduced to 10,000 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 had 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. Some 28 prison paralegal and liaison officers were trained to enhance access to justice among prisoners.

Some 300 offenders were targeted to be supported through skills and entrepreneurship as well as distress relief. This target was exceeded by a further 350 offenders supported due to increased international and national funding. In addition, 4,000 prisoners were examined in various trade tests while 57 attained professional qualifications. This achievement was below par since the targeted number of offenders was 10,000. It appears that this target was unrealistic considering the number of released prisoners and lack of specified budgetary allocation for the purpose.

The National Youth Service continued to train youth including former street children with a view to rehabilitating them and improving their productivity. A total of 231 out of a target of 290 youth were trained in various skills and attained trade tests. A draft policy on OVC and vulnerable children was also developed pending approval by cabinet and finalisation in 2005/06.

4.1.4 Immigration

To strengthen immigration services, the IP-ERS proposes that, the Ministry of Immigration and Registration of Persons needs to deepen collaboration 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 computerising the passport issuing system, the visa issuing system and the Personal Identification Secure Comparison and Evaluation System were undertaken. Information of immigration through three airports was monitored by use of the personal identification comparison and evaluation system. The visa issuing system will be implemented in 2006/07. In terms of registration of persons, 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 as listed below:

- Inadequate capacity building, the poor perception by the public sector, 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 were a major challenge in the provision of service by police.
- Occasionally, political interference has disrupted service delivery by some governance institutions.
- While the government has commenced the development of legal aid schemes and developed legislation to establish small claims court, the cost of delivering justice continues to be expensive in most regions of the country. This is largely due to the insufficient number of judges and magistrates, poor and deplorable court buildings and equipment and 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 conditionalities related to financing agreements has resulted in the disruption of smooth programme implementation.
- Implementing institutions also faced capacity challenges where planned activities could not be completed in time due to low levels of staffing. Most departments were too ambitious during the planning process and did not carry out an adequate assessment of their capacity. Future planning and budgeting should be guided by the achievable outputs taking into account the capacity to implement as well as the availability of resources.

Lessons and way forward

A significant momentum in addressing the huge challenges faced by the public safety, law and order sector exists even though much more needs to be done in order to reverse the crime rate, curb deep rooted corruption and improve Kenya's international image, strengthen the judicial system and the rule of law. The establishment of the GJLOS programme and clearly defined sector priorities are steps in the right direction in accelerating the realisation of the much needed reforms. The estimated financing required for the GJLOS programme over the medium term is KShs 21.7 billion.

Developing the policy, legislative and regulatory framework, investing in the GJLOS infrastructure and improving access to justice are important priorities in 2005/06. 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 in 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 the implementation of 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, public service will improve performance by: downsizing the public service; reforming pay structures; reforming pensions; and, building the capacity of the public administration. There is one current IP-ERS indicator that is relevant to public administration. Indicator 4 measures public sector wages as a proportion of GDP in order to monitor progress made in keeping the public sector wage bill under control. The target for 2004/05 was 8.14 per cent and it was met. During 2004/05, government spent 7.8 per cent of GDP (35 per cent of total expenditure) on the wage bill. The teachers' wage bill accounts for over two-thirds of the total public sector wage bill.

There are several key departments that lead the work 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 leading the Results Based Management (RBM) initiative. The government introduced RBM in 2004 to enable ministries/departments to re-orientate the goals and objectives of the workforce towards cost effectiveness and responsiveness to customer demands and needs and ensure that budget execution 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 2003/04 as noted in last year's 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 the introduction of a results-oriented management approach across the public service, and also service delivery surveys to be conducted in all ministries. The initial Ministerial Rationalisation and Staff Right-Sizing exercises completed in year 2000 made significant progress towards identifying gaps in organisational structures and staffing levels. As a result, new organisational structures and appropriate staffing levels to man them were recommended as the way forward. Each Ministerial Rationalisation Report also made specific recommendations regarding overlapping and duplicating functions within and between ministries; establishing semi-autonomous government agencies; and diverting non-core functions through contracting-out, privatising, or abolition of functions. Implementation of the recommendations started in all ministries during 2004/05. The process will continue in 2005/06.

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. The scheme targets cadres in overmanned and non-core functional areas. The scheme was to be implemented with effect from 1st July 2004 until 30th June 2007and 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 with effect from 1st July, 2005. As of 1st July 2005 a total of 1,395 retirees had exited the service against a target of 3,000. To meet the 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 development of ministerial strategic plans and action plans were adopted by the government as key elements in deepening ministerial rationalisation. During 2004/05, 80 per cent of ministries and departments had developed their strategic plans. The remaining ministries are to complete their plans in 2005/06. 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 government to redirect resources to priority areas was developed. An action plan for updating the matrix and developing a monitoring and evaluation system is being prepared.

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/accounting officers, and chaired by the head of the public service, oversees the implementation of RBM through receiving and evaluating results 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 drive RBM in the public service.

Benchmarking RBM with Canada and Sweden was successfully undertaken by both policy and technical teams in May 2005. Management units were established in all ministries/departments to spearhead RBM among other reform initiatives. A total of 102 officers were trained at Kenya Institute of Administration in July/August 2005. Training of management units from 9 local authorities was completed and arrangements to train the remaining local authorities and state corporations are underway in 2005/06. The RBM policy, guide, tools and instruments as well as training programmes were developed and are ready for printing and distribution. Finally, it was hoped that all ministries/departments would undertake public service delivery surveys to establish baseline information on current service delivery status. However most ministries/departments did not do so, largely due to lack of sensitisation on the benefits of undertaking such as survey.

Performance Contracts

A new system of performance contracts is 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 to have been 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 and the introduction of performance contracts for chief executives of state corporations and permanent secretaries. Following which, heads of departments in ministries/departments were also instructed to be bound by performance contracts. The enabling legislation providing the legal framework for performance contracting was gazetted in August 2004. Some 16 state corporations had been put on performance contracts by December 2004. Training and sensitisation of the remaining 120 state corporations was undertaken to enable them to implement performance contracting during 2005/06.

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. There is therefore need for the development of a performance management system and benchmarks for establishing a performance related reward system in the civil service. A thorough job evaluation exercise was initiated in 2004/05 to cover all jobs in ministries/departments (but excluding the Armed Forces). This will continue in 2005/06.

In the year 2000, the government revised the performance appraisal system to enhance performance of civil servants through interactive evaluation. During 2004/05, the appraisal system was reviewed to link it to RBM in the public service. A performance management system, guidelines and tools to operationalise the system will be undertaken in 2005/06. In 2004/05, the PSC received 36,467 staff appraisal forms compared to 8,304 annual staff reports received in the previous year. The PSC also set up a personnel audit department to monitor the delegation of powers to authorised personnel and ensure that these powers are not misused or abused.

Waste free clean up Kenya Campaign

A waste free programme was piloted in 15 ministries/departments, 2 state corporations, 1 local authority, 7 provincial headquarters and 8 district headquarters. The programme involved re-engineering processes and eliminating non-value added activities and waste. The programme will be rolled in the remaining ministries before the end of 2005/06. There is a need to deepen the process and institutionalise it in 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. There has not been a single comprehensive policy document to uniformly guide training activities across the service. During 2004/05, 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 be 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 ably manage the implementation of government policies. Towards this end, the PSC was involved in the following activities:

- All Public Service Commissioners were trained on strategic management;
- Recruitment and selection procedures are being modernised;
- Examinations syllabus review is underway;
- The personnel audit function is being strengthened. The target is to update the audit report on the 165 local authorities by 2005/06; and
- With respect to automating various processes, basic equipment was acquired and software options are being explored to complete the processes.

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. The board prepared and presented its first report in 2004/05 to the government. A draft pay policy for the public service was finalised and submitted to government for necessary action. The key elements of the pay policy are: enhancing basic pay in tandem with the cost of living; relating pay to performance; aligning the pay structure in the civil service; harmonising the various pay regimes in the public service; and relating remuneration to the ability to pay.

During the period 2004/05 – 2006/07, the Government provided KShs 7.6 billion for salary adjustments for civil servants. This amount was based on projected government revenue receipts over the same period. In 2004/05 the government accordingly approved salary adjustments for various categories of personnel in the civil service, the judicial staff, the State Law Office and the Teachers' Service Commission Secretariat. The salary adjustment, effective from 1st July 2004, benefited the lower and middle level cadres in job groups "A" to "N". The cost of the salary adjustment during 2004/05 was KShs 3.4 billion. The balance, amounting to KShs 4.2 billion, was spread over the remaining two years.

The salary adjustment 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, government's ability to pay within budgetary constraints.

Pension Reform

During 2004/05, cabinet approved the introduction of a contributory pension scheme. The following reforms were undertaken to streamline and make the scheme sustainable:

- Pensions (Amendment) Act, 2003 - This requires that retiring officers be retained in the service until the full payment of their benefits. It further requires payment of interest on delayed benefits payable to dependents of deceased officers.
- Converting the current pension scheme into contributory and funded schemes - This requires that officers contribute a percentage of their basic salary towards their pension benefits, while the government will contribute 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 objective of a scheme of service is to provide for a clearly defined career structure, which will attract and facilitate retention of suitably qualified officers in the public service. A revision of schemes of service was undertaken during 2004/05 to ensure that different schemes are in harmony with one another and promote horizontal equity in the service to enable officers of equal qualifications and experience to enjoy similar career progression. The development of schemes of service for all the cadres that had none was also started during 2004/05 and will continue in 2005/06.

Integrated Payroll and Personnel Database (IPPD)

The objective of IPPD is to enable ministries/departments to maintain up-to date staff records; prepare their respective payrolls; and, better analyse staff utilisation. A substantial amount of work was done in 2004/05. The system was rolled out to all ministries except two. This exercise will continue in 2005/06. Some 270 operatives and supervisors were trained on the system in all ministries.

Challenges

A wide range of programmes on staff rationalisation and reduction of the size of the civil service have been implemented in the period under review. However inadequate sensitisation of ministries/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 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 some time to conclude. The case was concluded in May 2005 and the Government has been allowed to continue with the scheme.

Inadequate provision of management consultancy services by DPM to ministries and departments led to delays in reviewing and developing schemes of service and career guidelines for various staff cadres; unreliable complement control records; and absence of an effective monitoring and evaluation system to provide feedback from ministries and departments on the implementation status of programmes/activities further worsened the situation.

The main instrument currently used to evaluate performance is the annual staff appraisal form. The form has some ingrained weaknesses which make the appraisal process ineffective. The major weakness in evaluating performance is the absence of benchmarks, standards and targets for staff appraisal. Second, the results of the appraisal are rarely used to make decisions on staff training, promotion, discipline and redeployment. The only time that performance appraisal becomes useful is when one is invited for an interview by the PSC. On the other hand, there are no existing instruments to assess the performance of officers in job group 'F' and below.

Measures that need to be undertaken to address the above issues include: establishing optimum staffing levels; issuing new establishment levels by structures in the service; introducing performance improvement programmes; implementing the new pay and benefits policy; rationalising the operations and functions of the civil service; and, institutionalising a comprehensive monitoring and evaluation system for public service reform programmes/activities.

Lessons and way forward

To reduce the wage bill, it will be necessary to continue to implement the Voluntary Early Retirement Scheme with the objective of downsizing the civil service by 21,000 over the medium-term. Government will also continue to strive for a leaner and more efficient civil service through pay reform, the introduction of performance based management and the rationalisation of ministerial structures in order to reduce duplication of functions and non-productive functions. Due to commitments relating to the teachers' and civil service salary awards, the 2005 Budget Outlook Paper proposes revisions to the wage bill/GDP targets over the medium term. The targets will be adjusted to decline more gradually between 2005/06 and 2007/8 as follows: 7.6 per cent for 2005/06, 7.5 per cent for 2006/07 and 7.3 per cent for 2007/08.[9]

The implementation of RBM is seen as a major reform for 2005/06. Changing the focus from inputs and processes to outputs, results and value for money will be critical in reducing the mismatch

[9] Targets 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.

between strategic plans and progress on implementation. This will support the monitoring of the IP-ERS. For example, it is envisaged that the 2005/06 APR will draw heavily on planned activities and outputs as stated in performance contracts and assess progress using information from quarterly monitoring reports. Performance contracts will also assist in further developing indicators and intermediate benchmarks for the public administration sector. Furthermore, it is suggested that the preparation of the submission for IP-ERS annual progress reports is captured in performance contracts of ministries and departments alongside the preparation of the ministerial public expenditure reviews, sector reports and budget.

Reforms have to be accompanied by behavioural change if they are to succeed and to do so several concerns must be successfully addressed:

i. There needs to be a wide sense of ownership of the reform strategy throughout the public service.

ii. Structured implementation plans and institutional framework must be developed to include a series of detailed guidelines on the modalities of turning strategic goals into lasting change.

iii. All ministries and departments should realise that day-to-day management decision-making processes must be transferred to lower operational levels together with appropriate accountability. This will engender greater responsibility and incentives as well as a greater sense of job satisfaction.

iv. 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.

v. There is need for more effective integration of interested parties and initiatives to increase incentives to 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 to increase productivity in the public sector.

4.2.2 Decentralisation and Local Government Reforms

Policy Review

Strengthening local government is an important priority for the GoK in its efforts to improve overall public sector management. The government's commitment to devolution is underscored in the recognition of local authorities as effective partners in the governance and development process. 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 lower levels of government. Furthermore, the design and implementation of decentralisation and local government reforms are critical for the realisation of benefits of decentralisation while ensuring continued macroeconomic stability, regional equity, and reduction of corruption.

To this end, the IP-ERS stresses the need to accelerate the local government reform process in order to improve local service delivery, governance and poverty alleviation. The IP-ERS places priority on:

- Further operationalising the Kenya Local Government Reform Programme by implementing the Local Authority Service Delivery Action Plan (LASDAP);
- Establishing an Integrated Financial Management Information System;
- Developing and implementing a comprehensive decentralisation strategy; and,
- Reviewing the Local Government Act and participating in the constitutional review process.

In 2003/04, mechanisms were put in place at the local level to strengthen monitoring and evaluation through the rolling out of local authority integrated financial and operations management system, the review of the Local Government Act and the envisaged finalisation of the act after the completion of the constitution review process.

Indicator 30 of the indicator framework aims to measure the achievement of public sector transparency and the devolution of power. To measure devolution of power, an indicator recording the proportion of total public sector spending controlled and managed at a local level was approved. While the base data exists, measurement of this indicator and the setting of targets have not yet taken place. Furthermore, moving forward public sector transparency and devolution of power should be separated as the two objectives require different indicators to monitor and evaluate the progress made.

Achievements and progress on implementation

In 2004/05, considerable 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. The rejection of the draft 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. The key achievements for 2004/05 were as follows:

- Issuing of enhanced annual budget preparation guidelines (the use of local authority funds is explored in Chapter 6) and 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, local authorities (LAs) to utilise 10 per cent of their annual budgets for debt repayments, and development of financing mechanisms.
- Development and dissemination of the LASDAP guidelines. The LASDAP process now involves over 43,000 citizens participating in over 1,000 community meetings nationwide to identify local projects for inclusion in the local authority budget priorities.
- Enhanced inspection of local authorities and a strengthened M&E system (see Chapter 6). In 2004/05, the local authority integrated financial and operations management system was

tested in a few LAs and planned to be up-scaled to 8-10 LAs in 2005/06, prior to nation wide roll-out refined for rollout to all LAs in 2006/07.

- Introduction of performance contracting: Nairobi, Mombasa, Kisumu, Nakuru and Eldoret have already signed their contracts with MoLG and the rest of the LAs will sign their performance contracts in 2005/06.
- Implementation of staff rationalisation and right sizing was initiated with a view to reducing the wage bill, which is currently high, and to improving efficiency and effectiveness in service delivery. Results Based Management initiative was rolled out in 10 LAs.
- Concluded a financing agreement with the European Union for poverty reduction and the local government support programme for continuation of the on-going reforms and introduction of 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, planning and implementation of most programmes were ad hoc, not reported and uncoordinated. To address this disconnect between budget intentions and budget execution, the MoLG has prepared a five-year strategic plan to refocus expenditure on core functions and priority programmes.

There are a large number of vacant posts in senior management and technical levels in local authorities which have led to an inappropriate mix of personnel, and therefore insufficient managers and technical staff to properly guide and utilise operational staff effectively to carry out required local service delivery functions. Moreover, staff rationalisation and rightsizing in all LAs has huge financial implications which currently can not be met by MoLG or LAs.

Lessons and 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 central government. This will mean an increase in resource allocation or revenue assignment to local authorities, thereby further signalling 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, personell costs and allowances, heavy debts, limited resource base and financial management capacity. Through sustained effort the MoLG is encouraging LAs to review and evaluate their expenditure and revenue decisions so as to create a more stable budgeting environment.

The government has 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.

5. Financing Framework for IP-ERS

5.1 Introduction

The key strategy underlying IP-ERS financing is ensuring that Kenya attains a stable macroeconomic framework that supports sustainable and equitable economic growth that is necessary for poverty reduction. The strategy targets an inflation rate of less than 5 per cent, a reduced share of domestic borrowing coupled, and the restructuring of domestic debt from short to long-term. Moreover, the strategy emphasises the availability of cheap resources that will foster private sector led growth. Indeed, the financing strategy assumes that private sector participation would meet at least Kshs 96.9 billion worth of goods and services to support the IP-ERS.

In recognition of the hard financial constraints, the financing strategy also emphasises the need to shift resources from consumption to investment spending i.e. a reduction in the share of recurrent expenditure in order to allow development expenditure to increase over time, while at the same time allowing for full funding of the core poverty programmes.

5.2 Performance 2003-2005

Revenues have consistently reached the target of about 22 per cent of GDP (in line with the ERS target) on an annual basis 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 government's success in restructuring government debt towards longer maturing debt, 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 weak demand. For the period 2004/5, domestic borrowing of KShs 25 billion was not achieved; indeed, there was a net repayment. This in itself meant that sectors could not get funding as projected.

Table 5.1 Summary of the outturn: 2003/04 to 2006/07 (KShs millions)

	2003/04	2004/05	2005/06	2006/07
	Actual	**Prel. Actual**	**Revised Proj.**	**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 will be guided by the IP-ERS principles. The overall fiscal deficit should be consistent with achieving domestic debt sustainability, the composition of expenditure should be in favour of capital expenditure as opposed to recurrent expenditures; there should be a marked shift in resources toward the social and economic sectors; and, 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 total actual expenditure for 2003/04 and 2004/05 against projected expenditure for 2005/06 to 2006/07.

In 2005/06, the balance will increase to KShs 93 billion of which grants from donors cover KShs 32.6 billion and 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 2005/06. However, as the economy is projected to slow down slightly, at least in nominal terms, further borrowing will push domestic debt up to 26 per cent of GDP in 2006/07. This is substantially higher than 17.7 per cent target set in the IP-ERS indicator framework for 2006/07.[10]

[10] For 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 Ceiling*
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				
Transfers to Local Government	4,070	5,035	5,653	6,201
Transfers to Households				
Pensions	12,220	12,568	19,736	22,932
Civil Service Reform	273	100	7,073	2,177
Transfers 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	9,654	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 GDP	1,207,748	1,361,562	1,536,450	1,682,575

Source: Budget Outlook Paper 2005/ 2005 BSP/06-2007/08

**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, total expenditures are projected to rise from KShs 276,549 million or 22.8 per cent of GDP in 2003/04 to KShs 459,012 million or 27.3 per cent of GDP in 2006/07. In the medium-term, the objective of government is to restructure expenditure in favour of priority areas. In this regard, development expenditure is projected to rise from KShs 35.7 billion to KShs 118.1 billion in 2006/07. In contrast, the wage bill is expected to decline gradually from 7.7 per cent of GDP in 2003/04 to 7.5 per cent in 2006/07. Over the medium-term, core poverty programme expenditure is given at around 19 per cent of total government expenditure and 5 per cent of GDP between 2003/04 - 2006/07. This is in line with significantly higher growth in non-wage recurrent expenditure of 19 per cent and 25 per cent growth for wage expenditure, reflecting government's commitments to the teachers' and civil service salary awards. Growth in expenditure on wages in core poverty programmes is severely restricted from 2006/07 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 equal KShs 278 billion,[11] which is KShs 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 US$61 billion is needed to fund interventions to meet the MDGs between 2005 and 2015, such that annual expenditure equals USD 5.6 billion. In comparison, total expenditure on core poverty programmes in 2004/05 was just less than USD 1 billion.

Of the total spending on IP-ERS programmes, 15 per cent is attributed to wages and salaries, 35 per cent to non-wage recurrent expenditure and 50 per cent on development expenditure over the implementation period. Therefore, development spending is prioritised more strongly in core poverty programmes than in the general budget. Between 2003/04 and 2004/05, spending on core poverty programmes grew by 15 per cent compared to growth of 10 per cent of 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.

Moving forward, 2005/06 estimates suggest a 38 per cent rise in total expenditure over 2004/05 in line with increasing GDP. Reflecting the IP-ERS's objective of restructuring expenditures in favour of infrastructure, this increase is mainly passed on to an increase in development expenditure of 11.9 per cent. However the rise in development spending focuses predominantly on non-core poverty programmes. By 2006/07, 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.

Government intends to continue with its efforts in restructuring expenditures and thus it aims to achieve a 1.6 per cent share of transfers to state corporations. Table 5.3 gives the proposed expenditures under the IP-ERS framework

Table 5.3 Breakdown of proposed IP- ERS expenditure by pillar (%)

IP-ERS Pillars	IP-ERS 2003-2007	2003/04 Actual	2004/05 Actual	2005/06 Budget	2006/07 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	***	29.5	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**

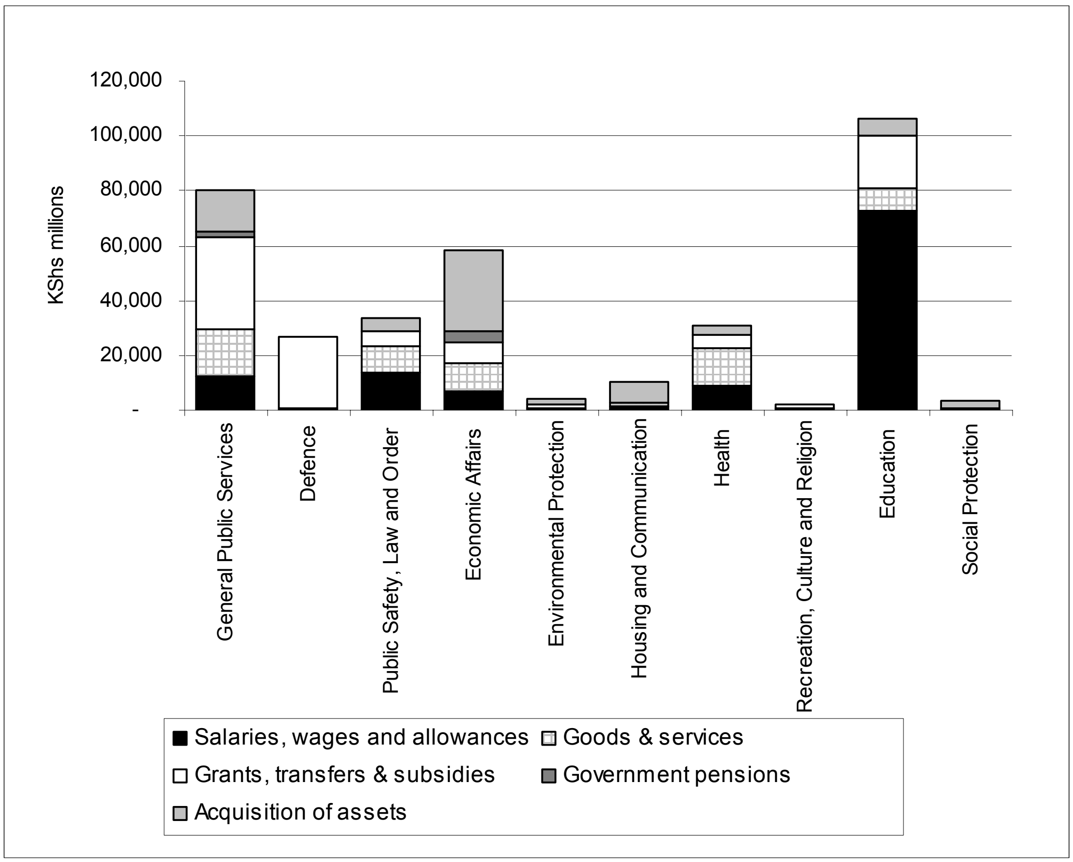
Source: IP-ERS, APR 2003/04, Budget Outlook Paper 2005

Data for this table is not complete

[11] Spending on core poverty programmes between 2003/04 – 2007/08 is estimated to equal KShs 376 billion.

Figure 5.1 and Table 5.3 show the proportional economic classification split of sector ceilings based on reorienting resource allocation towards the priority sectors identified in the IP-ERS for 2005/06. Education is the single largest item of expenditure, followed by general public services. As expected, education, health and public safety, law and order are the more labour intensive sectors, whereas spending on housing and economic affairs is predominantly 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 KShs 218 billion. To finance the balance over the whole period, 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 in 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 doesn't mean that government has enough resources to finance its programmes. Therefore, 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 in the Budget Strategy Paper (BSP) 2005 (USD 450 million a year over the medium-term) then by 2006/07 the share of resources destined for the health sector would reach 10.5 per cent of total expenditures, agriculture would reach 8.2 per cent and economic sectors would 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 this means that expenditures have to be scaled down.

According the 2005/06 - 2007/08 BSP, the wage bill, pensions and debt service take up a larger portion of the budget, this means that about 2/3 of revenue is taken up by non-discretionary expenditure leaving 1/3 to cater for the remaining competing needs: health; education; development expenditure; security; and day to day government operations. The daunting task for 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 down in growth of the tourism sector may slacken projected growth. Therefore, the Government is faced with the challenge of mitigating such risks.

The impact of 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 US$61 billion by 2015 or US$5.6 annually to achieve the MDGs by 2015. This is almost half of GDP. If this is the case, then government needs to take into account the effects of increased spending and the potential absorptive capacity constraints. Moreover, significantly increased spending on MDGs funded through increased aid flows may be inconsistent with export-led growth due to the possible appreciation of the real exchange rate and overall macroeconomic stability.

5.6 Lessons and way forward

Although the IP-ERS targets revenue as a percentage of GDP 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, thereby providing for 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 an ambitious framework of financing its outlays and needs. However, there is very low capacity in ministries to reach the targets set. Certainly, the overall financing framework indicates that out of programmed share of expenditures at 27 per cent of GDP, the actual expenditure normally falls to 22 per cent which is largely contributed by 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 should 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.

6. The National Monitoring and Evaluation System

6.1 Policy Review

The government committed itself in the IP-ERS to the development of a National Integrated Monitoring and Evaluation System (NIMES). The objective is 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 will provide feedback to efficiently reallocate resources over time. The system is also expected to provide an overall framework which integrates and complements all other existing M&E and oversight activities. It will establish a transparent process by which government and all stakeholders can take a shared view of results and ensure the timely release of information for decision making.

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 utilising available resources and achievements in poverty reduction; and, to provide feedback to policymaking, including the MTEF process.

To strengthen the M&E system, 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).

Specific activities to be undertaken during the IP-ERS period include: 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; developing protocols for the horizontal sharing of knowledge and the transfer of data within government; liaising with stakeholders to strengthen the ability of government to leverage outside resources; undertaking the Kenya integrated household budget survey in order to update key macroeconomic indicators and the poverty profile; developing a strategic implementation master plan for the national statistical system; and, developing and implementing a public information access policy.

During 2003/04, the following was achieved: the Poverty Analysis Research Unit was established and strengthened with more staff; MED designed and implemented a government-wide M&E action plan, including piloting in 8 districts (for a full description of this activity see Chapter 6); the MED coordinated the preparation of sector reviews as inputs to the APR process; and, 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 sectoral 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. Disseminated to provide standardised procedures and harmonised reporting formats. 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 horizontal sharing of knowledge and transfer of data within 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 responsibility. This however requires to be strengthened through additional training and sensitization on M & E especially on the use of the MOGs.

Preparation of the APRs

An Annual Progress Report is the main monitoring tool of the IP-ERS. The first IP-ERS APR (2003/2004) was prepared and discussed in the Consultative Group meeting held at Nairobi in April 2005 and later submitted to the World Bank and IMF who prepared shared draft Joint Staff Advisory Note to guide the preparation of the 2nd IP-ERS APR (2004/05). The report outlines achievements made under the IP-ERS and 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)

Piloting of the KIHBS was undertaken during October and November 2004. Subsequently, the survey was launched in May 2005. Data entry is ongoing with some basic analysis of the data this far collected being undertaken. Once the survey is completed in May 2006, KIHBS will provide data for estimating 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 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. The 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 from Swedish International Development Agency (SIDA) for the Rich and Poor Project, 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, under an integrated management information system, has created datasets on the:1999, 1989 and 1979 censuses (it is estimated that only five per cent of the work is complete); demographic and health surveys for 1987, 1993, 1998, 2003; world fertility survey; 1997 welfare monitoring survey; and, the 1998/9 labour force survey. In addition: the datasets have been edited and converted to Redatam compatible format; databases have been generated for all the datasets; individual databases have been linked to three main databases; the system has been demonstrated to CBS and United Nations Fund for Population Agency (UNFPA) staff have been trained on how the integrated management information system works.

STATCAP development

In 2004/05, the following activities were completed under STATCAP:

- Preparation of a Strategic Implementation Plan for the national statistical system;
- Establishment of the Interim Project Management Unit for STATCAP;
- Initiatives taken towards the development of a data dissemination policy;
- Establishment of the National Steering Committee for the national statistical system; and
- Discussions 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. These include:

Dissemination The implementation of the M&E system involves the establishment of a culture and practice of M&E as a routine part of the planning cycle at all levels of the public sector. In its roll out of the M&E system, MED realised that the system is being introduced into an environment in which awareness of the role and importance of M&E is generally limited both at the sectoral and district level.

Limited capacity MED is a recent development in the public service and many officials have not cleared understood its role. This has resulted in delayed submissions from both ministries and districts. The quality of submissions has also been very uneven which has delayed progress in reporting (see Chapter 6 for an appraisal of the district monitoring system). Therefore, at all levels of the M&E system, there is an urgent need for reviewing systems, learning from mistakes, and deepening the training of the staff responsible for M&E. This needs to cover both M&E in general and the specific tasks and functions called for by the MOGs. The MOGs have not been widely circulated and hence most 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 and the budget allocated to 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 between different activities relating to M&E have not yet been fully resolved. In particular further 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 There is a current indicator for the monitoring system in the IP-ERS framework: *"31: 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 and way forward

M&E involves a number of institutions within 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 progress achieved and these indicators will be constantly revised and agreed upon by all stakeholders to take account of new developments.

As a way forward, the CBS and the MED will continue to liaise with other organisations for resources to build capacity both at sectoral and district levels to collect, collate and analyse data and synchronise M&E activities with other government activities, especially the MTEF process. A recent review of the APR process has highlighted a number of ways how it can be better integrated into the budget and planning process (see Box 1 below). 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:

- Establishing a sustainable mechanism of funding M&E initiatives;
- Deepening the integration of M&E activities at all levels, between sectors and stakeholders;
- Intensifying campaigns and advocacy for M&E policies to promote ownership and participation;
- Working with line ministries to finalise IP-ERS indicator definitions and targets;
- Developing an appropriate M&E indicator for tracking progress in setting up a functional M&E system;
- Regularly carrying out Public Expenditure Tracking Surveys;
- Developing an M & E policy; and,
- 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 and their uniqueness in terms of natural resource endowments and capacities. The M & E system at the districts focuses on two critical tasks:

- The promotion of an M&E culture and practice; and
- 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 in 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 within the districts and to institutions in the central structure.

The pilot exercise was preceded by the identification of possible monitorable indicators in four key areas: service delivery by central government to the districts (e.g. education, health, security, legal sectors, agriculture and environment); infrastructure (e.g. water and sanitation, roads and electricity); and, poverty alleviation and governance (e.g. public safety, law and order, justice, devolution of power, gender, the electoral process and corruption).

The districts were further given operational guidelines and a checklist for the implementation of the M&E system. The guidelines specified the principal objectives for the implementation of 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 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. 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. Thus, it is not possible in this chapter 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 of 5 of the pilot districts that also reported in the national roll out (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 present, in varying 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 identify the major constraints and governance issues pertaining to the management of these resources. They also make 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 briefly discussed below.

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 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: Districts reported the amounts allocated to various projects for the year 2003/2004 since not all of them had received funds for the year 2004/2005. They show that the funds have been used to finance a variety of projects, majority being in water, education and health. On the whole they point to four challenges: (i) the feeling that *"MPs have too much influence on the funds especially on the appointment of committee members, targeting and prioritisation of projects"* (Kilifi Report); (ii) a general lack of constituency long-term plans; (iii) the lack of an elaborate CDF evaluation mechanism and inadequate financial support; and, (iv) inadequate involvement of technical staff at district level in management making it impossible to monitor and evaluate the progress. (Bungoma report). However, in general, the reports indicate that there is great potential for this fund to achieve the desired development outcomes.

HIV/AIDS Fund: All the five districts have 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, there is capacity limitation among the majority of CBO officials and members.

District Roads Maintenance Levy Fund: Some of the districts had not reported the activities funded. However, those that reported were able to indicate the type and quantity of activities undertaken. It is also appreciated that it is easier to monitor the maintenance of roads.

District Bursary Funds: These funds are received and allocated in all the districts and the record of beneficiaries and level of funding shown. However, it is generally acknowledged that the amount allocated to each beneficiary is inadequate to take them through schooling and, although the most needy and deserving are targeted, there is significant level of political interference.

Summary of reporting on locally managed funds

Locally managed and controlled funds have great potential in bringing about positive development outcomes at the community level, especially if community participation is sufficiently enhanced and political interference reduced. However, 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 being hampered by hesitancy of some heads of departments and agencies to provide adequate and timely information.

The initial pilot synthesis report did not come up with firm monitorable conclusions. 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. And, of course, it is difficult to judge the quality of data presented to support the activities that are being reported.

It is further noted that, except for general presentations, no attempt has been made to seriously analyse the effectiveness of these programmes. Only raw statistics are presented with no clear measure of outcomes. Furthermore, the reporting is more or less based on departmental routine statistics. The activities that are funded are not directly linked with any of the monitorable indicators and no robust methodology has been used to analyse “effectiveness”.

Performance of key sectors

Agriculture: All the five districts reported activities undertaken during the review period to achieve the IP-ERS objective of reducing food insecurity by 10 per cent, increase farmers’ incomes by 3 per cent and increase value added. The activities on which funds were used varied across districts. For example, Murang’a reported that 75 per cent of the allocated funds were used for soil conservation work and training farmers in improved farming methods and 25 per cent on transport and other operation and maintenance costs. Kilifi reported activities undertaken that included extension delivery, research extension liaison, food security initiatives, value added 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 Parent Teachers’ Associations. 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 is a noticeable increase in enrolment but there are challenges concerning the adequacy of teachers and physical facilities.

Security: Bungoma and Kilifi districts did not report on this aspect. The other districts reported on various security-related issues, generally concluding that the level of insecurity had increased due to unemployment and high poverty levels among the youth, some political incitement, and inadequate policing.

Infrastructure: Bungoma did not report any activities in this area. Other districts reported continuation with routine operation and maintenance of roads showing the amount of funds made available, the nature of work and the quantity achieved. However, reporting by the various districts is not in a comparable format.

Summary of Sector Reporting

The main challenge inhibiting a good analysis of performance of selected key sectors is that reporting is not done in a standard format. Hence districts are reporting differently in terms of content and detail thus making it difficult to either do a thorough comparative analysis or compare the results against the IP-ERS development outcomes.

Reporting on Monitorable 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 and reporting on poverty alleviation and governance more difficult. A scrutiny of the district reports shows that (i) although some effort was put into reporting according to the suggested indicators on average, the analysis and reporting falls far short of being satisfactory, (ii) there is diversity of comprehensiveness of coverage, and (iii) two of the 5 districts have proposed a variation in the indicators – suggesting that there is 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 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 need addressing:

- It is clear that the district level M&E function needs to be strengthened since the systems are not adequately developed and capacity is weak. As one report noted: *"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 a significant difference in understanding of the 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 monitorable indicators at the district level and those 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 have prepared and returned their DAMERs by the stipulated deadline, indicating a management problem.
- The lack of reporting by non-state actors on their resources and disbursements needs to be addressed.

6.5.3 Lessons and way forward

All the districts seem to 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. The following have been suggested:

- Establishment of 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 harmonisation 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 for data and information capture from district level non-governmental players;
- Involving communities in project identification, planning, implementation, monitoring and evaluation;
- Setting up a national programme for dissemination of the 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.

However, if this is to be done effectively across all districts, it will present a huge challenge for the MED. During 2005/06 it will be necessary to:

- Review the role of the DAMER in both the district and national monitoring systems;
- Explore how the DAMERs can be synthesised for the APR;
- Prioritise which elements of the DAMERs are the most important;
- Examine ways of harmonising indicators at district and national level; and,
- 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 should be finalised in 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 mention 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 account of past and proposed budget constraints.** Therefore, proposed activities should 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 and include the preparation of APR submissions.

4. **APR submissions should draw on the quarterly and annual reporting of implementing performance contracts.** The APR submissions should provide a high level overview of the achievement of IP-ERS activities and outputs. When preparing the submissions between June – August, ministries will at least have information on 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 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 also feed into 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 in 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.

7.0 Conclusions and Way Forward

7.1 Introduction

The IP-ERS presents a strategy to bring about economic recovery and create wealth and employment and is built on three pillars: **promoting economic growth, reducing poverty and inequality, and promoting good governance.** This final section presents conclusions drawn from the key findings with respect to progress in each of the three areas during 2004/05.

The NIMES provides a list of indicators and targets as starting points for assessing progress in the implementation of the IP-ERS as given in Annex 2B of the 2003/04 APR. A summary of the status of the 2004/05 figures against the original targets is included in Chapter 1 even though it should be noted that some of the targets were revised during the period of review. Table 8.1 below includes the revised targets (marked R) and will be the starting point for the 2005/06 APR.

7.2 Progress on Economic Growth

The IP-ERS gives high priority to the revitalisation of economic growth for wealth and employment creation with a long-term objective of reducing poverty. The key areas with respect to this objective are macroeconomic stability, financial sector development, development of infrastructure through private sector initiatives, and revitalisation of trade, tourism and the 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), in part attributable to the economic and structural reforms implemented since the National Rainbow Coalition government came to power. Achievement with respect to other macroeconomic targets was mixed. 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 for 2004/05 included: the slow disbursement of donor funds; continued political disharmony (especially around the constitutional review process); drought and food shortages; parliamentary inability to enact the Privatisation Bill;(The Privatization Bill has been enacted in December 2005) high oil prices; and, limited progress with infrastructure development. Looking forward to 2005/06, government seeks to consolidate and strengthen the economic recovery, with expectations that GDP growth can be raised to 5 per cent. Key structural reforms for the coming year include public expenditure and financial management; privatisation of public enterprises; and, financial sector reforms.

Public Expenditure Management: The IP-ERS highlights the importance of the efficient use of public resources and sound PEM in stimulating economic growth and alleviating poverty. During the 2004/05, the government undertook a number of significant reforms. However, government recognises the slow progress made on IFMIS, the lack of momentum on PETS and the effects of weak budget execution on budget credibility. Therefore, the 2005 budget speech outlined the need to: ensure that those responsible for financial management strictly adhere to the financial regulations including procurement guidelines; implement a cash management system to ensure timely release of resources to line ministries; carry out PETS to improve utilisation of public resources; roll out IFMIS to line ministries; and, introduce a risk-based internal audit system. To meet all 16 PEM-AAP benchmarks by 2008/09, intermediate annual targets for indicator 6 of the IP-ERS framework need to be revised and improvements in budget formulation accelerated.

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 met: some 32 per cent was in poor condition against a target of 35 per cent. Although an objective of the IP-ERS is 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 include the delay 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 be deepening reforms in this sector with a view to fostering competition, diversifying sources of energy and reducing costs.

Water and Sanitation: The IP-ERS recognises the potential for this sector to substantially improve the lives of Kenyans through increased access to clean water and better sanitation facilities. One of the IP-ERS water targets was met and the other was nearly met. Some 53 per cent of the rural population were served with safe and reliable water in 2004/05 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 facing the water sector revolve around financing and capacity. 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 capacity 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 identifies tourism, manufacturing and trade as the main drivers of the economy. The government is committed to the removal of barriers to investment and lowering the costs of doing business. The tourism sector performed well over 2004/05 and the annual growth rate of tourists (IP-ERS indicator 12) was 15.1 per cent against -20.3 for the previous year. However, significant challenges remain with respect to security, poor infrastructure as well as the lack of 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, remaining below potential. Key constraints included: increased oil prices; the appreciation of the Kenyan shilling against the dollar; depressed domestic demand; poor infrastructure; and, insecurity.

7.3 Progress on Equity and Poverty Reduction

The second pillar of the IP-ERS is equity and poverty reduction. This includes: 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 is 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, performance against other IP-ERS education targets was not as good. 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 8 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 for transition 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 been revised. A number of constraints confront the sector including overcrowding in schools arising from FPE, non release of funds by partners at times, marked gender and regional enrolment disparities which are difficult to address; and, the impact of HIV AIDS leading to a large number of OVC. 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 and improving access, quality, and relevance of education and training.

Health: The IP-ERS primary objective for the sector is to enhance accessibility and affordability of quality basic health services for all Kenyans with special emphasis on the poor and vulnerable. Although 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) indicate poor performance against IP-ERS targets. For instance, the percentage of children under one year fully immunised (indicator 14) was 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 achieved 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 of the sector remains a significant challenge. Health targets have 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 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 and establish a 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. Key to addressing this issue is the rolling out of the National AIDS Strategic Plan 2005-2010.

Labour: Key goals of the IP-ERS are job creation, the promotion of an enabling environment for industrial development and an increase in the productivity of factors of production. The IP-ERS proposes that 500,000 jobs should be created annually between 2003 and 2006, that investor confidence should increase and industrial labour productivity should rise. Over the period 2003 –

2004 the number of jobs created had significantly increased to 437,900 out of which 36,400 were created in the formal sector. There is an IP-ERS indicator concerned with the improvement of productivity but a methodology for measuring it has not yet been identified. Creating jobs in the formal sector is 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 picking up, for formal sector employment to expand significantly growth will need to be high and sustainable.

Gender: While it is recognised that gender issues cut across several sectors, the IP-ERS focuses 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 the sessional paper as well as the establishment of a National Gender Commission to ensure equitable participation of both women and men in development. The main planned activities for 2005/06 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 gender desks are fully functioning, the ministry will 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 the agricultural 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 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 meant that the IP-ERS sector growth target (indicator 24 – 3.1 per cent) was not met. An array of constraints, in addition to the weather, underpins weak performance. These include: slow growth of private sector institutions, the slow restructuring of government institutions, poor and low density of rural infrastructure, the slow pace of 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 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 as priority programmes. With respect to the **Social Action Fund**, there was no progress during the period 2004/2005 but for the year 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): 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; and, improving food security. Good progress was made.

Regarding **Slum Upgrading**, over the review period, a number of studies have been completed and others are on-going to guide implementation of the slum upgrading programme. Phase one of slum upgrading was started in Kibera in October 2004. Other slums targeted in this phase include: Nairobi Soweto, East Mavoko in Athi River and Kisumu.

On **Vulnerable groups**, government has been implementing projects to target the marginalised and vulnerable as part of the IP-ERS core poverty programmes. These projects and programmes mainly focus on OVC, 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 have been undertaken, a number of problems are faced: the lack of a policy framework in some areas; inadequate technical and financial capacity within the implementing agencies; and, lack of statistics on vulnerable group hampers planning and budgeting.

7.4 Progress on Improving Governance

The IP-ERS argues that poor economic governance, including corruption and poor management of public resources, is one of the key impediments to economic and social development. Reforms are proposed with respect to: public safety, law and order; civil service reform; and, decentralisation and local government reform.

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. The IP-ERS focuses 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 along with other priorities. There is one relevant IP-ERS indicator (29 - the ratio of concluded cases to reported cases) but data on targets and achievements are not yet available. A number of additional indicators for this sector have now been agreed but targets have not yet been set. 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 reforms during 2004/05 has been reasonable and there is momentum in addressing the huge challenges. However, much more needs to be done in order to reverse the crime rate, curb deep rooted corruption and improve Kenya's international image, strengthen the judicial system and the rule of law. 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: 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 proposes that in the medium-term public service will improve 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/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 GDP was 7.8 percent (35 per cent of total expenditure) against a target of 8.14 percent. To reduce the 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. Government will also 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 and remove non-productive functions.

Decentralisation and Local Government Reforms Strengthening local government is an important priority for the GOK in its efforts to improve overall public sector management. To this end, the IP-ERS stresses the need to accelerate the local government reform process in order to improve local service delivery, 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 2005/06 has stalled the process of establishing the necessary legal framework. 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 central government.

Monitoring and Evaluation: The government committed itself to establishing a functional M&E system (IP-ERS target 31). Significant progress has been made in designing M&E institutional framework, and the M&E system which tracks progress in line with the 31 priority IP-ERS indicators. The system is however being introduced in an environment of little appreciation of M&E coupled with weak capacities and lack of a culture for regular reporting on results. As such, 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. Government focus in the coming year will be deepening the institutionalization of M&E, building capacity, refining the IP-ERS indicators and dissemination of 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	Accelerated 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	Public sector wage bill under control	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	Public expenditure management reform	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	Power coverage in rural areas	Percentage of rural households served (%)	5	5	7	8

No.	IP-ERS objective	Outcome indicator	Actual	Target		
			2004/05	2004/05	2005/06	2006/07
9	Rural water coverage	Percentage of rural households with safe and reliable water (%)	51	53	56	60
10	Urban water coverage	Proportion of urban households with safe and reliable access to water (%)	75	76	80	83
11	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	Reduction in infant mortality	Fully immunized children as % of under 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*)
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 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	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 the rate of primary school drop outs	Primary school completion rate (%)	56.0 57.1 (m) 54.9 (f)	59.7 60.3 (m) 59.1 (f) (2005*)	60.0 60.4 (m) (R) 59.6 (f) (R) (2006*)	60.3 60.5 (m) (R) 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				

No.	IP-ERS objective	Outcome indicator	Actual	Target		
			2004/05	2004/05	2005/06	2006/07
24	Raise incomes of small holders	Agricultural sector growth rate (%)	1.4	3.1	4	5
25	Improved 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 yr olds	Prevalence rate of underweight children in under 5yr olds (%)				10
29	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				
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

ANNEX A: IP-ERS Input/Output and Outcome Indicators

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
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. Expand the tax base	On-going							
		Monitor revenue targets	Operational							
		Monitor commitment and disbursement	Operational							
		continue regional tax harmonisation initiatives	Modalities on-going							
6	Public expenditure management reform	Refer to Annex B: EAPFM	Refer to Annex B: EAPFM	Benchmark score on PEM-AAP	4	6	7	13 (R)	15 (R)	BOPA

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
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 -Mtito Andei at a cost of KShs4.6 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							
		Carryout a study on Master Plan								
		Improve access to markets and social services for rural communities								
8	Power coverage in rural areas	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							
		Implement Olkaria II Geothermal Power Plant	Tendering for construction on going							
		Implement Sondu - Miriu power project	Government of Japan has committed funds for phase II of the project							
		Creation of rural electrification authority	Draft energy bill prepared							

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 hhds 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 equiped;20 well rehabilitated; 8 new ones built; 5 pans constructed; and 1 dam de-silted.							
		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 bilitated and co constructed							
		Monitor 200 boreholes to determine ground water levels	200 boreholes monitored, report written allowing drilling of more boreholes							
		Audit ground water use for 50 boreholes	50 boreholes audited and report written							
		Carryout geotechnical surveys in 6 districts for ground water recharge areas	Surveys carried out in 6 districts for ground water recharge areas							

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							
		Participate in the International Tourism Bourse (ITB) in Germany on Feb 2005								
		Provide guidance, access to credit and incentives to SMEs	TTF extended credit to 17 SMEs and KTDC advanced credit to 20 SMEs							
										Data

No.	IP-ERS objective	Planned activities/outputs	Actual activities/outputs	Outcome indicator	Actual	Target				
		2004/05	2004/05		2003/04	2004/05	2004/05	2005/06	2006/07	Source
	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 2005							
		Prepare the cotton/textile sector policy document and draft bill	On-going							
		Harmonise standards within East African Region	Standards harmonised under EAC							
		Review tax incentives for research and zero rating research related equipment	Capital and raw materials are duty and VAT free. Plant and equipment have duty waivers							

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 under 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*)	NASCOP 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 HC and dispensaries								
		Further decentralise RH services								

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
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)	
					49.5 (f)	54.9 (f)	59.1 (f) (2005*)	59.6 (f) (2006*)	60.1(f) (2007*)	
		Girl and young women child advocacy	Affirmative action for the girl and young women and sensitisation to eliminate negative cultural practices							

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
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	Actual activities/outputs	Outcome indicator	Actual		Target			Data
		2004/05	2004/05		2003/04	2004/05	2004/05	2005/06	2006/07	Source
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							
		Improved entrepreneurship skills of 100 rural entrepreneurs	Improved entrepreneurship skills of 30 rural entrepreneurs							
		Take action on all reported cases of occupational accidents	Took action on the 85 reported cases of occupational accidents							
		Undertake situation analysis of sugar and textile sub-sectors	Situational analysis of sugar sub sector completed.							
		Measure productivity of factors of production. National productivity baseline survey	Not undertaken							

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
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 KShs1.25 billion to KShs1.5 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 public sector efficiency in agriculture and livestock, including rationalisation of parastatals	The Strategy for Revitalising Agriculture (SRA) has been launched and is being implemented. In addition, the Agricultural Sector Coordination Unit (ASCU) became operational during reporting period							

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 2nd national report to the CBD and 3rd 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								
26	Introduce universal environmental screening projects	Implement WSSD and MDG	Consultation with stakeholders held. WSSD national strategy and action plan have been prepared. A report on the cost of achieving MDGs has been prepared 354 project proponents submitted EIA study reports, 91 project reports and 4000 environmental audits were received and reviewed	Proportion of public sector projects subjected to environmental impact assessments						

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
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
					2003/04	2004/05	2004/05	2005/06	2006/07	Source
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 Anti-Corruption Campaign Steering Committee	Secretariat for National Anti-Corruption Campaign Steering Committee set up							
		Develop a draft of a five year anti-corruption strategy	A draft anti-corruption strategy was developed							
		Initiate process of establishing the Public Complaints Commission	The Public Complaints Office (Ombudsman) administratively established. An administrative prepared and awaits presidential approval before gazetted							

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 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 roadmap 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 Meru Prison death cases.							
	Reduce congestions in prisons	Decongest remand homes and prisons and effect use of community services order (CSOs).12, 000 offenders to be released on Presidential Amnesty (PA)	A task force on prison decongestion was formed. 6,471 offenders released on PA. 1,700 offenders released to serve under the CSO programme							
		35, 000 offenders to serve under Probation and CSO supervision	44,000 offenders serving under Probation and CSO supervision							

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
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							
		Conduct study to review LA viability	Study conducted and report finalised							
			Implementing staff rationalisation and right sizing. RBM rolled out in 10 LAs and performance contracts signed in Nairobi, Mombasa, Kisumu, Nakuru and Eldoret							

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
		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)							
		Schemes of service: Harmonise schemes of service and grading structures. Prepare draft schemes of service/career guidelines	Revision of existing Schemes of Service. Development of Schemes of Service for all the cadres that have none started. Existing schemes of service harmonised							

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 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 installation in each Ministry/ Department. Prepare schedules for installation of IPPD in all Ministries/ Departments. Operationalise IPPD system in all Ministries/ Departments.	IPPD rolled out to all Ministries except two. This exercise will continue in 2005/06. 270 operatives and supervisors were also trained on the system in 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 1st IP-ERS APR for 2003/04	1st 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 1st 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 Draft Aid policy discussed in workshop Draft submitted for cabinet review External Aid policy bill submitted to parliament Publishing of National Aid policy Develop and address possible short-term solutions to tracking donor funds flow Harmonisation of donors and government procedures Prepare donors compendium Prepare government compendium	Update procedures for identification, monitoring and capture of donor (development partner) funds Operationalise the proposed donor harmonisation and coordination project	ERD	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 November 2005 A third draft aid policy document has been completed and stakeholder workshop has taken place Format for capturing data will be circulated to stakeholders HAC secretariat already constituted under chair of ERD Preparation of the donors compendium will be addressed by the HAC committee
F7		Include donor funding in local authority budgets	AGD	

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 AIA's • 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 LA's & FA's & 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.
BUDGET EXECUTION				
FINANCIAL MANAGEMENT PROCEDURES				
	Standards and Regulations			
E1	Adopt revised legislation and develop and implement revised Financial Regulations Procedures manual	Adopt and develop legislation and implement revised Financial Regulations procedures and manual	AGD	Financial Management Act was operationalised with effect from 1st November 2005 Plans for preparation of financial regulations and procurement is underway

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 LA'S Propose special report to parliament on the status of LA Audits Outsource and begin audit of LAS accounts from the year 2000		AGD	The process is ongoing but their is need for further monitoring
	Reconciliations			
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 there 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		AGD	The KRA/CBK and MoF committee is established and meet weekly
	Commitment Control			
E8	Strength 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 that this will be done through securitisation.
E10		Strength and broaden commitment control through IFMIS including consideration of implementation of commitment limits	AGD	Commitment control will be strengthened and broadened through the ongoing implementation of IFMIS

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 Suggestion of Payroll records (Central Govt, TSC Military and Dependants) to enhance service delivery and accountability Computerisation for production of accurate and timely pensions information		Pensions	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 Returned and uncollected monthly pensions are as part of pensions reforms, stopped immediately. Deletions from payroll based on actuarial advice will be continuous as pensioners amend their pay points sought. Pensions Act and other details amended to allow for one off payment of trivial pensions. Identifying the numbers in each category, separation of all the four payrolls and developing systems to separate them Technical assessment for a new Pensions management information system (PMS) carried out. Software purchased and implementation of PMS. Build information technology capacity to handle payroll internally. Continuous auditing of payroll for newly introduced pensioners. New PMS to have a payroll module for enhanced payroll management.
	Asset Management			
E17	Update lists of fixed assets maintained at ministries and implement procedures for the maintenance of up to date		AGD	Yet to be done

Ref	SHORT TERM MEASURES 2004/05	MEDIUM TERM MEASURES 2005 - 2007	LEAD DEPT.	STATUS
	information			
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 asses 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 KIPPRA 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 Procurement of equipment, connectivity and networking Formation of resource team form BSD, MTEF, ERD and BMD		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 was successfully completed in 2004 Procurement of equipment, connectivity and networking is partially done Resource team from BSD, MTEF, ERD and BMD has been formed
M8	Given phased introduction of IFMIS identify, and implement cost effective interim IT system solutions to maintain an improve reporting capability.		GITS	Interim IT System solutions are being developed and implemented e.g. Ledger System to maintain and improve reporting capability
M9	Assess the implications of changes in systems and classifications on the collation of reports		IAG/AGD	
M10	Develop and implement a plan for improved dissemination of information on public finance matters to the public		PRO	An action plan has been developed for information dissemination to cater for short and medium term implementation Two dissemination workshops have been held Need for capacity building and removal of bureaucracy constraints which impeach on information dissemination.
	Institutional and Human Resources			

Ref	SHORT TERM MEASURES 2004/05	MEDIUM TERM MEASURES 2005 - 2007	LEAD DEPT.	STATUS
M11	Clarity respective roles and responsibilities of central and line ministries, departments and agencies in the management of financial resources		PS/FS	Financial management Act in place
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 Restructuring		DGIPE	To be done as per the Privatisation Strategy
S5	Review and implement parastatal financing policy Review policy on subsidies/subventure grants to parastatals Review policy on parastatal borrowing and government guarantees Finalise cross debt study for parastatals		DGIPE	PEs are being encouraged to be self sustaining. Treasury approves borrowing while Government Guarantees are suspended by Parliament and any approval is to be obtained from Parliament.
S6	Review procedures for accounting and monitoring of remaining state corporations Evaluation of Financial and internal control systems of state corporations Implementation of new financial and internal control system Monitoring compliance with financial control systems Re – establishment of State Corporations Advisory Committee (SCAC)		DGIPE	Ongoing in consultation with inspector- General (Corporations) Action likely to be accomplished in the 2nd Quarter 2003/04? Ongoing Ongoing SCAC has already been established
S7	Improve dissemination of information on state corporations		DGIPE	

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's 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.

1. Enactment of the necessary legislation to establish a legislative platform on which to anchor the war on corruption.

2. Vigorous enforcement of anti-corruption laws through investigation of offences of corruption and economic crimes as well as recovery of corruptly acquired property.

3. Identification and sealing of corruption loopholes through institution of effective public sector management controls.

4. National public education aimed at stigmatising corruption and inducing behavioural change.

5. 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. **The bill has been validated and is awaiting publication.**	**Awaiting publication**
6.	Introduce legislation to address money laundering and proceeds of crime.	MOF,SLO	Submit to Parliament by May 2005	Cabinet has approved the Anti-Money Laundering and Proceeds of Crime Bill.	**Awaiting publication**
7.	Increase the number of judges, magistrates and professional legal staff and updated schemes of service.	MOJCA, SLO, Judiciary	Submit to Parliament by April 2005	Miscellaneous Bill 2005 provides for increase in the number of judges **Request has been made by the SLO to withdraw the Bill in order to include further amendments**	
8.	Modernise Company Law and computerise company registry and records management. Undertake diagnostic needs assessment and complete filing annual returns.	MOJCA, SLO	Submit to Parliament by September 2005	Work on the draft Companies Bill is ongoing. **Some slow down due to hitches in contracting consultants to finalise the bill. Work is progressing**	

	Action	Lead Responsibility	Timing (Month/Yr)	June 2005 Status/Comments	Way forward
B. Investigate Economic Crimes, Recover Assets, and Strengthen Prosecutorial Infrastructure					
1.	Enhance further the effectiveness of key anticorruption investigative agencies	KACC	June 2005	KACC now has a staff of 123. By end-June 2005 KACC will become fully operational when it recruits the full staff complement of 212. So far KACC has completed and forwarded 54 files to the Hon. Attorney General. Thirty-seven propose criminal charges, 14 recommend closure of files where no offences are disclosed or where there is insufficient evidence, and 3 recommend administrative or other action.	**KACC has completed the final phase of staff recruitment and from August 1, 2005 will have a full staff complement save for one position of Assistant-Director, Finance and Administration which is pending action by parliament and His Excellency the President**
2.	Complete the independent Audit by Controller and Auditor General of the security related contracts	Kenya National Audit Office (KNAO)	May 2005	Government has suspended payments for the contracts pending the outcome of the audit. Interim Audit report has been completed and the final report will be ready by mid May 2005. Based on this Interim Audit, KACC is conducing investigations. Government to consider public disclosure of the findings as appropriate.	**Audit has been completed and final report will be ready by August 3, 2005**
3.	Complete investigation of the alleged 20 twenty corruption cases.	KACC	On-going	Of the 20 alleged cases, KACC had already investigated 4 cases to conclusion and 3 Permanent Secretaries, 3 senior civil servants; directors of a commercial bank and the Managing Trustee of an entity were arraigned in court on corruption charges. CID had completed investigation of one resulting in the prosecution of the Managing Director of a large firm and was already investigating the second one. Another 4 cases are the subject of ongoing civil proceedings in the High Court and therefore cannot be investigated properly by KACC. Two more cases are not under investigation because of lack of evidence of wrong doing. An additional 8 of the alleged 20 are under investigation. **Investigations into 8 out of the original list of 20 cases that the KACC took up are at an advanced stage.**	
4.	Complete verification of the asset declarations of ministers, permanent secretaries and heads of state bodies by KACC.	KACC	December 2005 (for Ministers). Timetable for the rest to be developed.	Under current legislation such declarations are confidential. Hence the need to enact legislation to facilitate disclosure and rigorous verification. Amendments have been published under the Statute Law (Miscellaneous) Bill, which was gazetted on April 6, 2005. **The Statute Law (Miscellaneous) Bill 2005 has already been published.**	**It is awaiting debate by Parliament. The verification process will begin once the Bill is passed by Parliament to grant KACC power to verify declarations without the trigger of suspicion, as is currently the position in law.**
5.	Intensify program of tracing recovery and restitution of assets suspected to be illegally acquired.	KACC	On-going	Significant progress has already been achieved in tracing assets in foreign accounts. The Government is seeking international assistance in this programme. **The programme is ongoing. KACC is involved in instituting and filling civil suits and applications under The Anti-Corruption and Economic Crimes Act 2003.**	

	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 14th 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.	
C. Improve Public Sector Management					
1.	Ensure that the Budget Strategy is approved by full cabinet and forms the basis for the 2005/06 line item budget that is consistent with an agreed macroeconomic framework and ministerial priorities in the Budget Strategy.	MOF	April 2005	For the 2005/06 budget, authorities have prepared a Budget Strategy (including MTEF) that lays down budget priorities and ceilings by vote. The Budget Strategy Paper was prepared, approved by the cabinet and formed the basis for which the 2005/06 line item budget was prepared, which is consistent with the macroeconomic framework and BSP ministerial priorities.	

	Action	Lead Responsibility	Timing (Month/Yr)	June 2005 Status/Comments	Way forward
2.	Achieve outstanding Public Expenditure Management Action Plan benchmarks	MOF	June 2005 June 2006 June 2007 June 2008	Seven (7) benchmarks to be achieved **Six were achieved.** Thirteen (13) benchmarks to be achieved Fifteen (15) benchmarks to be achieved 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 nationally. **The Strategic Planning process is ongoing.** • **A meeting (by MOJCA) to clarify roles is scheduled for August 2005.** • **All the key personnel have now been recruited** • **Preparations to launch the campaign nationally are underway** • **Anti-Corruption campaigns in the print and electronic media have already began radio/TV infomercials such as primetime news clock on KBC TV station and the *"Je Huu Ni Ungwana"* programme on KBC radio.** • **Countrywide sensitisation of Public Officers on**	

	Action	Lead Responsibility	Timing (Month/Yr)	June 2005 Status/Comments	Way forward
				corruption through the PSIP programme is on course.	
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 gazettement. **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).	

ANNEX D: Budget Execution 2004/05

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%***

Source: MoF Quarterly Budget Report September 2000

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.