May 2007
IMF Country Report No. 07/158

Kenya: Poverty Reduction Strategy Annual Progress Report—2003/2004

Poverty Reduction Strategy Papers (PRSPs) are prepared by member countries in broad consultation with stakeholders and development partners, including the staffs of the World Bank and the IMF. Updated every three years with annual progress reports, they describe the country's macroeconomic, structural, and social policies in support of growth and poverty reduction, as well as associated external financing needs and major sources of financing. This country document for Kenya, dated July 2005, is being made available on the IMF website by agreement with the member country as a service to users of the IMF website.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $18.00 a copy

International Monetary Fund
Washington, D.C.

REPUBLIC OF KENYA

MINISTRY OF PLANNING AND NATIONAL DEVELOPMENT

ANNUAL PROGRESS REPORT: 2003/2004

INVESTMENT PROGRAMME FOR THE ECONOMIC RECOVERY STRATEGY FOR WEALTH AND EMPLOYMENT CREATION 2003-2007

July, 2005

TABLE OF CONTENTS

FOREWORD

This is the first Annual Progress Report (APR) on the implementation of the NARC government's economic blue-print, also known as the *Investment Programme for the Economic Recovery Strategy for Employment and Wealth Creation (IP-ERS) 2003-2007*. It covers the first year of our concerted attempt at implementing, not just what we promised in terms of new economic policy options, but also the specific investment programs that were planned in consonance with the economic policy proposals and which the government launched sometime in September 2003 as the investment component of the policies.

As may well be appreciated, the *IP-ERS* itself is the product of a broad-based process of consultation that incorporated the views of key stakeholders, principally the Private Sector and the Civil Society in Kenya as soon as the new government got into office. The document benefited immensely from the candid and detailed discussions held at the Consultative Group (CG) meeting in November 2003. Subsequently, it underwent the joint staff assessment of both the International Monetary Fund (IMF) and the World Bank, who on behalf of other Development Partners, not only gave their stamp of approval, but also made specific recommendations that required to be addressed during the process of implementation. In essence, the comments from these Development Partners focused on the need to strengthen our poverty diagnostics; the need to integrate gender and environmental concerns, as well as the need to have clearly spelt out targets, i.e. (inputs, outputs and outcomes).

The process of preparing this first Annual Progress Report has followed the consultative route that was used in preparing the IP-ERS and has thus tried as much as possible, to bring together a representative range of views both from within and without government. Within the approved policy context for the implementation of a nationwide integrated Monitoring and Evaluation system that is itself a crucial novelty in the IP-ERS policy document, the National Steering Committee on Monitoring and Evaluation embarked on this assignment under the leadership of our two ministries, and indeed played an oversight role in the preparation of the report. The overall objective of the report is to provide an initial assessment of the progress that has been made in the implementation of the three pillars of the *IP-ERS*, namely the attainment of sustainable economic growth; the introduction of equity programmes and poverty reduction strategies as a whole, as well as progress in making Good Governance and the Rule of Law the cornerstones of Kenya's national life. The report provides an assessment of our achievements in these three areas during the first year, both at the sectoral level, and in overall terms. It also identifies the constraints, which may have led in some areas, to slower than anticipated progress. It should also be mentioned that while the period covered by this APR is technically the financial year 2003/04, reference has been made to other progress and developments during the period July to December 2004, so as to provide an up-to-date picture of our performance.

Our hope as ministers charged with overseeing this important national exercise is really that this very first APR should lead to the improved targeting of programmes as well as to smoothen the implementation processes right across the board and which would in turn lead to even more accurate reports in the remaining years of our IP-ERS. We do earnestly recognize that such a task requires the collaboration of everyone and in particular the ordinary citizenry of our country, the Private Sector as well as Civil Society. It is indeed our undertaking that henceforth, the APRs will be timely prepared and on an annual basis in order to give an opportunity for periodic consultations with the full range of stakeholders operating at both central and local levels.

The Government of Kenya would wish to record its appreciation to the contributions of partners and stakeholders who provided support for the preparation and subsequent publication of this first report. We would like to single out in this regard, the World Bank, the UNDP, the EU, DFID as well as the Kenya Private Sector Alliance (KEPSA) and representatives of Civil Society who provided both the technical and logistical support that was required for the realization of this report.

Finally, it is our sincere hope that all ministries and other stakeholders will utilize the findings contained in this first APR not only to gauge their progress during the first year of the implementation of the *IP-ERS*, but also to make the necessary adjustments to enable them achieve better results and outcomes in line with the *IP-ERS* targets and the Millennium Development Goals (MDGs) benchmarks in the coming years.

Hon (Prof) Peter Anyang' Nyong'o, EGH, MP
Minister for Planning and National Development

Hon David Mwiraria, EGH, MP
Minister for Finance

ACKNOWLEDGMENTS

The production of this Annual Progress Report (APR) of the IP-ERS has been directed by the Ministry of Planning and National Development. The main objective of the report is to provide a comprehensive status on the progress made in the implementation of the IP-ERS, challenges met and reforms needed to tackle the challenges during the 2003/04 fiscal years. It provides the strategic direction for implementing the IP-ERS in subsequent years and focuses on the three pillars of the IP-ERS namely; stimulating economic growth; promoting equity and poverty reduction; and good governance.

Information and statistics used in this report were obtained from the various government ministries and departments represented by respective Permanent Secretaries, Heads of Departments and other technical staff. We are most indebted to them for their invaluable input to this report. We are also grateful to the financial and technical contributions of a number of agencies namely; UNDP, World Bank, DFID, SIDA, KEPSA, Action Aid (K) and the NGO Council who contributed greatly during interviews and workshops.

This APR therefore is a product of an all-inclusive participatory and consultative process that brought together the views and contributions from the various stakeholders. The Government is particularly indebted to the following individuals and organizations that contributed immensely to the finalization of the Annual Progress Report for 2003/2004:

Members of the National Monitoring & Evaluation Steering Committee (NSC) comprising of: Nardos Bekele-Thomas, R. Haroon,, J Olweya, and S. Njagi, of UNDP; Fred Kilby, Wendy Ayres, and Lucas Ojiambo of the World Bank; Trisha Bebbington and Walter Odero of DFID; Guy Jenkins (EU); K. Ngatia (NCPD); G. Ndeng'e (CBS); J. Gichohi, and K. Kanagi of the Ministry of Finance; Francis Angila and Stephen Kirimi (NGO Council). Other members are Vincent Okong'o (Cabinet Office, Office of the President); Salma Mazrui and David Mwangangi (KEPSA), Albert Mwenda (IEA), Timothy Takona and Susan Kiragu (UNICEF) and Njeri Kinyoho (Action Aid Kenya). The NSC provided guidance on the terms of reference for compiling the report and the framework of the report. The Committee also made useful comments on the report at every stage of its drafting and constantly monitored its progress.

The Committee of Permanent Secretaries, chaired by the Permanent Secretary/Secretary to the Cabinet and Head of Public Service made significant contributions that helped improve the set of indicators. The Donor Country Coordinating Group chaired by the Ministry of Finance for their useful suggestions and comments that enriched the report. The Technical Editing Team that converged in Naivasha early in the year to validate and add value to the report. Special mention goes to: Raphael Owino (Central Bank); Dr. Khainga and Wasala both of KIPPRA; S. Wainaina, E. Gutu, and J. Ogai (MoPND); J. Oisebe (Ministry of Roads and Public Works); Gem Khodek (Tegemeo Institute); and Odhiambo Ojijo (UNDP).

The 200 participants of the National M&E Stakeholders Dissemination Forum held on 15th March 2005 at Nairobi Safari Club for candid discussions, accuracy and quality control of the report. Special mention goes to Mr. Zachary Ogongo, CBS, EBS, Permanent Secretary, Ministry of Local Government for ably moderating the plenary discussions. The written submissions arising from the workshop are also acknowledged.

I also wish to acknowledge the APR consultancy team led by Mr. Alex M. Kireria of Health and Economics Development Consortium (HEDC), who compiled the entire document from various sources of information.

The final editorial work of this APR benefited from the three M&E Consultants, John Gray, Anderea Morara and Yashon Audo. Finally we acknowledge the instrumental role played by all officers of this Ministry and support staff who worked behind the scenes to ensure that this report is finalized.

To all those whose names are not mentioned but made contributions in different ways we are greatly indebted to you.

DAVID S. O. NALO, CBS
PERMANENT SECRETARY

ACRONYMS

ACP-EU	-	African Caribbean and Pacific – European Union
AG	-	Attorney General
AIA	-	Appropriation in Aid
AIDS	-	Acquired Immune Deficiency Syndrome
ALRMP	-	Arid Lands Resources Management Project
APR	-	Annual Progress Report
APRM	-	African Peer Review Mechanisms
ARVs	-	Anti Retro Virals
ASAL	-	Arid and Semi-Arid Lands
ASCU	-	Agricultural Sector Coordination Unit
AWP	-	Annual Work Plans
CBK	-	Central Bank of Kenya
CBS	-	Central Bureau of Statistics
CDTF	-	Community Development Trust Fund
CFAA	-	Country Financial Accountability Assessment
CID	-	Criminal Investigations Department
CLRCs	-	Community Learning and Resource Centres
COMESA	-	Common Market of Eastern and Southern Africa
CPU	-	Central Planning Unit
CSO	-	Civil Society Organization
CWIQ	-	Core Wealth Indicator Questionnaire
DFID	-	Department for International Development (British Government)
DFRD	-	District Focus for Rural Development
DIT	-	Director of Information Technology
DHMBs	-	District Health Management Boards
DHMTs	-	District Health Management Teams
DPF	-	Deposit Protection Fund
DPM	-	Directorate of Personnel Management
DSO	-	District Statistical Officer
EAC	-	East African Community
EAPFM	-	East African Public Finance Management
EIA	-	Environmental Impact Assessment
EPZ	-	Export Processing Zone
ERS	-	Economic Recovery Strategy
EU	-	European Union
FBO	-	Faith Based Organisations
FDI	-	Foreign Direct Investments
GDP	-	Gross Domestic Product
GJLOS	-	Governance, Justice, Law and Order Sector Reform Programme
GITS	-	Government Information Technology Services
HMIS	-	Health Management Information System
Ha	-	Hectares
HIPC	-	Highly Indebted Poor Country
ICAO	-	International Civil Aviation Organization
ICT	-	Information and Communication Technology
IFC	-	International Finance Corporation

IMF	-	International Monetary Fund
IMS	-	Information Management System
IPC	-	Investment Promotion Council
IP-ERS	-	Investment Programme for Economic Recovery Strategy
I-PRSP	-	Interim Poverty Reduction Strategy Paper
IT	-	Information Technology
ITN	-	Insecticide Treated Nets
JSA	-	Joint Staff Assessment
KAA	-	Kenya Airport Authority
KACC	-	Kenya Anti-Corruption Commission
KBC	-	Kenya Broadcasting Corporation
KDHS	-	Kenya Demographic and Health Survey
KENGEN	-	Kenya Electricity Generating Company
KEMSA	-	Kenya Medical Supplies Agency
KIHBS	-	Kenya Integrated Household Budget Survey
KIPPRA	-	Kenya Institute for Public Policy Research and Analysis
KMC	-	Kenya Meat Commission
KNBS	-	Kenya National Bureau of Statistics
KPA	-	Kenya Ports Authority
KPLC	-	Kenya Power & Lighting Company
KRB	-	Kenya Roads Board
KRC	-	Kenya Railways Corporation
KTDC	-	Kenya Tourist Development Corporation
LAN	-	Local Area Network
MDGs	-	Millennium Development Goals
MED	-	Monitoring and Evaluation Department
MoEST	-	Ministry of Education, Science & Technology
MoJCA	-	Ministry of Justice and Constitutional Affairs
MPND	-	Ministry of Planning and National Development
MPER	-	Ministerial Public Expenditure Review
MSMEs	-	Medium Small and Micro Enterprises
MTEF	-	Medium Term Expenditure Framework
NARC	-	National Rainbow Coalition
NALEP	-	National Agriculture and Livestock Extension Programme
NASSEP	-	National Sample Survey and Evaluation Programme
NESC	-	National Economic and Social Council
NHA	-	National Health Account
NGO	-	Non-Governmental Organisation
NHIF	-	National Hospital Insurance Fund
NPEP	-	National Poverty Eradication Plan
NSHI	-	National Social Health Insurance plan
NSHIF	-	National Social Health Insurance Fund
OP	-	Office of the President
OVCs	-	Orphans and Vulnerable Children
PEM	-	Public Expenditure Management
PER	-	Public Expenditure Review
PETS	-	Public Expenditure Tracking Surveys
PHMTs	-	Public Health Management Teams

PPA	-	Participatory Poverty Assessment
PRGF	-	Poverty Reduction and Growth Facility
PRSP	-	Poverty Reduction Strategy Paper
RBM	-	Results Based Management
RRI	-	Rapid Result Initiative
SMEs	-	Small and Medium scale Enterprises
SRA	-	Strategy for Revitalizing Agriculture
SWAP	-	Sector Wide Approach
TKL	-	Telkom Kenya Ltd
TIVET	-	Technical Industrial, Vocational, Entrepreneurial and Training
UNDP	-	United Nations Development Programme
ECA	-	United Nations Economic Commission for Africa
USAID	-	United States Agency for International Development
VRS	-	Voluntary Retirement Services
WHO	-	World Health Organisation
WMS	-	Welfare Monitoring Survey

EXECUTIVE SUMMARY

This is Kenya's first Annual Progress Report (APR) on the Investment Programme for the Economic Recovery Strategy for Wealth and Employment Creation (IP-ERS) 2003-2007. The report has been prepared by the Monitoring and Evaluation Department (MED) of the Ministry of Planning and National Development (MPND) within the framework of the National Integrated M&E system. The report reviews progress in the implementation of the IP-ERS on the basis of updating key indicators and the comments of the World Bank/IMF Joint Staff Assessment (JSA) of April 2004. Formally the report covers the financial year 2003/04, but in order to ensure up-to-date coverage it also summarises major developments up to the end of calendar year 2004.

Being the first year of implementation of the IP-ERS many of the activities covered in this report have been of a preparatory nature, laying the groundwork for future progress. In particular, many ministries have been engaged in the further refinement and development of their strategies and programmes within the framework provided by the IP-ERS. In addition, there are limitations on the extent to which it is possible to report in terms of measured performance of outcome indicators, both because it is too early in the implementation process and because of continuing shortcomings in the necessary information and reporting systems.

This report provides an assessment of progress in terms of the three pillars which form the basis of the IP-ERS namely, Economic Growth, Equity and Poverty Reduction and Governance. In addition, Chapter 6 provides an assessment of progress and constraints in terms of broad cross-cutting issues and the associated recommendations. Below is the summary of progress made by various sectors of IP-ERS during the 2003/04 period

Economic Growth

Sound macroeconomic management policies which date back over the past five years, are finally beginning to yield results in terms of macroeconomic growth, which is the under-pinning for future poverty reduction. The trend of declining economic growth has been reversed and GDP is now slowly rising attaining a rate of 1.8% in 2003/04 with an estimate of 2.4% at the close of 2004 Financial Year. A high degree of price stability has been maintained and real interest rates brought to historically low levels encouraging accelerated bank lending for domestic investment. Public indebtedness has been contained at pre-IP-ERS levels in terms of the ratio to GDP, though the anticipated reduction in the domestic debt/GDP ratio has not been achieved largely because of lower than expected external donor support. The public sector has been kept on a fiscally sustainable course. In terms of infrastructure, progress has been made in all sub-sectors on development of the regulatory framework. However, a critical weakness has been slow implementation of rehabilitation programmes, especially in the roads sector, which is characterised by under-utilisation of available resources, primarily because of continuing problems, related to procurement.

Summary highlights of performance on key areas of economic growth against set targets during this review period are presented in Table A below (next page)

Table A: Economic Growth

Sector	Targets/Outcomes Indicators in 2003-07	Performance during 2003/04
Economic Growth Macroeconomic	GDP growth rate increase from 1.2% in 2002/03 to 1.8% in 2003/04 exceeding the target by 0.5%; 2.4% is the actual target for 2004 and projected to be 3.1% in 2004/05 and 4.5% by 2006/07	GDP growth rate was 1.8% in 2003, focus of 2.4% 2004 against a target of 3.1%
Ensure sustainable Fiscal framework	Overall fiscal deficit (including grants) reduced to 3.3% of GDP by 2005/06. Maintain NPV of external debt at below 24% of GDP by 2003/07 Net domestic borrowing reduced to zero by 2005/06	Budget deficit for 2003/04 (including grants) reduced by 0.4% of GDP owing to underperformance in the development expenditure, improved revenue collection and higher inflows of grants. Despite the lower than expected net foreign inflows, external debt to GDP ratio averaged 38% during this review period, this higher ratio was as a result of revision in external stock by the Government during the year. During the period, the domestic debt stock was 26.6% of GDP compared to the target of 23.8%. The IP-ERS target is to maintain the trend at 21.5% during 2006/07. Net domestic borrowing reduced from Kshs 46.9 billion in 2002/03 to Kshs 8.8billion compared to a target of Kshs 14.3 billion in 2003/04. IP-ERS expected target to remain below 1% of GDP by 2006/07. During the review period net external inflows totalled Kshs. 6.9 billion compared to the target of Kshs. 54.2 billion. NPV of external debt was lower than expected due to reduced external inflows. External aid Policy Paper is being developed by MOF.
Price stability	Underlying inflation below 3.5 percent in comparison with inflation focus of key trading partners	Underlying inflation was 2.7% while overall inflation was 9.8%. During this review period, owing to drought and higher oil prices, a higher overall inflation of 11.6% was registered with an underlying inflation of 3.46%
Public expenditure restructuring for increased growth and poverty reduction	Reduction of overall public expenditure to GDP ratio towards sustaining a lower budget deficit	During the review period, total public expenditure averaged 23.7% compared to a target of 27.1%. The wage bill rose by 0.2% of GDP making a total of 8.6% of GDP. The increase was due to salary awarded to teachers, police and university lecturers.
Increased Private investment	Private investment to rise to 12 % of GDP. Increased credit to Private sector	Credit to private sector grew at 13.1% in 2003/04 faster than inflation of 9.4%. Hence, real credit to private sector grew at 3.7% faster than overall real GDP growth
Enhanced role of external trade sustainability	Export growth of 5.7% annually; export diversification and reforming trade systems in the context of EAC, COMESA and other international trade regime.	Export volume increased by 8.2% against a target of 5.7% compared to 4.0 % in 2002. The gain was offset by a 9.4% rise in import. Kenya export to COMESA grew from Kshs 59 billion to Kshs 61.8%. A total of 77 projects/investments were initiated through IPC as compared to 48 in 2002. EAC Customs harmonized and the number of tariff bands reduced to three, the top tariff rate to 25%. National export development strategy was developed and approved by Cabinet.

Sector	Targets/Outcomes Indicators in 2003-07	Performance during 2003/04
Tourism, trade and industry Increase the contribution of Tourism in the economy	Doubling earnings from the current 24 billion annually from 2005/6 and creation of 150,000 new jobs	Tourism Marketing Recovery Programme implemented targeting both traditional and new tourist markets. Tourism sector grew by 18% (arrivals) in January-August 2004. Ksh.21.734 billion in 2002 to Ksh.25.768 billion in 2003, about Kshs. 30 billion in 2004 and 5,300 jobs created. EPZ growth created 40,000 direct employment and 11,667 indirect employment subcontracting and supplies increase of 14.2% from 2002. Manufacturing sector continue to under perform owing to continuing existence of barriers to investments and trade liberalisation handicaps. However, manufacturing sector grew by 1.4% compared to 1.2% prior to the review period
Infrastructure: Roads, transport (air, railways, ports and telecommunications)	Proportion of road networks in bad/ poor condition reduced from 43% to 20% by 2006 Construction and rehabilitation of the road network; Roads 2000 programme to rehabilitate 2,815 km of rural roads and create 18,800 jobs during 2003-06 Meet ICAO standards by 2006	Routine maintenance undertaken countrywide and 188.3 km, paved roads rehabilitated. Trunk roads connecting Kenya with neighbouring countries commissioned. 136 km (Class ABC) re-gravelled 505 km (Class D&E & others) gravelled. Air transport improved, railway transport improved and concession plan in progress. Improved airport services and the awarding of a licence to a 3rd mobile service provider, and the licensing of 3 more companies to provide internet gateways services to compete with the Jambonet company of Telkom Kenya.
Water: Increased access to water resources	200 hydrological and quality water monitoring stations to be rehabilitated by 2007	Improved water resource management 45 hydrological and quality water monitoring stations rehabilitated. Water Act 2002 implementation by 2004
	Privatization of water services by 2005 in Nairobi, Mombasa in Coastal region, Nakuru and Kisumu	Implementation of Water Act 2002 hence facilitating Water and sewerage privatisation programme in Nairobi, Kisumu, Nakuru, Nyeri, Eldoret and Meru. 10 out of 11 targeted multi-sector water management institutions were created and are operational countrywide.
Energy Increased availability, reliability and affordability of energy	Implement Olkaria 1 and Olkaria Field and Sondu-Miriu Geothermal power plants Amendment of the Electric Power Act to increase competition. Completion of Sondu-Miriu Power Project	Oil prices increase lowered domestic consumption of energy by 6.1% with 7.2% decline of per capita in 2003 this compares with 1.1% rise in 2002. Power generation remained constant in 2003. Geothermal power generation and rural electricity supplies are on the rise due to increased investments in 2003/04
	Increase access by 1 percent per annum for the rural population from 3.8 percent to 8 percent by 2006; Creation of the Rural Electrification Authority	Power Act gazzetted awaiting Legislation, reform in progress. Expansion of power generation plants both Geothermal and hydro generation are in progress (Olkaria 48MW and Sondu-Miriu-60MW). About 140 multi-donor rural electrification schemes completed for schools, coffee factories and trading centres

Equity and Poverty Reduction

The second pillar of the IP-ERS includes the social sectors such as education, health, labour, agriculture and rural development. In the education sector, following the bold move to abolish primary school fees in January 2002 in pursuit of universal primary education, progress is being made to consolidate primary education with a view to increasing net primary enrolment without loss of quality. Progress is being made towards implementing this objective through improvement of primary education facilities, increased provision of teaching and learning materials and rationalisation of teacher and resource deployment.

In the health sector, progress is more modest: In spite of some increase in financing, the sector remains critically under-financed by international standards, and while progress at the outcome level is evident in the key area of HIV/AIDS, it is not yet demonstrable that the declining trends in other key MDG-related outcome indicators as revealed by the 2003 Kenya Demographic and Health Survey (KDHS) have been arrested or reversed. In addition, only limited progress has been made in achieving the structural shifts in the required re-allocation of resources and personnel in the sector towards primary and preventive health care. Progress has, however, been made in re-establishing the flow of essential drugs to primary institutions, with a quadrupling of the number of health kits delivered to health centres and dispensaries in 2003/04 compared to 2001/02.

The government recognises the pivotal role played by the agricultural and rural development sector in contributing to economic growth and poverty reduction. Thus, the key targets for this sector include: (i) raising agricultural productivity, (ii) creating an enabling environment through land administration, policy and legal framework (iii) protecting, conserving and sustainable utilization of natural resources; and (iv) improving market access for enhanced income.

During the review period, concentration of activities was on the refinement of strategies, especially through the preparation of the Strategy for Revitalising Agriculture (SRA). Marked progress towards rationalisation of legislation in the sector is yet to be brought to conclusion. Programmes for the ASAL areas have accelerated equity and poverty reduction focus to the arid and semi-arid lands population through improved access to basic social and economic services, thus reducing the inequality gap. Below (Table B) is a summary of progress in the pillar of equity and poverty reduction during the period under review.

Table B: Equity and Poverty Reduction

Sector	Targets/Outcomes Indicators in 2003-07	Performance during 2003/04
Human Resource Development		
Education	Free primary education enforced by 2003; Primary school enrolment of ASALs increased from 20% to 40% by 2006; pupil/ text book ratio to 3:1 in std 1-5 and to 2:1 in 6-8 by 2004; Education Management Information Systems in place in MoE and districts Net enrolment from 80% to 85%	In 2003 gross net enrolment rate increased to 104% as compared to 93% in 2002. Nearly 80%of girls enrolled. Regional enrolment disparity still exists with lower female gender representation. Northern Eastern Province enrolment was 18% against over 85% national enrolment. Total expenditure for education sector increased by 20.8% with planning and general administration accounting for 78% of recurrent budget, while primary, secondary and higher education accounted for 8%, 1% and 10% respectively. On the other hand, development expenditure increased by 75.2 %, with primary education accounting for 69% of total development demonstrating commitment for universal primary education. Kshs 9 billion annually is earmarked for free primary education by the government and development partners.
Health Increase equity and affordability for low income patients;	Increase budget allocation for rural health centres and dispensaries from 11 percent to 15% of MOH budget in 2005; 12% to 16% for drugs by 2006; Increase overall share of health expenditure from 5.6% to 12% of public budget for health. Sessional Paper for NSHI plan ready by 2004;	Health expenditure increased from 5.6% to 9% (61% growth) against a target of 12% an aggregate of 4.5% of GDP. During review period, health care financing through cost sharing programme accounted for Kshs 2.3 billion or 11% of total recurrent spending. Health sector decentralisation strategy has been implemented to improve access and governance countrywide; Health sector reform continue to experience slow implementation; Ministerial rationalization not operationalised since 1997; improved drugs management systems is being implemented through restructuring of KEMSA. A Sessional Paper for NSHI Bill was passed by parliament but referred back by President for further evaluation.
Strengthen preventive and promotive health services	Increased proportion of children fully immunized from 74% in 2002 to 85% in 2008; increase in contraceptive use; increase proportion of mothers delivering in health facilities from 56% to 70% in 2008; increase proportion of target populations and of pregnant mothers using ITNs from 5% to 50% in 2008	The trend of almost all health indicators continued to deteriorate as indicated in the 2003 KDHS: infant mortality is 77 per 1000 of live births; while under-five mortality is 115 deaths per 1,000 live births (one in every 9 children born in Kenya dies before their 5th birthday). Two out of five births i.e. 40% are delivered in health facility, while 56% delivered at home; maternal mortality is estimated at 414 per 100,000 live births, this represent a decline from previous rate of 590 deaths per live birth for ten year period preceding 2003 KDHS; only 4% of pregnant women slept under an ITN.
	Guidelines for appointment of DHMBs reviewed and DHMTs trained by 2004	Under health sector decentralisation programme DHMBs were appointed with guidelines revised and Gazetted, all PHMTs and DHMTs (in Phase districts) were trained by June 2004.

Sector	Targets/Outcomes Indicators in 2003-07	Performance during 2003/04
HIV/AIDS	New institutional and legal framework for HIV/AIDS in place Reduce HIV/AIDS prevalence to 10 percent by 2006; increase condom usage for prevention; nationally represented VCT centres established by 2004; ARV coverage increased by 2005.	Strengthening of NACC through institutional re-organization; creating of a Cabinet committee on HIV/AIDS chaired by the President; Constituting of AIDS Control Units in all ministries and development of decentralized HIV/AIDS coordination structures and multisectoral stakeholders in districts and Constituencies. Kshs. 1.25 bn. Disbursed to 2,795 community based HIV/AIDS projects countrywide during 2003/04. 50%Reduction in prevalence from 14% to 6.7%; since 1993 KDHS level of HIV/AIDS awareness increased to 98% nationally; VCT Centres have been established at village levels nationally but only about 15% of population are recorded as having used the facilities; condom supplies increased by over 35% during 2003/04, KDHS 2003 indicated as result of reduced drugs cost an increase in use of condoms. ARV users increased from 10,000 to 20,000 during review period.
Labour	Employment policy approved by 2004. 500,000 jobs created each year in 2004-2006.	A Sessional paper on Labour policy approved by cabinet awaiting enactment by parliament. Guidelines on labour market and wage policy were developed and implemented; A total of 487,000 jobs created with the informal sector accounting for 459,000 jobs relative to 28,000 created in formal sector. This shows that 94.3% of all new jobs were created in the informal sector against a target of 88% estimated in the IP-ERS.
Agriculture and livestock Improve land use management and marketing	Attain average growth rate of major crops by 5%. Value of agriculture export rise3% per year during 2003-06	Agriculture value added (GDP) at constant price grew by 1.5% in 2003 from a revised 0.8% in 2002, despite low international prices value of agricultural output rose by 5.6%.
Land reform	Land policy and reform implemented. Upgrading of informal settlements Increase number of titles issued each year 2003-06; land laws harmonized; land information systems modernized	Land policy and reform formulated, Land laws being reviewed and harmonized. Up grading of Slums in Kibera, Nairobi started.
Environment	NEMA fully operational by 2005 including establishing decentralized Environmental bodies and a natural resource inventory	Board and Secretariat for NEMA is fully operational. Environmental, legislation and standardization have been put in place; EIA and Audits are being enforced nationally

Governance

Progress has been made in the broad area of governance and attention is drawn to police training, reform in the administration of justice (simplification of procedures and the promotion of alternative dispute resolution procedures) and the creation of the Kenya Anti-Corruption Commission (KACC). But the pursuit of prosecutions in support of anti-corruption remains slower than expected. The continuing failure to bring the Constitutional Review process to a satisfactory conclusion has impeded progress towards the achievement of the IP-ERS objective of decentralisation and empowerment of local communities. Progress is being made in the implementation of the National Integrated M&E system at both central and devolved levels and this will be fully rolled out during 2005. Summary performance in the IP-ERS pillar of governance during this review period is highlighted below in Table C:

Table C: Governance

Sector	Targets/Outcomes Indicators in 2003-07	Performance during 2003/04
Governance Public Safety Law and Order and Police Reform	Restoration of the rule of law; maintaining an efficient and motivated police force; promoting governance through strong administrative and coordination mechanism; eliminating corruption; strengthening capacity for crime management including investigation and prosecution and institutional capacity development	To improve coordination between prosecution and the Attorney General, prosecution unit was absorbed in the office of the Attorney General ; Human Rights Commission was set up and civil rights groups participation incorporated into public sector decision making processes; Anti-corruption institutions created and operational ;police welfare boosted through the reviving of 5 stalled housing projects and a high level police reform taskforce was formed to facilitate efficiency and accountability in police force. Anti-corruption measures in place include: creation of MoJCA with mandate to coordinate anti-graft war and legal framework, Permanent Secretary for Ethics and Governance, a multisectoral Anti-corruption Advisory Board headed by chairman and Anti-Corruption Commission headed by a director. Harmonization of the already established anti-corruption institutions remains a bottleneck in terms of efficiency and bureaucracy. Prosecution of the already investigated corruption cases remains a huge backdrop in fight against corruption. 25% criminal cases completed against a target of 60% in 2006; In the arena of Judiciary reform, reconstitution of Law Reform Commission was put in place to harmonize legal systems and reforms; changes in the judiciary and appointment of additional judges and replacement of those accused of corruption; more recruitment of legal officers; 1076 cases out of targeted 1,000 were finalised.

Broad Conclusions and the Way Forward

If the recent history of economic and social decline is to be reversed and in particular, if accelerated progress is to be made in meeting the targets set out in the IP-ERS for poverty reduction and the MDGs, there is need for increased commitment and resolution in resolving a nexus of constraints which continue to impede the implementation of the programmes set out in the IP-ERS. Key problem areas are: poor translation of strategies and policies into effectively managed programmes; the existing bottleneck to accelerated expenditure posed by the problem of public procurement and the need for greater capacity of ministries to effectively implement their policies.

The solutions for these interlinked problems have already been identified and are being pursued in on-going initiatives, including the reform of the budget preparation process to give greater focus on strategic spending priorities, the introduction of Results-Based Management (RBM) in the public service with an appropriate enforcement mechanism and accelerated reforms in Public Expenditure Management(PEM). The key challenge of the current year is to pursue these reforms aggressively to the point where they yield tangible results and impact on accelerated achievement of IP-ERS objectives and the welfare of the people.

The second M&E Annual Progress Report, which is due in September 2005, will improve reporting at both sectoral and devolved levels, and thus pave the way for accelerated and more effective IP-ERS implementation.

Implementation Progress Indicator Matrix

Annex 1 provides an assessment of progress in IP-ERS implementation against a set of output and outcome indicators, using the information currently available. This summary of indicator framework will be refined over the coming year and will form the basis for future interim and annual M&E reports on the IP-ERS. Output targets will be adjusted on the basis of sectoral/ministry strategic plans and ministerial Annual Work Plans (AWP).

CHAPTER ONE

1.0. BACKGROUND

1.1. Introduction

This is the first Annual Progress Report (APR) on IP-ERS implementation and relates to the first full year of IP-ERS implementation, namely 2003/04. The APR has been prepared by the newly established Monitoring and Evaluation Department (MED) within the Ministry of Planning and National Development (MPND). The purpose of the APR is to provide a reliable assessment of progress made during the period under review for the benefit of the Government of Kenya, other domestic stakeholders and the development partners. It will also provide the necessary feedback for the acceleration and strengthening of IP-ERS implementation.

The preparation of this APR follows a period of intensive work aimed at establishing a national integrated framework for monitoring and evaluation in Kenya. The basic concept for an Integrated system of National M&E is set out in the IP-ERS itself and revolves around the development of a monitoring and evaluation framework throughout government, at central and local level. The system includes provision for reporting on indicators at the output and outcome levels. Key steps that have been taken towards the establishment of the National Integrated M&E System include: the creation of the MED within the MPND, the definition of the national institutional structure for M&E at central and devolved levels, the preparation of a strategy for the implementation of the integrated M&E system, the preparation of pilot M&E exercises in 8 selected districts to test and refine appropriate methodologies for M&E at the devolved level and the mobilization of donor support for the M&E implementation process. A strong consultative approach has been taken in to the development of the M&E system under the guidance of a newly formed National Steering Committee for M&E, which brings together government, donor and civil society stakeholders.

Inspite of this progress the National M&E system is still being developed, and this has had an input in the process of preparation of the current Annual Progress Report document. While every effort has been made to ensure that this initial APR sets the standard for the coming years, there are some caveats which need to be taken into account. Effective M&E can only be undertaken where strong groundwork has already been undertaken in the form of preparation of strategic plans and annual work plans which specify clearly the final and proximate objectives of each and every department which is contributing to the IP-ERS. In practice, while progress has been made in establishing this groundwork, there are still gaps, many ministries do not have well-formulated annual plans which form an appropriate basis for M&E and in many cases the appropriate indicators at outcome and output level have not been fully or appropriately defined and in some ministries strategic plans have only been prepared during the period under review, and these add important new elements to the original ERS document. Finally the Government has accepted and is seeking to respond appropriately to the observations of the Joint Staff Assessment (JSA) of the IP-ERS documents prepared by the IMF and World Bank, and the APR has attempted to take cognisance of the recommendations in the JSA review. The preparation of this APR has coped with these deficiencies by working with the ministries to define more closely, sometimes on an ex-post basis, the plans for the period under review.

Kenya has volunteered to participate in the first round of the African Peer Review Mechanism (APRM) and will undergo this review process during the course of 2005. It is anticipated that the APRM will provide an important opportunity for external “audit” of the implementation of the National Integrated M&E system and will also subject the specific conclusions of the current APR to a high-level critical re-appraisal. The Ministry of Planning and National Development welcomes the APRM as providing a time-bound challenge for the completion of the effective implementation of the National M&E system.

The period covered by this review is technically the financial year 2003/04. However, given the delay in the preparation of the review and the need to provide a full and up-to-date picture of progress for the benefit of all stakeholders, this APR also covers major developments which have occurred during the second half of 2004. In effect the report covers a period of 18 months, from July 2003 to December 2004.

It is intended that this APR should have the widest possible distribution to all interested parties both internally and externally. Specifically, the final draft will be circulated and disseminated to all major government and non-governmental stakeholders immediately on adoption by Government. In addition, it will be distributed to all Kenya's external development partners and will be one of the major documents (along with the Budget Outlook Paper) to be circulated as working documents for the Consultative Group Meeting scheduled for April 2005.

1.2. Poverty Diagnosis in Kenya

A major finding of this APR and also of the JSA report 2004 is that poverty diagnosis in the IP-ERS remains relatively weak and is based on very limited information. Hence, it is not yet possible to make definitive assessment of Kenya's poverty situation both qualitatively and quantitatively. However, one year is an extremely short period to assess full progress and outcomes arising from the government's efforts to address poverty diagnosis in key areas of equity and poverty reduction. Most of the available data and information on household income and consumption expenditure arising from various surveys and studies are of historical nature. They need updating in order to provide a clear picture of the current position and to facilitate necessary policy actions and financial allocation towards core poverty reduction activities. Although the government has made some progress in addressing the more straightforward challenges inherent in poverty reduction such as education, health and employment as key strategies for equity interventions, data limitations continue to undermine the diagnosis of poverty, making it difficult to establish a clear link between policies, slow economic growth and persistent poverty.

The main challenge facing the IP-ERS objective of equity and poverty reduction, is how to bridge the poverty gap occasioned by geographical variations among the Kenyan constituencies. Statistics indicate a wide range of poverty incidence between Kenya's constituencies rising from 16.5% to 84%. The 1994 Welfare Monitoring Survey (WMS) indicates that three quarters of the poor live in rural areas while the majority of the urban poor live in slums and peri-urban settlements. The 1994 WMS further indicated that at the provincial level, North Eastern Province had the highest proportion of people living in absolute poverty (58 percent), the highest in Kenya, followed by Eastern Province (57percent) and Coast (55 percent). In 1997, Nyanza had the greatest proportion of its population living in poverty (63 percent) followed by Coast (62 percent). Moreover, more than 50 percent of the population in all other provinces except for Central (31 percent) was living in poverty. In urban areas, Kisumu town recorded the highest prevalence of poverty (63 percent), followed by Nairobi with 50 percent. Results of recently concluded poverty mapping in Kenya indicate similar patterns in levels of poverty at the provincial levels, but depict large differentials at the sub-district level. In addition, the Central Bureau of Statistics (CBS) Poverty mapping estimates show that people in relatively less poor districts, divisions and locations experience much smaller poverty gaps (consumption shortfalls). Poverty gaps in such areas are typically around 5 percent of the poverty line, whereas in the poorest areas, poverty gaps are in the range of 30 to 50 percent.

In addition, although a total of 487,000 jobs were created during the 2003/04 period, out of which 459,000 and 28,000 were in the informal sector and formal sectors respectively, the general unemployment trends in Kenya continued to rise to about 25 percent from an average of 16 per cent over the previous 10 year period. The quality of jobs in the informal sector is however not discernable because data on that classification is not available. The rising unemployment trend calls for specific diagnosis on underemployment to facilitate policy actions towards addressing this key concern that contributes to the sizeable class of the working poor.

1.2.1 Gender Dimensions of Poverty:

Social factors and cultural norms emphasize the unequal power status of men and women. Some traditions favour male dominance, resulting in low social status of women. Special efforts are needed to empower women to make them less vulnerable. Constraints, however, include lack of gender-disaggregated data analysis, except for the fields of basic education and some areas of healthcare. In addition, gender specific targets for defining improvements in the economic, social and legal situation are still lacking. The macroeconomic framework that forms the core of the ERS is still analyzed in gender-neutral terms. Efforts are ongoing to mainstream gender issues in the ERS through the recently constituted Gender Commission in the Ministry of Gender, Culture, Social Services, and Sports.

1.2.2 Progress and challenges in reinforcing poverty diagnosis in Kenya:

During the period under review, some progress has been made towards addressing the inherent data limitation and other problems experienced in the poverty diagnosis approach.

A key boost towards better understanding of the non-income dimension of poverty during the review period was deepened by recent report on health and socio-economic Survey (2003 KDHS) that provided focused information on the deteriorating trends in almost all indicators of health and socio-economic development in Kenya. These include the MDG targets such as the rising infant mortality, maternal mortality, morbidity and malnutrition rates. The survey information provided critical analysis and challenges that are necessary for re-focusing resources towards identified key health and poverty related interventions. In addition, the recently released Public Expenditure Review (PER 2004) that includes all Government Ministries, has also brought forward the status of the government expenditure trends that requires policy actions and reforms necessary for the IP-ERS fiscal strategies and government pro-poor spending.

The government's plan to rapidly deepen the diagnosis of poverty and inequality in Kenya, is being implemented in collaboration with the World Bank, through the establishment of a Poverty Analysis and Research Unit at CBS. The initiative involves strengthening the capacity of CBS to spearhead poverty analysis and poverty mapping exercise. The process is also revising the poverty profiles for all the constituencies and districts so as to facilitate focusing resource allocation based on geographical core poverty programmes.

Progress towards broadening poverty diagnosis in Kenya on the basis of incidence, depth, trends, distribution, and determinants of poverty was made through the preparation of the first volume of the poverty mapping exercise in October 2003. The process of producing volume two which will provide the updates of socio-economic dimensions of poverty was started during the review period.

With a view to addressing prior weaknesses of the WMS type of data and surveys, the CBS has also completed participatory planning exercise in preparation for the launch of the Kenya Integrated Household Budget Survey (KIHBS) for 2005, which will provide critical data for estimating poverty headcounts, distribution, causes, and trends. These data will provide the basis for a comprehensive poverty assessment to be undertaken during 2005/06.

1.3. Way Forward to Improving the Poverty Diagnosis

i). Enacting into law the draft Statistics Bill: This bill when passed into law by parliament will permit the establishment of a stronger and more credible National Statistics Bureau and guarantee access by public to government statistics.

ii). While comprehensive survey data are critical for assessing poverty trends, there is need to obtain regular updates of information on poverty trends from various sources of poverty implementation activities. This review noted the Government's ongoing plans to implement a rapid information-monitoring program that will generate such data through the use of Quick Monitoring Survey instruments such as the Core Welfare Indicators Questionnaire (CWIQ) hopefully every 2-3 years. Such information will be useful not only for assigning targeted poverty interventions, but also for monitoring and evaluating the IP-ERS and MDGs. The information will also be used to develop a scorecard to indicate the number of households/individuals lifted out of poverty every year.

iii). Some of the challenges that need to be addressed to deepen further the quality of poverty diagnosis for the enhancement of increased resource flows to support equity priorities, reduction of poverty and inequality, include: (i) reinforcement of gender disaggregated data and census of people with disabilities as part of IP-ERS focus (ii) enhance the poverty diagnostic analysis that underpins IP-ERS.

iv). Strengthening the institutional and human resource capacity at CBS and other related units of government should be backed by efficient infrastructure such as ICT, reliable transport and communication networks and financial resources, to undertake a number of activities that have been planned within the IP-ERS. This has always been a constraining factor and needs to be addressed through sustained internal and external resource support.

v). Strengthening information management systems particularly in sectors that are involved in direct implementation of equity and poverty reduction programmes such as education, health and labour to enhance targeting of data collection, analysis and timely reporting.

CHAPTER TWO

2.0. ECONOMIC GROWTH

2.1. Introduction

One of the top priorities of the IP-ERS is to restore the economy to a higher growth path as a condition for the achievement of other development objectives. The strategy calls for redefining the role of the state as a facilitator for private sector growth and investment. This entails strengthening policy and regulatory functions of the state and transferring productive and service delivery activities to the private sector. Within this framework, the government is committed to ensuring macroeconomic stability, reforming the financial sector and strengthening its regulation to increase savings and investment, implementing mechanisms for private sector participation in provision of infrastructure services and establishing a competitive environment to attract increased private investment in productive sectors such as tourism, industry and trade.

2.2. Economic Framework

Restoring economic growth requires a sustainable macroeconomic framework built on strong private sector-led economic activities and characterized by low inflation, declining fiscal imbalances, declining net domestic borrowing and healthy balance of payments. In addition, the Government's strategies of maintaining a sustainable macroeconomic stability includes; implementing policy measures for increasing domestic savings and investment improving accountability in the use of public resources, restructuring and refocusing public spending towards priority activities. Tables 2.1 and 2.2 below summarize the IP-ERS targets over 2002 – 2007 and the achievements over 2003 respectively.

Table: 2.1 Selected key economic indicators

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
GDP Growth (percent real GDP)	1.1	1.3	2.4	3.7	4.1	4.9
Investments (percent of GDP)	13.6	16.5	20.4	23.3	24.4	24.8
Investment volume growth (percent)	-1.8	23.2	26.2	18.5	9.3	6.3
Savings (percent of GDP)	13.6	14.9	15.7	17.6	18.5	19.7
Export growth (volume, percent annual)	5.0	15.8	2.0	4.8	9.9	12.3
Import volume growth (percent annually)	-16.7	13.0	18.2	10.5	9.3	8.8
Inflation (percent)	2.0	9.8	3.5	3.5	3.5	3.5

Source: Economic Survey 2004; PER 2004

Specifically, the following were the targets and actual outcomes for the review period:

i) During the period under review, GDP grew by 2.4% compared to a target of 1.8%. The marked improvement in the economy was attributed to broad based improvements in key sectors of growth such as tourism, horticulture exports, manufacturing and increased domestic demand.

ii) Investment was targeted to be the prime mover for economic growth and expected to rise from 13.6 percent and 16.5 percent of GDP in 2002 and 2003, respectively to reach 24.8 percent in 2006/07. Domestic savings were also expected to rise from 13.6 percent and 14.9 percent of GDP in 2002 and 2003 later reaching 19.7percent in 2007, implying that there was need for substantial external inflows for the investment levels to be achieved. However, the gross domestic investment was 13.4 percent of GDP in 2003, which was less than the target. On the other hand, gross domestic savings was 9.8 percent of GDP in 2003, which is also below the target.

iii) Exports and imports were expected to be a major factor in the growth outcome of IP-ERS. In 2003, exports grew by 9.9 percent compared to a target of 15.8 per cent. Slow growth of exports was occasioned by the significant appreciation of the real exchange rate and underperformance in the coffee sub sector. Imports were expected to grow by 13 percent in 2003 and by a further 18.2 per cent in 2004. However, imports grew by 8 percent in 2003. The growth in imports was constrained by the low level of investment.

iv) Under the IP-ERS, the government's monetary policy stance was expected to allow Kenya's underlying inflation to remain below 3.5 percent, comparable with the inflation forecasts of major trading partners. The focus was to allow for the maintenance of a stable nominal exchange rate policy without risking real appreciation of the Kenyan shilling. In 2003, the underlying inflation was kept at 2.7 percent while the overall inflation stood at 9.8%. Given the 2004 drought and rising oil prices, higher overall inflation rate of 11.6 percent was registered while the underlying inflation stood at 3.46 percent.

v) During the review period, money supply (M3X) grew by 11.7 per cent against a target of 7 percent. The high expansion in money supply was due to a reduction in the cash ratio requirements from 10% to 6% in June 2003, which allowed a significant increase in credit to the private sector. The credit to private sector, targeted to grow by 4.4 percent in 2003, grew by 5.9 percent. Furthermore the government targeted an increase in the level of official foreign exchange reserves to 3 months of import cover. However, higher levels of 4.2 months of import cover were realized.

Table 2.2: Macroeconomic achievements

Indicator	Period of coverage	IP-ERS Target	Achieve-ment	Difference	Remarks
GDP Growth (%)	2003	1.3	1.8	+0.5	Target exceeded
Investments/GDP (%)	2003	16.5	13.4	-3.1	Low public investments
Savings/GDP (%)	2003	14.9	9.8	-5.1	Target not met
Revenue/GDP (%)	2003/04	20.83	21.98	+1.15	Target exceeded
Expenditure (excluding principal repayments)/GDP (%)*	2003/04	27.1	23.7	-3.4	Significant underperformance in development expenditures due to low donor disbursement, which undermined the achievements of government investment targets
Deficit (Including grants)/GDP (%)*	2003/04	-4.04	-0.39	+3.65	Owing o underperformance in the development expenditures and over performance in revenues
Net Domestic Borrowing by government (Kshs. Millions)	2003/04	14,264	8,809	-5,455	Low disbursement in the development expenditures and revenues exceeding targets
Net domestic debt/GDP (%)	2003/04	23.77	26.6	+2.83	
Money supply growth (M3X%)	Dec 2003	7.0	11.7	+4.7	Significant increase in credit to private sector due to the lowering of cash ratio.
Underlying inflation (%)	2003	3.5*	2.7*	-0.8*	Target met
Private sector credit	Dec 2003	4.4	5.9	+1.5	Target exceeded
Export volume (% change)	2003	15.8	9.9	-5.9	Significant appreciation in the real exchange rate and underperformance in the coffee sub sector
Import volume (%change)					
Foreign exchange reserves (months of import cover)	2003	3	4.2	+1.2	Target exceeded.
Net external inflows (Kshs M)	2003/04	54,236	6934	-47,302	Low donor disbursements and negative net foreign borrowing

Source: IP-ERS, 2004; Budget Outturn, September 30th 2004; Economic Survey 2004; CBK - Monthly Economic Review, November 2004.
* CBK Measure

2.3. Fiscal Strategy

The Budget mechanism is one of the Government's most fundamental instruments of implementing the economic reforms and other necessary policy options for realization of key objectives and outcomes of the IP-ERS. Fiscal strategy continued to focus on three core objectives of maintaining fiscal sustainability, expenditure restructuring for growth and poverty reduction and improving public service delivery.

The fiscal strategy is built around the following three objectives: i). A revenue policy framework that seeks to maintain revenue to GDP at above 21% to enable the bulk of government expenditures to be met from domestic sources excluding borrowing ii). An expenditure strategy that gradually reduces the level of expenditure to GDP but allows for a rapid increase in development expenditures within a sustainable macroeconomic framework and iii). Reducing the budget deficit from 4% of GDP in 2003/04 to below 3% of GDP by 2005/06, focusing deficit financing on concessional external borrowing to allow for a reduction in the level of domestic debt to GDP and for maintenance or lowering of the net present value (NPV) of public debt.

The underlying government's policy goal for these objectives is to ensure that Kenya does not become a Highly Indebted Poor Country (HIPC) and maintains fiscal sustainability. To attain the country's desirable fiscal sustainability, the IP-ERS targeted a budget deficit of 4% of GDP in 2003/04. However, in this period, the actual budget deficit (including grants) reduced by 0.4% mainly due to underperformance in the development expenditures.

2.4. Revenues

The declining trend of Kenya's revenue to GDP ratio from 23.3% in 1999/2000 to 20.8% in 2002/03 was reversed in 2003/04 when it stood at 21.98% against an IP-ERS target of 20.83%. During the 2003/04, Kshs 229 billion tax revenue was collected against a target of Kshs 220 billion (10% increase). This increase was partly as a result of the improved tax administration systems that have been implemented through restructuring of Kenya Revenue Authority (KRA) departments, the computerization program at KRA being implemented in phases and consolidation of tax revenues.

Specifically, the KRA tax reform agenda defined in the IP-ERS, is aimed at improving transparency and efficiency of taxation, strengthen tax collection to maintain a revenue/GDP ratio at or above 21 percent and harmonize tax systems within the East African Community (EAC) and COMESA including lowering of tariffs and other barriers to imports of goods from the rest of the world. In improving the structure of taxation and accountability, the government has committed itself to expanding the tax base as a priority, which will involve the following actions: undertaking an assessment of tax policy and its impact on the economy and make the tax system more pro-growth and sensitive to the poor.

This strategy is being implemented through undertaking a comprehensive review of the past policy regime to evaluate its effectiveness on growth and poverty, and apply the lessons learnt to draw up a pro-growth tax policy regime. In particular, the Government is in the process of establishing an optimal tax rate framework for those tax heads considered high currently, revising the tax regime to encourage new investments, strengthening the tax infrastructure and reforming the structures of taxation through modernizing administration, including computerization of KRA and its associated Units, undertaking capacity building, improvement of port handling facilities and revenue administration in Mombasa, that includes revamping the bond and warehousing facilities for transit goods, reforming modalities for the petroleum sector and enforcing compliance for tax collection agencies.

Other reform measures awaiting implementation include, the development of new vehicle number plates and second generation of driving licenses to improve compliance and the harmonization and rationalization of tax regimes and integration of trade arrangement within the EAC and COMESA, which involved among others, lowering of tariffs and other barriers to imports of goods from the rest of the world. The regional tax harmonization is likely to lead to loss in revenue arising from trade arrangements and subsequent tariff reductions but will be compensated for by enhanced customs administration capacity, especially through implementation of regional transit cargo control strategy, deployment of scanners at the ports of entry to assist with valuation and verification, computerization of customs operations and effective management of warehouses.

Key challenges facing the achievement and outcomes of the government's tax reform and the prescribed targets include the following:

i) Firstly, in the short run, there appears limited scope for raising revenue through increasing tax rates, bearing in mind that at 21% of GDP, Kenya's tax burden is already high, especially in taxable items of importance to investment incentives as well as those affecting a larger spectrum of the poor.
ii) Secondly, the short term effects of the loss of revenue arising from lower external tariffs from implementation of common markets and imports is likely to lower the levels of profitability of manufacturing enterprises and to private investments. This also may result in reducing the possibility of raising taxes. The assumption that the loss of revenue (from lowering of tariffs and barriers to imports) would be compensated through improved customs capacity and better tax administrative measures, will largely depend on efficiency and effectiveness of implementation and transformation.

2.4.1 Expenditures

Box. 1; Key targets of Public Expenditure restructuring and reform:

- Reducing of overall expenditure to GDP ratio as the primary means by which the budget deficit would be brought down to sustainable levels. Raising the level of development expenditure from 4.3% of GDP in 2002/03 to 6.7% of GDP by 2007
- Ensuring that core poverty expenditures are maintained at or above 4% of GDP;
- Ensuring that the wage bill to GDP ratio declines to 8.5% by 2005/06 and to 7.2% by 2007/08;
- Reducing the overall level of transfers to subvented bodies (universities and parastatals);
- Increasing expenditures on health in a manner consistent with achieving 12% of total expenditure by 2010 while maintaining the level of primary education expenditures;
- Improved public expenditure management by tracking PEM shortcomings and internalizing the annual MPER process
- Reduction in Government contingence liabilities through termination or completion of stalled projects and elimination of pending bills
- The overall expenditure is expected to rise from Kshs.266,008 million to Kshs 370,623 million over 2002/03-2006/07 representing a rise by 2.2% of GDP to 26.5% of GDP; and
- Expenditure composition is expected to change in favour of development (from 16.3% in 2002/03 to 25% in 2006/7) and core poverty (from 7.3% to 8.3% over the same period) while wages (from 32% to 31%) and interest payments (from 5.4% to 5.0%) decline. (focus expenditure outcomes by economic category)

Given Kenya's situation of expenditure rising against a backdrop of best stable revenue performance, it is clearly imperative for Kenya's fiscal strategy to focus more on expenditure reduction, expenditure restructuring and reform. As already indicated in the preceding chapters of this report, Kenya's revenue performance at 21% of GDP and expenditure levels of 26% of GDP, are far above the levels of other low-income countries. In addition, the public investments at 2.5% of GDP are below the recent Sub-Saharan African performance.

The level of public expenditure has been on a general upward trend despite, the government's policy objective of containing overall expenditure. Compared with the previous Financial Year, the ratio of expenditure to GDP rose to 26.1% in 2002/03 from 23.5% in 1999/2000[2]. However, during the review period, total expenditure to GDP averaged 23.7% compared to a target of 27.1% in 2003/04. The low expenditure outcomes were due to significant underperformance in development expenditures due to low donor

[2] PER 2004

disbursement, which severely affected the achievements of government investment targets. Total expenditure to GDP is expected to rise to 27.6% in 2004/05 before declining to 25.5% in 2006/07.

During 2003/04 fiscal year, recurrent expenditure to GDP averaged 20.66%, a decline from 21.8% registered in 2002/03. The decline was due to the reduction in foreign and domestic interest payments, reduced constitutional review expenses and the general election expenses incurred in 2002/03 but not in 2003/04. Recurrent expenditures are however expected to rise to 21.8% of GDP in 2004/05 before declining to 19.8% in 2006/07.

The wage bill inched further up by 0.2% of GDP during 2003/04 to about 8.6 percent of GDP due to salary increases awarded to teachers, police and the university lecturers. Achieving the 8.5 percent target by 2005/06 will require that any awards to be provided to the civil servants or any additional awards (other than the remaining phases of the teachers' awards) will be matched by a proportionate downsizing of the civil service, through implementation of Voluntary Retirement Scheme (VRS) of 21,500 civil servants over the IP-ERS plan. The initiative is expected to allow the wage bill to stay below 8.5% of GDP while the savings from VRS, will also facilitate the government to maintain a leaner and more efficient civil service through pay reform, introduction of performance based management and realignment of Ministerial organizational structures based on core functions of the government.

At the time of writing this report, the execution of the performance-based contracts had begun with key government officials and senior parastatal staff. Although this strategy will ultimately lead to enhancing efficiency in staff productivity, its success will depend largely on regular monitoring of performance against specific targets.

In addition, major cost adjustment that will require funding within the framework of expenditure restructuring programme will mainly involve staff retrenchment-related costs. To achieve the wage bill envisioned in the Government commitments with the IMF, will require total downsizing in the civil service of 23.740 in 2004/05, 5000 in 2005/06 and 1000 in 2006/07, for a total of 29,740 during the recovery period. In order to keep wage bill within the forecast target, civil service wage award would be partly accommodated by consolidating some professional specific allowances into basic wage bill saving Kshs. 504million. The Voluntary Early Retirement would lead to a net downsizing of 3000 in 2004 saving Ksh. 504 million. It should be noted that civil service retrenchment can only succeed after a massive restructuring of the civil service that entails rationalization of functions. Without rationalization artificial staff shortages are likely to be experienced in many cadres due to duplication of functions. Reducing the payroll of subvented organizations by 40% will require retrenchment of 35,000 staff in universities and 11,840 staff in other state corporations. The total retrenchment cost is estimated to be Kshs. 12.73 billion in 2004/005, Kshs. 1.25 billion in 2005/06 and Kshs. 250 million in 2006/07. It is assumed that this level of funding will be covered from additional programme grants.

During the review period, the fastest growing component of expenditure was the pensions expenditure. It rose from 0.93% of GDP in 2002/03 to 1.1% in 2003/04 and is expected to rise further to 1.4% in 2004/05. The Government of Kenya currently operates a non-contributory pension scheme. Pension payments have however been rising at an unsustainable rate and there is need for the government to implement immediate measures to reduce pension expenditures. The Government is planning to establish a contributory pension scheme to reduce the current pressure on the budget.

The introduction of the contributory scheme could lower the growth in pension payments.

During the review period the stocks of pending bills stood at Kshs. 18 billion, or 1.9% of GDP, of which development-spending bills accounted for Kshs. 11.7 billion. The Government's actions taken to deal with cases of pending bills included, commissioning a financial audit in 2003, and a plan to clear the bills over a period of three years. Pending bills, which accumulated by Kshs. 7 billion in 2002/03 declined by Kshs. 3.9 billion in 2003/04. At the time of writing this report the President appointed a multi-sectoral committee to scrutinize all the governments pending financial claims in view of settlement.

Stalled projects, which were initiated, but not completed and which are currently not receiving funding, mushroomed during 1990s. By 1999, the Government had a total of 164 stalled projects with an estimated original contract cost of Kshs. 31,357 million, accrued expenditures of Kshs. 13,319 million and an estimated completion cost of Kshs. 13,227 million for those that could be completed and Kshs. 2,448 million for those that required termination. By 2003, the stalled projects were estimated to have increased to 207. During the review period, the Budgetary Monitoring Unit of the Ministry of Planning and National Development completed an inventory of stalled projects and found that there were 267 such projects, with completion cost of Kshs. 11 billion (cost of completion is approximately twice the contracted sum). 50 projects were terminated with contracted sum of Kshs. 18.8 billion and cumulative expenditure of Kshs. 13.5 billion. The Ministry of Finance has prepared a plan of action to tackle this thorny issue.

Transfers to semi-autonomous government agencies and universities accounted for 2% of GDP during the review period, or 9% of total expenditure. The IP-ERS target is to lower the figure to 1.6% by 2006/07 in order to free up resources for core poverty expenditures. Deepening of parastatal reforms process is expected to reduce the amount of transfers to these institutions.

Domestic interest payments however went down in 2003/04 partly due to the success in restructuring government debt towards longer maturity treasury bonds and prevailing low interest rates on government securities. In addition guaranteed loan payments reduced from Kshs. 1.7 billion in 2002/03 to Kshs. 1.4 billion in 2003/04. The major components of guaranteed loans and capital transfers comprised repayments of parastatal debts. However, the Government policy to tame this expenditure component includes the restructuring programme for parastatals

Given the deteriorating trends in most health indicators, and the likelihood of the sector not attaining the MDG benchmarks by 2015, the IP-ERS targeted raising the level of health expenditures to at least 12 percent of total expenditures by 2010. Since the overall recurrent health expenditures were 6.7 percent of total recurrent expenditures in 2002/03, achieving the 12 percent target by 2010 will require recurrent health expenditures to grow by at least 7.5 percent faster than overall expenditures. The fiscal strategy assumes that these health expenditures will be focused on non-wage non-transfer expenditures and will thus enable the rapid increase in basic health services.

To achieve commitments for poverty reduction, the government re-prioritised and continued the policy of ring-fencing resources to core poverty programmes that have a direct impact in reducing poverty levels in the medium term. Core poverty programmes include those that improve access of the poor to rural infrastructure, education and health, so as to enhance the capacity of the poor to participate in productive service activities, and improve the governance and security environment. During the review period, the Government has re-examined its list of ring-fenced core poverty expenditures and updated the list. In 2002/03-core poverty expenditures were expected to account for Kshs.34,043 million or 3.35 percent of GDP, the 2003/04 expected to spend Kshs. 43,137 million or 3.93 percent of GDP onwards over the 2004/05-2006/07 period.

Improvement in re-focusing more resources on the core poverty programmes is demonstrated in details in Annex 2 of this report. During the review period, attempts towards maintaining the expenditure rate at 4 percent of GDP as a target of IP-ERS, involved all the government ministries allocating both development and recurrent expenditure items to various core poverty programmes. During the period, the non-wage recurrent expenditure for the key ministries of Education, Health and Office of President (which are directly involved in promoting equity and poverty reduction programmes) was as follows: MoEST- out of Kshs 6.97 billion revised estimate Kshs 6,71 billion was spent or 97% commitment was realised; MoH – out of Ksh 2,67 billion of revised estimate Kshs 250 billion or 94% was spent on core poverty programmes; OP- Kshs 2,22 billion revised estimate Kshs. 1,86 billion or 84% was spent on core poverty programmes.

Over the recent past Kenya has grossly under funded its development expenditure. At 2.5% of GDP in public investments, the country finds it difficult to sustain any form of economic growth. During the review period, development expenditures declined by 20% lower than targeted, and was also lower than 2002/03 in GDP terms. This is largely due to shortfall of about Kshs 10 billion in foreign financed development spending partly attributed to delay in receiving donor commitments and suspension of procurements[1]. The critical shortcomings that contribute to the poor development vote include; weak management of donor funds, donor cut-backs, poor procurement, and accounting procedures. While implementation of the IP-ERS requires a substantial increase in development expenditures, the IP-ERS target of increased development expenditures to 5.4% of GDP from 3.3% of GDP in 2003/04 was not realized as development expenditures totalled only 3.1% of GDP.

2.4.2 Deficit and Financing

The IP-ERS priority and policies aim at a deficit and financing strategy that would first reduce the overall deficit including grants to a sustainable level, and secondly, to externalise deficit financing to reduce pressure on domestic financial markets and increase private sector access to credit. In 2002/03, overall fiscal deficit including grants was 4.0 percent of GDP while in 2003/04 the deficit (including grants) reduced by 0.4% of GDP owing to underperformance in the development expenditure, improved revenue collection and higher inflow of grants. Over the medium term plan, the deficit is expected to decline to below 3 percent of GDP, while net domestic borrowing is forecast for rapid reduction and ultimate elimination. The deficit including grants is projected to rise to 3.8% of GDP in 2004/05 but will eventually decline to 1.8% in 2006/07.

The IP-ERS targeted a government borrowing requirement of Kshs. 460,640 million over 2003/04 and Kshs. 330,906 million over 2004/05-06/07. Of the Kshs. 460,640 million, Kshs 159,917 million was targeted to finance the cumulative deficits, Kshs 76,559 million targeted for external redemption, Kshs. 220,964 for domestic redemptions and Kshs. 3,000 million projected for paying of pending bills.[2] In addition, net domestic borrowing was expected to decline to

[1] PER 2004
[2] PER 2004

about 0.5 per cent of GDP by 2007/08. This will ensure that the stock of domestic debt is reduced from 22 per cent in 2003/04 to about 20 per cent by 2007/08. In the same vein, the Net Present Value (NPV) of external debt will be contained to 27 per cent over the medium term.

During the review period, financing the deficit focused on maximizing external concessional borrowing consistent with maintaining the external debt to GDP ratio of below 36 percent. In 2003/04 net external inflows totalled merely Kshs. 6.9 billion compared to the targeted Ksh 54.2 billion. The total inflows comprised Kshs. 15.8 billion in grants and a net external repayment of Kshs. 8.7 billion. The low donor disbursements and the negative net foreign borrowing accounted for the poor performance. Net external borrowing is projected to total Kshs. 15.1 billion in 2004/05 with external grants totalling Kshs. 30.2 billion. The increased net external borrowing in 2004/05 will be as a result of the rescheduling of external debt service arrears amounting to Kshs. 10.1 billion and increased project financing.

During this review period domestic borrowing reduced from Kshs 46.9 billion in 2002/03 to Kshs. 8.8 billion compared to a target of Ksh. 14.3 billion in 2003/04. The medium term objective is to gradually reduce net domestic borrowing to 1% of GDP in 2006/07.

The consequence of the deficit and financing strategy was expected to generate an external debt to GDP ratio of less than 36 percent achieved in 2002/03. Despite the lower than expected net foreign inflows, external debt to GDP ratio averaged 38% at the end of June 2004. The higher ratio was due to a revision in the external debt stock by the Debt Management Division of the Treasury during the year. In the medium term, the net external debt is projected to remain below 36% of GDP. Such decline is expected to make a significant reduction in the Net Present Value (NPV) of external debt. On the other hand domestic debt stock was 26.6% of GDP in June 2004 compared to the target of 23.8%. It is expected that the domestic debt will reduce in the medium term to stand at 21.5% of GDP in 2006/07.

2.5. Debt Policy Framework

During January 2004, the Paris Club of Creditors agreed to reschedule US$ 350 million of arrears and maturities for interest and principal falling due between January 2004 and 31st December 2006. The rescheduling was done on Houston terms. It is anticipated that on completion of this rescheduling, the country will graduate from Paris Club rescheduling.

Kenya's external debt policy is guided by the accepted principle that the country shall obtain and service her debt on a timely basis as per the signed loan agreements. It is also premised on the recognition that there is an optimal debt level above which the economy may not be able to sustain. Any variations to this premise have to be authorized by parliament for which an adequate explanation based on macro-economic parameters has to be considered. To ensure that the country is able to finance its deficits in a sustainable manner, its debt strategy will be built around the following:

i) Focusing on external concessional debt as a means of reducing the NPV of debt, lengthening the term structure of debt and reducing servicing costs,
ii) Mitigating exchange rate risk through currency diversification and improving forecasting of repayments to ensure repayments do not undermine the foreign exchange reserves position,
iii) Refinancing to replace expensive debt with less expensive debt, and
iv) Where necessary, rescheduling on Houston terms to mitigate cash flow problems.

2.6. Public Expenditure Management Reform

Public Expenditure Management (PEM) has continued to be a major weakness in Kenya over the last few years, resulting in Kenya's declining performance with respect to forecasting expenditures and disbursing the same. Evidence from recent years and especially the poor performance with respect to the development budget, makes it clear that the IP-ERS targets will only be achieved through improved public expenditure management.

Priorities for PEM reform include the following:

i) Ensuring the results of the MTEF review, Public Expenditure Review (PER) and Public Expenditure Tracking Surveys (PETS) inform budget preparation.
ii) Implementation of the findings of the MTEF review from the 2004/2005 budget onwards
iii) Ensuring a clear adherence to the MTEF time-table to allow for ample time to discuss Ministerial Public Expenditure Reviews (MPERs)
iv) Ensuring budget implementation is consistent with the objectives of Budget Outlook Paper and the Budget Strategy Paper
v) Strengthening Government capacity to cost important IP-ERS programmes
vi) Elimination of pending bills and establishment of a commitment control system to guard against their re-emergence
vii) Reduction in reliance on budget virements and supplementary budgets
viii) Complete implementation of Integrated Financial Management Information System (IFMIS)
ix) Conducting public expenditure tracking surveys to determine whether budgeted funds are reaching target groups
x) Strengthening procurement, internal audit and financial management

The key public expenditure benchmarks are mentioned in a list of 16 indicators agreed between the Government and Development partners. These benchmarks deal with budget formulation (7 benchmarks), Budget execution (4 benchmarks), and budget reporting (4 benchmarks). Kenya's progress in implementing EAPFM is as follows:

i) Only one of the seven budget formulation benchmarks was met, as a result of: failure to entrench MTEF process in the budget preparation system, large variance between budget outturn and the approved budget, the existence of extra budgetary funds and difficulties in capturing information on donor-funded programmes.
ii) Only one of the four budget execution benchmarks was met, with key shortcomings being: poor financial compliance as characterized by huge stocks of pending bills, a large portfolio of stalled projects, the absence of expenditure tracking surveys to evaluate use of resources, the lateness in banks reconciliation and the weak compliance with internal control policies.
iii) Only two of the four reporting benchmarks were met, with the shortcomings for this being; delayed expenditure returns, a budgeting and accounting classification that does not include functional classification, delayed audit reports for the country's seventy five Semi-Autonomous Government Agencies and for thirty-five extra-budgetary funds accounts, and delayed presentation of externally audited accounts to the legislature.
iv) During the review period, one more benchmark was met and the Government has intensified its efforts to meet at least eight of the benchmarks during 2004/05.

Hence 4 out of 16 benchmarks were met by end of 2003/2004 financial year.

Following recommendations of various Public Expenditure Reviews, and those of a Country Financial Accountability Assessment (CFAA) study done in 2001 and the Public Expenditure Management Assessment and Action Plan (PEMAAP) in 2003, all of which concluded that the public expenditure management trends are not consistent with the objectives of achieving sustained economic growth and poverty reduction among other strategies, the Government prepared an Enhanced Financial Management Action Plan focusing on reforming the expenditures in the public sector before rolling it out to the private sector. Implementation of the recommendations of the Enhanced Financial Management Plan are expected to bring about the following expenditure management reforms:

i) Enabling the Government to focus resources within the IP-ERS realistic fiscal constraints, on core priorities including economic recovery and poverty reduction. To achieve this objective, the Government is improving harmonization process of strengthening the budget preparation tools and the MTEF process, the latter is coordinated by an MTEF Secretariat in the MPND;
ii) Dealing comprehensively with the issue of pending bills and preventing future recurrence by improving the quality of budget preparation, broadening commitment control, and strengthening financial discipline through timely reconciliation and reporting;
iii) Improving the quality of and timeliness of information available for financial management decision making, through the establishment of improved and relevant reporting systems. Facilitation in the medium term will be by the implementation of the government-wide integrated financial management information system. The following tools are being developed and refined to facilitate the above reform:

   a. Budget Formulation: focus is on government policies, resource allocation, comprehensiveness, classification and projection.
   b. Budget Execution: this covers issues on financial management procedures, which include commitment control, payment management, project management, procurement and debt management
   c. Monitoring and Evaluation: the effort is to improve internal audit systems; monitoring of expenditures especially on those projects/programmes aimed at reducing poverty; achieving timely and accurate information; and better information sharing.
   d. Institutional and Human Resources: actions include undertaking a review of available and required financial management skills and other associated resources; and articulating roles and responsibilities of central and line ministries in the management of financial resources.
   e. State Corporations: the main actions include, reviewing of the overall government policy on investments, rationalization and restructuring of the parastatals, review of the parastatal financing policy, and review of procedures for accounting and monitoring of the remaining state corporations.
   f. Expenditure restructuring to increase the share of development expenditures especially those targeting Government investments, core social expenditures (education and health), and core poverty expenditures. The increase is treated as a share of both total government expenditure and as a percentage of GDP.

During the review period, the following progress has been made towards achieving key targets of the IP-ERS Public Expenditure Management Reform:

i) To harmonize the public expenditure reforms, the Government institutionalised PER as part of wider efforts to improve budget planning, execution and monitoring. In June

2003, a comprehensive public expenditure management reform programme was initiated, which included legislative changes to improve legal framework for public expenditure management, including institutional and system changes. It incorporated the recommendations of the CFAA and a Public Expenditure Management Assessment Action Plan (PEMAAP). These two exercises were carried out by the Government in collaboration with development partners.

ii) As part of PER institutionalisation process, the Government issued the Treasury Circular No. 26/003 dated 3rd December, 2003 to initiate the 2004 PER process at the Ministerial level. Unlike the previous trend where only 8 Ministries were covered by PER process, the PER process has been rolled out to include all Ministries and integrated with MTEF budget process. The PER will support the budget process by analyzing expenditure allocations and budgetary institutions to identify areas of weaknesses and recommend optimal measures towards improvement in public expenditure.

iii) During the review period, the IFMS was procured and staff trained. In January, 2004, the IFMS pilot system was installed in the Ministries of Finance and Planning and National Development, and progress is being made to roll it out to other ministries.

iv) Some legislative framework for improving Public Expenditure Management has been put in place. These include: Anti-Corruption and Economic Crime Act that facilitated establishment of Anti-corruption Commission; Public Officer Ethics Act that required the public officers' declaring their wealth was also enacted and complied with; the Government Financial Management Act (2004); Public Audit Act (2004). Other Bills that have been prepared and are awaiting enactment include: the Public Procurement and Disposal of Assets Bill (2003). The above laws, will enhance accountability in public financial management practices; strengthen the independence of and operational capacity of the Controller and Auditor General; and empower the Directorate of Public Procurement to exercise its statutory oversight role.

The Government's various sector-working groups have been formed to jointly develop plans and strengthen the expenditure restructuring and reform priorities of the IP-ERS. Most development partners are members of PER Steering Committee and Technical Working Groups, the arrangement that is facilitating coordinated dialogue between the Government and donors. Within the framework IP-ERS Public Expenditure Management reform, the development partners are exploring possible mechanism towards a basket-funding programme that will enhance better management and coordination of public expenditure.

The Public Expenditure Tracking Surveys (PETS) are used as critical tools for providing a diagnostic position and identifying weaknesses of service delivery and as a cost effective way for overcoming systemic problems in service delivery. A pilot PETS was initiated through the Kenya Institute for Public Policy Research and Analysis (KIPPRA), which covered the sectors of education, health, and the agriculture sectors.

A key finding of the KIPPRA PET Survey is that there are constraints in service delivery and leakages of public resources at various levels. Some of the specific findings were as follows:

a) Under Health: Most rural health facilities are understaffed and 85% of health facilities have inadequate medical supplies. 83% of all health facilities purchase their own drugs. Only 59.1% and 88% of drug supplies reach dispensaries and health centres respectively. There were some leakages of the user charges raised by health facilities.

b) Under Education: Almost zero leakages of non-wage funds since schools funds are either transferred directly to schools' bank accounts or payable to schools by cheques or in kind. Leakages at facility levels are possible when making purchases.

c) Under agriculture: Little funds are allocated to the provision of extension services. Only about 48% of farmers receive extension services.

The government is committed to mainstreaming PETs within its Monitoring and Evaluation (M&E) framework, and recently undertook another PET which built on the findings of the KIPPRA study and whose findings were being analysed at the time of writing this report. Programmes aimed at directly having a positive impact in poverty reduction have been identified and the next PETS will focus on tracking expenditures for specific core poverty programmes. The education sector having been identified as one of the leading sectors for implementation of the government's equity and poverty reduction focus was selected for the initial two PETS pilot programmes, namely, (i) School Equipment Scheme and (ii) Bursary Programme for primary schools. The latter has enhanced the primary to secondary transition rate, especially for bright students from poor families; school equipment scheme programme has increased the primary enrolment rate, hence justifying the Government's efforts to achieve the MDG targets of universal primary education. Preliminary preparations started in early March 2004 and once the programme takes off the ground, it will be rolled out to include other core poverty reduction programmes.

2.7. Monetary Policy and Financial Sector Reforms

Monetary policy has been earmarked as one of the government's fundamental instruments for maintaining stability in the general price level and fostering the functioning of a stable market based financial system. In cognisance of projected inflation in the country's major trading partners, the CBK during this review, continued with a policy of targeting underlying inflation at below 3.5% to be achieved through a prudently expansionary monetary policy. As a result, the policy led to a growth in broad money supply (M3X) to about 13 per cent in June 2004. The main source of this increase was credit growth to the private sector to about 24.5 per cent by end of December 2004 compared with target of 15.4%. On the other hand, Interest rate on Treasury bill rose markedly, attributed to lowering of legal reserve ratio in mid-2003 from 10% to 6 %, which further led to a sharp decline of interest rates on 91-day Treasury Bills,, this was further influenced by the excess liquidity in the banking sector. As a whole, the average annual underlying inflation rose from 2.7% in 2003 to 3.46% in 2004. However, the overall inflation rose from 9.8% in 2003 to 11.6% in 2004 mainly due to the increase in oil prices during the year, drought which resulted in food shortage, and the implementation of the new transport regulations that prompted transport service operators to increase their charges. During the review period the objective was to maintain inflation rate that would be low enough to ensure that (i) Kenya's exports remain attractive in the international market and (ii) Kenya's local consumers are not faced with stiff competition from cheap imports.

The IP-ERS monetary framework envisaged expansion in money supply (M3X) by 7% in 2003 and an increase in credit to private sector by 4.4% to support economic growth objectives. However, the actual outcomes recorded a higher expansion in both the money supply and credit to the private sector. Money supply (M3X) increased by 11.7% while the credit to private sector increased by an impressive 5.9%. The significant increase in credit to the private sector was a welcome development following a prolonged period of low credit expansion. This development was a result of a reduction in the reserve ratio from 10% to 6% in June 2003.

The government financial sector reforms focused on enhancing environment for private savings and investment, and lowering interest rate levels and spreads. The monetary policy reforms specifically addressed issues of governance and strengthening market structure by establishing a new regulatory framework and encouraging competitiveness. During the financial year 2003/04, measures were adopted to (i) improve commercial banks' compliance with core capital requirements, (ii) allow stronger participation by the local investors in the banking sector, (iii) enhance competition in the financial sector and (iv) reduce the core capital requirement to Ksh

250 million and Ksh 200 million for commercial banks and non-bank financial institutions respectively. It is these measures that provided part of the impetus for credit to private sector to grow by 5.9% thereby providing a suitable environment for GDP growth to increase from 1.1% in 2002 to 1.8% in 2003. During the same period the monetary authorities adopted initiatives to increase access to information for savers and borrowers by publishing in the media the lending rates as well as charges and tariffs of all commercial banks and non-bank financial institutions. These measures have resulted in the narrowing of the interest rates spread, enhanced competition among banks, and cost effective approaches for delivering financial services to the Kenyan enterprises.

Through the 2004/05 Finance Bill the government sought to implement the supervisory and enforcement capacity of Central Bank of Kenya (CBK) by transferring banking system licensing, regulatory and disciplinary authority from the Ministry of Finance to the CBK. The Bill also sought to tighten provisioning regulations to conform to international best practice and to implement changes in the legal framework to remove uncertainties in the banking sector presented by the Central Bank of Kenya (Amendment) Act 2000.

To strengthen competition, the government upheld a financial system with market-determined deposit and lending rates, as well as bank charges and commissions and implemented measures to restructure the commercial banks and non-bank financial institutions so as to reduce the stock of non-performing loans (NPLs). Reforms were also geared toward strengthening DPF to enhance deposits. Furthermore, the banking sector restructuring project being implemented by the Ministry of Finance is expected to result in divestiture by the Government from commercial banking operations by restructuring and privatising the National Bank of Kenya, Kenya Commercial Bank, Consolidated Bank of Kenya, and restructuring and re-capitalising the Industrial Development Bank.

However, other financial sector reforms that were not implemented as envisaged include: introduction of a contributory pensions system; a comprehensive strategy for insurance services market development; and reforming capital markets, including the introduction of a second tier market to enhance medium sized firms' access to capital markets. Other reforms that need to be addressed as a priority in the pensions department include improving claims settlement procedures to curb escalating expenditure for this item.

2.8. Infrastructure

IP-ERS identifies infrastructure as one of the key pillars of economic recovery and poverty reduction. Apart from lowering the costs of production and service delivery systems, infrastructure also increases competitiveness of Kenya's products in the international markets. The infrastructure sector development objectives include: expanding and well-maintained road network **and other public works**; improved road safety of urban transport; increased access to water resources; increased availability, reliability and affordability of energy; efficient telecommunication services and **developing** a vibrant information technology sector. The IP-ERS policies to achieve the above sector development objectives include: increasing the efficiency of investment in infrastructure through significant increase in private sector participation and investment. This strategy was to be attained by developing a satisfactory regulatory and legal framework; transfer of key operations to private sector within the overall government's privatisation and competitive framework.

Development of new regulatory and competitive frameworks for infrastructure development and reform is the key government strategy towards the provision of a conducive environment for private sector participation while at the same time ensuring competitive practices that deliver greater access and affordability to infrastructure facilities and services.

Progress during the Review Period:

The pending Privatisation Bill has resulted in slow privatisation programme, however, piecemeal privatisation has been taking place in specific sectors such as water sub-sector and information and communication technology. Other progress in this sector includes:

i. Strengthening of legislative platform for privatization of public assets and operations including restructuring of state corporations. This has been effected through preparation of the New Investment Code and Privatisation Bill that was submitted to parliament for debate and enactment in December 2004.

ii. An inter-ministerial committee was instituted to review, assess viability and strengthen regulatory arrangements in infrastructure sectors.

iii.Various sectors have developed institutional, administrative and legal frameworks including Kenya Communications Acts, Electric Power Act, and Fiscal Regimes in Petroleum exploration

iv.Relevant modes of privatisation have been outlined in the sector. The approach is based on the products and or service being privatised. Water Ministry has facilitated formation of fully commercialised public companies to take over delivery of water services.

2.8.1. Privatisation

Through the IP-ERS, the government has indicated strong commitment to stimulate private sector participation through privatisation in public sector investments. Enactment of the Privatisation Bill 2003, that has remained pending for two years, would be an important step to stimulate private sector investment. In addition, plans are under way to enact the investment Code and establish the Investment Authority to strengthen private investment. The measures here will focus more on reducing costs of factor inputs as well enhancing security for overall improvement of the business environment.

The major candidates for privatisation include: Telkom Kenya Ltd (TKL), Kenya Railways, Corporation (KRC), Kenya Power and Lighting Company (KPLC) and KenGen, Kenya Ports Authority, Water utilities, Road financing management and maintenance works (e.g. Mombasa-Nairobi North Corridor Road). The enactment of the Privatisation bill will speed up the process in these organisations.

During 2003/04, progress in privatisation was made in the following sectors:

i) Ministry of Water targeted 6 regions for privatisation and all except for the Coast region were successfully corporated and commercialised and the process for coast region has started.
ii) Telkom Kenya Ltd (TKL) initiated preparatory work for restructuring, sale of shares and identification of a strategic investor before privatisation is done by June 2005.
iii) The process of preparation for privatisation at Kenya Railways Corporation (KRC), Kenya Ports Authority, are ongoing, Kenya Power and Lighting Company (KPLC),

KenGen are being explored, in the meantime the institutions are being strengthened.

iv) Operationalisation of the Kenya Communications Act ushered in two mobile phone operators with a third mobile operator expected to come on board by December 2004 but later became a subject of a legal dispute leading to cancellation by government.

v) Liberalization of Airwaves saw many private sector investors enter the sector, and liberalization of very small aperture technology (VSAT) services ends the Telkom Monopoly Status.

vi) Electric Power Act was completed and has been gazetted; the Ministry is reviewing Legal Policy and Fiscal Regimes in Petroleum exploration and production.

Challenges

i. The government is aware that encouraging private sector participation is not an end in itself, but a means to attract new investment for delivery of infrastructural services, leading to improved service delivery over time. In this regard, the government will have to develop a strategy detailing the approach to be taken to attract private investments, ranging from outright divestiture to creation of strong public-private partnership. The approach should also ensure that an elaborate regulatory framework is put in place to harmonize the management and monitoring progress of privatisation process.

ii. The second challenge remains with the enactment of the Privatisation Bill (on hold for two years), that holds the key towards stimulation of private sector investments.

iii. Cumbersome procurement process continues to be a critical challenge constraining infrastructure and other development initiatives.

iv. Given that incentives and profitability are what drives the private sector participation, the privatisation programme need to have adequate plan for both improved services on one hand and better returns for government and private stakeholders respectively, governance issues are also critical to avoid the previous pitfalls, which surrounded the programme:

v. Privatisation of strategic sectors such as water and other basic service providers may require careful consideration in terms of access and affordability for the majority of the population. Other challenges include capacity building for all stakeholders who should include rural communities and private sector would enhance effective participation and development of pro-poor strategies.

The way forward in addressing these challenges includes the Government's preparation of Draft Privatization Bill to provide for the legal framework leading to privatization of public enterprises; creation of proposed Privatization Commission to oversee implementation and coordination of privatisation programme; composition of the Public Procurement Oversight Authority to enhance transparency and accountability in public sector procurements.

2.9. Water and Sanitation

The IP-ERS priority strategies for the Water sector include, increased access to water and sanitation in line with the Millennium Development Goals and the WSSD targets on water; and increased availability of national fresh water resources from the current level of 247 cubic meters to 900 cubic meters per capita by 2007. This review recognized that implementation of the Water Sector reform is one sector that has registered remarkable improvement in terms efficiency and access in the initial Phase 1 districts and urban centres. There is a potential of significant improvement in the medium term.

Progress during the Review Period:

i) Development of an operational strategy to implement the Water Act 2002. The act was operationalised on March 18, 2003.

ii) 10 out of 11 institutions created by the Water Act 2002 were established and operationalised with board members appointed for each of them. The 11th one is in the process of being formed.

iii) Commercialisation of water services in targeted regions (Nairobi, Nyeri, Kisumu, Nakuru Eldoret, Meru, Mombasa and coastal region) were all completed except for Mombasa and Coastal region where the process is on-going.

iv) Transfer Plan of water assets to the Water Services Boards is at an advanced stage with all documentation completed awaiting gazettement.

v) The sector's investment plan and strategy papers for water resources and, supply and sanitation have been finalized.

vi) The Water Services Trust Fund has received both donor and government funding and has begun disbursement to the communities. So far ten regions have received funding from the Trust Fund.

vii) Availability of National Water Resources: 45 hydrological and quality water monitoring stations have been rehabilitated against a target of 50 per year, over 6000 water samples were collected and analyzed against a set target of 1200 samples. Rehabilitation and augmentation of water and sanitation in 32 urban water supply and 4 sanitation schemes already completed with work on 2 other sanitation schemes ongoing to curb water wastage which reduced by 25%.

viii) Water supply in rural a*nd ASAL regions*: Rehabilitation of 83 rural water supply schemes and 150 small dams and water pans in 44 districts of ASAL completed and handed over to the communities. 39 boreholes were drilled and in process of hand-over to the communities. Water-pounding capacity in ASAL increased by 2,500,000m^3. Rehabilitation and construction of flood control dykes has been progressively achieved in Nyando and River Nzoia; rehabilitation and augmentation of Yatta irrigation Canal has been Completed.

ix) Rapid Results Initiatives (RRIs) were launched and operationalised in July – October 2004. The RRIs covered 2 irrigation projects (in Narok and Bunyala,) and 2 water projects (in Nakuru and Nairobi).

x) Implementation and rehabilitation of stalled Smallholder irrigation schemes in the ASAL areas under:
   - Arid Land Resource Management Programme
   - The Horticultural and Traditional Food Crops Project (EPHTFC-IFAD/GOK), 16 schemes are being implemented.

xi) Initiated work on the formulation of National Irrigation Policy and Irrigation reforms.

xii) Development of irrigation guidelines for Smallholder (community based) irrigation schemes.

xiii) Development of guidelines on the Irrigation Water Users' Associations (IWUA)

xiv) Development of the Irrigation Training Master Plan for Irrigation.

2.9.1. National Irrigation Board (NIB)

Progress during the Review Period:

i) Revival of West Kano Irrigation Scheme in the latter half of 2003 with first crop being harvested in May and June 2004. Out of total field area of 900 ha, 450 ha, were cropped with average yield of 5.56 tonnes/hectare of Basmati rice.
ii) Rehabilitation and improvement of Mwea Irrigation Settlement (Rice). During the period under review, the NIB was able to reorganize farmers, rationalize water management system and take on Board a further 3,200 ha of out-grower areas. This was besides the 6000 ha of initial Mwea Irrigation Scheme. The NIB also facilitated formation of Water Users Association for the scheme, an exercise that was successful and was replicated in other schemes.
iii) Feasibility study for rehabilitation of the 900 ha of Tana Irrigation Scheme in Hola and expansion of the same by 2500 ha was completed.
iv) During the 2003/04, the NIB undertook a Ksh 4m flood control project in West Kano Scheme that involved opening up and removing silt from flood control drains, repair of dykes and removal of silt from two rivers on each side of the scheme up to Lake Victoria.

Challenges

Water governance is a critical challenge that needs to be strengthened and focused towards achieving the MDG targets for water and sanitation. Another challenge for water is the provision of quality water for domestic use and livestock, especially in urban slums and ASAL areas where poverty levels are highest. Lack of infrastructure for water and sanitation in the slums has continued to undermine water development and there is need for the government to begin to scale up activities of other water actors who have unconventional ways of improving access to water. In the ASAL areas, the major issues of water are the way the water resources are shared. Most water from rivers feeding into the ASALs gets extracted before the water could reach down stream. Water monitoring for quality, access and affordability needs to be strengthened through policy and institutional reform. The ministry should develop a more efficient, and computerized method of handling and recording data. Enforcing compliance to established rules and regulations will be critical to ensuring protection and conservation water and its resources.

Capacity building and financial Resources: Inadequate infrastructure is a major obstacle to resolving water access issues. However financial requirements for infrastructure go beyond what the public can possibly raise. Partnering with private sector to finance for water development has been identified as one way of addressing financial requirements for water development. However, it is not clear what form partnerships should take, nor are strategies in place to engage in this partnership with the private sector.

The ministry and especially the newly created institutions (Water resources Management Authority, Water Services and Regulator Boards and all those created under the Water Act 2002) are faced with shortage of staff, and inadequate financial allocations to undertake implementation of the reforms. As a matter of urgency, a capacity building programme and staff recruitment are key in achieving the reforms and for implementation.

The sub-sector is faced with absence of a National Irrigation Policy, Legal Framework and coordinated irrigation development. There are many uncoordinated institutions that are involved in irrigation and drainage development and research. These include: Irrigation and Drainage Department (IDD) and National Irrigation Board (NIB) in the Ministry of Water and Irrigation; Regional Authorities – MRDA; KARI and the Ministry of Agriculture; Private Sector and NGO's.

Other challenges are lack of a National Master Plan for Irrigation Development and the Low investment in the sector.

2.10. Roads

The road sector is one of the top priorities of the IP-ERS, as it greatly affects the cost of doing business, production and marketing. The sector objective is to expand the road network through upgrading, rehabilitation to reduce the maintenance backlog, strengthening road safety and control of overloading, and expands private sector management and financing. The high public expectation of progress in improving the road sub-sector has not been matched by the actual performance due to various shortcomings including lack of comprehensive strategy measures, corruption in tendering and procurement, and inadequate financing.

Progress during the Review Period:

During the review period, the government has been formulating a long-term road sector strategy that will embrace a multi-agency model for managing responsibilities and financing. An audit backlog for the road levy fund and launching of road safety campaigns have been implemented in phases. Progress has also been made in the roads rehabilitation, re-carpeting, graveling and routine maintenance of some of the major roads across the country. During review period, the following progress has been made:

i. Despite the inadequacy of funding, lengthy procurement procedures and weak accountability in the roads sector, the proportion of roads that are in bad state has been reduced from 43% to 38%.

ii. Reduction in the rehabilitation and maintenance backlog/ Reconstruction of Trunk Roads: 188 km of road were rehabilitated compared to a target of 150 km of trunk roads per annum.

iii .Under the East Africa Road Network Project an agreement has been concluded for the financing of the Northern Corridor rehabilitation (368 KM) with the World Bank, EU and the Nordic Development Fund in the next five years.

iv. The ADB agreed to finance the design and construction of the Isiolo-Merille river road (135KM) and the feasibility study and the environmental impact assessment of Isiolo – Moyale road (536KM). The process is at the project preparation stage.

v. Discussions with BADEA have indicated a willingness to finance the construction of Emali-Loitoktok road (100 KM). The process is at the project preparation stage.

vi. Rehabilitation and maintenance at the National Parks and other roads approximately 50% of 156km under re-graveling was completed, 1314 km graded and 37.3 km patched by KWS during 2003/04 FY. Other Roads, 188 km paved roads, 136.2 km (class A, B, C) 505 km (classes D, E) were re-gravelled and rehabilitated.

vii. Rural Access Roads - Development partners provided Kshs.184 million to cover Kieni and Mwea divisions of Nyeri and Kirinyaga districts, which were originally left out in the initial phase.

viii. Concessioning: a consultant was contracted for one year to prepare the legal and administrative framework for concessioning selected roads to the private sector and is expected to complete the framework in July 2005.

i) Bypasses: A study on decongesting Nairobi roads with JICA funding is in progress. A consultant has been procured to prepare tender documents for concessioning of Nairobi Southern bypass as well as preparing the legal and administrative framework for concessioning by July 2005.
ii) A sessional paper for the sector was prepared and is expected to be ready for implementation by December 2004.
iii) A road inventory and condition survey study is on course and will be completed in December 2004.

Challenges

The road sector development continues to be hampered by the following constraints:

i) Lack of a sector strategy to guide implementation, outline proposals to better leverage and outline private sector involvement to a greater degree and in a manner that enhances efficiency. However, the roads sub-sector strategy is under preparation and is expected to be completed during 2004/05 financial year.
ii) Lengthy and bureaucratic procurement procedures, appeals and counter appeals by the losers in competitive tendering hamper implementation in the sector. There is a critical need to review these procedures to shorten the procurement process, and deal with appeals in a more effective manner.
iii) Multiplicity of statutes and institutions dealing with road management in Kenya which includes KRB, KWS, Local Authorities, and the Ministry of Environment have also impacted negatively on the sector's performance. The number of actors must be rationalized; role of each institution must be reviewed and redefined to ensure effective coordination of road works management. Relevant statutes must be harmonized; currently there are 23 legislations.
iv) Corruption and inefficiency are major issues within the sector and have led to substandard construction work, non-compliance with the axle loading control limits and wastage. Efficiency audits are necessary and improving governance within the sector is critical. In addition to punishing offenders, privatisation of roads and the axle loading zones will go a long way in checking corruption at the weighbridge.
v) Lack of adequate financial resources has also hampered effective implementation of road projects and programmes. This has lead to slow project implementation. There is need to provide the resources as the priority demands.

2.11. Transport

Like the road sector, the transport services also play a role in enhancing the competitiveness, efficiency and effectiveness of Kenyan goods and services. The IP-ERS envisages to improving the management and security of transport infrastructure. During 2003/04, the transport sector registered a real growth of 1.5%. of GDP.

Railway

The objective of reforms in the railway transport is to develop an efficient rail transport system. Of priority is to complete concessioning of the Kenya Railways Corporation, including joint concessioning with Uganda Railways.

Progress and achievements.

i) Concessioning of the railway has progressed with the tendering process ongoing. Pre-qualification opening was done in October 2004 and issuing of draft bidding document was completed in November 2004. On joint concessioning of railway services, an MOU was signed between Kenya and Uganda, and Stakeholders' conferences held in both countries in order to create awareness
ii) The restructuring process has commenced including, rationalization of passenger services to release more locomotives for freight business; Rehabilitation of locomotives, so far 12 are in progress and 9 will be completed by June 2005 and 3 by December 2005; rehabilitation of bad sections is set to begin in April 2005.
iii) Kenya/ Uganda joint plan of implementation saw reduction in cargo documentation and transportation time to 3-4 days from 7-10days for Mombasa to Kampala bound goods.

Air Transport

Kenya, being the major airline hub in East Africa, its air transport has greatest potential to dominate and sustain development of the Greater EAC sectors such as trade, tourism and commerce. Efficient and secure air transport is one of the key IP-ERS priorities for economic growth.
Key policies for achieving the above IP-ERS objective are to enhance management, efficiency and safety. This was to be achieved through: attaining the Federal Aviation Authority/International Civil Aviation Organization (ICAO) category standards from the current category; upgrading the capacity of airports and; privatisation.

Progress during the Review Period.

To meet the ICAO standards: the process will take five years but as of now the following steps are being taken towards that end;
i) Refurbishing of the airport facilities and modernization of training facilities at EA School of Aviation and invitations for bids and terms of reference have been drawn for the short listed contractors and work is expected to start by end of the year 2004. Implementation of global navigation satellite systems/global positioning system (GNSS/GPS) procedures in a number of airports is in progress.
ii) Security measures: Construction of the perimeter fence and installation of intrusion detection system. The contract to undertake this task was awarded in April and work began in May 2004.
iii) Improved efficiency: Reorganizing the Airport by separating the arrivals from departures - relocating domestic terminals to the old Airport at Embakasi, in an effort to create additional space for international flights. A contract for design work has also been awarded. To create space for the domestic flights, relocation of Military from the Old Airport began at the end of 2003.The procurement for the contractor will be finalized by July 2005.

Road Transport, Maritime and Inland Water ways

Improvement of the country's maritime and inland waterways reported the following strategies:
   i) To Convert Mombasa port into a landlord port
   ii) Improve efficiency of cargo transportation from Mombasa to Nairobi, Kampala and other destinations.

iii) Privatise Kenya Railways together with container terminals at Nairobi, Kisumu, and Eldoret.
iv) To improve road safety by halving the fatalities from 3000 death per annum - reduce road fatality rates from 60 deaths per 10,000 vehicles to 45 deaths per 10,000 vehicles per annum.

Progress during the Review Period:

i) Tendering process to modernize and replace obsolete equipment in KPA was completed in August 2004, while that of repairs began during the conclusion of this review process.
ii) KPA is in the process of privatising the ports conventional cargo services and a Draft License Agreement has been submitted to Treasury for consideration. This is expected to improve the efficiency of cargo transportation from Mombasa to Nairobi, Kampala and other destinations. A study supported by PPIAF on private sector participation in the sector will begin by early 2005.
iii) Purchase of rail containers by Kenya railways and KPA is in process and will be finalized by December 2004.
iv) A case study to determine development of Cruise passenger terminals is ongoing to be completed in December 2004.
v) Maritime law has been prepared and will be presented in parliament before December 2004. Amendment of the KPA Act is being planned to begin in 2005.
vi) Funds for one ferry have been allocated and tendering process has begun.
vii) The Ministry of Roads & Public Works is sourcing for funds to Construct Dongo-Kundu bypass to replace ferry services by December 2006.
viii) The Maritime Authority has been set up and a board appointed and is awaiting Gazettement.
ix) Work to construct Search & Rescue Centre and Maritime Regulatory Authority facilities will start in December 2004.
x) An Integrated National Transport Policy has been prepared and awaits Cabinet approval before presentation to Parliament.
xi) Through implementation of Legal Notice No. 161 of October 2003 which came into force in February 2004 there has been marked decrease in road accident fatalities through road safety campaigns focussing on Public Service Vehicles. These campaigns will be intensified in 2005 to include private motorists.

Challenges

i) The funds to pay the retrenched staff of the railways which the concessionaire may not need continue to pose a challenge to the whole privatisation process.
ii) Lengthy procurement procedures for donor funded projects especially where government procedures are at variance with donor procedures have slowed absorption capacity of donor funds hence slowing down implementation progress.
iii) In the first year of implementing new traffic safety rules, it was discovered that some vehicles had tampered with speed governors hence the issuance of a new gazette notice towards the end of 2004 requiring vehicles to fit only speed governor and not any other speed limiter with effect from January 2005; some passengers have been found not fastening seat belts especially on short distances; and laxity on the part of law enforcement agencies which do not enforce the new traffic regulations at all times.

2.12. Communications and Information

Within the framework of IP-ERS, the Government priority was to open the doors for a major expansion of the telecommunications sector as one of the necessary conditions for accelerating growth in other productive sectors of the economy. Key strategies for the sector include, increasing efficiency in communication services, improving the public access to Information, increasing the use of ICT and promoting the Film Industry.
The current inefficiency and monopolistic structure in the fixed-line telecom sub-sector has resulted in poor access and services (only 2% of households have fixed lines, 60% of them located in Nairobi area.)The monopoly license held by Telecom Kenya expired in July 2004, and the Government is engaged in the process of introducing competition in the international segment by licensing another fixed line operator with a view to lowering the cost of both local and international calls.

Progress during the Review Period

i) Information and Broadcasting; A draft Media-Broadcasting Bill is being reviewed to incorporate all stakeholders' views and draft ICT Policy has been developed and will be operationalized in the civil service by 2007.
ii) Privatisation: strategic investor for the TELKOM Kenya is in the process of being identified to privatise by June 2005. Restructuring in the sector was begun in preparation for privatisation. A new market structure was released that allows newcomer operators to build and operate their own international gateway facilities. This has also paved way for additional Internet gateway operators and so far ten of them have been gazetted.
iii) Liberalization of communications services ended monopoly status of Telkom Kenya in July 2004. The third cellular operator (Econet Wireless) licensing was engulfed on legal disputes and later cancelled. A prospective investor in fixed line telephone operations is to be identified by June 2005 following cancellation of an earlier identified operator. Licensing of three firms to compete with Telkom Kenya's National Gateway Jambonet to operate internet backbone and international gateway services. This move will improve investment in new efficient technology access and efficiency in the sub-sector.
iv) Expanded Access: (i). Telecommunication - Subscription to the two mobile service providers rose to 3.0 million in May 2004 from 1.9 million in December 2003, representing a 68.9% growth in five months. The period also witnessed the introduction of community pay phones and extension of mobile services by Safaricom in North Eastern Province. In addition a Regional Operator, Bell-Western was licensed to cover North Eastern Districts where there have been no telecommunication services for a long time. (ii). Postal Services - The postal corporation has installed Very Small Aperture Technology (VSAT); a satellite based technology used for long range communication in more than 500 facilities throughout the country to enhance communication.

2.13. Information and Communication Technology

The importance of ICT in improving performance in productive sectors of the economy and Governance has made the sector one of the fastest employment generating industries. However, low access to telecommunications, limited penetration of ICT usage in Kenya especially in rural areas and an inadequate legislative framework, have hampered its growth.
During the review period, the following progress has been made in the area of ICT;

i) Through wide consultation and stakeholders participation, an ICT Policy was finalized and approved by Cabinet and is scheduled for rolling out to all government ministries. This included liberalization of the telecommunications sector by removing the monopoly hitherto enjoyed by the Kenya Telecommunication Corporation.

ii) E-government: Implementation committees have been set up and an e-government strategy document to guide implementation completed. Over 50% cabling of government buildings has been completed. Most Ministries have acquired their own websites and some staff have own personal email addresses. However, harmonization to a single government portal may have to take place gradually as its full achievement will depend on e-government progress. IFMIS and IPPD programmes are being implemented and will be fully operational by March 2005

iii) Expanding Access: The government, in effort to increase access and adoption of ICT has removed taxation on computer importation on both software and hardware, allowed ISPs and operators to develop their own gateway facility and infrastructure unlike before when they had to use Telkom infrastructure. On Broadcasting, the Government has liberalized airwaves and licensed new local broadcasting stations all over the country including the rural areas. The Government also abolished in its last budget the requirement for permits for radio and TV sets as well as dealers' licenses, earlier sold and issued by KBC.

iv) Training and Capacity Building: Refurbishment and modernization of public mass media establishments (Kenya Institute of Mass Communication (KIMC), Kenya News Agency (KNA) field offices, KBC recovery programme) facilities and equipments.

v) Investment in ICT education and training, that involves developing education curriculum incorporating IT studies

vi) A draft policy paper and a report on proposed Film Commission of Kenya has been prepared and is ready for adoption by stakeholders.

Challenges

i) Lack of a large-scale infrastructure for telecommunications, affordability and efficiency. With lack of appropriate infrastructure in place to enhance expansion of especially the fixed lines, process of acquiring them and the cost involved in getting connected, still stands as an access barrier to most poor Kenyans. The coming of the second mobile phone made significant impact on access, but the costs are still above what is affordable to most poor Kenyans.

ii) Meeting some targets like privatisation of the TELKOM scheduled for June 2005 is over ambitious when decisions about retrenching and the divestiture of Safaricom have not yet been taken.

iii) Lack of transparency in the way services are procured. Licensing in communication and indeed all other sectors must take an approach that is clearly defined, transparent and accountable.

iv) Rolling-out the access to communication services, especially ICT to rural centres and schools. A timetable for the implementation of ICT and e-Government need to be developed as a priority.

2.14. Energy

Electricity sector is one in urgent need to deepen reforms to enhance reliability of supply, increase access to electricity, and lower energy costs. The key reform agenda is to expand private sector participation in generation and distribution of electricity, strengthen regulatory functions of Electricity Regulatory Board (ERB) including review of existing tariff regime and the mechanism for setting future tariffs. Other reforms include the Government's reducing its direct equity in the KPLC from 51% to below 39% and restructure KENGEN, and accelerating the pace of rural electrification.

Progress during the Review Period.

i) A Sessional paper no. 4 of 2004 for Energy sector was approved by Cabinet which among others proposes establishment of the Rural Electricity Authority (REA).

ii) KenGen will offload 30% of its equity to the private sector by December 2005 while KPLC will be unbundled into two entities, one for transmission which will be fully state owned, and the other for distribution which will be fully private sector owned

iii) Resource Optimization programme ongoing targeting Olkaria I and II for Olkaria II, 35 MW Third Unit.

iv) Sondu Miriu Hydropower project funding has been resumed and commencement of the contracts issued. Optimisation of Kiambere power plant for capacity enhancement from 144MW to 164MW has been completed.

v) System losses decreased marginally from 949 million KWH in 2002/ 03 to 946 million KWH in 2003/04 or a decline of 0.3%.

vi) The Energy Sector Recovery Project was launched in December 2004 whose objectives include; enhancement of the policy, institutional and regulatory environment, efficient expansion of power generation capacity: Increase in access to electricity in both urban and peri-urban areas: and efficiency and reliability improvement of the power system

Challenges.

Rural Electrification: Still remains one of the key challenges of empowering rural population to efficiently utilize energy for production and services.

i) Implementation of various schemes supported by donors and government through ongoing 32 schemes are completed (50 trading centres and 20 schools), 120 trading centers, 75 schools and 52 coffee factories to be completed in December 2004 and another 80 trading centers are at various stages.

ii) Survey and design for electrifying 150 coffee factories has been completed. Work will commence in the second half of 2004/05 and will last for a year.

iii) Energy is still an expensive factor of production that has enormous effect on the cost of production of goods and services, thereby reducing competitiveness in Kenya's manufacturing sub-sector.

Petroleum.

Lack of an effective regulatory framework, has seen this sub-sector experience poor competition, enforcement of safety standards and high barrier to entry. A new Energy Act that combines Petroleum Act and Electricity Act will ease administrative inefficiency and improve service delivery. Other measures include:

i. Enhanced development of indigenous energy resources aimed at reducing the high energy import bills. The government has completed potential exploration of the Anza Basin, Lamu Basin and prospective blocks.
ii. Coal Exploration - So far ten wells have been drilled in Mui basin with a cumulative depth of 1247.93 metres. Four of the wells have yielded coal seams with thickness ranging from about 3.0 metres to 14 metres. Tenders have been

advertised for sufficient appraisal drilling to enable determination of the economic potential of coal reserve in Mui basin by December 2005.

iii. Promote Petroleum Potential of Prospective Blocks: The review of the Legal Policy and Fiscal Regimes in exploration and production is near completion - a draft brochure summarizing the Legal and fiscal Framework on Petroleum Exploration and Production is ready for approval. In addition meetings have been held alternately in the three East African countries.

Renewable Energy Development:

The government has been supporting initiatives to popularise renewable energy (wood, wind, solar and Biogas)

i) A Sessional Paper No. 4 of 2004 has recommended the licensing of charcoal production to encourage its commercial production in a sustainable manner.
ii) To promote investments in wind energy generation, the Ministry of Energy recently completed preparation of a broad National Wind Resource Atlas.
iii) The solar energy programme of activities is not yet commenced although the plan to install solar thermal facilities in schools and hospitals is in place.
iv) Plans are underway to establish a National Centre of Excellence in Renewable Energy Technologies. A steering committee has been set up and detailed plan is in place.

The department has developed a monitoring and evaluation system for their projects and programmes enhancing information flow on a quarterly basis. During the review period two monitoring and evaluation exercises had been undertaken.

Challenges.

In renewable energy, the main challenge is mobilisation of resources for the exploitation and promotion of existing technologies. Specifically, high cost of technologies; inadequate financing facilities and inadequate awareness of the existing renewable energy technologies have contributed significantly to the low level of utilization of these technologies.

2.11. Productive Sectors

Tourism, manufacturing and trade are the main drivers of the Kenyan economy, with the Micro and Small Enterprises (MSEs) being the engine of growth. The productive sectors contribute about 25% of the GDP and employ over 4 million people, 90% of whom are in the MSE sector. The observations and recommendations of the JSA have been generally addressed in the sector reforms, including restructuring of the trade system within the context of EAC-COMESA, Investment Code, Privatisation Bill, MSE Development Policy, Micro-Finance Bill and Private Sector Development Strategy, among others, with increased participation of the private sector.

Tourism

During this review period, the tourism sector registered significant growth in terms of increased foreign exchange earnings, increased tourists arrivals and employment creation. To maximize on this growth trend, the government is working together with the private sector in carrying out aggressive marketing as well as in strengthening linkages between tourism and the rest of the economy.

The key objectives in the IP-ERS for the tourism sector include:

i) Increase tourism sector growth rate from 1.5 per cent in 2002 to 9.6 percent by 2007.
ii) Increase number of tourists from 500,000 in 2002 to 1.5 million by 2007.
iii) Double tourism foreign exchange earnings from KSh 24 billion in 2002 to KSh 48 billion in 2007.

Progress during the Review Period

International visitor arrivals (including business) increased by 14.5% from 1,001,300 in 2002 to 1,146,100 in 2003. Tourist arrivals increased by 18% from 1.14 million in 2003 to 1.4 million in 2004.

i) Tourism earnings in 2002 were Ksh.22 billion, increasing to Ksh.25.5 billion in 2003 and to Ksh. 42 billion in 2004. The 2004 figure was a 66% increase from 2003.
ii) Overall wage employment in tourism sector increased by 3.5 per cent in 2003.
iii) The government has reinforced security in the main tourists resorts through operationalisation of a Tourist Police Unit currently staffed with 150 officers and an establishment of 300 officers, strengthened the airport security by improved scanning equipment, thorough security checks, created an Anti-Terrorist Police Unit.
iv) In promotion, the Ministry has launched a number of major marketing campaigns including;
   a. Emergency Market Recovery Programme,
   b. Marketing campaigns in the Far East (China, Japan and Thailand), opening of an Asian region marketing office in Hong-Kong, Hosting Miss Hong-Kong together with Hong-Kong TV, signing of "Approved Destination Status" by the Ministers of Tourism for Kenya and China, direct Kenya Airways flights to China.
v) Draft Tourism Policy was completed in 2004.
vi) New tourist circuits were launched in Western Kenya and Mount Kenya regions
vii) Extension of grants to seven (7) Micro and Small Enterprises under the Tourism Trust Fund programme.
viii) Renovations of Kenyatta International Conference Centre and hosting of several international and local conferences

Challenges

The main challenges facing the sector include:-
i) Security and safety of tourists following escalating global terrorism;
ii) Inadequate marketing resources especially taking into account the high marketing budgets of our competitors; e.g. South Africa;
iii) Poor infrastructure into/in most tourist circuits/facilities. More resources need to be channelled to tourism infrastructure development including the ICT technology
iv) Narrow range of developed tourist products thus continuing over dependency on beach/safari products.
v) Funding of tourist small enterprises has not been significant, even with the establishment of the TTF
vi) Low budget tourists resulting from cheap image destination marketing by international tour operators.

vii) Lack of clear tourism and wildlife policies leading to problems of human wildlife conflicts, harassment of tourists by beach operators.
viii) The Draft Tourism Policy should be finalized by June 2005.
ix) There is need to improve affordable funding to small enterprise and community-based tourism facilities
x) Kenya Tourist Board marketing activities should be better funded and expanded.
xi) Ensure that hotels and other tourist facilities are regularly inspected to ensure maintenance of standards
xii) Enhance the image of Kenya as an ideal tourism and investment destination through development of a strong brand.

2.15.2. Trade and Investment.

During the review period, the government continued reforming Kenya's trade system within the context of the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), Africa Caribbean Pacific (ACP-EU) trade arrangements and the World Trade Organisation (WTO) framework. Under the ACP-EU agreement both the ACP and EU have agreed to negotiate new WTO compatible trading agreements, which will enter into force in January 2008.

The key growth targets for trade and investments include: -

i) Volume growth of exports of 5.7 percent annually
ii) Diversification away from commodity exports and increased share of North American market;
iii) Clear and comprehensive policy direction on investments
iv) Investment Promotion and facilitation environment brought to international best practice

Progress during the Review period

i) The government has reduced the number of tariff bands to three, the top tariff rate to 25 percent. In addition, additional measures were adopted to protect products like wheat, maize, used bags, rice, textile, milk and milk products against unfair trade.
ii) The average tariff rate was reduced from 16.8 to 11.8 per cent.
iii) Exports increased by 8.2 per cent, against a target of 5.7%, in 2003 compared to 4.0 percent in 2002. These gains were however offset by imports, which rose by 9.4 percent. Subsequently the trade deficit expanded by 11.6 per cent from Kshs.88, 427 million in 2002 to Kshs.98, 690 million in 2003. The total value of international trade increased from Kshs.426, 993 million in 2002 to Kshs.464, 997 million in 2003;
iv) Kenya's exports to COMESA grew from Ksh.59 billion in 2002 to Ksh.61.8 billion in 2003;
v) In the period 2002/3, Kenya's exports to the EAC fell slightly from KSh.45.5 billion to Ksh. 45.2 billion;
vi) A trade policy paper setting out additional reforms including policy in the context of EAC, COMESA and on going trade negotiations under the WTO and ACPU Cotonou Agreement was initiated.

vii) A total of 77 projects/investments were initiated through the Investment Promotion Centre in 2004 as compared to 95 in 2003, 48 in 2002. The total capital cost of the investments initiated in 2004 was Kshs.87,192 million compared to Kshs.11,250 million for 2003;

viii) A National Export Development Strategy that was prepared under the coordination of the Ministry of Trade and Industry was approved by the Cabinet. The Ministry of Trade and Industry is currently preparing an implementation plan for the export strategy;

ix) The Ministry of Trade and Industry drafted the Investment Code, which was passed by Parliament and approved by the President3

x) KEPLOTRADE commissioned and finalized 14 background studies on various areas to be negotiated in six (6) clusters and conducted three intensive Training programmes for over 60 people drawn from the public sector, private sector and civil society.

xi) In 2004, following successful negotiations, the European Union reinstated Kenya's sugar quota of 5000 tonnes annually;

xii) The Ministry of Trade in conjunction with the World Bank completed four diagnostic studies during 2003 – 2004:

   a. Accelerating reforms to improve the commercial legal framework and remove administrative barriers to investment in Kenya
   b. Growth and competitiveness in Kenya;
   c. From challenge to opportunity; Transforming Kenya's Fresh Vegetable trade in the contest of Emerging Food safety and other standards in Europe;
   d. Kenyan Exports of Nile Perch: Impact of Food Safety Standards on an Export-Oriented supply chain.

xiii) The number of companies established in the EPZ rose from 66 in 2003 to 72 in 2004. Export Processing Zones, established to generate employment and earn foreign exchange, harness investment and increase value added for domestic inputs. This compares favourably with 54 in 2002. Direct employment of Kenyans in the EPZ stood at 40,000 in 2004, an increase of 14.2 per cent from 35,000 in 2003. The zones created an estimated 11,667 indirect jobs in sub-contracting and supplies bringing the total employment attributable to EPZ to over 46,667 in 2003.

xiv) A draft counterfeit bill was developed during the period under review to enforce compliance and stamp out dumping of counterfeit and sub-standard goods by manufacturers and traders;

   a. An Anti-Counterfeit unit was established in the Ministry of Trade and Industry during the period under review to coordinate the counterfeit warfare and act as a liaison office for the various stakeholders and law enforcement agencies involved. The unit has embarked on continuous consumer awareness campaign on counterfeits and sensitisation of the Judiciary and the Attorney General Chambers;
   b. The Government through KRA, Kenya Bureau of Standards (KEBs) and Weights and Measures Department has intensified pre-shipment inspection;

[3] The code, among others, entails the establishment of an Investment Authority in charge of investment policy and the development of an investment roadmap by 2005

c. The Anti-counterfeit Unit formed has coordinated the stakeholders in the music sector to deliberate on piracy and royalty in the industry and this initiative is being supported by the World Bank.

xv) Over the period 2003 – 2004, the Ministry issued loans amounting to Kshs.19,938,000 million to 634 traders through 14 Districts Joint Loans Boards and 2 Municipality Boards.

xvi) To enhance trade facilitation:

a. KRA, KEPHIS, KEBS and KPA have established one-stop shop for clearing goods at the port of Mombasa reducing the number of stamps needed for clearance from more than 12 to 4 and implementing a one inspection per container policy.

b. KRA has initiated and completed a process of simplification of export/import documentation, starting with a business process reengineering study, which has been completed and due for implementation. In addition, in collaboration with the World Bank and WCO a Time Release Study was conducted.

c. KRA has started implementing its customs modernization and reform program, including the installation of a scanner in the port of Mombasa, the establishment of a system for direct payment to banks of import duties and the starting of rolling out the new customs computer system.

d. The Ministry of Trade and Industry is coordinating the preparation of a comprehensive trade policy.

xvii) Preparation of a new Strategic Plan 2004/07 for Export Promotion Council, which involves a full modernization and refocus of its activities, which should enable it to play its critical role of assisting exporters

xviii) Important progress in the certification of horticulture producers to meet the new EU traceability standards, which entered into force on January 1 2005.

Challenges

i) High business transaction costs; due to poor infrastructure, high-energy and communication costs.

ii) Slow legislation process hampering enactment of trade and investment related laws;

iii) Unfair competition from counterfeit goods;

iv) Problems of access to external market e.g. the EU, USA and Japan, due to non-tariffs barriers e.g. high prohibitive requirements/issues on environment, health, labour etc.

v) Aggressive export promotion and marketing;

vi) Diversification of exports;

vii) Finalise national trade policy and Review of legal and regulatory framework;

viii) Negotiate for better and favourable market access opportunities.

ix) To bring together the IPC, EPZ and KIE under one Act (Investment Authority) as soon as possible in order to create a one-stop shop for investors

x) Aggressively promote Kenya as the ideal investment destination and gateway to the regional markets, e.g. EAC and COMESA

xi) Expiration of MFA Agreement and its impact on the exports of garments from Export Processing Zone (EPZ)

xii) Substantially reduce the time it takes to clear goods in the main entry points

xiii) Expiry of 3rd country fabric requirement under African Growth and Opportunity Act (AGOA)

2.15.3. Industry

Kenya's manufacturing sector is performing well below its potential, and to expand its growth and employment generating capacity the Government will focus on removing the barriers to investment and lowering the costs of doing business in the sector. This will include measures to further liberalise trade, deepen financial markets, enhance infrastructure, improve security, facilitate use of technology licences, review mechanism for wage determination and improve access to quality trading.

The key objectives for the industry sector include:-

i) Manufacturing sector to grow at an average of 8.6 per cent per annum over 2003 – 2007 compared to 0.4 percent over 1998 – 2002;
ii) Amendment of industrial facilitative policies and formulation of new ones where necessary;
iii) Facilitate use of technology licences;
iv) Encourage private and public partnership in policy formulation;
v) Review mechanisms for wage determination and improve access to quality training;
vi) Expand EPZ to economic zones and MUB for export promotion
vii) Review the Sessional Paper No. 2 of 1997 on Industrial Transformation to the year 2020 as a pre-requisite for preparing a comprehensive Industrial Master Plan by the end of 2004;

Progress during the Review Period

i) Real output in the manufacturing sector expanded by 1.4 percent in 2003 compared to 1.2 per cent growth recorded in 2002. Employment in the manufacturing sector grew by 5.2 per cent in 2003. Overall, employment is estimated to have grown to 241,754 persons in 2003 from 229,746 in 2002;
ii) Government enhanced enforcement to compliance to stamp out dumping and counterfeiting of goods. Eleven (11) criminal cases involving counterfeit goods were prosecuted in 2003 in Nairobi and Mombasa while 9 cases were prosecuted between January – July 2004.
iii) A Draft Review of the Sessional Paper No. 2 of 1997 on Industrial Transformation to the year 2020 has been developed;
iv) During 2003/04 the Ministry of Trade and Industry produced two quarterly bulletins/newsletters on trade and industry issues respectively;
v) Legislation to curb restrictive practices that disadvantage local manufacturers is under preparation;
vi) In an effort to lower the cost of doing business, the government through the Ministry of Labour developed a wage framework that is based on measurable productivity. Productivity Centre of Kenya (PCK) whose mandate is to spearhead productivity in all sectors established;
vii) Textile exports to the US market through the AGOA initiative have increased from US$123 million in 2002 to US$150 million in 2003. Between January – June 2004, the exports were worth US$100 million.

viii) Sourcing of fabrics from third world countries to produce garments for American market was extended from 2004 to the year 2007, while the general exports to the American market through the Act has been extended from the deadline of 2008 to the year 2015 (quota free, tax free);

ix) Industrial attachment scheme launched by DIT in November 2004 and received widespread support from industry. The objective of the scheme is to equip students with hands on and practical skills and experience in industry in order to enhance their potential for securing employment within the region and also improve their productivity once employed;

x) Favourable tax incentives have also been introduced in the year under review including duty waivers on capital goods, plant and equipment, increase in investment allowance from 60% to 100%. Currently, capital goods and raw materials are duty and VAT free. The standard Value Added Tax (VAT) rate has been reduced from 18% to 16%.

xi) In 2004, Kenya successfully negotiated with COMESA for a four-year non-renewable extension of safeguard measures on sugar for 200,000 tones annually until March, 2008. A national Sugar Conference was held in 2004 to chart the way forward for the Sugar Industry. Some of the recommendations that have already been acted on include the development of a sugar industry strategic plan, increased funding for research and payments of farmers' arrears amounting to KShs.800 million and suspension of interest and penalties on previous loans owed by farmers and millers to the Sugar Development Fund (SDF);

xii) In respect to wheat flour, Kenya negotiated to continue imposing 60% import duty on wheat flour until June, 2005. Some of the gains made in wheat sub sector include increased production of high quality seed wheat, development of a breeding programme to come up with new varieties for drier parts of the country and sensitisation of farmers on the benefit of using certified seeds[4];

xiii) Towards improvement of business and investment environment, the following were accomplished:

a. Labour Law Review completed and Draft Bill submitted to AG's Chambers.
b. Sessional Paper on Employment submitted to Parliament for enactment.
c. Four more judges appointed to the Industrial Court
d. Number of strikes and lock-outs reduced by 83% from 126 in 2003 to 21 in 2004
e. EPZ Desk established at Ministry Headquarters to handle EPZ related labour disputes.
f. Private sector now being involved in public policy formation and other government initiatives and has membership in key policy-making and implementation review bodies, e.g. WTO, SWGs and NESC
g. A total of 77 investment projects were initiated through the Investment Promotion Centre in 2004 as compared to 95 in 2003.

Challenges

i. High energy costs; exacerbated by escalating prices of fuel in 2003/04;
ii. Insecurity;
iii. Poor infrastructure;

[4] The safeguards are meant to give temporary respite to the affected domestic industries to facilitate them to restructure in order to be regionally competitive

iv. Appreciation of the Kenya shilling against the US dollar, which has constrained exports and encouraged imports that compete with locally, produced goods;
v. Lack of clear framework for private sector participation/investment in public infrastructural projects;
vi. Lack of clear strategies for ensuring fair local participation in privatised public enterprises;
vii. Lack of adequate capacity by the private sector to effectively participate in public policy formulation.
viii. Need for enhanced enforcement of laws and processes of curbing counterfeit goods;
ix. Kenyan manufacturers to be encouraged to develop a culture of high quality products;
x. Strengthen linkages with research organisations to spearhead faster and better product development;
xi. Institutionalise a framework for proactive public- private sector dialogue and partnership to deliberate on ways to facilitate industrial growth;
xii. Finalise the review of Sessional Paper on Industrial Transformation.
xiii. To substantially increase the linkages between EPZ companies and local suppliers, currently extremely low.
xiv. Ensuring the restructuring of the sugar industry to meet the deadline of 2008 when COMESA Tariff-quotas expire.

Micro and Small Enterprises

The MSEs are an important component of the trade and industry sector. The most serious constraints facing the MSEs are lack of access to market for their products; access to affordable credit, harassment by local authorities and lack serviced commercial work-sites and lack of appropriate business/market information. Key targets for the MSE sector include:

i) Increased employment in MSE sector and increased formalisation of informal MSEs;
ii) Establish export processing villages for MSE producers
iii) Finalize Sessional Paper on MSE Policy
iv) Finalise the Micro-Finance Bill

Progress during the Review period

i) Sessional Paper on MSE development policy finalized and is awaiting enactment in Parliament
ii) In order to improve access to credit facilities to small-scale businesses, the Ministry of Finance has drafted the Micro-Finance Bill during the period under review;
iii) The Ministry of Trade and Industry and World Bank signed "Micro, Small and Medium Enterprise Competitiveness Project" in August 2004. The project aims to increase productivity and employment in participating MSEs

Challenge

i). Slow enactment of MSE policy and legislation
ii). Review of Local Government Act to create an enabling environment for MSEs to thrive
iii). Speed up the enactment of MSE policy and micro-finance Bill
iv). Start benchmarking for MSEs with selected high growth sectors (tourism and manufacturing).
v). Provision of incentives to MSEs to undertake attachment/apprenticeship
vi). A home for MSEs is needed; and the Ministry of Trade and Industry could be the ideal home.
vii). Improved governance in the management of MSEs organisations/associations.

Sector-wide Issues

There are some issues/strategies that cut across the whole productive sector:

Progress

Ministry of Trade & Industry in conjunction with relevant stakeholders is in the process of developing a Private Sector Development Strategy. It is envisaged that this strategy will be completed by end of March 2005.

Challenge

There is need to develop a proper index for the cost of doing business in Kenya; taking into account energy costs, infrastructural costs, administrative costs (e.g. licensing) and taxes.

CHAPTER THREE

3.0. EQUITY AND POVERTY REDUCTION

3.1. Introduction

The IP-ERS key objective for promoting equity and poverty reduction focuses on putting in place strategies for levelling the playing field by providing opportunities for all Kenyans to productively and self-reliantly participate in employment and wealth creation initiatives. The strategy focuses on human resource development as a prerequisite to promotion of equity and poverty reduction embracing all Kenyans, especially in poverty stricken areas. Human resources development and empowerment require complementary efforts in education and training, health and HIV/AIDS, and nutrition, employment and improvement in working conditions.

The government's commitment to improving services delivery, social inclusion and equity is demonstrated through its broad approach in IP-ERS to ensure that all Kenyans have access to basic services and to focus more attention on vulnerable and disadvantaged groups. The strategy focus on providing universal free primary education, improved access to basic health care delivery systems mainly in the traditionally overlooked arid and semi-arid areas, and upgrading the living conditions for the urban poor. Given that the pastoralist communities represent most of the previously neglected, but particularly vulnerable and poverty-stricken group, the government's commitment towards addressing the needs of pastoralist is demonstrated through continued support to the ASAL Programme within the Office of President. In addition the government takes due cognisance that the poor are an asset and critical agents of change. As such, their empowerment and involvement is crucial to the development process of the country.

3.2. Human Resource Development

The government has directed much effort to enhancing access by all Kenyans to education, training, health (including HIV /AIDS treatment), employment and nutrition.

3.2.1 Education: Attainment of universal primary education

Education, and particularly free primary education, is not only the top priority of the NARC Government agenda, but also a major objective of MDGs. Towards the achievement of Universal education, the Government target is to achieve net enrolment rate of 85% by the year 2007. Free primary education as a strategy of achieving this broad approach that directly addresses the two MDGs of attaining universal primary education by 2015 and promoting gender equality and empowerment of women.

The gender challenge on equity and poverty reduction initiatives is being addressed by putting more emphasis to promoting the girl child education by committing more funds for construction and maintenance of girls' boarding schools in marginalized areas. The initiative has extensively involved the civil societies in advocating for gender equality that includes education, economic and socio empowerment.

According to various reports Kenya has a relatively high level of literacy but there exists gender disparities at the various levels of education. The proportion of women to men falls considerably as you move up the education ladder. At primary level, the proportion of 81.3 % net enrolment rate, falls to78.3% at secondary school, 44.2% in polytechnics and 48% Universities respectively.

The programme priorities are;

i) Ensuring equitable enrolment by targeting disadvantaged areas and groups

ii) Improving quality and internal efficiency through teacher training and redeployment

iii) Reforming the curriculum to focus on core skills

iv) Providing learning materials, promoting gender equality, improving learning environment

v) Redefining the roles of local authorities

vi) Decentralizing decision making to district and school level administrators and parents' representatives

Progress during the Review Period

i) One major initiative of NARC Government on coming to power was the introduction and implementation of a compulsory universal education program through free primary education. As a result, the Gross Enrolment Rate went up from 92% to 104% of the school going population within the first year of introduction of the programme.

ii) There was an enrolment gender imbalance in terms of pupil and regions with the 3702 thousand boys enrolled at levels compared with 3505 thousand girls giving a boys-girls ratio of 106:100 nationally with a considerable disparity in enrolment rates in the North Eastern Province compared to the rest of the country (Table 3.1.)

iii) To support the programme, the Ministry's total expenditure was increased by 20.8%, from Ksh. 66,417 million in 2002/2003 to Ksh 80,237 million. General administration and planning accounted for 78% of the ministry's recurrent budget, while primary, secondary and higher education accounted for 8, 1 and 10 percent of the recurrent budget respectively. On the other hand development budget for the ministry increased by 75.2 percent from Ksh. 4,814 million in 2002/2003 to Ksh. 8,434 million in 2003/2004. Primary education accounted for 69% of the total development in 2003/2004. To demonstrate Government determination towards achieving universal primary education the primary education budget increased seven fold from Ksh. 796 million in 2002/2003 to Ksh. 5813 million in 2003/2004. There was also remarkable decline in the development expenditure on general administration and planning and support to higher education by 43.6% and 44 % respectively. The gains were redirected to finance free primary education.

iv) Public primary schools increased from 17,683 in 2002 to 17,822 in 2003 and the secondary schools increased by 9.1% from 3,667 in 2002 to 3,999 in 2003. During this review period, there was also an increase in primary to secondary school transition rate to 46.7% in 2003 as well as 0.13% increase in teachers training colleges.

v) 98.7% of teaching workforce is trained with about 72% having attained P1 level training. Number of primary school teachers went up marginally by 1%. Total number of teachers trained went up by 4.8% from 20,177 trainees in 2002 to 21,136 in 2003, P1 level trainees increased by 6.8%, and those enrolled for diploma courses went down by 4.7% from 2,225 in 2002 to 2,120 in 2003.

vi) Starting 2003/2004 to 2006/07 the government and Development partners have earmarked Kshs 9 billion annually for free primary educations.

vii) The Ministry has developed a five-year strategic plan that will guide the implementation and coordination of the sector programmes and monitoring of progress

Table 3.1: Provisional Primary Net Enrolment Rate (NER%) 2003 by gender

Province	Male	Female	Total
Coast	68.0	58.9	63.4
Central	81.5	80.7	81.1
Eastern	87.6	84.9	86.2
Nairobi	53.5	55.3	54.4
Rift valley	79.9	76.9	78.4
Western	94.0	93.9	93.9
Nyanza	95.9	92.1	93.9
North eastern	23.3	12.1	17.6
National	**81.3**	**78.3**	**79.8**

Source: MoEST provisional data obtained from TSC and MOEST district level population projections.

Challenges:

Rapid pupil enrolment in response to the government's implementation of free primary education programme, resulted into crises in pupil/teacher ratio of 40:1 from 34:1 with the worst hit schools experiencing nearly 100:1 ratio; Lack of equipment and facilities such as desks for use by the new entrants, lack of land to build schools in slums areas, High cost equipment and materials to cater for education of children with special needs, inadequate data for effective planning, Planning for increased transition rates from primary to secondary level are key challenges in the education sector. In addition higher enrolment has brought to the fore the issue of quality of education particularly at the primary level and transition to secondary school with potential spill over to higher levels.

The emerging challenges include distribution of teachers, teacher recruitment, empowerment of management structures and more efficient integration of teachers and existing facilities. During this review period these shortcomings were addressed through additional employment of teachers, increased financial allocations to schools and increased monitoring of the programme by the Ministry of Education. The issue of decentralization of educational system is critical for enhancing governance and management efficiency in the system and should be explored further.

As part of the emerging challenges, developing a comprehensive financing programme, enhancing advocacy to enlist support across the board, including the community is critical. A strategy for secondary education and other post primary institutions should also be reviewed to cater for a likely increased demand in transition rate arising from free education.

The implementation of a five-year strategic plan for the Ministry of Education will guide and regulate the sector programmes, monitoring and evaluation and provide the coordination framework.

3.2.2. Health Sector

Health indicators have shown continuous decline as indicated by KDHS 2003. This has cast doubt on the country's ability to realize health related Millennium Development Goals (MDGs). The infant mortality has increased from 74 per 1000 in 1998 to 77 per 1000 in 2003. The maternal mortality is still high at 414 per 100,000 this is an improvement from 590 per 100,000 in the year 2001. Life expectancy has declined from 57 in 1985 to 49 in 2002. The report also indicates that 25% of sick Kenyans do not seek care due to financial barriers and majority of the population live more than 5 kms from nearest health facility.

The goal of the health sector reform as articulated in Kenya's Health Policy framework is provision of accessible, cost effective health care to all Kenyans. This strategy is in line with the Millennium Development Goals. However, health sector continues to be under funded and although the recurrent allocations have risen from Kshs 9.3 billion to Kshs.16 billion between 1999/2000 and 2003/04 in real terms this growth is insignificant compared with high demand for health services. There has been a sustained decrease in per capita expenditure from US$ 9.5 (1980/81) to US$ 6.5 (1999/2000).

The IP-ERS recovery strategy proposes a number of reform measures in the sector to facilitate the achievement of the sector objectives they include: (i) the enactment of legislation converting the National Hospital Insurance Fund (NHIF) into a National Social Health Insurance Fund (NSHIF) covering both in patient and out patient; (ii) rehabilitation of existing health facilities; (iii) overhauling of the system of procurement and distribution of drugs for public health facilities and (iv) setting up of a special health care endowment fund to target vulnerable groups.

Progress during 2003/04

Government through the current National Health Sector Strategic Plan 1999-2004 has implemented various reforms concerning decentralization of health care delivery services through capacity building of district and provincial health systems. Progress has, however been hampered by poor human resource allocation, poor procurement, poor drugs distribution, ineffective financial management systems, leakage and wastage have affected service delivery in health sector. However, lack of a national health sector strategic plan for 2005 – 2010, is impeding plans to sharply increase health services to the poor, including reduction of inefficiencies in service delivery and misallocation of resource use.

To address the challenges the government has put in place certain measures that include:

i) *Increased financing of the health sector;* Government's desire is to increase total spending on health from 5.6% as a share of total public expenditure to 12% by 2010. During the period under review, total spending increased from 5.6% to 9%, (a 61% growth), and an aggregate of 4.5% of the GDP, from 1.5% in 2003/04. The budget allocation for rural health care more than doubled. In addition cost sharing has also been a major source of revenue for funding health care delivery services including drugs and other medical supplies. A total of Kshs. 2.3 billion was collected in 2003/04 as user fees representing 11% of recurrent spending. The proposed National Social Health Insurance is also seen as an alternative source to enhanced accessibility and affordability of health services particularly by the poor.

ii) *Increased cross-sectoral cooperation for health and public health: Achieving the goals of public health standards will require* a multisectoral approach. As such, achieving the MDG goals 4, 5, 6 on health will depend a great deal on achievement of all other MDGs. If Goal 1 on alleviating poverty and hunger, and goal 7, which target access to clean drinking water, sanitation and decent housing respectively could be met, it would improve health greatly. Hence the need to concurrently monitor progress on those other goals to determine the impact on public health.

iii) *Increase the efficiency and effectiveness of the combined investments of GoK and its partners*: the reforms under the Ministry of Health aim at enhancing coordination of all funding into the sector. A Health strategy paper seeking to enhance management, create an enabling environment for private sector and community involvement, including decentralization among others, with a monitoring and evaluation Framework is under preparation.

iv) *Improvements in drug supply:* The restructuring of KEMSA has been ongoing with an aim of improving drug management of supply.

Challenges

i. The lack of a health strategic plan is impeding the implementation of key reforms and firm support for improving health services including reduction of inefficiencies and misallocations of resource use. The results of external evaluation of the 1999-2004 national health sector strategic plan (NHSSP 1999-2004), that included shortcomings, remains key challenges of the MOH and needs to be addressed as a priority.

ii. The health sector remains under funded to allow for adequate drugs, medical supplies, support operations and maintenance and facilitate requisite capital investments. The combined recurrent and development expenditures represent a mere 1.5% of the GDP. The per capita expenditure on health is 19 US Dollars compared with 34 US Dollars that is recommended by the World Health Organization. The public health spending (6 US Dollars per capita) is also low at 9 % of aggregate spending compared with 15 % recommended by the Abuja Declaration.

iii. Recurrent expenditures absorb the largest share of the total budget distributed to personnel 54%, the two national referral hospitals Kenyatta and Moi Teaching (19%), drugs and consumables (11%) and Operation & Maintenance (10%). There is high spending on curative instead of preventive and promotive care. In 2002/2003 for example curative services accounted for 50.8% of the recurrent spending, while preventive and promotive care accounted for only 5.3%. Funding is generally delayed, unreliable and occasionally short of the budget allocation.

iv. The development budget of the health sector accounts for less than 20% of total public spending but it is consistently under spent. The 2004 Ministerial Public Expenditure Review (MPER) also indicates that there were 90 stalled projects valued at Ksh. 3 billion in 2003/04.

v. The challenge of how to deal with the inherent leakages and wastage of resources including personnel productivity, drugs and medical supplies. Recent public expenditure tracking survey (PETS) by KIPPRA, revealed that 30% of all drug supplies released from the district headquarters supply depots did not reach the destined health facilities at lower levels.

vi. Other challenges faced by the health sector include:

- Poor donor funding coordination, which may require funding of the health sector on Sector Wide Approach (SWAP) basis.
- Weak management systems including strengthening of decentralization of health care systems.
- Weaknesses in personnel recruitment and distribution.
- Inadequate facilities and equipment.
- Establishment of a viable and sustainable NHIF to improve access to health care services, particularly for the poor and vulnerable.
- Improvement of maternal and child health facilities especially for delivery and child immunization.

vii. Stalled projects: By 2003/2004 there were over 90 stalled projects in the health sector.

HIV/AIDS

The HIV/AIDS pandemic continues to exert adverse impact on all sectors of the economy. This has placed high level attention in the war against HIV/AIDS. Government objective is to halt and reduce the spread of HIV/AIDS. The proposed key actions include: (i) setting up a special health care programme for HIV/AIDS; (ii) mitigation of socioeconomic impacts by supporting increasing number of orphans and training communities on HIV/AIDS home based care; (iii) implementing HIV/AIDS curriculum in all schools; (iv) strengthening the health sector response to HIV/AIDS by forming AIDS Control Committee at the constituency levels and restructuring National Aids Control Council (v) Provide an explicit legal framework for the national response to HIV pandemic

Progress during the Review Period

During the period under review a number of initiatives were undertaken and include:

i) Strengthening of National Aids Control Council; setting up of Cabinet committee on HIV/AIDS chaired by the President, constitution of Aids Control Units in all the ministries, and Aids control committees in districts and constituencies; among FBOs and NGOs.
ii) Strengthening Government's partnership with stakeholders and particularly the communities through capacity building. Training on Home based care, nutrition and provision of necessary medical care material. Establishment of a HIV/AIDS community initiative account to enhance community access to financial and human resources to curb further spread and impacts of the pandemic. So far, 2,795 proposals totalling to Ksh. 1,242.039,919 were funded.
iii) HIV/AIDS essential drugs with the number of ARV users increased from 10,000 to 20,000 in 2004 because of reduced cost of ARVs from US Dollars 500 to US Dollars 50 per month. A policy and guideline on Orphans and Vulnerable Children (OVCs) has been put in place.
iv) Voluntary Counselling and Testing (VCT) Centres have been established at village levels nationally but only about 15% of population are recorded having used the facilities;
v) Condom supplies increased over 35% during 2003/04, KDHS 2003 indicated an increase in use of condoms.
vi) Focus on priority public health and clinical packages: The target is to achieve quality and increased coverage of health care focusing on the most prevalent diseases that are main cause of high mortality, morbidity and malnutrition: The interventions for these include: control of malaria mortality and morbidity through promotion of Insecticide Treated Nets (ITNs); reduction of infant and Under-Five mortality through immunization coverage; control/reduction of maternal mortality through reproductive health interventions; prevention and control of HIV/AIDS through promotion activities and care for the infected; and drugs management and restructuring for efficient distribution country-wide.

HIV/AIDS Challenges

i) Care of HIV/AIDS infected and affected people, particularly OVCs.
ii) High level of bed occupancy (50%) by HIV/AIDS patients in hospitals.
iii) Availability of ARVs for a wider group of the infected persons.

3.2.3 Labour

The IP-ERS labour reform includes enhancing employment creation and improvement of labour productivity and growth. Policies to achieve this priority include review of wage guidelines and minimum wage and labour market, harmonization of industrial relations and healthy working conditions for workers.

In order to achieve the labour reform objectives, Government made commitment to undertake a number of key initiatives as follows:

i) Instituting measures to expedite settlement and arbitration of trade disputes
ii) Promotion of health and safety standards through surveillance and hygiene audits
iii) Strengthening the National Productivity Centre
iv) Promotion of Labour-Employers-Government relationships and understanding policy.
v) Facilitate the creation of 500,000 new jobs annually.

Progress and Achievements during the Review Period

i) *Reform of labour Market Regulatory*: A Sessional Paper on employment has been prepared and forwarded to parliament for debate and enactment. Labour laws (six core labour Acts) have been reviewed and submitted to the AG's chambers for drafting of bill. The ministry has also developed a new Labour Relations Framework based on measurable productivity indicators. The government of Kenya is a signatory to 43 International labour conventions and Agreements and so far all except four are in force in Kenya.
ii) *Strategies and mechanism for job creation*: An MSE policy was prepared to promote growth of Small and medium sized enterprises, Launched in September 2004, Kenya National Occupation Classifications (KNOCS) that provides an inventory of available skills aimed at linking employers with required qualifications (prospective employees). Skills harmonization, of all types of trainings; Technical, Industrial, Vocational, Entrepreneurial and Training (TIVET). The DIT attachment project was launched in September 2004 to provide opportunities for students and those not employed to undergo practical training to enhance employment. Limited scholarships to these institutions are being provided for.
iii) *Dispute resolving mechanism*: Labour management policies and mechanisms have been put in place and four more judges appointed to the industrial court compared to two previously to enhance dispute settlement machinery, reduce industrial unrest, fortify the labour inspection services and reduce backlog of workmen dispute cases.
iv) *Labour market policies*: Adoption of a new wage policy based on payment of controlled minimum wage. Guidelines to this effect have been developed and given to industrial courts to be applied in the determination of wage awards. It considers productivity and the rise in the cost of living as reflected by the inflation rate. In 2003 the government announced new statutory minimum wage rates that reflected a 15% in the wages specified in the Agricultural Industry Wages Order and 11% increase for those in Wages General Order.
v) In 2003/04 a total of 487,000 jobs were created out of which 459,000 and 28,000 were in the informal and formal sectors respectively. However, the number of jobs created in the formal sector falls short of the net estimated figure of 30,000. It is also noteworthy that no quality classification of the informal sector jobs is available to confirm specific areas of informal sector growth.

Challenges.

i) The biggest challenge facing the labour sector is matching the human resource development with the national human resource requirements.
ii) Creation of quality and sustainable employment in the informal sector.
iii) Other challenges include; outdated technology, low and unresponsive skills, bloated civil service that creates inefficiencies, which deter private sector investment and lower employment potential.
iv) Weak institutional arrangements including full operationalisation of the productivity centre.
v) Lack of funding for operations and maintenance
vi) Implementation of proposed labour laws pending enactment.
vii) Implementation of employment Act once enacted.

3.3. Agriculture, Livestock, Co-operatives and Environment

The Sector consists of Agriculture, Livestock and Fisheries, Co-operatives, Land Administration and Survey as well as Environment. It is one of the key sectors of the economy contributing 26% to the GDP directly and another 27% indirectly. It further contributes 62% of formal sector employment, 60% of exports and 45% of government revenue. It has a large growth multiplier effect estimated at 1.64% compared to 1.23% in non-agricultural sectors.

Agriculture

The overriding goal of the sector is to contribute towards poverty reduction, food security and reduction in unemployment within the auspices of IP-ERS. In order to achieve this, the sector will pursue the general objective of transforming Kenya's agriculture into a profitable, commercially oriented and internationally and regionally competitive economic activity that provides high quality gainful employment to Kenyans.

Over the past, however, the achievements of this objective have been constrained by several problems including:

i) Poor governance in key agricultural institutions, especially the co-operative sector;
ii) Failure of the private sector to fully fill up the capacity and functions previously performed by the public enterprises, after liberalization;
iii) Poor access to farm credit, high cost of modern farm inputs;
iv) Low levels of public funding;
v) Inappropriate technology to the diversity of the country's agro-ecological zones and specifically inadequate funding for research and extension;
vi) Failure to improve efficiency in agricultural production to facilitate effective competition with products from various parts of the world.
vii) High dependency on rain fed production;
viii) Poor infrastructure e.g. Roads, Communication, and Energy;
ix) Low budgetary allocation to the sector.

To address these constraints, the Sector has formulated the SRA in accordance with IP-

ERS, which among proposes a number of policy reforms including:

i) Reviewing and harmonizing the legal, regulatory and institutional framework; Improving delivery of research, extension and advisory support services; Restructuring and privatizing non core functions of parastatals and ministries to bring about efficiency, accountability and effectiveness; Increasing access to quality farm inputs and financial services; Formulating food security policy and programmes.
ii) Further interventions will entail continued fine tuning the liberalization of the marketing of milk, tea, coffee, sugar pyrethrum and meat, clinical services, breeding services, input distribution, export and import trade; policies relating to land and land use; water management, irrigation, environment, wild life management and infrastructure development where the sector will seek to establish appropriate linkages.
iii) Through these and other measures, the Sector is targeted to grow initially at 3.1% p.a. over the period 2003-2007 reaching 5% in 2007. The value of agriculture inputs was projected to grow by 3% over the same period. However, agricultural value added grew by only 1.5% while exports rose by 5.6% in 2003.

Progress during the IP-ERS Review Period

i) Agricultural Institutions Reforms
   a. Merging of Kenya Veterinary Vaccines Production Institute (KEVEVAPI) and Kenya Trypanosomiasis Research Institute (KETRI) with Kenya Agricultural Research Institute (KARI)
   b. Revival and strengthening of AFC; with strategic plan developed
   c. Launching of SRA, which outlines the policies and institutional reforms of the government done in March '04;
   d. Creation of Agricultural Sector Co-ordination Unit (ASCU) to facilitate the continuous implementation of SRA;
   e. National Cereal Produce Board (NCPB) has been partly commercialised;
   f. Capacity of Kenya Plant Health Inspectorate Service (KEPHIS) being improved – funded to the tune of Ksh. 86.4 Million
ii) Demand Driven Extension and Research
   a. Done through NALEP and KARI;
   b. 1421 farmers groups have been trained on EUREPGAP compliance;
   c. Special Programme on Food Security funded to the tune of 50 million;
   d. Market Information now being provided by the Marketing Information Branch and Kenya Agricultural Commodity Exchange;
iii) Access to Financial Services
   a. Preparation of Micro Finance Bill is in progress;
   b. 980 million allocated to AFC to be lent to farmers at are reduced interest rate;
   c. Suspension of interest and penalty owed by the farmers to SDF
iv) Commodity Review
   a. Review of Coffee marketing is in progress;

b. Revival of cotton industry in progress under Rapid Result initiatives;
c. Other commodities reviewed are Coffee and Tea;
d. Reviews of Pyrethrum, Coconut, Palm oil, Horticulture, Agricultural Machinery and Seeds are in process;
e. Review of agricultural legislation in progress. Critical agricultural policies particularly those aimed at protecting poor farmers are being addressed.

Despite the enormous contribution of agriculture, available authoritative data indicate that the sector has constantly been under-funded with its budget allocations declining from 10% of total government allocation in 1960s to average 7.5% between 1980-89, 3% (1990-200) and currently 3.1% in 2003/04 or 0.7% of GDP[10]. According to the 2004 MPER for the sector, 70% of recurrent expenditure in the ministry of agriculture goes towards payment of salaries. The rest is spent on research, market information, extension services, crop protection, seed inspection, mechanization services and farm planning.

Challenges

i) One particular observation (JSA Report) is that the current policy that aims at protecting the market for maize and sugarcane farmers, have a devastating impact on the vast number of the poor, both rural and urban, who depend heavily on these goods, for instance, 80% of maize farmers are net buyers of maize. Balancing the conflicting interests of producers and consumers therefore remains a major challenge. Furthermore pressure from regional integration calls for policy reforms and investments that will enhance agricultural productivity and competitiveness.

ii) A whole range of market access regulations including sanitary and phytosanitary standards (SPS) have been introduced posing a serious challenge to Kenya's export industry. This will affect up to 60% of the vegetable and 90% of the fruit exports, therefore financial and technical support should be given to the small scale farmers to enable them to comply with the required standards.

iii) Poor and inadequate support services for agricultural development that are provided by other players such as rural roads, electricity and investments in agro-industries.

iv) Parastatal reforms and lack of credible institutions to take over the divested functions. This calls for policies that are more conducive to private sector investment.

v) Given that most previous and current problems of the sector have to do with government's interference and regulations in most aspects and decisions pertaining to the sector, the answer towards improvement lies with the government's implementation of liberalization to reduce direct role of state enterprises in production and marketing; restructuring of the sector and divestiture of non-performing state owned agricultural corporations.

vi) Poor governance in key agricultural institutions, particularly the co-operative sector including lack of comprehensive legal framework to guide formulation of consistent policies, inadequate capacity, weak marketing systems; Poor access to farm credit coupled with high cost of farm inputs; inadequate financing to the sector and funding for research and extension services; and high prevalence of HIV/AIDS affecting agricultural productivity. Implementation of SRA will address these concerns.

v) A need for greater resolve by government in transforming the sector;

[10] Per 2002/03/04

vi) Lack of facilitation and outdated methods of extension services;

vii) Lack of financial institutions at the rural areas due to inappropriate legal framework.

Livestock Development

The livestock sector has a high growth potential and is critical for supporting both subsistence farmers and pastoralists. It accounts for 42% of Kenya's agricultural GDP and 10% of the entire GDP. It employs 50% 0f the labour force and supplies the domestic requirements of meat, milk, and dairy products and other livestock products. In addition livestock products account for 20% of total marketed agricultural products and about 5% of the total agricultural exports.

In view of the important contribution of the sector in the recovery process, within the framework of IP-ERS, the government commits itself to implementing a concerted strategy for, disease outbreak prevention and control; improving quality of and certification of the veterinarians and service providers; introduction of a single livestock movement permit; promoting private sector participation in establishing satellite slaughterhouse network; expansion of access to water sources and improving security.

Progress during the Review Period

i) Drought mitigation, control of livestock diseases, quality and certification of veterinarians and other service providers is on-going. Frequent surveys for zoonotic diseases were carried out. Creation of a disease free zone is in progress including introduction of a single permit system for cattle movement to enhance disease control. Number of disease outbreak reduced by 20 percent and 2.8 million cattle were vaccinated out of the targeted 8 million.

ii) Out of 71 slaughterhouse facilities in the country, 47 were rehabilitated and 900 meat inspectors trained.

iii) Review of the National Livestock Development, Kenya Dairy Board completed and submitted to parliament, Animal Breeding, Dairy Bill, and the Dairy and Poultry, Animal Feedstuff Bill 2004 is in the process of being finalized and consultations with stakeholders have been carried out through out the country, and that of veterinary Services and Legal Framework has been initiated.

iv) A livestock attaché office has been established in Saudi Arabia to enhance marketing in the Middle East.

v) Total recorded milk production rose by 14.0 per cent from 178 million litres in 2002 to 203 million litres in 2003, output of processed whole milk and cream increased by 8.1 per cent from 99 million litres to 107 million litres, Beef and mutton production in the year 2002/2003 was estimated at 304,000 tonnes and sheep and goats industry contributed 84,000 tonnes.

vi) Government has paid all KMC unsecured creditors in the Financial Year 2003/04, and two abattoirs were opened, one each in Garissa and Mombasa.

Fisheries

Fisheries sub sector contributes about 3% of the GDP and 3% of total export earnings. It employs 58,000 people directly and 500,000 people indirectly through fish processing and trade. By far the main exports of fish come from Lake Victoria, with Nile Perch taking the bulk of the exports. The IP-ERS recognizes the fresh water and marine fisheries have a significant growth potential in contributing to economic growth and poverty reduction strategy, especially in the Western and Coastal regions of Kenya. The targets for fishery growth include, developing an enabling environment to ensure its sustainability; improvement of its management and development; development of fishery policy and master plan.

Progress during the Review Period

i) Fishery policy and master plan have been completed
ii) Research and development, inventory, capacity building of farmers on fish farming activities has been carried out and ongoing. 8 fish landing sites were rehabilitated and fitted with electricity.
iii) The government Intensified monitoring, control and surveillance in the major water bodies that saw reduction in illegal fishing and decreased use of illegal nets.
iv) National fish inspection and quality assurance laboratories were renovated in Mombasa and Kisumu. In addition a Residue Testing Laboratory at Veterinary Headquarters in Kabete is in the process of being installed.
v) Signing of MOU between the Fisheries Department and the Association of Fish Processors and Exporters of Kenya (AFPEAK) to enhance public-private sector cooperation.
vi) There has been marked improvement in fish quality which has allowed Kenya's exports to move from List II to List I classification of unrestricted fish exports entry to the EU states.

Challenges

Given the market uncertainty of Kenya's fish industry in the competitive international market, its future lies in directing more investments in quality processing equipment, marketing campaigns and adherence to strict international standards. More research to improve the fish varieties including exploration in the deep sea fishery in the Indian Ocean need to be encouraged to ensure the growth of the industry through diversification.

Co-operative & Marketing Sub-Sector

The Co-operative & Marketing sub-sector is seen as a vital vehicle for economic growth and poverty reduction as it embraces other sectors of the economy, including agriculture and financial sectors. The co-operative sub-sector contributes significantly to the GDP by mobilizing domestic savings (currently is estimated at about Ksh.105 billion representing 31% of the national savings) and controls major agricultural exports of coffee, tea and dairy products. In addition, the sub sub-sector employs about 250,000 and about 63% of rural and urban population draw their livelihoods directly or indirectly from sub-sector.
However, poor management and governance of cooperatives have over the years led to significant decline in some sectors such as coffee, pyrethrum and urban savings and credit societies.

During the review period, the sub-sector made the following progress:

i) Governance

- To improve governance, a Cooperative Societies (Amendment) Act 2004 has been enacted and is operational and is being used to address the critical issues of management and stakeholders participation in co-operative sub-sector;

- Cooperative tribunals have been decentralized to the Provinces to settle disputes;
- Cooperative Training college is now semi autonomous institution;

ii) Institutional Reforms

a. Kenya Cooperative Creameries (KCC) has been re-acquired by the Government from private owners and revamped to increase dairy farmers access to marketing facilities.
b. Commodity Marketing institutions have been re-structured for efficient marketing, with an annual export value targeted to increase by 3% for cooperative products.

iii) Financial Services

The SACCO regulatory bill that seeks to establish a Regulatory Authority is in Parliament;

Challenges

-Poor management and governance of co-operatives have led to sustained decline in key sectors of co-operatives such as coffee, dairy and urban-based Saccos. Reversing the management styles of co-operative and capacity building of both officials and members is a key challenge that requires the government's firm action.

- Low infrastructure investments in agricultural co-operatives and weak procurement for inputs have resulted in low productivity.

3.3.5. Environment and Natural Resources

Kenya faces serious environmental challenges as a result of past mismanagement of the sector, rampant poverty and pollution caused by solid waste such as polythene and plastic generated waste.

Government key objective is to restore and preserve the environment. This will entail: (i) Implementing the National Environment Action Plan (NEAP) and Environmental Management and Coordination Act (1999); (ii) Increase forest cover by 10%; (iii) Natural resource inventory and valuation; (iv) Implementation of the World Summit for Social Development (WSSD) and MDG targets, and (v) Participate in Lake Victoria Environmental Management Project.

Progress during the Review Period

i. NEAP implementation Committee was launched and is operational; and an elaborate framework has been developed to guide its implementation nationally and consultation with stakeholders is ongoing.
ii. Implementation of Environmental Management and Coordination Act (EMCA) (1999). The government has developed policies, standards, regulations, guidelines, and procedures that anybody wishing to establish a processing plant is expected to meet for protection of the environment. These regulations, guidelines and procedures have been approved and a deadline for December 2004 issued by which established industries are required to have submitted their environmental audits to National Environmental Management Authority (NEMA).
iii. Implementation of (EMCA), which gives a legal basis for the participation of the local communities in the management of their environment. The Provincial and

District Environmental Committees mandated by the Act have been put in place and operational.

iv. The government has instituted a committee on Millennium Development Goals, WSSD, Biodiversity, UNCCD and other conventions under Agenda 21.

v. On the implementation of the Lake Victoria Environmental Management Project (LVEMP): (i) aggressive public awareness campaigns have been mounted among the lake communities and other relevant stakeholders; (ii) an inventory and characteristics of industries, municipalities, towns, some villages and settlement schemes and their liquid effluents that enter the lake have been done and the point sources of pollution "hot spots" identified (iii) In effort to protect and conserve the catchments area 12 million tree seedlings were raised at public and private nurseries and planted in the micro-catchments.

Challenges

A key barrier to achieving environmental protection is weak environmental governance across the environmental arena including wildlife, water resources and ecosystems among others. The issues of environmental governance range from institutional framework, compliance, natural resources and wildlife/human conflicts, transparency and accountability and participation among others. Over the years policies and regulations to address these issues have been developed and reviewed but little implementation continue to hamper progress. The government needs to develop effective mechanism to enforce environmental compliance and control of destruction of the natural resources, including conflict managements and resolution.

3.3.6 Forestry

A draft Forest Bill that provides for the establishment, development and sustainable management, including conservation and rational utilization of forest resources for the socio-economic development of the country was prepared. Parliament rejected the forest bill and is now under going review and was to be resubmitted to parliament for debate by December 2004. The Bill is yet to be re-submitted to Parliament for debate and enactment.

There was an increase of 19.4% in the area planted from 6.87 thousand hectares to 8.0 thousand hectares in 2003 against a backlog of 25,500 hectares. Total area cleared increased from 1000ha to 1500 ha, compared to 1000ha in the previous year.

i) Ministry identified 142,968 ha of forestland as land that was irregularly and illegally allocated and that will be repossessed.

ii) Completed Forest Resources Inventory and mapping (sales Inventory –2000 Ha, management Inventory – 3000 Ha). Out of the planned 2000 ha sales inventory, 1628 ha of forest for sale as pulpwood and timber was assessed and 455.8 ha out of 3000 of plantation was assessed for management purposes

iii) Private sector produced 6.5 million-seedlings, and established 3273 ha of forest.

iv) Out of 2740 forest guards, 710 were trained on paramilitary skills 257 on Basic Forestry issues at Forest Training College in Londiani.

v) During the review period a total of 1,759 ha of degraded forest were rehabilitated by the Forestry department and another 3,273 established by stakeholders.

3.3.7 Wildlife.

The key priority of developing effectiveness in the wildlife security, conservation and management was to be effected through additional recruitment of the rangers and capacity building of the staff.

During the review period, the following progress was made towards achieving the above priorities: KWS paramilitary guards were trained at the institution's training school in Manyani; the Guards have also been equipped with necessary equipments to enhance their performance, 1600 sets of uniforms, 400 firearms, 168 armoury boxes, 7HF and 3 VHF radios and a 120 feet mast erected at the headquarters.

3.3.8 Mining and Quarrying.

The government's target for this sector is to maximize benefits from the mineral resources, fair compensation of the people displaced by mining, better protection of environment, and technology transfer investment in the mineral exploitation.

Progress during the Review Period.

i) The sector has recorded an increased value of mineral products from 7.3 billion in 2002 to 8.1 billion in 2003 and exports increased respectively from Kshs. 4.7 billion to Kshs. 5.1 billion
ii) A mining lease for Kshs. 10 billion invest in titanium minerals was issued during the report period.
iii) A final mining draft bill has been prepared and presented to the ministry for consideration. It tackles issues of compensation, displacement and environmental protection among others.

The Social Action Fund.

IP-ERS strategy for addressing the pro-poor social infrastructure and access to credit focuses on the development of strategic framework for the Social Action Fund to be supported from both local and external resources.

During the period under review, a committee was put in place to fully develop the idea of the Social Action Fund. Government in collaboration with African Development Bank has developed a Project Preparation Facility (PPF) that will set a framework for operationalizing the Social Action Fund.

3.3.9 Arid and Semi- arid lands (ASAL) Programme

The Government has continued to support an Arid Land Resource Management Project managed with a Project Management Unit (PMU) in the Office of the President with field offices in 22 ASAL districts. The strategies, which are implemented by the ALRMP, are to address specific priority issues in the ASAL areas and they are as follows:

i. The ALRMP has expanded to 22 districts in the second phase;
ii. 281 projects have been undertaken to enhance food security and reduce livelihood vulnerability in drought prone and marginalized communities under the following sectors: livestock marketing, infrastructure, boreholes, dams, animal diseases control, roads, stock routes, bee keeping;

iii. The Project has introduced another channel of intervention (Natural Resource and Drought Management) to complement two others (Community driven development and support to local development), which together address the complex problem of vulnerability and enable communities to move beyond survival and subsistence to sustainable development.

About 84% of Kenya is arid and semi Arid and not suitable for rain fed farming due to low and erratic rainfall. Government development objective in the ASAL areas is in terms of human resource and infrastructure to promote equity and poverty reduction. Government will strive is to: (i) strengthen rural livelihoods through support to livestock and range management, eco-tourism, and long term irrigation projects; (ii) improvements in livestock production and marketing; (iii) improving security and communications; (iv) improving access to basic health, education, water, energy and telecommunications services.

Though there is only limited cultivation of some crops, the ASALs are largely used by ranchers, semi pastoralists and pastoralists as rangelands.

Progress during the Review Period

The Government is committed to the development of ASAL population within the frame work of the IP-ERS. It has put in place a multi-sectoral programme aimed at combining activities covering infrastructure development and productive sectors. The planned activities include:

i) Development of roads and stock routes;
ii) Provision and management of water resources;
iii) HIV/AIDS intervention, and health improvement;
iv) Agriculture and livestock development;
v) Environment and natural resource management;
vi) Development of telecommunication facilities;
vii) Security enhancement;
viii) Land tenure reforms;
ix) Intervention in the energy sub-sector;
x) Education sub-sector development.

The on-going intervention under livestock development initiatives include: improvement of livestock production and marketing, fish farming, bee-keeping, camel rearing, disease control, drought mitigation measures and early warning systems.

There is also a diversification programme under the ministry of agriculture to enable the ASAL community to tap other opportunities the land can offer. They include production of fruits and other agricultural products.

150 small dams and water pans were rehabilitated, while 39 bore-holes have been drilled and equipped.

To enhance telecommunications, the Ministry of Information and Communication has initiated; a programme to provide wireless network systems, and a contract awarded to a regional telecommunications provider for North Eastern region and its environs.

Telecommunication interventions involve installation of a wireless system while some of the energy interventions entail development of a wind map, installation of a wind hybrid system as well as solar facilities.

Challenges

Land tenure issues and land resources conflicts in the ASAL areas are a major barrier to ASAL development. The Ministry of Lands and Settlement must respond to the need to implement its intended programme to regularize grazing areas and water points. The ministries provide no time frame. This will also require an integrated approach as it will require the environmental conflicts including wildlife, border conflicts and land use practices.

3.3.10 Slum upgrading and low-cost housing

In line with the MDG's the government's priority in the sector is to improve living conditions of millions of urban poor that live in urban slums mainly in Nairobi and Mombasa and lack access to basic water and sanitation, road, energy and housing infrastructure. The government is targeting construction of 150,000 housing units annually through its slum-upgrading program and completion of stalled housing projects.

Progress during 2003/04.

i) A secretariat has been set up and a team composed of Ministry of Water, lands and Housing, Roads and Public Works and the UN Habitat put together to spearhead implementation. City Council is the implementing Agency.

ii) The Slum upgrading programme is ongoing in Kibera, Mavoko and Kisumu slums. The Mathare housing project that had started earlier and stalled in 2001 was resumed in March 2003 with normal rehabilitation and maintenance of infrastructure that was earlier constructed. Construction of what had remained is set to begin soon as Germany Aid Agency (KFW) has agreed to release the funds they with held after it stalled.

iii) At the time of writing this report (October 2004),, the Phase one of slum upgrading programme was started in Kibera Slum, other slums targeted within phase one include, Nairobi Soweto, East Mavoko Slums in Athi River and Kisumu slums. So far three studies have been commissioned to guide implementation; a socio economic study was completed and a draft report handed to the Ministry, a physical study to enumerate people living in Kibera is ongoing and is expected to be complete in February 2005, and a Kibera actors study has been completed. A decanting site has been identified and is being designed for relocating of residents while the construction is ongoing. Additional site is being sought for.

iv) The ministry has a programme and a financing strategy development that will begin in November 2005. Financing for the Kibera programme has been allocated Ksh. 500 million (480 million promised by the President and an existing amount of KS. 20million).

v) During the year, no funds were allocated to complete the stalled urban pool housing in Nairobi, Kapsabet, Kericho and Voi. Due to inadequate budgetary provision for housing development, the National Housing Corporation completed only one project, the Kiambu housing project.

Challenges Facing the Sector

Emerging conflicts between the residents and the government over relocation pause a definite challenge. The government has to invest much in awareness and advocacy if the project will succeed.

Although approved expenditure on housing doubled from Ksh. 48.6 million in 2002/03 FY to Ksh 81.2 million in 2003/04 FY, actual Central government expenditure on housing has continued to decline mainly due to tight fiscal policy. Approved expenditure as a percentage of development expenditure went up marginally by 0.4% in 2003/04 FY as compared to 0.29% in 2002/2003.

3.3.11. Vulnerability

Addressing the critical challenges of Kenya's high proportion of vulnerable groups among the population, the government through various poverty reduction programmes such HIV/AIDS, ASAL programmes and educational bursary funds intends to focus on mainstreaming the vulnerable groups including orphans of HIV/AIDS, the youth, women and the disabled. The Ministry of Gender, Culture Sports and Social Services was established with the mandate of mainstreaming gender concerns, persons with disabilities, elderly, youth, children, orphans and people living with HIV /AIDs.

Progress during the Review Period

i) Provided grants amounting to Ksh.37million for expansion of socio-economic programmes and capacity building through the Ministry of Gender, Culture Sports and Social Services. A lot more was given through other sectors like Education, health, HIV Aids Orphans.
ii) National Disability and Gender Commissions were created. However these Commissions are at the initial stages of operation.
iii) Through the Ministry of Education a huge budget was allocated to special schools
iv) Policy Papers on gender and development, Older Persons, Youth, Persons with Disabilities and a National Sports Policy were finalized and submitted to the Cabinet for approval.
v) Establishment of a new Adult Education Centre and Community Learning and Resource Centres (CLRCs),.
vi) Through the Ministry of Gender, Culture Sports and Social Services programmes to address issues of old age, street children, drug abuse and impacts of HIV Aids were developed. A programme for Capacity building targeting youth leaders in entrepreneurship was put in place and is ongoing.
vii) Revitalization of the agricultural sector (through Strategy for Revitalizing Agriculture 2004-2014) is expected to play a key role in providing rural employment and reducing income inequality and poverty.
viii) A bill to establish the National Youth Council was submitted to Parliament and a National Youth Policy Work Plan launched.

Challenges facing the sector.

Given limited resources to bridge the huge poverty gap that exists among Kenyans living in the arid lands and urban slums, one of the government's key challenges is how to mobilize extra financial resources to promote equity and poverty reduction programmes for the vulnerable population. Deepening the mainstreaming of gender and youth issues across the key sectors of the government is another challenge that goes beyond policy interventions and should include governance, advocacy and capacity building.

CHAPTER FOUR

4.0 GOVERNANCE

4.1. Introduction

The IP-ERS recognized that poor economic governance; including endemic corruption and poor accountability in public resource management are some of the key impediments to economic and social development. Further more, corruption undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends. Weak governance affects mostly the poor, hence, the government's strategy on poverty reduction and economic growth would not move forward without first addressing governance issues.

Within the framework of IP-ERS Governance targets, the Government focused on sustainable implementation of the following areas of governance: Promoting far reaching reforms in the judiciary; strengthening the rule of law and security; and implementing reforms in public administration systems that are critical to improving government transparency and accountability.

To implement the above targets, the government initiated the Governance, Justice, Law and Order Sector Reform Programme (GJLOS) to design and implement strategic policies to ensure a safe, secure, democratic, just corruption-free and prosperous Kenya through transforming and strengthening public sector institutions for efficient, accountable and transparent administration of Justice.

Within the IP-ERS framework of the Civil Service Reform, the focus for GJLOS is on improving human resource productivity and performance by building capacity of the public administration and civil service rationalization. This would enhance efficient and effective service delivery with an aim of creating a leaner, more efficient, motivated and productive public service. These reforms focus more on the public finance and human resources delivery of core government services and to reduce the wage bill/GDP ratio from 8.5 percent to 7.2 per cent by 2005/06 fiscal year

The implementation of GJLOS Reform Programme involved broadening the traditional legal sector to include human rights, ethics and anti-corruption, and public safety and security. During the review period, the Government established the framework for reform co-ordinated by the MoJCA which developed and refined a medium term strategic plan (2005-2009), the short Term Priorities Plan (STPP) and sector workplans to realize the goals and priorities of governance. GJLOS has embarked on building mechanisms for greater openness and transparency in key institutions of governance, justice, law and order,

4.2. Public Safety Law and Order and Police Reforms

Achievement of security, maintenance of law and order is one of the key pillars of governance in Kenya. Critical objectives for this sub-sector of governance include: restoring the rule of law, maintaining an efficient and motivated police force; promoting governance by developing strong coordinated administration and governance systems; eliminating corruption; strengthening capacity for crime management including investigation and prosecution; strengthening institutional capacity and coordination mechanism.

During the review period (2003/04), the following progress was made in the areas of public safety law and order and police reforms:

i) Establishment of GJLOS Reform Programme to support other reform programmes for better governance, through developing mechanisms for greater accountability and transparency in GJLOS institutions
ii) Modernization of the police force and other law & order agencies through GJLOS Reform Programme. This has enhanced efficiency and accountability within the police force.
iii) To improve accountability in public sector management, a Human Rights Commission was set up and civil rights groups participation incorporated into the public sector decision-making process.
iv) To improve the deteriorating police welfare, 5 stalled housing projects were revived for completion by December 2004.
v) In addition the following police and security cadres were trained -1629 regular police were trained; 1387 GSU; 384 CID; 319 Administrative Officers; 5,600 chiefs and assistant chiefs and 6571 police officers. Other training programmes were implemented within the sector as follows: 1680 retrained on community Policing, 360 on Rapid response and 120 on Development and supervisory issues. There were also additional recruits in all-cadres of police and administrative staff, 1269 Administrative police (basic) New recruits and 1387 police recruits.
vi) Strengthening Public Prosecution Department by reviewing laws and streamlining of the prosecution process.
vii) Work on completion of two stalled housing projects for security staff in NYS and Prisons was initiated.

4.3. Anti – Corruption Measures.

The government identified several pillars on which the campaigns against corruption would be anchored. These include: political commitment and leadership; addressing past abuse; promoting institutional and legislative reforms; building coalitions and consultative partnership with civil societies, private sector and development partners.

To address critical issues of corruption, the following measures were put in place:

i) Creation of Ministry of Justice and Constitution Affairs with mandate to coordinate anti-graft war and especially to spearhead the enactment of requisite laws to facilitate the execution of the Anti-corruption campaign.
ii) Establishment of Ethics and Governance Sub-Committee of the Judiciary to investigate all cases of alleged corruption, unethical behaviour, and lack of integrity.
iii) Formation of a Cabinet Committee on Anti-corruption, chaired by President.
iv) All public service staff including the president declared their assets.
v) Establishment of a multi-sectoral Anti-Corruption Advisory Board and appointment of an Anti-Corruption Commission Director, setting up the anti-corruption courts. The government also intends to enhance the effectiveness of KACC by building adequate prosecution capacity for effective handling of corruption-related caseload.
vi) Enactment of legal framework: Anti-Corruption and Economic Crimes Act and Public Officer Ethics Act with powers to prevent, investigate and punish corruption and economic crimes; Prosecution of 199 cases of past senior officials of public institutions.
vii) The ongoing investigation of the Goldenberg scandal, replacement of corrupt judges, repossessing of grabbed land and public housing and banning of corrupt

contractors from participating in public procurement. The investigations on the Anglo-leasing scandal are also in progress.

viii) Investigations of Anglo-leasing which has led to the removal and prosecution of permanent secretaries in the Ministries of Finance, Home Affairs, National Security and Defence.

ix) The GOK hired Kroll International to investigate Kshs. 78 billion looted from public coffers during the previous regime.

x) Strengthening the capacity of the Controller and Auditor General to deal with the backlog of public audits, updating audit reports to enhance government action and promote transparency and accountability in the use of public resources.

xi) Preparation of a Public Procurement and Disposal of Assets Bill. The enactment of this bill will improve procurement procedures for contracts. In addition, it will provide ground for establishment of an autonomous regulatory body with greater power and technical capacity than the current Directorate of Public Procurement.

xii) At the time of writing this report, the government in collaboration with other stakeholders had developed a comprehensive Anti-Corruption Action Plan for implementation during 2005/06, the details of which are indicated in Annex 1.

4.4. Judicial Reforms.

By the time of writing this report statistics indicated that there were over, 450,000 cases (both criminal and civil) pending in various magistrates courts country-wide. During this review period, the GJLOS programme was also developing strategic plans for the decongestion of prisons among other measures as listed in the progress section below. There are also many cases waiting to be heard in High Court and Court Appeal. Cases of prosecution backlog is evidenced by overcrowding in the country's prisons and remand centres. The problem is exacerbated by inefficient prosecution, lack of coordination between prosecutions and the Attorney Generals Office and poor infrastructure in all the judicial facilities countrywide.

Progress during 2003/04 period.

i) Comprehensive reform of the judiciary and the judicial system through GJLOS Reform Programme. This has seen prison decongestion and application of community service orders as alternative avenues to rehabilitation. In addition, support by GJLOS to legal aid initiatives, strengthening public prosecution functions, and enhancing the parole system, has provided ground for better justice.

ii) Reconstitution of Law Reform Commission to harmonize legal systems and Reforms

iii) High-level changes in the Judiciary, which included appointment of additional judges and replacement of those accused of corruption. This initiative should however be accompanied by a comprehensive institutional reform to enhance efficiency and effectiveness in the judiciary.

iv) Fifty (50) Legal Officers were recruited and 40 computers purchased.1076 out of targeted 1000 cases per year were finalized. Various Police units:, tourist, counter terrorist, crime prevention, anti-narcotic, Port (coastline) patrol and Diplomatic units were formed.

v) Establishment of visiting courts in sparsely populated areas (5 magistrate courts and 2 High courts)

vi) Gazettement of 15 prisons as courts to reduce the time taken to administer justice (10 are now fully operational).

vii) Two stalled housing projects for security staff in NYS and prisons respectively are near completion. Other stalled projects are also being rehabilitated.

viii) Encouragement of the use of alternative dispute resolution mechanisms

ix) Full implementation of the Community Service Orders Act, which allows persons convicted of minor offences to serve their term outside prisons. So far, over 40,000 petty offenders have been taken through the programme instead of serving in custody. There is an effort to establish a National Lottery for good causes but its implementation has been hampered by lack of funds. To popularise the Act about, 6800 copies have been purchased and distributed to stakeholders. NCCS Secretariat has also been set up and is operational.

The key challenges facing this sub-sector include lack of powers to prosecute corruption cases by the Anti-Corruption Commission which continues to undermine speedy prosecution; hence little progress has been made in this direction. Secondly, the Government is aware of the concern to speed up prosecution of the already finalized corruption cases by the Anti-Corruption Commission, which are also the key concerns of the public and the donors. Thirdly, the existing poor coordination mechanisms between the sight and enforcement unity of the government is another major factor that has continued to make corruption thrive in Kenya. Fourthly, the fact that Kenya's judicial process continues to be the outfit of colonial era needs to be revised and `simplified to respond to the emerging needs of the country's judicial demand. In addition, given that justice is still an expensive item in Kenya, which can only be afforded by the rich, the poor amongst the population have little access.

4.5. Improving Immigration

During the review period the following measures were implemented towards improvement of the immigration sub-sector:

i) Specification of visa stickers with special security features has been done and tendering process to procure this service will be done 2004/05 FY.

ii) Installation of LAN in all regional offices (Nyayo house, JKIA, Moi International Airport Mombasa and Eldoret) has been completed. Funds are being sought to install local area network and wide area network (LAN/WAN) to all regional immigration offices (border control points).

iii) Microfilming consumables is 100% in place and is applying to all new passport cases while that of old files is yet to begin.

iv) Border control offices and staff capacity are being strengthened to improve border control systems to combat international crime, and enhance security in the immigration services.

v) Through the GJLOS institutions, the Government is focusing on ensuring proper integration of the registration, identification and immigration records to curb malpractices, especially at the department of immigration and registration of persons.

Challenges Facing the Sector

Given that Kenya's Immigration services continue to be inefficient and accusations of corruption persist due to limited progress in the implementation of reforms, a more pragmatic coordinated implementation focus is required particularly in the areas of: upgrading of digitised passport issuing, computerization of the immigration activities and networking system, operational efficiency through staff development and accountability. One of the setbacks that slowed down the implementation of the above targets is the emergence of the Anglo Leasing corruption scandal that requires immediate resolution in order to restore confidence in the reform initiatives. Unless the above issues are resolved with utmost speed, the effect is likely to affect Kenyans travelling to other countries by 2007.

4.6. Public Administration

Against the background of poor public sector services occasioned by bloated inefficient civil service, the government's strategy is to create a leaner, more efficient and motivated productive public service staff. This includes acceleration of the parastatal privatisation process. This reform agenda entails: separation of power between various branches of governments; strengthening the rule of law, decentralization of public service delivery systems; promotion of accountability and transparency at all levels.
The IP-ERS public administration targets include the following: to eliminate pending bills, resolve the stalled projects and increase the completion rate in 2003/06; increase the proportion of budgetary allocation controlled by local authorities and increase community participation and control of local development programmes and resources. Progress made towards implementation of these targets is covered in various relevant sector areas within this report.

4.6.1 Public Service Reform

The Public Service Reform Strategy (PSRS) of the IP-ERS targets: to accelerate the Public Service Reform Programme focusing on public financial and human resource management for efficient delivery of the government's core functions; to reduce the share of wage bill from the current 8.5% of GDP to 7.2% by 2005/06; to implement the rationalization of Ministerial functions, structures and staffing that was started during the earlier phases of Public Service Reform Programme (PSRP). In the medium term perspective, improving performance will be achieved through: rightsizing of Public Service; harmonizing pay structure; reforming pensions; and capacity building in the Public Service and introduction of Results Based Management (RBM).

Public Service Reform Progress in 2003/04

i) Early retirement programme aiming at reducing the number of Civil Service employees by 3,000 by end of 2004/05 is in early stages of implementation.
ii) Determination of appropriate staffing levels in the Civil Service.
iii) Kshs.7.6 billion has been set aside to harmonize Civil Service salaries by 2005/06
iv) Development of a harmonization instrument by adopting the banding system on Wage Bill Management in the Public Service adopted by the Government in October 2003.
v) Restructuring and harmonization of pensions scheme is being implemented.
vi) Application of the principle of meritocracy in the selection process of entry and upward mobility of personnel.
vii) Strengthen Government Training Institutions to develop staff for the Public Service.
viii) Ministries are in the process of producing medium term strategic plans to guide in resource allocation.
ix) Introduction of Results Based Management System for Public Service is underway.

x) Performance Contracts for some Parastatal Heads have been signed and will soon be rolled out to the rest of the Civil Service.

xi) Creation of Public Sector Reform and Development Secretariat within the Office of the President, with a mandate to implement a system of performance management contracting, linking the remunerations and promotion with staff productivity and towards attainment of set annual targets.

Challenges

i) The civil service reform programme has not achieved its targets and the wage bill continues to be a critical burden in the Public Expenditures. Achievement of the public service reform programme targets requires concerted support by Parliament and the entire arms of the Government.
ii). Court case by the Union of Kenya Civil Servants has hampered the implementation of the Voluntary Early Retirement Scheme.
ii) Performance improvement in the context of low remuneration in the Public Service.

4.5.2. Parastatal Reform

The critical priority of the IP-ERS on the parastatal reform concerns how to improve performance and productivity given their chronic decline in revenue, corruption and poor accountability.

During the review period efforts to address parastatal reform included recommendations by a Government committee that was set to review the performance and viability of state corporations, including restructuring, mergers and legislative reforms. These recommendations have been discussed by Cabinet Economic Sub-Committee and approved by the Cabinet and are now awaiting full implementation during 2004/05 FY.

Within the public sector, all the parastatal chief executives and senior staff are being required to sign performance contracts that will accelerate the adoption of better management practices, improve staff productivity, meet the set annual financial targets and provide for accountability for any loss due to mismanagement.

The critical challenge is how to enforce the Performance Contract through direct control of the staff rather than improving working environment through incentives, capacity building and less political interference by the appointing authority. The other concern is about monitoring and evaluation of the effectiveness of the Performance Contract in terms of costs involved, human resource productivity and business turnovers.

4.5.3. Local Government Reform

The twin strategy of IP-ERS implementation of the local government reform is geared towards improvement of service delivery systems and secondly, to accelerate the devolution of decision-making process to the local levels. This entails: reviving Local Authority Act and operationalisation of the Kenya Local Government Reform Programme (KLGRP), strengthening local government management capacity through institutional restructuring, recruitment and staff training, improved resource allocation and management systems, developing and implementing a comprehensive decentralization strategy; empowerment of local authorities to minimize conflicts with central government, and strengthening monitoring and evaluation systems.

Progress during the Review Period.

During 2003/04, the Government put in place mechanisms and systems to strengthen monitoring and evaluation in local authorities. The Ministry developed a draft of performance indicators, which are currently undergoing testing so as to be finalised. The Local Authority Integrated Financial and Operations Management System (LAIFOMS) to assist in monitoring financial and operations systems for both the policy makers and the executive arm of the LA, has been developed and piloted and a process of replication strategy have been started.

The Local Government Act was reviewed and its finalization is pending the completion of the Constitution of Kenya Review due to its implication on the envisaged system of government. However, fiscal decentralization modalities have been completed and operationalized. In addition, a study on assessment of viability of local authorities has been completed by an inter-ministerial committee but has not yet been released.

To address the issues of poor financial management in the Local Authority, the Office of the Attorney General is drafting a Bill to establish a Financial Management and Control Board.

4.5.4. Monitoring and Evaluation

The IP-ERS provides for the establishment of a national integrated M&E system to provide the necessary feedback on IP-ERS implementation and experience through a system of reporting based on output and outcome indicators.

Significant progress has been made towards establishing the integrated M&E system. After a prolonged consultative process, a national institutional structure has been agreed and combines a central structure involving the line ministries and other central public bodies, and a devolved structure to provide for reporting by the districts. Over sight of the system is done by a National M&E Steering Committee, which has been operational since early 2004 and a National Stakeholder Forum. A Monitoring and Evaluation Department (MED) has been created in the MPND to take responsibility for coordination of the M&E system on a national basis.

Initial steps taken by the MED towards implementation of the M&E system include:

i) Clarification of the co-ordinating and synthesis reporting role of the MED, with the bulk of M&E activities to be undertaken within the ministries and other structures;
ii) Identification of the need for formalize the linkage between M&E and the budget preparation through incorporation of M&E reporting as a stage of the budget preparation process;
iii) Measures to strengthen the incentives for compliance in the M&E system by ministries and devolved structures within the broader context of the move to Results Based Management and performance assessment based on objectives across government;
iv) The finalization of priority indicators for reporting to government, stakeholders and development partners on IP-ERS progress (as utilized in this report);
v) The launching of pilot M&E reporting in 8 districts to clarify and inform the M&E implementation process at devolved level;
vi) Clarification of the role of CSOs, NGOs and FBOs in the national M&E system.
vii) Preparation of an Implementation Strategy for M&E system roll-out.

As a result of these developments the full roll-out of the M&E system is on course and is to be completed in 2005.

Challenges facing the M & E Department.

The government's capacity to monitor and evaluate the impact of policies and programs needs to be strengthened, especially with regard to the poor. The department faces problems of weak capacity and lack of comprehensive and integrated framework to streamline its operations. Linkages between the many groups collecting data (research institutes, NGOs, private sector development partners) needs to be established so that efforts are not duplicated and data is made available to all. In addition, there should be improvement in coordination of various government bodies.

4.5.5. Integrated data management system

It is common knowledge that efficiency and effectiveness of the integrated monitoring and evaluation framework for IP-ERS implementation will largely depend upon timely delivery of integrated data management and information systems from various sectors and particularly CBS.

The Kenya socio-economic database (Keninfo) was launched as a collaborative effort by CBS and UNICEF in May 2004. Keninfo provides comprehensive and up-to-date information on various socio-economic indicators in the country. It has the following features: indicators, time periods, geographical areas, sub-populations, (gender, urban/rural, age groups), units, sources and data values. Its potential users include the line ministries, CBS, research and academic institutions, the UN system, Member of Parliament, media, private sector organisations, the general public and civil society organisations.

The system will need to demonstrate capability in providing critical feedback to the government on the efficiency and effectiveness of policies and programmes contributing to specific development outcomes.

One critical shortcoming that require to be addressed to improve the integrated data management system is that, most of the administrative data that will feed into the MED, is assembled from the Ministries' own management information systems, that are themselves inefficient. The current weaknesses within the Ministry's management information systems, calls for a need to undertake sector-specific assessments and capacity-building within the framework of the IP-ERS human resource development strategy, to ensure that relevant and good quality information is collected for the main integrated data management system.

On its part, CBS has made some progress in developing the mechanism for establishing protocols for the sectors to transfer information to the integrated data management system.

Although produced less frequently, national surveys and census data are more reliable than administrative data as they provide a good check on the quality of administrative data and suggest ways to improve them over time. Specifically, survey data may help the government identify patterns of inaccuracies in the administrative data and repair malfunctioning administrative reporting for better IP-ERS implementation results.

For example, data from the ongoing Kenya integrated household budget survey (KIHBS) is useful in providing reliable socioeconomic benchmarks, and has a CWIQ incorporated for application in the integrated M&E activities. While KIHBS will provide critical data for estimating poverty head count, distribution, causes and trends, other surveys and data management on cost of living standards measurement survey, and the census of establishments will be used for household level data analysis and for impact evaluation analysis of government programs and policies.

Other ongoing preparations for data sources on poverty diagnosis and vital socioeconomic information being undertaken by CBS include, Participatory Poverty Assessment Surveys and the Rapid Result Initiatives for Poverty Alleviation (October 2004)[11], client satisfaction surveys. These will be invaluable for obtaining feedback on the quality and availability of public services. The foreign investment survey, the tourism expenditure survey, and the international comparison of prices survey will be used to assess trends in environment for investment and trade. Compilation of the governance database will provide baseline data for monitoring changes in perceptions of corruption.

4.5.6. National Research Agenda

On strengthening research and updating data for programmes design, monitoring and sound decision making process towards improving information for effective implementation of IP-ERS, the MPND will sign an MOU with University of Nairobi in respect of collaborative research. The MOU will agree on the number and significance of studies to be undertaken within the framework of IP-ERS.

The government and Parliament endorsed a Strategic Plan for Statistics (STATCAP) and gathered donor support for its implementation. The Plan, which is being used as the main reference, attempts to ensure that the data required for poverty assessments and public policy evaluation are produced and disseminated regularly and in a timely and concise manner. Once fully implemented, the Plan will provide a framework for paradigm shift towards integrated surveys with diverse objectives geared towards addressing IP-ERS poverty reduction objective, as well as the MDGs. The Central Bureau of Statistics is solely responsible for improving the quality of data collection, analysis, building capacity for data management, and timely dissemination for timely decision making process.

Challenges and Shortcomings

Coordination of M&E: Although the MED enjoys high level policy support and technical assistance from donors such as DFID, WB, UNDP, EU and others, it needs to establish itself through adequate human and financial resources to undertake the various internal and external functions listed above. MED need to deepen its operational efficiency and effectiveness in the following areas:

1) Performance based decision-making

For M&E to be effective as a learning tool, it needs to provide for support incentives through the existing structures of the civil servant salaries and advancements for public institutions (budgetary allocations) need to be designed to reward performance. This calls for M&E activities to be closely linked to the ongoing civil service program and result–based budget reforms. Within the IP-ERS framework, the government will commit itself to developing a consistent framework for linking budget, MTEF and M&E.

[11] Poverty Eradication Commission, MPND, October 2004

Considering that CPUs are rarely utilized within their Ministry's programmes planning, monitoring and evaluation, due to their lack of staff capacity and specific technical know how of some Ministries such as Health, Agriculture, and Justice and Constitutional Affairs, need capacity building and training to respond to specific requirements, including M&E.

ii) Linkage of M&E Department with CBS

Besides its current responsibilities, the CBS is required by the IP-ERS to be responsible for managing the integrated data management system, and for making available the information in a timely manner for the MED use. The MED will in turn make it available to NESC, and other users. The assumption here is that CBS will be more efficient in data collection, processing and availing it for management use by all sectors. Annex 1 provides 31 key priority outcome indicators with associated indicators at the input/output level that MED intends to apply to monitor and gauge sector performance for IP-ERS. The matrix, which is being revised through consultative process, will provide key guidelines towards efficient and effective monitoring of implementation progress.

CHAPTER FIVE

5.0. FINANCING OF IP-ERS

The implementation of the IP-ERS for period 2003/04 to 2006/07 was estimated to cost Kshs 706.97 billion, out of this, the commitment for 2003/04 was Kshs 154 billion (Budget *Printed Estimates)*, that included Kshs, 47 billion of donor funds. This means the available funding was a mere 20% of the required funding for the implementation of the IP-ERS programmes, during the review period. To bridge the huge financial gap against requirements, the Government focused on the following financing options:

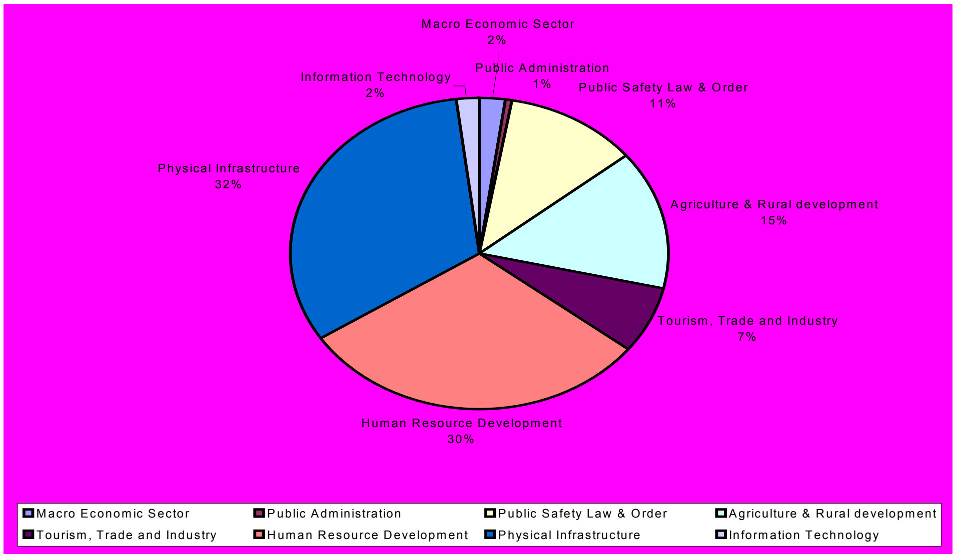
i. Increasing external borrowing by Kshs. 171 billion that will bring total of external borrowing to Kshs. 219 billion;
ii. Vigorous pursuit of the public expenditure restructuring to raise Kshs 119.4 billion;
iii. Promoting private investment, through private sector participation to raise Kshs 96.9 billion.

An indication of the actual budgetary allocations for the IP-ERS during the review period ((2003/04) is summarized in Table 5.1 and the pie chart 5.1.1 below. During the period, huge allocations were channeled towards the development and improvement of physical infrastructures and human resources development sectors, which accounted for approximately 32 percent and 30 percent respectively. This was premised on the fact that the two sectors are fundamental towards their direct contribution to the IP-ERS key pillars of Economic Recovery and Poverty reduction strategies. In addition, agriculture and Rural Development as key growth priorities also received a substantial share in budgetary allocations that accounted for 15 percent of the total budget in the same fiscal year. This is in line with the sector's objective of providing relevant research and extension services, food security, and promotion of other essential services to farming and fishing.

Table: 5.1 Costs of Implementing the IP-ERS (values in Ksh.mn)

Sector	Implementation Cost (Kshs.mn) 2003-2007	% of the Total cost	Actual Cost 2003/2004	% of Actual Cost
Macro Economic Sector	8,599.50	2.19	881.50	2.19
Public Administration	7,914.50	2.02	214.70	0.53
Public Safety Law & Order	43,890.00	11.19	4,573.90	11.35
Agriculture & Rural development	88,488.50	22.57	5,883.30	14.61
Tourism, Trade and Industry	16,254.80	4.15	2,784.00	6.91
Human Resource Development	143,400.00	36.58	12,144.70	30.14
Physical Infrastructure	81,018.00	20.66	13,028.90	32.34
Information Technology	2,500.00	0.64	779.00	1.93
TOTAL	**392,065.30**	**100.00**	**40,289.98**	**100.00**

Source: IP-ERS 2003-07, Budget Estimates 2004/05; PER 2004



5.1.1 Pie chart on the cost of the implementation of IP-ERS

Table 5.2 below provides a breakdown of the total actual expenditures for (2003/04) against estimated total Government expenditures for period 2003/04–2006/07 under the base case scenario.

Table5.2: Projected Expenditures for IP-ERS

	2002/03	2003/04		2004/05	2005/06	2006/07	TOTAL
Expenditure Category	**Actual**	**Estimates**	**Actual**	**Proposed**			**2003/04-2006/07**
Current							
Salaries and Allowances	85,087	96,716	83,272	101,583	108,514	115,585	422,397
Ministerial expend.(Excl. Free educ & health)	29,897	35,336	27,742	35,202	32,484	32,800	135,822
Transfer Payments							
Transfer to local Govt.	3,708	3,656	3,750	3,543	3,974	4,187	15,360
Transfer to households							
Pensions	12,220	14,067	10,565	16,099	18,434	21,118	69,717
Civil Service Reforms	957	-	3,536	5,335	-	-	5,335
Transfer to non-profit inst.	40,187	45,749	45,328	46,315	46,534	47,806	186,404
Parastatals(Excl.in MoH)_	7,630	8,840	3,143	9,130	9,767	10,362	38,099
Parastatals in MoH	3,933	4,430	2,867	4,621	4,803	4,992	18,846
Universities	6,795	7,470	7,079	7,566	7,865	8,174	31,075
Others	21,831	25,009	24,052	24,998	24,099	24,278	98,384
Interest Payments	35,226	33,742	23,346	27,081	27,476	28,010	116,309
Capital Transfers	1,582	2,897	1,000	835	1,103	1,072	5,907
Total Identified Components	**208,864**	**232,163**	**198,539**	**235,993**	**238,519**	**250,578**	**957,251**
Total Projected Govt. Expenditures	256,116	297,194	261,495	324,726	336,131	368,529	1,326,580
Expenditure (US $ mn)	3,313	3,923	3,353	4270	4371	4,755	17,319
Implied other Expenditures	47,248	65,031	58,625	88,733	97,612	117,953	369,329
of which Development Exp.	39,630	46,549	44,452	64,054	76,688	92,715	280,007
of which GoK for free educ.	2,850	9,000	5,967	9,000	9,000	9,000	36,000
of which recurrent non-wage health	2,916	3,481	1,656	5,175	7,138	9,390	25,185

Source: IP-ERS 2003-07; PERs, BMD Min. of Finance, CBS, Min. of Planning

According to the above Table 5.2, a total of Kshs 1,326 billion is expected to be spent by the Government over 2003/04- 2006/07 Financial Years. The breakdowns are as follows: Personnel emoluments will account for Kshs. 422.4b reflecting 31.8%. Interest payments accounts for Kshs 116.3bn while Kshs 69.7 bn is earmarked for Pensions; IP-ERS is expected to spend Kshs 369.3bn out of which Kshs 280 bn in development expenditures and Kshs. 36 bn for the free primary education and Kshs 26.2bn for non-wage health services.

During the first year of implementation of the IP-ERS (2003/04), salaries and allowances continued to consume most of the discretionary budget allocations accounting for 31.85% of the total projected expenditures, Actual interest payments fell by 33.72% between 2002/03 and 2003/04 fiscal year. The lower domestic interest payments partly reflect the success in restructuring government debt towards longer maturity treasury bonds coupled with low interest rates on government securities. It is noted that development expenditures and net lending (which is a proxy for public debt) has been low but steadily on upward trend.

5.3. 2004/05- 2005/06 BUDGET FRAMEWORK

Reflecting the need to maintain fiscal discipline and to move towards a sustainable debt position, total government expenditures are projected to remain broadly unchanged throughout the 2004/05-2006/07 projection period. However, the restructuring of expenditures is expected to reflect the shift in resource allocation to core priority activities that have higher value to growth and poverty reduction in the medium term plan of IP-ERS. Therefore, as indicated by the Table 5.3 below, under the base scenario (excludes bilateral budgetary support), the combined share of education, health, and agriculture and physical infrastructure to total expenditure is expected to rise gradually from 59% in 2004/05 to above 60% in 2006/07. The Table 5.3 below best illustrates the foregoing analysis.

Table 5.3

Sector	2004/05	2005/06	2006/07	2007/08
Social sectors(%)	**37.89**	**38.11**	**38.63**	**39.25**
Health	8.57	9.86	9.93	10.08
Education	29.33	28.25	28.7	29.17
Economic Sectors(%)	**17.72**	**21.25**	**21.32**	**21.62**
Agriculture	2.28	2.45	2.46	2.53
Infrastructure	15.45	18.8	18.86	19.09
Other(%)	**44.38**	**40.64**	**40.05**	**39.13**
Domestic Debt	0.00	0.00	0.00	0.00
TOTAL(%)	**100.00**	**100.00**	**100.00**	**100.00**

5.3.1 The 2005/2006 Budget Framework for Core Poverty Programmes

Government remains firm in its commitment to containing expenditures and re-orienting outlays to focus more on economic growth, poverty reduction and better governance as stipulated in the IP-ERS. The provision for all non-wage core poverty programmes is likely to increase by an annual rate of 15%. The proposed increase would raise spending on core poverty programs to about 3 percent of GDP in 2007/08. The following Table 5.3.1 provides projected sector ceilings for 2005/06 FY.

Table: 5.3.1 Sectoral Financing Frameworks for 2005/06 (Kshs. Million)

Sector	*Wages*	*Core Poverty*	*Transfers*	*Operations & Maintenance*	*Total Recurrent*	*Total GOK Development*
Agriculture & Rural Development	5,752	992	2,128	1,697	10,773	1,317
Public Safety, Law & Order	21,561	3,735	346	10,744	35,553	4,932
Health sector	9,597	5,601	4,711	401	20,310	1,682
Physical Infrastructure	3,446	567	672	1,992	6,677	13,486
General Economic Services	1,711	73	1,766	1,367	4,966	639
Public Administration	7,781	0	5,828	11,432	25,045	750
Education Sector	65,163	10,518	10,613	498	86,792	6,125
TOTAL	115,011	21,486	26,064	28,131	190,116	28,931

Table 5.3.1 above shows details of sectoral ceilings based on core sector priorities for 2005/2006 financial years. Within this sectoral financing framework, the Government focuses on achieving the following targets: Prioritizing core poverty programs; downward adjustment of transfers to state corporations by 15% except those in the Health and Education Sectors; and expenditure cuts on the wage bill. The initiative will also allow the government to beef up the core poverty programmes by injecting about Kshs. 21.4 billion (11.3%) of its total recurrent expenditure within the same period. These adjustments will enhance the government's focus, with more spending oriented towards improving the capacity of the sectors that contribute directly to the key pillars of the IP-ERS through: providing enabling environment for private investment that produce competitive products for both internal and external markets; increased participation of vulnerable groups in productive activities; mainstreaming of gender issues in development; promoting adult literacy; maintaining physical infrastructure; and promoting good governance, among other key priorities

5.4 EXTERNAL FINANCING REQUIREMENT

As indicated in Table 5.4 below, the total financing requirement for the IP-ERS over the next three years (2005-07), is estimated at US$ 4.5 bn .About US$ 3.6 billion comprises the cumulative current account deficits, which are expected to persist in the period 2003—07 as economic recovery gets underway. On average, during the same period, imports are expected to grow at twice the pace of exports. Total debt service payment, including to the IMF, is estimated at over US$ 715 million.

Table 5.4: External Financing Requirements and Resources, 2001/02- 2000/08

Kenya: External Financing Requirements and Resources, 2001/02-2007/08 (US dollars In millions)	2004/05	2005/06	2006/07	2007/08	Total 2005/06-2007/08
External financing requirements	-907.1	-1414.9	-1510.3	-1527.3	-4452.5
Current Account (Excl.Official transfers)	-516.2	-1151.6	1189.4	-1251.7	-3592.8
Scheduled amortization (official)	-321.0	-235.0	-227.0	-230.0	-692.0
IMF Payments, gross	-12.9	-6.3	-6.3	-12.6	-25.2
Charge in arrears	-44.0	60.0	0.0	0.0	60.0
Build up of official reserves.	-101.0	-82.0	-87.5	-33.1	-202.6
Resources	907.1	1414.9	1510.3	1527.3	4452.5
Program support (committed and tentatively Identified)	91.7	215.0	172.0	172.0	559.0
IMF	71.7	110.0	72.0	72.0	254.0
Program loans	20.0	105.0	100.0	100.0	305.0
Program grants	0.0	0.0	0.0	0.0	0.0
Project Support	429	596.0	805.0	934.0	2335.0
Project Loans	165.0	316.0	364.0	423.0	1103.0
Project grants	264.0	280.0	441.0	511.0	1232.0
Government-guaranteed and defense loans	24.2	25.9	25.9	25.9	77.7
Private financing (incl. Commercial banks net)	21.3	195.0	67.0	192.0	454.0
Short term(net) and net errors & omissions	211.9	264.0	382.4	203.4	849.8
Accumulating arrears	0.0	0.0	0.0	0.0	0.0
Rescheduling of debt	129.0	119.0	58.0	0	177.0
Financial gap	0.0	0.0	0.0	0.0	0.0

Sources: Central Bank of Kenya

The bulk of external funding is expected from the development partners, amounting to US$ 2.9 bn (comprising US$ 305 Million for Programme support and US$ 2.3 billion for project support); and private capital inflows. No financing gap is envisaged under this constrained expenditure scenario. However, the financing requirements to meet key IP-ERS and MDG objectives may result in cumulative financing gap of US$ 450 million. The anticipated gap will be bridged by additional budgetary support from development partners, which will be channeled to the core priority programmes such as education, health, agriculture and physical infrastructure.

As mentioned in section 5.2 above, during the 2005/07 FY, there will be a more pronounced shift in the composition of public expenditures as the share in the budget of health, education, agriculture and infrastructure increases from 55.6% in 2005/06 to 63.6% by 2007/08.

CHAPTER SIX

6.0. CHALLENGES IN IMPLEMENTING THE IP-ERS AND WAY FORWARD

Besides reviewing the progress in IP-ERS implementation at a sectoral level, this APR also looked into key challenges and cross-cutting constraints that are critical to the sustainability of the overall performance of the IP-ERS. Some key challenges facing effective implementation of IP-ERS are: how to enhance operational efficiency in civil service; coordination and linkages of programme activities; monitoring and evaluation to ensure effectiveness of the three pillars of IP-ERS. In addition, this review noted that most outstanding issues and challenges that have slowed down the implementation of IP-ERS are of policy nature and legislative backlog, especially Bills awaiting enactment, such as the Procurement, Privatisation, Financial Management Reform Bills and effectiveness of the institutions of governance.

Table 6.1 below provides a summary of the broad challenges and the Government's planned steps to addresses them. In addition, the Government has instituted mechanisms aimed at ensuring that its policies are accurately and consistently reflected and costed in all phases of development plans. This will focus more on capacity building on costing of programme and enhanced resource forecasting at macroeconomic level.

With regard to corruption, the Government has developed a Comprehensive Anti-Corruption Strategy Action Plan for April 2005-June2006 (indicated in Annex 1) which include its commitment in strengthening the Legislative Platform especially at the A-G chambers and prosecution unit; enhancing the capacity of KACC; Public Sector Management; and monitoring and evaluating public sector performance through staff'performance contracts under the Results Based Management Performance Assessment System and through the integrated M&E system.

The launching of the IP-ERS itself marked a turning point in Kenya's development process by providing a focussed set of programmes targeted to achieve agreed broad national objectives and priorities. In particular, while the IP-ERS has provided a framework, the majority of sectoral ministries have found it necessary to deepen their planning processes through the preparation of Strategic Plans, the majority of which are now either completed or at an advanced stage of preparation or review.

However, even when all the sectoral strategic plans are in place, there remains a formidable set of policy and structural challenges that require to be overcome if these plans are to be reflected in timely and effective implementation. Indeed, the problem of translating policies and plans into effective action remains the greatest challenge for the IP-ERS as a whole. Critical weaknesses remain at all levels of the process, which constrain strategy formulation, resource allocation, programme/activity implementation and review. Table 6.1 summarises some key challenges facing the implementation of the IP-ERS and the proposed way forward in addressing them. These include the following:

(i) The allocation of resources through the budgetary process in support of strategic IP-ERS priorities

(ii) The public expenditure management systems which are essential to ensuring that budgetary resources are properly applied to their intended purpose; and

(iii) The difficulty in ensuring that line ministries and other public bodies actually implement reform processes to which they are committed on paper.

For each of these critical areas the Government has already identified appropriate solutions. The allocation of resources is being tightened through;

i) The reform of the budgetary preparation process with the introduction of the Budget Outlook Paper which sets sectoral targets in line with strategic priorities at the start of the budgetary cycle and strengthens the linkage between medium term planning and the annual budgeting;

ii) Public expenditure management is being addressed within the context of the PEM-Action Plan, which sets out a timed process of increasing the achievement of internationally accepted benchmarks for public expenditure management;

iii) Compliance of line ministries to committed reforms is being addressed through the decision to establish and enforce a public-sector wide system of results-based management with appropriate enforcement mechanisms.

Each of these areas is essential for improving the efficiency and effectiveness of IP-ERS implementation. The steadfast pursuit of these reform measures is the principal challenge for IP-ERS implementation during 2004/05. In addition to reforms on the functions of the Executive, attention is drawn to the need for progress across a wider front, involving Parliament and the Judiciary. Obstacles to the passage of legislation essential for IP-ERS progress has been a major challenge during the period under review, with several key Bills either rejected or stalled in Parliament.

In recent months there have been signs that this constraints have been easing, but several critical Bills still await enactment, including the bills relating to procurement and privatisation. To address this problem, it is recognised that a more pro-active approach to involvement of Parliament is necessary in the oversight of IP-ERS implementation through the appropriate Parliamentary committees. In particular the forthcoming Mid-Term Review and revision of the IP-ERS provides an opportunity for full involvement of Parliament in an oversight role, which will contribute to increased ownership of IP-ERS by Members of Parliament and accelerated enactment of supporting legislation in future.

Following the successful meeting of the Consultative Group for Kenya held in Nairobi April 2005, the way forward to progress the implementation of the IP-ERS in collaboration with the development partners is now clear. Kenya is committed to playing its part in ensuring the timely realisation of several major programmes of support from the international community. These include the major programmes of support from the World Bank, such as the ERS Support Credit, which will provide budget support for IP-ERS implementation, the up-coming Education SWAP, the Financial Sector Adjustment Credit and the Public Sector Management Credit. In addition the Government is committed to ensuring that the way forward is clear for the full implementation of the budget support commitments from the EU in collaboration with many of the bilateral donors. The Consultative Group also provided the forum for the clear articulation of the Government's Comprehensive Anti-Corruption Strategy, details of which are set out in Annex 1 of this report. The GoK believes that these commitments provide the basis for a renewed strengthening of the partnership with the development partners and an acceleration of the disbursement of resources commitments by the development partners.

Table 6.1. Overall Conclusions and Recommendations of the Annual Review

	Key Issues	Way Forward
1.	**The IP-ERS has marked a turning point** in the development process in Kenya. Two years ago it would not have been possible to undertake an annual review such as the present exercise	Continue the evolution of the IP-ERS process as the framework for national planning and implementation of development policies. Develop a time table for the Annual Progress Review exercises to ensure timely updates and reporting. Wide dissemination of IP-ERS will ensure ownership and implementation effectiveness at all levels of Government.
2.	**Macroeconomic management** has essentially remained firm and consistent with the principles set out in the ERS. Some targets in the IP-ERS (e.g. on domestic debt/GDP ratio) have been revised appropriately.	Continue macro management on the basis of realistic and achievable targets. To sustain economic growth it requires deepening the reforms especially in the areas of fiscal, monetary and governance.
3.	Need to **strengthen the planning process at ministry and sector level**: There is a weakness in monitorability, which stems from the inadequate comprehensiveness, cohesion, clarity and linkage to the ERS of the ministerial; strategic Plans and Annual work plans. There is a general lack of credible costed programmes of action and investments to achieve outcome level objectives	The quality and cohesion of the ministerial Strategic Plans and Annual Work plans should form a concentration point for efforts to streamline IP-ERS implementation. The development of a framework for Results Based Management provides an appropriate vehicle for oversight of the implementation of the necessary improvements, backed by appropriate enforcement instruments at budget and individual level
4.	Progress in **Public Expenditure Management** is fundamental to improving the effectiveness of spending through the budget. While some progress is being achieved, this is slow and incremental. Accelerated achievement of PEM targets is achievable if given the appropriate political backing and high-level oversight system. Weak PEM systems remain at the root of difficulties met at the ministry and departmental level in active pursuit of ERS objectives	Accelerate the PEM-AAP implementation timetable, linked to appropriate performance incentives and penalties
5.	There is **scope for strengthening the use of resource allocation through the budget in support of ERS** objectives. The continuing practice of incremental budgeting is inimical to this objective and there is a need for bolder shifts in resource allocation. The shift to programme budgeting is envisaged as one of the objectives of public expenditure management reform.	The measures under adoption for reform of the budget preparation process (notably the introduction of the BOP at the start of the process) are steps in the right direction. Consideration should be given to setting a timetable for the adoption of a programmatic/objectives based budgetary allocation process, which could strengthen the shifting of resources towards ERS objectives and would form a stronger basis for implementation of RBM across the public sector.
6.	**In some specific areas quick and dramatic improvements have been realised** using limited resources. Examples are the strong effect of UPE policies, the quadrupling of delivery of health kits to PHC and Dispensaries compared to 2001 and 2002, and the dramatic improvements achieved in road safety in 2004	The Rapid Results Initiative is attempting to multiply these examples with limited resources. All sectors/ministries should be brought into this initiative as soon as possible Each Ministry is to identify pilot programme for RRIs
7.	There are **other areas, which have lagged behind** the expectations created by the ERS in terms of implementation and results achieved. Examples are the limited impact on road rehabilitation during the period under review, the failure to achieve the intended restructuring of the health sector in favour of primary and preventive health.	Prioritise implementation of RBM with appropriate enforcement mechanisms, penalties and rewards at ministry and individual level on those ministries/departments, which are acknowledged as lagging in ERS implementation. Measures to strengthen the capacity of key ministries to spend funds in accordance with budget and to increase utilisation of available donor funds for capital projects. Accelerate progress on the enactment and implementation of the legislative base for public procurement.

	Key Issues	Way Forward
8.	**Governance**: while progress has been made in creating the institutional structure for improved governance, this area continues to lag behind owing to poor coordination, human resource capacity and weak information dissemination.	Ensure that all outstanding anti-corruption reviews and cases prosecuted by AG are speedily dispensed with;, including prosecutions, where the need is indicated; Strive for greater transparency through earlier publication of findings of reports and reviews relating to governance and transparency. Implementation of GJLOS programme requires to specifically focus on coordinating all the institutions of governance and periodical reporting of progress.
9.	**The ERS will need to be revised** to incorporate the specific content of the ministry strategic plans which have been prepared in the past 18 months , to incorporate the on-going scaling up with respect to achievement of the MDGs, and to improve overall consistency and completeness	A Mid-Term Review of the IP-ERS is essential for enhancing programming and overall implementation during the remainder of this period to 2007.
10.	There was a **failure to mobilise the expected external resources from development partners** during the first year of the IP-ERS. This resulted from several factors, including delays in the establishment of transparent procurement procedures, slow progress in defining sector programme concerns arising from governance and corruption issues and inadequate development partner procedures for accelerated spending. The result was a major shortfall of concessional financial inflows with limited public investment through the development budget and led to failure in reduction of the domestic debt stock and service cost.	Address the issues which continue to impede donor flows, especially budget support operations. This requires demonstrated government commitment on the corruption issue and the speedy implementation of improved and transparent procurement procedures
11.	**Limited progress was made in empowerment of communities in the districts**. The failure to bring the Constitutional review process to a speedy conclusion has left the devolved structures in limbo without a clear institutional framework for spearheading development. As a result only limited progress in fiscal and social empowerment has been achieved.	Ensure that the Constitutional Review Process is successfully completed and creates a clear legal framework for local development. Make rapid progress in the implementation of the national M&E system at district level to give a more effective voice to local communities on the development process in their own districts.
12.	The **enactment of bills essential for IP-ERS implementation by Parliament has been characterised by delays and stalling**. Current examples are the procurement and privatisation bills, which are impeding the roll-out of essential programmes of the IP-ERS. Recent months have witnessed some improvement in this situation	Active steps be taken to increase the degree of ownership of the IP-ERS by Parliament, which was high at the time the ERS was initially prepared, including measures as set out below.
13.	**There is a need for Parliament to become more closely involved in the oversight of IP-ERS** development, implementation and revision.	Steps should be taken to increase the oversight role of Parliament. This could be achieved both by measures to increase the awareness of MPs of the content and evolution of the ERS and also by encouraging an appropriate Parliamentary committee to take a lead role in oversight of the development of the proposed revision of the IP-ERS document.
14.	**IP-ERS requires an elaborate strategy and mechanism for its dissemination** across all the implementers at all levels of the government and stakeholders	The IP-ERS dissemination strategy, which has already been prepared, should be implemented as a matter of priority.

ANNEXES

Annex 1: 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 anticorruption laws through investigations of offences of corruption and economic crimes as well as recovery of 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 reform to reduce the incidence and demand for corruption by scaling down the role of the public sector and bureaucracy.

As an integral part of the strategy, the Government will:

- Review 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; and

- Engage in dialogue on a half yearly basis with Parliament, civil society, the private sector and the international community.

To facilitate this process, the Government will make this document as well as regular progress reports on implementing publicly available.

The Government is also asking donors to join this effort, inter alia, by examining and reporting on the progress in implementing their commitments (for example, under the OECD Anti-Bribery Convention) as they relate to Kenya. (see the table below)

	Action	Lead Responsibility	Timing (Month/Year)	Status/ Comments
A. Further Strengthen the Legislative Platform				
1.	• Expand the jurisdiction of special Magistrates to enable them to deal with corruption and economic crimes. • Empower the high Court to appoint a receiver of property that is suspected to have been obtained through corruption. • Permit the KACC to take over investigation involving corruption connected by the police. • Enable the public access to the declaration of assets made by Public Officers.	Office of the Attorney General	Submit to Parliament by April 2005	The Statue 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. 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, Office of the Attorney General	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.
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/Office of the Attorney General	Submit to Parliament by April 2005	A draft revised Privatisation Bill has been prepared.
4.	Introduce legislation for witness and whistle blower protection	Office of the Attorney General, MoJCA	Submit to Parliament by April 2005	The initial Witness Protection Bill was published on 24th March 2005.
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.
6.	Introduce legislation	MoF/Office of the	Submit to	Cabinet has approved the Anti-

	Action	Lead Responsibility	Timing (Month/Year)	Status/ Comments
	to address money laundering and proceeds of crime.	Attorney General	Parliament by May 2005	Money Laundering and Proceeds of Crime Bill which is now awaiting publication
7.	Increase the number of judges, magistrates and professional legal staff and updated schemes of service.	MoJCA Attorney General Judiciary	Submit to Parliament by April 2005	In January 2005 there were about 2992 employees but a shortage of judges, magistrates and other professionals. The Statue Law (Miscellaneous) Bill gazetted on April 6, 2005 proposes amendments to increase the number of puisne judges of the High Court from 50 to 70, and the number of judges of appeal from 11 to 14.
8.	Modernize Company Law and computerize company registry and records management. Undertake diagnostic needs assessment and complete filing annual returns.	MoJCA, Attorney General	Submit to Parliament by September 2005	Work on the draft Companies Bill is ongoing.
B.	**Investigate Economic Crimes, Recover Assets, and Strengthen Prosecutorial Infrastructure**			
1.	Enhance further the effectiveness of key anticorruption investigating 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 proposed 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.
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.
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

	Action	Lead Responsibility	Timing (Month/Year)	Status/ Comments
				additional 8 of the alleged 20 are under investigation.
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.
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.
6.	Implement the main recommendations of Presidential Commission on Illegal and Irregular Allocations of Public Lands (Ndungu Committee), namely; repossess illegally allocated public lands.	Ministry of Lands; KACC	October 2005	The TORs of the Advisory Task Force have been presented to Cabinet committee on Anti-Corruption. The Task Force will work on the implementation of the recommendations of the Ndungu 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.
7.	Completion of 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.	Office of the Attorney General	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. 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.
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	Ministry of Finance	April 2005	For the 2005/06 budget, authorities have prepared a Budget Strategy (including MTEF) that lays down budget priorities and ceilings by vote.

	Action	Lead Responsibility	Timing (Month/Year)	Status/ Comments
	agreed macroeconomic framework and ministerial priorities in the Budget Strategy.			
2.	Achieve outstanding Public Expenditure Management Action Plan benchmarks.	Ministry of Finance	June 2005 June 2006 June 2007 June 2008	Five (5) benchmarks achieved Thirteen (13) benchmarks achieved Fifteen (15) benchmarks achieved All Sixteen (16) benchmarks achieved
3.	Roll out of IFMIS to all Accounting Units	Ministry of Finance	June, 2007	IFMIS Implementation in Six (6) Ministries Complete
4.	Harmonize 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.	Ministry of Finance	June 2005	The exemptions regime would become harmonised with the 5th schedule of exemptions under the EAC Customs Union.
5.	Verify and develop plan for pending bills.	Ministry of Finance	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 and the Semi-Autonomous Government Agencies is substantially complete. Work on clearing backlog of audits of Local Authorities is in progress.
D.	**Conduct Public Education to Stigmatize Corruption and Induce Behavioral Change**			
1.	Spearhead a country-wide public education campaign against corruption.	MoJCA, KACC	August 2005	A baseline survey has been undertaken and a strategic plan developed. Clarify the roles of KACC and the National Anti-Corruption Campaign. Launch anti-corruption campaigns nationally.
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	The Executive Order for establishing the PCU has been developed and sent to the Attorney Office for verification. Next, it will be signed by the President and gazetted.
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.	Ministry of Finance	June 2005	Programme is under preparation to improve governance and enhance efficiency in the banking sector.
2.	The Government undertakes to	Ministry of Finance; Ministry	December 2005	About 50 of the approximately 600 licenses to be abolished under an

	Action	Lead Responsibility	Timing (Month/Year)	Status/ Comments
	overhaul business licensing with a view to reducing the number of licenses and the time taken to minimum.	of Trade and Industry; IPC		ongoing pilot program.
3.	Embed ethical, transparent and accountable behaviors across the public service.	Office of the President, Ministry of Finance	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 2A: Input/Output and Outcome Indicators

The attached table sets out selected summary indicators at outcome and at activity/input/output level, which have been established for annual monitoring of the IP-ERS implementation.

The following points are noted:

1. The indicator list provides a selection of indicators at outcome and input/output level to provide an overview of IP-ERS progress. More comprehensive sets of indicators at both outcome and input/output level are specified both in the IP-ERS and in sector strategic plans.

2. The indicators at input/output level are largely derived from the work undertaken by the MED in April-May 2004 in collaboration with the ministries/departments on the definition of activity/output indicators for IP-ERS monitoring.

3. The indicators at outcome level are also a selection designed to highlight progress. The selection has taken into account the need to cover most if not all the MDGs (10 out of 31 outcome indicators relate directly to MDG targets). They also take into account the prior selection of outcome indicators already established for use in the monitoring of budget support from major donors. Where possible, appropriate outcome indicators are quantitative, and disaggregated by region and gender.

4. Where possible input/activity/output indicators have been linked to final outcome indicators. In a few cases there is no corresponding quantified outcome indicator.

5. Some indicators have been included although full data is not currently available. In several cases this deficit will be met from the major CBS surveys scheduled for 2005. These indicators are included to signal that these will be used in future reports and/or to indicate important areas for strengthening data collection systems to improve subsequent IP-ERS progress reporting.

6. An important criterion for selection of indicators for summary reporting has been to choose indicators for variables over which the GoK has significant control. In some cases this will only occur over a period of years (for example aggregate economic indicators such as GDP or the inflation rate).

7. It is envisaged that while the selection of outcome indicators will remain broadly constant over several years with only the target values subject to updating, input/output indicators will be modified annually on the basis of annual work-plans.

Annex 2B Selected Input/Output and Outcome Indicators of Progress in IP-ERS Implementation

No	IP-ERS Section	IP-ERS Objective	Input/Activity Monitoring		Outcome Monitoring								
			Planned Activities	Actual Activities Inputs/Outputs	Indicator	Baseline Value	Target (Cal. year or FY ending :)					Achieved	Source of Information
							04	05	06	07	08	2003-04	
	A.1	Economic growth, Macro stability											
1		1.Accelerated economic growth	Implementation of full set of IP-ERS macroeconomic activities		Real annual growth rate of GDP	1.1% (2002); 1.3% (2002)	1.8	2.4	3	3.4	3.8	IP-ERS target of 1.3% exceeded	CBS Economic Survey
2		2. Achieve and maintain price stability (below 5% annually)	Maintain sound fiscal and monetary policy	Net domestic borrowing contained in spite of lower than expected donor inflows	Rate of underlying inflation	2% (2002), 9.8% (2003)	3.5	3.5	3.5	3.5		2.7% - target met	Economic Survey
3		3. Control and reduce the burden of domestic debt	Keep actual domestic net borrowing within target	Actual net borrowing in 2003/04 below budget target. (The target for domestic debt reduction has been eased in the 2004 Budget Outlook Paper compared to the ERS)	Domestic debt/GDP ratio	23.1% (2004)		22.2	22.2	21.5	20.2	Achieved 26.6% compared to IP-ERS target of 23.77 %: Low domestic borrowing due to low disbursement in development expenditures and over-performance in revenue	MoF, CBS
4		4. Public sector wage bill under control	Staff rationalisation and restraint in public sector wage growth	Modest upward movement resulted from once off pay awards to special groups (police, teachers)	Public sector wages/GDP	9% (2004)		8.14	7.83	7.28	6.74	Slight increase in the wage bill to 8.6% of GDP due to once off awards	MoF, BMD

No	IP-ERS Section	IP-ERS Objective	Input/Activity Monitoring		Outcome Monitoring								
			Planned Activities	Actual Activities Inputs/Outputs	Indicator	Baseline Value	Target (Cal. year or FY ending :)					Achieved	Source of Information
							04	05	06	07	08	2003-04	
5		5. Expand revenue sources	Increase domestic revenue and external grants to maintain ratio to GDP	KRA receipts in excess of budget projections; gradual recovery of external grants for AiA	Revenue (including AiA/GDP ratio)	20.8% (2002/03)		21.4	21.6	22.2	21.7	21.98%: KRA receipts exceeded budget estimates reversing the previous declining trend	MoF. KRA
6		6. Public expenditure management reform	PEM-AAP Action Plan concentration areas	1 new benchmark achieved between 2003 and 2004 PEM-AAP assessments	Benchmark score on PEM-AAP	3 out of 15 (2003)	5	7	9	10	11	One more benchmark achieved (out of new total of 16) recorded in the 2004 PEM-AAP review	Annual PEM-AAP Review

	A.2	**Economic Growth – Infrastructure**											
7		1. Rehabilitate the road network	1. Construction and rehabilitation of the road network (2815km under the Roads 2000 programme) 2. Rehabilitation of rural access roads 3. Concessioning of the Mombasa-Malaba highway	188.3 km of trunk roads reconstructed;	% age of road network in bad condition	43 % (2003)		35	28	20			KRB MIS MR&PW
8		2. Power coverage in rural areas			Percentage of rural Hhs served	3.8		5	7	8			
9		3. Rural water coverage	1. 300 water schemes by 2005 2. Drill and equip 500 boreholes per year for hand over to communities; 3. Increased water pounding in ASAL districts; 4. Flood control measures on Nyando and Nzoia rivers	85 rural water supply schemes completed; rehabilitation of 150 small dams and water pans completed in 44 ASAL districts; 39 boreholes drilled; water-pounding areas in ASALs increased by 2.5 million cubic metres; progress in rehabilitation of flood control dykes for Nyando and Nzoia rivers.	% age of rural Hhs with safe and reliable water	50		53	56	60		KIBHS will provide estimates for the urban and rural population by 2006	CBS surveys

10		4. Urban water coverage 5. Establish water management system as provided for by Water Act 2002	1. Rehabilitate urban water schemes; 2. New sanitation schemes; 3. Reduce urban water wastage by 25% by 2005	35 urban water supply schemes rehabilitated and augmented; 4 sanitation schemes completed m(work on 2 others is on-going); 10 of the 11 institutions provided for in the Water Act 2002 are operational)including 2 national Boards and 6 regional boards)	Proportion of urban Hhs with safe and reliable access to water	73 (2003)		76	80	83		KIHBS will provide population based data relating to 2005	CBS surveys, MOWI
11		5. Safer road system	1. Preparation of road safety master plan 2. Safety measures for PSVs	Road safety master plan completed; introduction of mandatory seat belt and speed governors on PSVs (Feb 2004) Introduction of mandatory seat belts for all motorists.	No. of fatalities on the road annually – 45 deaths per 10000 vehicles per annum by 2007	2882(2002) Fatality rate of 60 deaths per 10000 vehicles per annum in 2002			1670			75% reduction in annualised fatalities in the 6 months following road safety measures of Jan 2004	MoT MIS

	A.3	**Tourism, Trade, industry become more dynamic**											
12		1. Tourism	Aggressive marketing campaigns in source markets; Improving tourist products; improving tourist security	Major campaigns launched including the Market Recovery Programme; Targeted campaigns in the Far East; Operationalisation of tourist police force	Increase annual growth rate of tourists to 9.7% by 2007	1.5% (2002)	not speci fied	not spec ified	not speci fied	9.70 %		5.45% (Jan-Dec 2003); 17.9% (Jan-Aug 2004); tourism earnings reached Ksh 42bn in 2004, ahead of targets	
13		2. Trade and Industry	1. Develop export development strategy 2. New EPZs and MUBs to be established. 3. Improvement of business and investment environment	1. Reduction in the number of tariff bands to 3; 2. 77 projects initiated through the Investment Centre; 3. National Export Development strategy finalised and approved by Cabinet 4. Creation of the EAC customs union on 1 Jan 2005 5. Investment Code drafted	Growth of volume of exports: raise to 5.7%							Exports increased by 8.2% in 2003	

	B.1	**Equity and Poverty Eradication**											
		Health											
14		1. Reduction in Infant Mortality	KEPI annual workplan targets for immunisation coverage met		IMR proxy: Fully immunised children (FIC) as % of under-1 population	56%		67.7	74.5	85.0			KEPI records
15		2, Reduce HIV/AIDS prevalence	1. Rapid spread of VCT services and VCT counsellors trained 2. Reduction in costs of anti-retrovirals 3. HIV/AIDS legislation prepared; 4. Guidelines developed for opportunistic diseases	NACC created under the Office of the President and has developed decentralised HIV/AIDS coordination structure (District Technical Committees and Constituency Aids Control Committees) HIV/AIDS organisations; Ksh 1.25bn disbursed to 2,785 community-based HIV/AIDS projects; VCT centres have been established nationally at village level but	Proxy for prevalence: proportion of pregnant women aged between 15-24 years attending ANC who are HIV infected - reduced by 10% annually to 2008.	10.1% (2003)		9.2	8.4	8.0		The KDHS (2003) indicated an overall prevalence rate in the population of 6.7%	NASCOP annual survey

16		3. Reduce Maternal Mortality	1. Strengthen family planning services 2. Strengthen reproductive health education 3. Further decentralise health services 4. Enhance managerial skills of DHMBs and DHMTs		Proxy for MMR: Proportion births attended by skilled health personnel	42%		70.8	75.6	80.0			HMIS records
17		4. Reduce the burden of disease	1, KEMSA meets drug delivery plan in full 2. Removal of taxes and tariffs on ITNs 3. Share of health expenditure in total; budget increases fro 5.6 to 12% of budget 4. Sessional paper on NSHIF by 2004	No of drug kits delivered to Health centres and Dispensaries rose from annual average of 6972 in 2000/01 and 2001/02 to 17566 in 2003 and 2004 (data only to March 2004); Total health sector spending increased to 9.0% of budget; NSHIF Bill has been tabled in Parliament; DHMB appointment guidelines were revised and gazetted; under decentralisation, all PHMTs and DHMTs in Phase all districts were trained by 2004	In-patient malaria mortality as % of total in-patient morbidity	19		15.2	14.3	10.0			HMIS reporting system

Education													
18		1. Achieve 100% Primary Net Enrolment (MDG)	1. Primary school fees eliminated. 2. No of bursaries increased. 3 School feeding programme increased by 150,000; rationalisation of primary teacher deployment	Completion of 5-year strategic plan; Primary school fees eliminated in 2003; Teacher deployment rationalisation study completed;	Net enrolment statistics by province and sex				81.5 82.9 80.1	83.2 84.4 81.9	85	Total: 79.8% Male: 81.3% Female: 78.3 (2003)	MoEST MIS, CBS Census data by district
19		2. Increase North Eastern province net enrolment (boys and girls)	1. Primary school fees eliminated 2 School feeding programme increased by 150,000		Provincial net enrolment for boys and girls	Total: 17.6 Male: 22.3 Female:12.1			24.5 29.7 19.4	31.3 365.1 26.8		`	MoEST MIS, CBS as above
20		3. Reduce the rate of primary drop-out for boys and girls	1. Enhanced quality of primary education; 2. Expand school feeding by 150,000 3, Formulation of girl child policies	Increased teacher/learning materials and text book ratios	Primary school completion rate	Total: 59.4 Male: 60.6 Female: 58.1			59.7 60.3 59.1	60 60 60	63		MoEST MIS

21		4. Reduce the Incidence of Primary Repetition	Improvement of the quality of primary education through: 1. Additional classroom construction; 2. Provision of learning materials and improved learning environment; 3. Pupil/text book ratio raised to 3:1 in Std 1-5 and 2:1 in Std 6-8 by 2004 4. Introduction of alternative methods of education (multi-shift, multi-grade, non-formal); 5 Curriculum reform to focus on core skills	Increased teacher learning materials; measures towards efficiency deployment of teachers	Primary repetition rate								MoEST MIS
22		5. Increase the transition rate to secondary school	1. Increased number of bursaries; 2.Adequate teachers and learning materials. 3. Support teacher: pupil ratios of 1:35	Classroom and new school construction; pupil/teacher ratio of 41.1% (Primary) and 19:1 (Secondary)	Primary to secondary school transition rate	47% (2003)			55	60	70	Transition rate of 47% in 2003/04; likely to be affected by primary bulge resulting	MoEST MIS

	B.2	**Poverty and Equity - HRD: Labour**											
23		1. Improvement in labour productivity	1. Improved enforcement of existing legislation 2. Establishment of the Labour Productivity centre	The Labour productivity centre has been established and is operational and well supported by the private sector	Measured labour productivity in the formal sector								CBS for the formal sector; to be defined for the informal sector
	B.3	**Agriculture, Rural development and Environment**											
24		1. Raise incomes of agricultural smallholders	1. Consolidation of agricultural sector legislation 2. Reparation of sector strategy. 3. Further reduction of role of parastatal entities in the sector	Work has progressed on legal consolidation for the sector but this has not been completed; The Strategy for Revitalisation of Agriculture has been completed;	Agricultural sector growth is targeted to grow at average annual rate of 3.1% per annum, rising to 5% by 2007	Ag. Sector GDP rose by 1.5% in 2003		Average 3.1% rising to 5%				Poor weather conditions constrained sector GDP growth in 2003/04	CBS Economic Survey
25		3. Improved Environmental; Management	1. Legislation 2. Reversal of illegal excisions 3. Surveying of areas for gazettement	Some progress in surveying of designated forest areas for gazettement; no progress on enactment of legislation	Forest area protected by gazettement (Ha)	1,390,000 Ha of gazetted forest (2002)		13,000 ha annually				A programme of designation of forests for gazettement has been undertaken but no annual targets have been set	Forestry Dept. records

26		4. Introduce universal environmental; screening of projects	1. Operationalise NEMA; 2. Establish a system of Environmental Impact Assessment (EIA) for all relevant projects	The NEMA, which was gazetted in 2000, is now fully operational; a system for identifying projects to be subjected to Environmental impact assessments has been established with a roster of qualified local consultants to undertake EIAs. The no of EIAs is growing annually	Proportion of public sector projects subjected to environmental; impact assessments							No quantitative target has been set.	NEMA records and MIS
	B.4	**Poverty Targeted Programs**											
27		1. Reduce absolute poverty	1. Targeted poverty programmes 2. Upgrading of slums	Work has commenced on upgrading the Kibera slum settlements	Proportion of population living below the absolute poverty line	56% (2003)				Reduce by 10% from 2003		No new data available during 2003/04; KIHBS and PPAs will be undertaken in 2005	KIHBS (2005) (forthcoming)
28		2. Reduce prevalence of under-weight children in under-5s			:Reduce prevalence to under 10% by2007	19% (2003)						The KIHBS will provide new data by 2006	KDHS (2003)

	C	Governance											
	C.1:	**Public Safety, Law and Order**											
29		More expeditious justice	1. Implement the provisions of the anti-corruption Economic Crimes Act (2003) 2. Prepare 5 year anti-corruption strategy 3. Mount anti-corruption campaign 4, Identify and prosecute corruption 5. Identify and remove civil servants (including judges) involved in corruption cases 6. Computerise registries for justice institutions	(Comment on Goldenberg, prosecution of judges, treatment of corrupt contractors, No of civil servants prosecuted for corruption)	Ratio of concluded cases to reported cases to rise from 21& in 1999 to 60 per cent ion 2006								

30		2. Public sector transparency and devolution of power	Increase in the control of public resources managed at the local level through: 1. Application and growth of LATF financing; 2. Roads maintenance funding for the DRCs from the RMLF; 3. Application of the Constituency Development Fund 4. Reform and Capacity-Building of Las	Steady increase in the number and spend of local authority capital projects financed through the LATF mechanism; RMLF funds rising rapidly but process of allocation to DRCs not functioning effectively; CDF mechanism functioning and distributing funds to CDCs; significant progress in improving the budgeting process in LAs. Deeper reforms await the finalisation of the Constitutional Review process	Proportion of total public sector spending controlled and managed at local level (based on Las, LATF, DRCs and CDF)							(This indicator is not currently being calculated, through the basic data exists to do so)	LA budget; LATF, RMPLF, CDF

	C.2	**Public Administration**											
31		1. Creation of national Monitoring and Evaluation system	1. Definition of national M&E institutional framework 2. Formulation of strategy for implementing national M&E system 3. Piloting of devolved structure M&E mechanisms 4. Timely preparation of quality Annual M&E report on IP-ERS implementation	Institutional structure for national M&E defined and agreed; Monitoring and Evaluation Dept established in MPND; Annual M&E report prepared for 2003/04; pilot district level M&E system ready for fielding in early 2005	Fully functioning national system of M&E operating at all levels and providing feedback to the budget by end 2005			n.a	n.a.	n.a.	n.a,.	The national integrated M&E system is on track to be fully operational by end 2005	Annual M&E Reports prepared by MED

Annex 3 Action Plan for Enhanced Financial Management in Government of Kenya

SUMMARY LEVEL

Ref	Short term Measures 2004/5	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 • Limit the frequency of virement by an act of Parliament. • Build capacity in the Budget department as well as the sectoral departments of the Ministry of Planning and National development for sectoral analysis and improved budget features.		MTEF	• Training of trainers was held on 28th January, 2004, • A Trainers Manual on costing has been finalized. • Ministries which are Public Works, Health, Education, Finance, OP and Planning have been on costing. • Further training is envisaged for other Ministries. • A circular giving guidelines on re-allocations was issued in August 2004.
F2	Improve resource forecasting at the macroeconomic level (Continuous improvement to the KIPPRA-Treasury Model)		Macro	The macro working group updates the model forecasts on a quarterly basis, in addition capacity building is on going
F3	Create Capacity in MoF for Development of tax policy and tax analysis • Train officers in F&MAD 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 F&MAD		F&MAD	• A few officers have been trained and more will be trained • Research policy papers have been prepared in conjunction with KRA and KIPPRA • One workshop has been held in research methodologies. And other relevant workshops will be held. • In addition a Tax policy unit has been created

	COMPREHENSIVENESS			
F4	Prepare an annual consolidated general government fiscal table, which includes budget and actual for central and local 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	• The accountant General has made an inventory of all Funds established and reported through Audit accounts • The Budget department is in the process of compiling all the data for all the funds and will be published together with the Quarterly Budget Review Document.
F5	• Include detailed statements on all central government EBFs in annual budget 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	• As above
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. • Add a new harmonization of donors and government procedures • Prepare donors compendium • Prepare government compendium	Update procedures for identification, monitoring and capture of donor (development partner) funds. Operationalize the proposed donor harmonization and coordination project	ERD	Review process has been initiated as follows: • Review team has been formally established • Terms of reference for consultancy have been developed for Aid policy. • UNDP has been approached to finance the consultancy exercise • AFRITAC has just completed review of donor disbursement and a report with an implementation matrix has been finalized and is awaiting implementation.
F7		Include donor funding in local authority budgets	F&MAD	Ministry of local Government issued budget circular for financial year 3004/05 in April instructing local Authorities to factor in Donor funds in their budgets submissions.

F8		Develop and implement plan to significantly reduce use of AIA (recurrent) and change to revenue. Itemize and detail earmarked revenue and any other possible sources of ministerial AIA	BSD	• A study will be undertaken to establish the likely impact of converting AIA to revenue particularly the major ones. • Action will be taken to implement findings and recommendations of the study
	CLASSIFICATION			
F9	Review economic classification for consistent and comprehensive use across central government.	Implement the new IFMIS soft ware	AGD	• A consultant has been procured through AFRITAC. • The consultant has already done preliminary discussion with the authorities and will be back by the end of March for further work on the classification. • An initial review with the help of AFRITAC was done from 21st to 23rd. • Draft new classification is ready and is being reviewed by relevant department.
F10	Improve Institutional classification to clearly separate from those enterprises like bodies that belong to the public sector	Extend economic classification to general government include LA's & FA's & SAGAs.	AGD	Once the above is achieved then it will be extended to general government
F11	Adopt COFOG functional classification and map to existing budget items.	Extend the functional Classification to Las, FAs and SAGAs	MTEF	• Previous year is mapped.
F12		Adopt programme budget approach based on policy objectives and outputs and implement pilot basis.	MTEF	
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.		MTEF	• A new list of core poverty programmes is ready which has taken into account the ERS and the PER work.
F14		Once COFOG adopted use for mapping of core poverty programmes.	MTEF	• Done
F15		Expand definition of core poverty programmes to include general government expenditure.	MTEF	• The criteria developed can be used for general government

	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 consultants report • Implement recommendations		MTEF	• The final MTEF review report was submitted and shared with the \ministry of Finance it is awaiting discussion at senior level in the two Ministries.
F17	Carry out organizational changes that would enable an effective interaction of policy and strategy in resources in the budgeting process		FS/PS	• New government re-organization is dealing with this.
BUDGET EXECUTION				
	FINANCIAL MANAGEMENT PROCEDURES			
	Standards and regulations			
E1	Adopt revised legislation and develop and implement revised financial regulations, procedures manual.	Adopt revised legislation and develop and implement revised Financial Regulations procedures and manual.	AGD	• The Financial Management Bill has been enactment by Parliament.
E2	Introduce new accounting standards in realistic and achievable time scale i.e. moving from cash based accounting to accrual accounting concept • Establish a steering Committee to identify the steps to be followed • Conduct overview of the existing Accounting standard • Identify the requirements for either modification or complete change		AGD	• A steering Committee was established chaired by the Director Budget
E3	Ensure that fiscal issues are adequately considered in the implementation of the government's policy on decentralization. • Monitor funds transferred to Local Authorities	Review the LATF reporting arrangements to achieve quarterly fiscal reporting from local authorities using standard budget classifications	AGD	
E4	• Agree in conjunction with MLG and CAG appropriate accounting standards for LAs • Propose special report to parliament on the status of LA Audits • Outsource and begin audit of Las accounts from the year 2000		F&MAD	

	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	• Ministries have been informed that no Exchequer releases will be made if they are not up-to-date in bank reconciliation. • Exchequer Committee is not issuing funds to any Ministry that has not submitted their bank reconciliation • The number of months in arrears allowed has now been reduced to one w.e.f. July 2004
E6	Establish routine reconciliations between expenditure reports and accounting reports.		BMD	• There are Desk-Officers in-charge of various Ministries, who if not satisfied with Ministries submissions, request for confirmations and more data.
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 AGD in liaison with Research Department of KRA, F&MAD and Accounts Section of MOF has established a committee that will be responsible for monitoring and updating records pertaining to flow of revenue from KRA to Exchequer via CBK.
	Commitment Control			
E8	• Strengthen commitment control procedures • urgently improve monthly reporting and analysis of outstanding commitments and arrears by Ministry • Use sanctions to enforce timely and accurate submissions by Ministries		AGD/BSD	• A circulalr was issued in end July instructing Ministries on commitment control and management of the Vote book • In addition a one day workshop was held with head of finance Units and Accounts controllers to disseminate the circular.
E9	Complete verification of stock of pending bills for both recurrent and development budget and finalize strategy for clearing outstanding bills.		BSD	
E10		Strengthen and broaden commitment control through IFMIS including consideration of implementation of commitment limits.	AGD	• The IFMIS has Purchasing and Accounts Payable Modules. • This system will be able to capture commitments through the procurement module.

	Debt Management		
E11	Develop and implement improved debt management system. Prudent management of contingent liability Review of project portfolio Carry out a DSA	DMD	**Updating the current Operating System (Back office operations)** • The Division was elevated to Department, but has few Officers. The four new officers in the department need to be trained. • A powerful server that can run the CS-DRMS version 2000+ has been acquired. • Data cleaning in readiness for migration is at an advanced stage. • A System Analyst has be trained at the Commonwealth Secretariat and is attending a course on CS-DRMS support. **Auditing of contingent liabilities and loans** • Called Parastatals that had been guaranteed by the Government and received their submissions regarding what they still owe and the status of payment **Strengthening of the Department** • The department received one new office • Discussions to establish a dept management office are on-going • The Public Dept section of accounts has been incorporated in Dept Management Dept. • Discussions on support by World Bank on streamlining operations in Dept management at an advanced stage. • Back office synchronization expected in April/may 2004. • Interconnectivity to CBK for data sharing being explored. • In house training on CS-DRMS for 15new staff programmed for early April 2004. **Auditing of contingent Liabilities and loans.** Held a meeting with parastatals that have Govt. guaranteed loans and received their submissions on the flows and stock of their loans. Debt numbers in the DMD reconciled with parastatals.
	Procurement		
E12	Develop and implement improved procurement systems and procedures • Expedite enactment of the procurement law • Carry out country procurement assessment exercise	DPP	• An Action plan has been developed by the department and is currently being reviewed by the task force for inclusion in the wider matrix • A joint Mission of Donors is preparing for CPAR

	Cash Planning and Management		
E13	• Improve cash/treasury management systems and procedures	AGD	• A committee has been setup consisting of AGD, BSD, BMD, F&MAD and DMD. • A consultant from AFRITAC was procured who reviewed and left a report which is currently being reviewed by the task force.
	Project management		
E14	• Improve the management and accounting for projects • Establish a project implementation monitoring system	BMD	• Initiated a system that not only captures expenditure but also status of implementation of Core Poverty Programmes.
	Payroll Management		
E15	Review the procedures for accounting for payroll and pensions and ensuring the integrity of information related to salaries/wages and pensions.	IAD	• The Internal Audit Department has completed an audit of the data that was used in the preparation of the January 2004 payroll and a draft report has been prepared and is being discussed with the various parties concerned before being presented to the P/S Treasury. It is expected that such an analysis will be carried out by the department every two months upon receipt of the data in electronic (dBase) format. • Through the initiative of DPM audits of pensions are on – going.
E16	Review procedures for accounting for pensions and ensuring integrity 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 • Segregation of Payroll records (Central Govt., TSC, Military and Dependants) to enhance service delivery and accountability • Computerization for production of accurate and timely pensioners information.	Pensions	• Uncollected monthly pensions from Post Bank analyzed and over 4,000 pensioners deleted from payroll • Last lot of dependants to be transferred this year from the main payroll • Technical assessment of new Pensions Information System (PIMS)
	Asset Management		
E17	Update lists of fixed assets maintained at ministries and implement procedures for the maintenance of up to date information.	AGD	• To be dealt with together with accruals under one committee.

MONITORING AND EVALUATION				
	Internal Audit			
M1	Improve awareness and understanding of the role of internal audit throughout government and continue to strengthen capacity of the internal audit service to undertake system audits. • Local trainings 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	Harmonize Audit regulations for Internal Audit School Auditors and Efficiency Monitoring Unit	IAG	• A number of local workshops have been held to sensitize various groups of Officers on the new role of auditors • The audit guidelines are ready and will form the basis for preparation of manual upon approval. • A Draft Manual has already been developed and awaits discussion before adoption.
	• Train additional auditors • Provide more resources for internal Audit service to verify pending bills	Gradually devolve internal audit responsibilities to line ministries and review, rationalize and regulate all in year audit and internal control functions.	IAG	
M2		Develop indicators and collect appropriate data to assess for example government wide error rates by system		
	Monitoring			
M4	Develop expenditure tracking system (PETS). Pilot the system on selected core poverty Programmes • Review PETS work done by KIPPRA • Use the methods to carry out such an exercise on selected core poverty programmes	• Develop monitoring of Core poverty Programmes in the framework of ERS • Develop a rolling work programme for annual PETS exercises over the next three years.	BMD	• The taskforce brought together the relevant departments i.e. BSD, BMD, IAD and ERD and a PETS committee was formed. • A tentative schedule of activities has already been prepared. • Two projects in the education sector; namely the school equipment scheme and the bursary Programme for Secondary schools have been identified to be pilot projects as well as the provision of drugs under Ministry of Health.. • A TOT workshop was held in August • The team is currently finalizing the questionnaires and the interviewers manuals.
		Undertake tracking surveys in other Ministries.	BMD	Has to wait for the above to take place.

	Reporting			
M5	Improve BMD reporting system to make it more frequent, comprehensive, timely and accurate and implement better information sharing.		BMD	• Circular has been issued to Ministries to ensure submissions of reports are in Treasury 15th of the new month • List of Ministries having made submission will be tabled in Exchequer meetings.
M6		Prepare semi annual reports on general government budget execution.	AGD	
M7	Prepare and issue a detailed implementation plan and associated timetable 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 from BSD, MTEF, ERD and BMD		AGD/IFMIS Team	• Software has been procured • IFMIS team has been trained • Supervisors have been trained • January 2004- piloting of the system started in Ministries of Finance and Planning and super users are being trained. • F&MAD included in the team • Training on-going on the Public Sector Budgeting Modules.
M8	Given phased introduction of IFMIS identify and implement cost effective interim IT system solutions to maintain and improve reporting capability.		GITS	
M9	Assess the implications of changes in systems and classifications on the collation of reports		IAG	
M10	Develop and implement a plan for improved dissemination of information on public finance matters to the public		PRO	

	INSTITUTIONAL AND HUMAN RESOURCES		
I1	Clarify respective roles and responsibilities of central and line ministries, departments and agencies in the management of financial resources.	PS/FS	
I2	Develop and implement formal arrangements for ensuring timely exchange of information between all stakeholders in the planning and budget preparation process	FS	
I3	Institute mechanisms for improved exchange of information within MoF and between accounting and finance officers in line ministries and MoF.	BSD/AGD	• A memo emphasizing on the need to keep line Ministries informed on key decisions taken by Treasury on matters affecting the Ministries has been issued to Budget Officers.
I4	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	• An assessment of training needs and establishment requirements has been undertaken. • BSD has allocated over Kshs 40 million for training officers in financial management for the next three years • Currently another batch of finance Officers are undetaing training in financial management at KCA
	STATE CORPORATIONS		
	Competitive recruitment of chief Executives /chairman & Board members	DGIPE	• Open, transparent and professional recruitment based on competence, relevant skills and experience is being embraced.
	• Establish policy guidelines on appointment of chief Executive /Chairman/Board members		• Guidelines issued vide OP circular letter OP.9/1A vol. 17 dated 7th Feb.2003
S1	• Set up and maintain a database of qualified candidates for *parastatal* board and senior management posts		• Been done as per the advice and recommendations of SCAC.
	Review overall policy on government investments and improve the quality of board s and knowledge of financial management of chief executives.	DGIPE	
	• Develop performance contracts for chief executives		• Ongoing consultation with Inspector-General (Corporations). TOR for the consultant to design Performance Contract have been finalized. Selection of the consultant is in progress since WB has agreed to fund the project. Action likely to be accomplished in the 3rd Quarter 2003/04.
	• Negotiate and sign performance contracts with chief executives and board members		• To be done once performance indicators (targets) have been established and agreed by the consultant and SCAC. Action likely to be accomplished in the 4th Quarter 2003/04.
	• Monitoring performance of *parastatals* against the set targets		• Continuous submission of quarterly performance reports. Action likely to be accomplished in the 1st Quarter 2005/06.
	• Formulate dividend policy		• Action likely to be accomplished in the 3rd Quarter 2004/05.
S2	• Review of State Corporations Act		• Action likely to be accomplished in the 1st Quarter 2004/05.

S3	Develop and implement privatization policy	DGIPE	• The Privatization Bill lapsed and the AG has been asked to republish the Bill to be reintroduced in Parliament for Debate.
	• Enactment of Privatization Bill		• To be republished and reintroduced in Parliament for Debate. Action likely to be accomplished in the 4th Quarter 2003/04.
	• Establishment of Privatization Commission		• To be established on the enactment of the Privatization Bill. Action likely to be accomplished in the 1st Quarter 2004/05.
	• Continuation of Privatization		• As per the Privatization Strategy. Action likely to be accomplished in the 2nd Quarter 2004/05.
S4	Implement Parastatal rationalizations and restructuring	DGIPE	• Be done as per the Privatization Strategy
	• Retrenchment of staff rationalization		• Privatization Strategy
	• Restructuring		• Privatization Strategy
S5	Review and implement parastatal financing policy.	DGIPE	
	• Review policy on subsidies/subventure grants to parastatals		• PEs are being encouraged to be self sustaining. Action likely to be accomplished in the 4th Quarter 2004/05.
	• Review policy on parastatal borrowing and government guarantees		• Treasury approves borrowings while Government Guarantees are suspended by Parliament and any approval is to be obtained from Parliament. Action likely to be accomplished in the 4th Quarter 2004/05.
	• Finalize cross debt study for parastatals		
S6	Review procedures for accounting and monitoring of remaining state corporations	DGIPE	
	• Evaluation of Financial & internal control systems of state corporations		• Ongoing in consultation with Inspector-General (Corporations)Action likely to be accomplished in the 2nd Quarter 2003/04.
	• Implementation of new financial and internal control system		• Action likely to be accomplished in the 1st Quarter 2004/05.
	• Monitoring compliance with financial control systems		• Action likely to be accomplished in the 2nd Quarter 2004/05.
	• Re – establishment of state Corporations Advisory Committee (SCAC)		• SCAC has already been established and was inaugurated by the Minister of State (OP)
S7	Improve dissemination of information on state corporations	DGIPE	
	• Enhance capacity of DGIPE through recruitment of qualified personnel & training		• Recruitment of senior officers and promotion has been done and assessment of DGIPE's staff requirements has also been completed for the MOF Personnel complement, though the terms of employment are not conducive to attract staff with the required skills and expertise.
	• Develop and implement MIS for GDIPE		• DGIPE's information requirements have been assessed. Action likely to be accomplished in the 3rd Quarter 2004/05.
	• Review the information required for DGIPE		• Action likely to be accomplished in the 1st Quarter 2004/05.
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 extent of contingent liabilities		

Annex 4A: Core Poverty Programmes-Recurrent Vote

(NON-WAGE EXPENDITURES) KSH.

Sub-vote-head-item	*Priority Programme 2003/04 (Details)*	*Printed Estimates (NET)*	*Revised Estimates (Net)*	*Actual Payments (Cumulative)*	*Commitment (Cumulative,)*	*Total Payment+Commitment*	*% of Total Payment+Commitment to the Printed estimates*	*% of Total Payment+Commitment to the Revised Budget*
	EDUCATION,SCIENCE &TECHNOLOGY							
	Primary Education							
315-816	Early Childhood programme	2,562,640	2,562,640	647,420		647,420	25	25
311-844	Expenses of Primary Schools	5,592,010,231	5,592,010,231	5,355,802,150	139,680,185	5,495,482,335	98	98
311-845	School Equipment Scheme(Text books)	157,799,222	128,799,222	76,357,160	27,642,525	103,999,685	66	81
311-846	School Feeding Programme	182,574,995	182,574,995	66,511,311	14,323,509	80,834,820	44	44
313-848	Primary Schools for Handicapped	60,000,000	60,000,000	60,000,000	0	60,000,000	100	100
	Secondary Education							
316-800	Bursary	940,056,514	940,056,514	940,972,133	53,763	941,025,896	100	100
313-811	Schools for the handicapped	34,000,000	34,000,000	32,822,000	0	32,822,000	97	97
	TOTAL	**6,969,003,602**	**6,940,003,602**	**6,533,112,174**	**181,699,982**	**6,714,812,156**	96	**97**
	HEALTH							
110-454	National Aids Control Programme	4,783,416	4,783,416	4,315,419	0	4,315,419	90	90
110-455	Sexually Transmitted Infections	0	0	0	0	0	-	0
111-317	District Hospitals	870,496,576	899,745,037	773,675,703	445,500	774,121,203	89	86
111-318	Mental Health Services	69,053,764	69,053,764	61,093,718	0	61,093,718	88	88
111-320	Spinal Injury Hospitals	13,560,493	13,560,493	8,679,679	0	8,679,679	64	64
111-351	Dental health Services	14,098,409	14,098,409	7,802,246	0	7,802,246	55	55
112-322	Environmental Health Services	1,409,309	1,409,309	675,661	0	675,661	48	48
112-325	Communicable and Vector borne Diseases	281,942,309	281,942,309	278,553,335	0	278,553,335	99	99
112-327	Nutrition programme	4,733,628	4,733,628	1,856,880	400,000	2,256,880	48	48
112-328	Family Planning Maternal and Child Health care	42,882,141	42,882,141	39,958,132	0	39,958,132	93	93
113-335	Rural Health Centres and Dispensaries	1,292,754,035	1,292,754,035	1,283,938,556	0	1,283,938,556	99	99
113-336	Rural Health Training and Demonstration centres	43,679,999	43,679,999	34,263,136	0	34,263,136	78	78
	TOTAL	**2,639,394,079**	**2,668,642,540**	**2,494,812,465**	**845,500**	**2,495,657,965**	95	**94**

	OFFICE OF THE PRESIDENT							
010-603-315	National Aids Council	149,681,924	149,681,924	74,840,962		74,840,962	50	50
010-275	Relief and Rehabilitation	1,014,888,760	514,888,760	870,476,548	0	870,476,548	86	169
010-249	Poverty Eradication Unit	30,227,691	30,227,691	16,513,889	0	16,513,889	55	55
010-564	National Food security	1,503,995,153	1,003,995,153	503,787,263	0	503,787,263	33	50
010-566	Disaster Emergency Response Co-ordination	11,593,762	11,593,762	10,808,354	0	10,808,354	93	93
010-578	National Disaster	7,255,432	7,255,432	6,554,449	0	6,554,449	90	90
010-753	Anti - Corruption Police Unit	237,321,487	237,321,487	164,621,875	0	164,621,875	69	69
017-747	Anti -Terrorism Operations	120,854,000	110,854,000	91,629,000	0	91,629,000	76	83
017-101	Anti-Stock Theft Unit	153,973,481	158,973,481	125,148,951	0	125,148,951	81	79
	TOTAL	**3,229,791,690**	**2,224,791,690**	**1,864,381,291**	**0**	**1,864,381,291**	58	**84**
	STATE HOUSE							
020-020-191	Support to Governance and Ethics	50,000,000	50,000,000	49,461,792	0	49,461,792	99	99
	TOTAL	**50,000,000**	**50,000,000**	**49,461,792**	**0**	**49,461,792**	99	**99**
	OVP AND HOME AFFAIRS							
050-013	NYS Catering School	7,522,923	7,522,923	5,632,138	1,235,730	6,867,868	91	91
050-016	NYS Engineering Institute	22,548,876	22,548,876	20,344,964	356,600	20,701,564	92	92
050-017	NYS Secretarial College Ruaraka	18,786,732	18,786,732	17,126,423	712,560	17,838,983	95	95
050-036	Nairobi Engineering Craft School	8,477,678	8,477,678	7,789,432	42,170	7,831,602	92	92
050-081	Yatta NYS Complex	39,505,108	39,505,108	34,917,597	0	34,917,597	88	88
050-357	NYS Headquarters	574,566,523	550,626,523	548,946,654	54,800	549,001,454	96	100
050-358	NYS Training Units	71,675,942	71,675,942	72,086,273	0	72,086,273	101	101
054-125	Provincial Children's Services	5,528,000	5,528,000	5,499,992	0	5,499,992	99	99
054-148	District Children's Services	25,657,999	25,657,999	22,173,452	127,288	22,300,740	87	87
055-187	Community service order	27,632,033	27,632,033	26,365,427	221,650	26,587,077	96	96
055-127	Probation Services	13,766,035	13,766,035	12,666,355	324,557	12,990,912	94	94
055-128	Probation hostels	9,826,340	9,826,340	9,798,267	4,920	9,803,187	100	100
055-129	provincial probation Services	4,602,800	4,602,800	4,558,440	0	4,558,440	99	99
055-149	District probation services	19,418,714	24,418,714	23,577,546	0	23,577,546	121	97
055-196	After Care Services	3,711,600	3,711,600	3,518,942	0	3,518,942	95	95
053-499	Prisons Department -Borstal Institutions	16,913,000	16,913,000	16,160,395	51,850	16,212,245	96	96
	TOTAL	**870,140,303**	**851,200,303**	**831,162,297**	**3,132,125**	**834,294,422**	96	**98**
	MINISTRY OF REGIONAL DEVELOPMENT							
090-802	Rehabilitation of Internally Displaced Persons	24,800,000				0	-	0
	TOTAL	**24,800,000**	**0**	**0**	**0**	**0**	-	**0**

	ENVIRONMENT & NATURAL RESOURCES						
211-672	HQRs Forestry Development	21,665,380	31,665,380	27,427,079	0	27,427,079	127	87
211-676	Forestry and Plantation Development	86,579,230	86,579,230	12,056,796	0	12,056,796	14	14
211-678	Catchment and Natural forests	48,230,000	48,230,000	8,665,632	24,896,007	33,561,639	70	70
211-679	Rural Afforestration	52,008,000	54,008,000	10,893,962	33,119,900	44,013,862	85	81
215-702	Environment Policy	3,810,000	3,810,000	2,375,665	0	2,375,665	62	62
	TOTAL	**212,292,610**	**224,292,610**	**61,419,134**	**58,015,907**	**119,435,041**	56	**53**
	AGRICULTURE							
104-198	Project Development Monitoring and Evaluation	1,212,000	1,212,000	971,061	110,964	1,082,025	89	89
103-202	Agricultural Department HQRs	21,136,296	21,136,296	19,965,573	1,472,986	21,438,559	101	101
103-235	Headquarters Crop Production Services	3,299,280	3,299,280	3,251,112	170,499	3,421,611	104	104
103-238	Headquarters Horticultural Crop Production Services	116,934,480	116,934,480	1,812,840	117,222	1,930,062	2	2
103-255	Headquarters Agricultural Extension Services	4,951,837	4,951,837	4,208,713	375,217	4,583,930	93	93
103-260	Farmers Training Centres	21,471,874	21,471,874	2,849,373	256,712	3,106,085	14	14
107-254	Farm Management Development	8,290,966	3,790,966	3,266,632	448,708	3,715,340	45	98
105-502	Food supplies and Management Services	1,136,090	1,136,090	1,071,540	3,600	1,075,140	95	95
103-638	Provincial Agricultural Extension Services	22,577,504	22,577,504	1,305,277	872,699	2,177,976	10	10
103-639	District Agricultural Extension Services	162,118,609	162,118,609	18,474,312	3,153,360	21,627,672	13	13
103-661	District Horticultural Crop Production Services	2,254,075	2,254,075	0	85,500	85,500	4	4
103-699	Research Extension Liaison	1,707,660	1,707,660	1,567,557	29,555	1,597,112	94	94
	TOTAL	**367,090,671**	**362,590,671**	**58,743,990**	**7,097,022**	**65,841,012**	18	**18**
	MINISTRY OF LABOUR AND HUMAN RESOURCES DEVELOPMENT							
154-632	Jua Kali development Division	7,209,660	7,900,460	7,826,272	74,800	7,901,072	110	100
154-818	Provincial Enterprises Development Offices	3,450,000	3,450,000	0		0	-	0
154-821	District Enterprises Development Office	4,657,737	4,657,737	0		0	-	0
	TOTAL	**15,317,397**	**16,008,197**	**7,826,272**	**74,800**	**7,901,072**	52	**49**

	JUSTICE & CONSTITUTION AFFAIRS							
170-557	General Administration HQRs	128,913,912	128,913,912	112,754,852	7,803,971	120,558,823	94	94
	TOTAL	**128,913,912**	**128,913,912**	**112,754,852**	**7,803,971**	**120,558,823**	94	**94**
	LANDS & SETTLEMENT							
362-030-390/1	Purchase of Farms	79,181,272	79,181,272	70,181,272	3,000,000	73,181,272	92	92
	TOTAL	**79,181,272**	**79,181,272**	**70,181,272**	**3,000,000**	**73,181,272**	92	**92**
	LOCAL GOVERNMENT							
120-372-500	Grants to Local Authorities (LATF at 20%)	751,200,000	751,200,000	668,933,026		668,933,026	89	89
	TOTAL	**751,200,000**	**751,200,000**	**668,933,026**	**0**	**668,933,026**	89	**89**
	ROADS AND PUBLIC WORKS							
136-384-288	Road Maintenance Programme-Grants to the Kenya Roads Board	3,377,000,000	3,377,000,000	2,365,611,030	0	2,365,611,030	70	70
	TOTAL	**3,377,000,000**	**3,377,000,000**	**2,365,611,030**	**0**	**2,365,611,030**	70	**70**
	MINISTRY OF GENDER, SPORTS, CULTURE AND SOCIAL SERVICES							
180-794	Gender and Development	25,320,000	25,320,000	20,691,404	0	20,691,404	82	82
186-903	Community Based Nutrition	3,156,280	3,156,280	2,147,130	198,820	2,345,950	74	74
186-904	Social Welfare	3,871,441	3,871,441	3,272,176	67,557	3,339,733	86	86
186-906	Community Mobilization	14,387,679	14,387,679	8,989,396	3,250	8,992,646	63	63
186-909	District Administrative Services	9,075,262	9,075,262	8,760,719	2,500	8,763,219	97	97
186-911	Women Bureau	972,006	972,006	718,518	30,070	748,588	77	77
	TOTAL	**56,782,668**	**56,782,668**	**44,579,343**	**302,197**	**44,881,540**	79	**79**

	MINISTRY OF WATER RESOURCES MANAGEMENT AND DEVELOPMENT							
207-581	Provincial Water Services	6,800,000	6,800,000	1,925,081	3,320,200	5,245,281	77	77
207-887	District Water Services	381,786,649	370,886,649	162,901,050	163,787,948	326,688,998	86	88
207-889	Water Resource Pollution Control	23,470,000	23,470,000	12,281,927	7,593,750	19,875,677	85	85
207-890	Water Resources- Surface water	14,810,000	14,810,000	5,165,648	6,297,800	11,463,448	77	77
207-893	Water Resources	34,643,452	29,643,452	20,520,953	19,705,000	40,225,953	116	136
207-894	Other Municipalities Water Supplies	36,630,000	35,630,000	4,296,009	0	4,296,009	12	12
207-895	Sewerage Maintenance	8,480,000	7,480,000	0	2,740,000	2,740,000	32	37
207-896	Water Conservation and Dam Construction	27,650,000	24,650,000	13,790,785	7,228,275	21,019,060	76	85
207-897	Water Rights	34,500,000	33,500,000	16,222,812	9,633,813	25,856,625	75	77
207-898	Applied Water Research	14,149,000	14,149,000	12,260,529	663,564	12,924,093	91	91
	TOTAL	**582,919,101**	**561,019,101**	**249,364,794**	**220,970,350**	**470,335,144**	81	**84**
	CONTROLLER AND AUDITOR GENERAL							
280-875	Central Government Audits	114,760,370	114,760,370	88,992,224	5,994,108	94,986,332	83	83
280-876	Local Government	12,007,000	12,007,000	5,439,470	820,580	6,260,050	52	52
	TOTAL	**126,767,370**	**126,767,370**	**94,431,694**	**6,814,688**	**101,246,382**	80	**80**
	ATTORNEY GENERAL							
251-268	Public Prosecutions Department	29,540,200	30,340,200	22,485,189	3,734,692	26,219,881	89	86
251-269	Civil Litigation	12,641,729	12,007,000	8,421,955	544,519	8,966,474	71	75
251-851	Kenya Law Reform	26,646,000	25,846,000	26,589,392	585,275	27,174,667	102	105
	TOTAL	**68,827,929**	**68,193,200**	**57,496,536**	**4,864,486**	**62,361,022**	91	**91**
*	**MINISTRY OF LIVESTOCK, MARKETING AND FISHERIES**							
191-462	Livestock Training Support services	3,330,000	3,330,000	502,285	238,798	741,083	22	22
191-463	Pastoral Areas Training Centres – Narok	1,540,000	1,540,000	138,102	0	138,102	9	9
191-465	Griftu Pastoral Training Centre	1,680,000	1,680,000	0	0	0	-	0
191-466	Mobile Pastoral Training Units Isiolo	1,530,000	1,530,000	0	0	0	-	0
191-477	District Livestock Education and Extension Services	860,000	860,000	431,997	34,000	465,997	54	54
	TOTAL	**8,940,000**	**8,940,000**	**1,072,384**	**272,798**	**1,345,182**	15	**15**
	GRAND TOTAL	**19,558,362,604**	**18,495,527,136**	**15,565,344,346**	**494,893,826**	**16,060,238,172**	82	**87**

Provisional data

Annex 4B: Core Poverty Programmes- Development Vote

CORE POVERTY PROGRAMMES FOURTH QUARTER 2003/04 : KSH.

Sub-vote-head-item	*Priority Programme 2003/04 (Details)*	*Total Printed Estimates*	*Revised Estimates*	*Payments*				*Total Actual Payments (Cummulative)*	*Commitment (Cummulative)*	*Total Payment + Commitment*	*% of Total Payment + Commitment to printed estimates*	*% of Total Payment + Commitment to Revised Budget*
				Donor		*GoK*						
				Hqs	*Districts*	*Hqs*	*Districts*					
	OFFICE OF THE PRESIDENT											
010-603	National Aids Control Council	2,825,535,400	2,230,535,410	820,965,062	0	50,000,000		870,965,062		870,965,062	31	39
010-249	Poverty Eradication Unit	77,000,000	77,000,000			52,000,000		52,000,000	0	52,000,000	68	68
010-579	El-nino Emergency Project	624,240,586	484,240,586	0	0	273,687,046	0	273,687,046	0	273,687,046	44	57
010-283	Relief Rehabilitation & disaster Programme	250,643,680	250,643,680	0	0	0	0	0	0	0	0	0
010-298	Arid Lands Resource Management Project	716,100,000	458,035,607	271,660,491		1,411,275		273,071,766	0	273,071,766	38	60
	TOTAL	**4,493,519,666**	**3,500,455,283**	**1,092,625,553**	**0**	**377,098,321**	**0**	1,469,723,874	**0**	1,469,723,874	33	**42**
	OVP & MINISTRY OF HOME AFFAIRS											
050-080	Refugee water programme	15,990,000	15,990,000	0	0	0	0	0	0	0	0	0
053-308	Large and maximum prisons	139,490,000	139,490,000			108,045,458		108,045,458	579,880	108,625,338	78	78
054-122	Children services	59,065,374	59,065,374			12,026,310		12,026,310	560,100	12,586,410	21	21
052-495	Community Conservation Development Turkana	0	0					0		0	0	0
052-080	Food & Rations -Refugees	0	0					0		0	0	0
	TOTAL	**214,545,374**	**214,545,374**	**0**	**0**	**120,071,768**	**0**	**120,071,768**	**1,139,980**	**121,211,748**	56	**56**

	MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT											
103**	Facilitation and Supply of Agriculture and Livestock extension Services	897,704,848	514,900,783			69,221,170	0	69,221,170	7,374,541	76,595,711	9	15
105-491	Monitoring and Management of Food Security	40,000,000	40,000,000					0		0	0	0
106**	Crop and Livestock Disease and pest control	154,071,326	154,071,326					0		0	0	0
	TOTAL	**1,091,776,174**	**708,972,109**	**0**	**0**	**69,221,170**	**0**	**69,221,170**	**7,374,541**	76,595,711	7	**11**
	MINISTRY OF HEALTH											
	Health Development project (DARE Project)	765,600,000	605,418,000	74,645,039		525,785,156	623,616	601,053,811	4,987,805	606,041,616	79	100
110-310-501	Revolving Drug fund	3,280,000	6,350,000			6,350,000		6,350,000	623,616	6,973,616	213	110
111-316	Supply of Medical Equipment	449,000,000	39,631,232			38,881,982	0	38,881,982	749,250	39,631,232	9	100
111-317-223	Decentralization of Health services	74,000,000	42,408,080					0		0	0	0
111-317-220/1/2	Purchase of equipment	33,673,000	33,673,000	0		33,096,100		33,096,100		33,096,100	98	98
111-317-213	District Health Services	100,000,000	50,000,000			50,000,000		50,000,000		50,000,000	50	100
112-323	Environmental Health Services	28,852,600	17,396,000			17,260,012		17,260,012	135,988	17,396,000	60	100
113-335	Rural Health Centres & Dispensaries	1,356,922,464	1,611,284,532	225,199,997		199,125,363	1,720,352	426,045,712	1,720,352	427,766,064	32	27
111-317	Rehabilitation of Mortuaries	68,014,915	68,014,915					0		0	0	0
111-317-400	Rehabilitation of District Hospitals	30,388,038	59,888,038			59,888,038		59,888,038	0	59,888,038	197	100
111-325	Communicable and Vector borne	1,678,821,613	1,010,754,613	64,936,389		949,269,820		1,014,206,209	5,025,242	1,019,231,451	61	101
	TOTAL	**4,588,552,630**	**3,544,818,410**	**364,781,425**	**0**	**1,879,656,471**	**2,343,968**	**2,246,781,864**	**13,242,253**	**2,260,024,117**	49	**64**
	MINISTRY OF ROADS, PUBLIC WORKS & HOUSING											
136-489	Minor Roads Programme	951,005,000	568,005,000			5,993,829		5,993,829	273,900	6,267,729	1	1
133-404	Slum rehabilitation	81,210,000	112,210,000			49,619,380		49,619,380	7,204,375	56,823,755	70	51
	TOTAL	**1,032,215,000**	**680,215,000**	**0**	**0**	**55,613,209**	**0**	**55,613,209**	**7,478,275**	**63,091,484**	6	**9**

	MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES										
211-672	Forestry Development	161,000,000	139,780,000			29,306,123		29,306,123	0	29,306,123	18	21
211-738	Arid and Semi-arid Lands Forestry Development	33,000,000	33,000,000			5,821,621		5,821,621	24,021,379	29,843,000	90	90
211-938	Soil Conservation	19,000,000	19,000,000			287,309		287,309	0	287,309	2	2
215-702	Environment Policy Analysis	129,633,754	140,522,262	6,273,408		57,926,727		64,200,135	14,911,000	79,111,135	61	56
215-736	Support to District Environment Programme	18,900,000	18,900,000			0		0	0	0	0	0
	TOTAL	**361,533,754**	**351,202,262**	**6,273,408**	**0**	**93,341,780**	**0**	**99,615,188**	**38,932,379**	**138,547,567**	38	**39**
	MINISTRY OF EDUCATION SCIENCE AND TECHNOLOGY										
311-846	School Feeding Programme	1,056,400,000	1,056,400,000			0	0	0		0	0	0
311-844	Primary School Education	4,756,468,643	4,061,051,054	2,158,083,188		52,592,446		2,210,675,634	2,268,050	2,212,943,684	47	54
315-816	Early Childhood Programme	566,256,880	488,475,860	182,139,589		15,771,814		197,911,403	703,777	198,615,180	35	41
310-836	Curriculum Support Services	901,772,065	1,511,654,515	**95,027,569**		**809,399,994**		904,427,563		904,427,563	100	60
	TOTAL	**7,280,897,588**	**7,117,581,429**	**2,435,250,346**	**0**	**877,764,254**	**0**	**3,313,014,600**	**2,971,827**	**3,315,986,427**	46	**47**
	MINISTRY OF LABOUR AND HUMAN RESOURCE DEVELOPMENT										
154-598	Jua Kali Programme	268,500,000	178,500,000			3,746,351		3,746,351	813,400	4,559,751	2	3
156-922	Post Literacy Programme	28,900,000	28,900,000	3,417,203				3,417,203		3,417,203	12	12
	TOTAL	**297,400,000**	**207,400,000**	**3,417,203**	**0**	**3,746,351**	**0**	**7,163,554**	**813,400**	7,976,954	3	**4**

	MINISTRY OF PLANNING AND NATIONAL DEVELOPMENT											
061-207-312	Community Development Trust Fund	245,000,000	245,000,000			245,000,000		245,000,000		245,000,000	100	100
	TOTAL	**245,000,000**	**245,000,000**	**0**	**0**	**245,000,000**	**0**	**245,000,000**	**0**	**245,000,000**	100	**100**
	MINISTRY OF GENDER, SPORTS, CULTURE AND SOCIAL SERVICES											
186-902	Community Development Project	14,929,580	4,397,380	610,260		1,180,611		1,790,871	70,800	1,861,671	12	42
186-900-340	Grants to community Centres	37,000,000	40,000,000			39,962,000		39,962,000	0	39,962,000	108	100
186-900-446	ntegrated Promotion of street Children and Youth at Risk	6,200,000	4,200,000			4,127,179		4,127,179	38,000	4,165,179	67	99
186-903-340	Community Based Nutritional Programme	96,000,000	96,000,000			995,350		995,350	183,000	1,178,350	1	1
186-903-349	Community Nutrition and care	224,293,632	224,293,632			0		0	0	0	0	0
186-911-340	Grants to women Development Projects	3,457,000	3,457,920			3,417,200		3,417,200	40,020	3,457,220	100	100
180-794-342	Gender Mainstreaming & Empowerment of Women	54,000,000	28,380,116			2,115,538		2,115,538	0	2,115,538	4	7
180-794-343	Gender policy Development and Monitoring	5,850,000	5,850,000			0		0	0	0	0	0
	TOTAL	**441,730,212**	**406,579,048**	**610,260**	**0**	**51,797,878**	**0**	**52,408,138**	**331,820**	**52,739,958**	12	**13**

	MINISTRY OF WATER RESOURCES MANAGEMENT AND DEVELOPMENT											
207-524	Construction of Water Supplies-Special water Programmes	568,230,250	534,149,175	37,406,280		32,580,794		69,987,074	309,569,179	379,556,253	67	71
207-896	Water Conservation Structures-Rural Programmes	243,673,682	243,673,682	71,000		20,124,136		20,195,136	217,660,830	237,855,966	98	98
207-560	Construction of Water Supplies-urban Special Programmes	1,324,700,000	713,100,000	331,482,404		28,615,824		360,098,228	127,512,900	487,611,128	37	68
207-897	Water Rights	143,300,000	158,300,000	0		84,485,375		84,485,375	61,395,000	145,880,375	102	92
207-893	Water resources	140,000,000	140,000,000	0		67,486,031		67,486,031	63,995,985	131,482,016	94	94
207-563	Construction of sewerages	739,500,000	808,500,000	376,096,746		324,604,061		700,700,807	22,918,787	723,619,594	98	90
208-944	Integrated ASAL Programmes	18,700,000	18,700,000	18,250,013		6,943,703		25,193,716	375,000	25,568,716	137	137
208-995	Turkana Rehabilitation Project	49,460,000	49,460,000			24,500,000		24,500,000	0	24,500,000	50	50
209-936	Construction of rural Water Supply	75,000,000	82,400,000			77,098,302		77,098,302	0	77,098,302	103	94
	TOTAL	**3,302,563,932**	**2,748,282,857**	**763,306,443**	**0**	**666,438,226**	**0**	**1,429,744,669**	**803,427,681**	**2,233,172,350**	68	**81**
	JUSTICE AND CONSTITUTIONAL AFFAIRS											
170-557-533	Democratic and Good governance	80,000,000	354,457,872	12,975,412		153,170,877		166,146,289	0	166,146,289	208	47
	TOTAL	**80,000,000**	**354,457,872**	**12,975,412**	**0**	**153,170,877**	**0**	**166,146,289**	**0**	**166,146,289**	208	**47**
	LANDS & SETTLEMENT											
362-173	SFT State lands Schemes	66,709,865	66,709,865			51,562,744		51,562,744	2,458,622	54,021,366	81	81
362-199	SFT Shirika Conventional Schemes	5,610,000	5,610,000			5,606,970		5,606,970	0	5,606,970	100	100
	TOTAL	**72,319,865**	**72,319,865**	**0**	**0**	**57,169,714**	**0**	**57,169,714**	**2,458,622**	**59,628,336**	82	**82**

	TRADE AND INDUSTRY											
166-745-321	Traders Joint Loans Boards	9,000,000	9,000,000			9,000,000		9,000,000		9,000,000	100	100
167-795	Loans to Kenya Industrial Estates	18,400,000	18,400,000			18,400,000		18,400,000	0	18,400,000	100	100
	TOTAL	**27,400,000**	**27,400,000**	**0**	**0**	**27,400,000**	**0**	**27,400,000**	**0**	**27,400,000**	100	**100**
	FINANCE											
075-171	Rehabilitation of District Cash Offices	20,000,000	20,000,000			19,995,504		19,995,504	0	19,995,504	100	100
	TOTAL	**20,000,000**	**20,000,000**	**0**	**0**	**19,995,504**	**0**	**19,995,504**	**0**	**19,995,504**	100	**100**
	ENERGY											
301-430	wood fuel resources development	14,000,000	5,000,000	0		1,313,343		1,313,343	1,986,430	3,299,773	24	66
302-444	Rural electrification	2,689,000,000	2,780,000,000	317,529,696		1,262,697,940		1,580,227,636	27,500	1,580,255,136	59	57
	TOTAL	**2,703,000,000**	**2,785,000,000**	**317,529,696**	**0**	**1,264,011,283**	**0**	**1,581,540,979**	**2,013,930**	**1,583,554,909**	59	**57**
	LIVESTOCK,MARKETING & FISHERIES											
193-481	Veterinary Investigation Laboratories	27,430,000	27,430,000			3,272,145		3,272,145	1,743,075	5,015,220	18	18
193-490	Veterinary Farms Development	31,069,916	31,069,916			6,936,101		6,936,101	644,568	7,580,669	24	24
192-533/4/7	Fisheries Development	46,860,700	46,860,700			1,258,383		1,258,383	0	1,258,383	3	3
	TOTAL	105,360,616	105,360,616	**0**	**0**	**11,466,629**	**0**	**11,466,629**	**2,387,643**	**13,854,272**	13	**13**
	GRAND TOTAL	**26,357,814,811**	**23,089,590,125**	**4,996,769,746**	**0**	**5,972,963,435**	**2,343,968**	**10,972,077,149**	**882,572,351**	**11,854,649,500**	45	**51**