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INVESTMENT PROGRAMME

FOR

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

MARCH 12, 2004

Revised

Executive Summary

This document presents a result-based programme of priority government actions designed to meet the medium-term objectives of the Economic Recovery Strategy for Wealth and Employment Creation or the Economic Recovery Strategy (ERS). To address the economic growth objective, the programme envisages a strengthening of the macroeconomic framework, a more responsible fiscal stance, and the unleashing of private sector participation and investment. To improve equity and reduce poverty, the program focuses on universal primary education, improved access to basic health, expanded productive capacity in agriculture, development of the hitherto overlooked arid and semi-arid areas, and upgrading the living conditions for urban dwellers that have suffered from poor urban infrastructure and social services mainly due to high urbanization rates. To enhance governance, the program proposes far reaching reform of the judiciary, strengthening of rule of law and security, and implementing reforms in public administration systems that are critical to improving government transparency and accountability.

As part of the programme, the government commits its resources and efforts in the achievement of the Millennium Development Goals and an additional set of outcome indicators, as well as input, output and process indicators, related to economic growth, poverty, education, health, and water, among others. The logframe matrix for the ERS, included in this document, spells out the list of indicators and related targets. A summary matrix specifies key developmental targets that are considered major step stones in the developmental process. The activities referred to in this proposal are all key activities to ensure the achievement of these targets.

In revising the ERS, the Government has sought to ensure that the investment programme can be funded in a sustainable manner. Consequently, the ERS investment activities have been reprioritised, bringing the implementation cost down from Kshs 706 billion as originally indicated in the interim investment programme to Kshs 340 billion. The financing framework has also taken account of donor pledges during the Consultative Group meeting which totalled US$4.1 billion. With the revisions, the financing gap for the ERS declines to Kshs 58.5 billion, which can be accommodated through a 7.5 percent reduction in non-ERS priority activities. The revised strategy is thus fundable.

Introduction

This investment programme presents a set of priorities of government actions designed to meet the medium-term objectives of the Economic Recovery Strategy. The ERS presents a multi-faceted strategy to meet economic growth, equity and poverty reduction, and governance objectives. To spur economic growth, the ERS commits to strengthening the macroeconomic framework, assuming a responsible fiscal stance, and providing a conducive environment for private sector investment in the productive sectors and, specifically, in infrastructure development and maintenance. To reduce poverty, ERS focuses on universal primary education, improved access to basic health, development of traditionally overlooked arid and semi-arid areas, and upgrading the living conditions for the urban poor. To enhance governance, ERS proposes a far reaching reform of the judiciary, strengthening of rule of law and security, and implementing reforms in public administration systems that are critical to improving government transparency and accountability.

The investment programme operationalizes the intentions of the ERS by spelling out priority programs, identifying key activities within each program, providing budgetary estimates and financing gaps within the overall resource envelop, laying out the implementation timetable, and committing to a set of monitorable targets. The interim version of the investment programme was tabled for discussion by H.E. the President during a National Investment Conference on 20th November 2003. Thereafter, it was tabled for discussion at the Donors' Consultative Group meeting held on 25th November 2003. Following the national conference and the CG meeting, the Government embarked on producing this final version of the investment programme by updating the interim version. The updated investment programme:

(i) incorporates the outcomes of the Consultative Group meeting;
(ii) incorporates the Government commitments entered into for the PRGF;
(iii) brings on-board and takes cognisance of new issues and developments that have taken place since the publication of the original ERS and interim investment programme such as the rescheduling of Kenya's external debt; and
(iv) Adopts a more realistic costing framework given the donor pledges in the CG and the macroeconomic framework of the PRGF.

This updating was necessary because in addition to the need to have the investment programme consistent with the outcomes of the CG meeting and the PRGF commitments, the interim investment programme of ERS was found to be inadequate on several fronts. Firstly, it failed to describe the process that will be followed to ensure that the MTEF and the budgetary allocations are aligned with the priorities of the ERS. Secondly, it failed to describe the arrangements through which coordination of the ministries of planning, finance, line ministries, and development partners will be enhanced. And finally, the monitoring and evaluation framework of the investment programme was incomplete. These shortcomings were addressed as follows in this investment programme:

(i) The sectoral activities have been reprioritised;
(ii) The costing of the new priorities has been revised;
(iii) The outcomes of the Consultative Group meeting have been incorporated;
(iv) The Ministerial Public Expenditure Reviews (MPERs) were utilised as core inputs to the prioritisation process;

(v) Revisions dealing with poverty diagnostics as contained in the more detailed poverty maps and the Kenya Demographic and Health Survey; the coordination mechanisms of the MTEF; and the consultation process have been incorporated;
(vi) The logical framework matrix was also revised to make it a more complete instrument for monitoring and evaluation; and
(vii) A new matrix of the investment programme that is consistent with the MTEF budgeting definitions was introduced as the new Annex II.

The document is organized as follows. The introductory chapter describes the ERS consultation process and the coordination mechanisms for implementation. Chapter 2 is the scene setter presenting current economic conditions in the country including poverty assessment. Chapters 3-5 present the government program, one for each major objective of the ERS: Economic growth, Equity & Poverty reduction, and Governance. Chapter 3, on economic growth, focuses on the macroeconomic framework, infrastructure and productive sectors. Chapter 4 presents human resource development, agriculture and rural development, and poverty targeted programs. Chapter 5, on governance, lays out the reforms required to strengthen the rule of law and to improve transparency and accountability of public administration. Financing framework is presented in chapter 6. The monitoring and evaluation framework is described in Chapter 7. A monitorable and output-based ERS logical framework matrix is presented in Annex I, which identifies input, output and outcome indicators, and monitoring mechanisms. The logical framework matrix starts with summary which identifies 15 major developmental outcomes of the ERS and selected indicators and targets, among which are the Millennium Development Goals. Annex II is a matrix providing the objectives, outcomes, costs, and enabling activities under each of the MTEF sectors.

Chapter 1: The Consultation and Institutional Processes for the Economic Recovery Strategy

The Process

The Government of Kenya subscribed to the Poverty Reduction and Growth Facility (PRGF) in 2000 and embarked on the preparation of the Poverty Reduction Strategy Paper (PRSP) at the same time. This preparation was undertaken through wide-ranging consultations and dialogue in order to build consensus on priority actions and activities necessary for economic growth and poverty reduction. The PRSP was preceded by the Interim Poverty Reduction Strategy Paper (IPRSP) released in 2001. The IPRSP only involved limited consultations at the national level. The PRSP consultations followed a three-tier approach: national, provincial and district levels. The stakeholders in the consultations included the Private Sector, Civil Society, the Development Partners and local communities. A national steering committee that included all the stakeholders was formed to spearhead the process and ensure inclusion at all levels.

The consultations also covered thematic areas to take care of important issues that are cross cutting and which tend to be left out in mainstream sector working groups. The consultations went as far down to the divisions, locations and villages in some of the districts. Participatory Poverty Assessments (PPA) were carried out in ten (10) sampled districts. The District PRSP reports and PPA reports together with inputs from the Sector Working Groups were synthesized into the PRSP (2001-2004). The PRSP formed the basis for the 2002/03 budget.

In December 2002, a new government under the National Rainbow Coalition (NARC) took office and immediately embarked on the process of preparing an economic recovery strategy, focusing on reviving the economy and creating employment. The ERS presents a road map for economic recovery during the next five years. The ERS takes into account existing Government policy documents, particularly the PRSP and NARC’s Manifesto and Post-Election Action Plan.

The development of ERS was also a result of wide-ranging consultations with stakeholders. The stakeholders included, parliamentarians; trade unions; professionals; financial institutions; industrialists; ASALs; Development Partners; Civil society and government. The strategy therefore embodies the views and aspirations of all Kenyans.

Based on the ERS, an Interim Investment Programme was developed. The Interim Investment Programme provides a framework for implementing the ERS. The Interim Investment Programme was discussed at a National Investment Conference in November 2003, organized jointly by the government and the private sector. At this conference the private sector committed itself to continued partnership with the government for the success of the programme. It was also the Investment Programme that formed the basis of discussions at the Donor Consultative Group meeting held in November 2003. A prioritization workshop was also held in January 2004 where all the activities in the logical framework of the programme were prioritized in line with the sector objectives. During the same workshop, the Rapid Result Initiative (RRI) was launched in one of the sectors. Comments by the development partners, other stakeholders and inputs from the National Investment Conference, the Donor Consultative Group meeting and the prioritization workshops has be used to generate this final version of the Investment Programme.

Mechanisms of Linking the Ministerial Public Expenditure Reviews to the MTEF Budget Process

A key priority of the MTEF process is to improve the planning and resource allocation process to achieve a more effective use of resources and to redirect available resources towards implementation of policy priorities. The MTEF is an outcome based planning and budgeting process that seeks to establish an explicit link between policy, planning and budgeting. More importantly, the MTEF objective is to strengthen the linkage between the annual budget and national development policies and provide means of aligning expenditures to national priorities, outputs and outcomes set in the Economic Recovery Strategy. This way the National Budget will be guided by national objectives and the desired outcomes.

A review of the existing policies, analysis of the ministerial expenditure trends and the impacts of programmes and activities financed through the MTEF process is what is widely referred to as Public Expenditure Reviews (PER), and generally used to review and analyse trends and impacts of these expenditures.

The PER process in Kenya is implemented through an established institutional framework led by the National Steering Committee of Permanent Secretaries, Technical Officers in all the line Ministries and representatives of Development Partners. The Steering Committee is responsible for policy on PER and is chaired by the Permanent Secretary, Ministry of Planning and National Development and co-chaired by the Country Director World Bank Kenya office. The Steering Committee is supported by a Technical Working Group (TWG) drawn from all the ministries and representatives of key Development Partners under the leadership of the Ministry of Planning and National Development and is responsible for all the analytical work on PER and the back stopping roles form ministerial public expenditure reviews. The TWG is supported by a Secretariat, which has been modeled along the sector wide approach used in the MTEF process.

The outputs of PER are used in preparing reports of the Sector Working Groups (SWG) which are responsible for the coordination of MTEF sector policies, priorities and activities. Future institutional reforms for PER will entail the introduction of Public Expenditure Tracking Surveys (PETS) which have been piloted in the Ministries of Health and Education Science and Technology.

The government, having recognized that public expenditure reviews are an integral part of the MTEF process issued one circular that is going to guide the MTEF process for the period 2004/05 – 2006/07 and the Ministerial Public Expenditure Reviews (MPERs). The MPERs will review the past trends of expenditures including those expenditures that are related to core poverty programmes or social spending. The MPER reports will also include costed programmes and activities. The costed programmes and activities must be in line with those identified in the Investment Programme. Having costed the programmes, they will draw a three year financial/financing plan for the Ministry.

While the work of the sectors and Ministries is going on, the macro working group will draw up a fiscal strategy which will state the resources available and based on the ERS and the Investment Programme indicate which sectors are going to support faster recovery needed for poverty reduction.

The sector resource envelopes will be developed after having reviewed sector needs as given in the SWG reports and after having matched those needs with the Fiscal Strategy Paper (FSP) and other policies. Once sector envelopes are approved by cabinet, ministries will participate in the sharing of the resources through a criteria which must be seen to support the overall National goals/strategies as will be outlined in the fiscal strategy. Thereafter the Ministries will prepare their itemized budget according to resources they will get from the sectors.

A review of the MTEF process is in its final stages of completion. The main thrust of the review is to determine the main strengths and weaknesses of the current MTEF budget process and make recommendations for better public expenditure management. Together with the MTEF Review Report will be detailed implementation action plan with definite time lines that will pave the way for a revised MTEF for Kenya.

Coordination Arrangements for the Implementation of the Economic Recovery Strategy

ERS Implementation Coordination

The development of the ERS and the Interim Investment Programme involved inputs from ministries of Planning and National Development, Finance, line ministries, development partners, the private sector and civil society. The inputs were received through consultative meetings, workshops and conferences, correspondences and missions. This all- inclusive spirit should be advanced to the implementation of the ERS. This requires that an elaborate mechanism be put in place to provide an interactive and productive system that will ensure that all stakeholders actively participate in the recovery process.

To achieve the above ERS objectives, the Government has taken the following measures:-

- Identified key actions/activities whose implementation will constitute a successful implementation of the ERS;
- Identified a set of indicators that will be used to monitor progress. In this regard, a monitoring and evaluation log frame has been developed;
- The Ministry of Planning and National Development has developed a Monitoring and Evaluation System to be used the monitoring of the ERS. A Monitoring and Evaluation Unit has also been established within the Ministry to coordinate the monitoring of the ERS across all sectors;
- The Sector Working Groups (SWGs) will constitute the operating platform for all stakeholders in the various sub-sectors. The SWGs are responsible for enhancing consultations at sector level in the identification of sector priorities and ensuring that these are given adequate funding through the Medium Term Expenditure Framework (MTEF) budget. The ongoing review of the MTEF system is meant to strengthen the system to ensure that funding goes to priority ERS activities.
- The Government has now institutionalised the Public Expenditure Review PER) system across all ministries and departments to be able to track down the flow of expenditure to priority activities under the ERS. The Ministry of Planning and National Development has established a full time secretariat to coordinate the PER process. The PER Secretariat is already reviewing the budgetary processes including the institutions that are involved in order to identify weaknesses and make recommendations for improvement.

- A Committee of all Permanent Secretaries under the chairmanship of the Head of Public Service and Secretary to Cabinet will get regular briefing on the progress of the implementation of the ERS and give technical guidance.

- The Cabinet Committee of Economic Management, Chaired by the Vice-President and Minister for Home Affairs will review progress in the implementation of the ERS and give policy guidance.

- The Government has been having regular consultative meetings with development partners through the Economic Governance Group (EGG). The Government will institutionalise the Forum to also discuss the implementation of the ERS.

- The Government is the process of establishing the National Economic and Social Council (NESC). Invitations have already been sent out to various stakeholders to be represented in the Council. Once the Council becomes fully operational, it will be able to assist in giving an independent view on the implementation of programmes and advise on emerging policy concerns. The Ministry of Planning and National Development and Ministry of Finance will host and facilitate discussions in the Forum.

ERS Steering Committee

Comprising all Permanent Secretaries and with the task of overseeing and guiding the implementation of the ERS. This committee will be guided by reports prepared by the Technical committee under the leadership of the Ministry of Planning and National Development. This committee will meet in every quarter of the fiscal year mainly to ensure that implementation of the ERS priorities is on course and where there could be bottlenecks, they be discussed, resolved and a way forward be defined.

ERS Technical Coordination Committee

Comprising representatives from Ministry of Finance and Ministry of Planning and National Development should be established. This committee will:

- Liase with implementers within Ministries, Departments and Agencies (MDAs) on a continuous basis and receive and examine reports from Ministries and Departments on the implementation of the actions/activities outlined in the ERS implementation action plan;
- Liase with Sector Convenors who will be spearheading a continuous assessment of the implementation of ERS sector priorities and strategies based on expenditure allocations, identified performance targets and monitorable indicators.
- Compile progress reports/briefing and submit the same to the ERS steering committee. The objective will be to generate information necessary for making strategic policy decisions and adjustments to the implementation strategy.

Government Donor Consultative Forum

The hitherto dormant Government Donor Consultative Forum has already been established with representatives from all key donor partners, Government ministries and departments. The Minister for Finance chairs this forum. Key representatives from the private sector and civil society could also attend. The role of the Forum is to meet on quarterly basis to review progress on key priority areas identified in the ERS and Investment Programme. This will be similar to the recently held Consultative Group Meeting but mainly involving local representatives of the donors that have already committed resources to the ERS. However, the issues to be discussed under this forum will be of broad nature but related to projects that are financed by donors while specific issues will be dealt with at the sector level. For instance a timetable for the various donor missions would be agreed in this forum. Projects financed by donors but implemented by agencies outside government could also be reported under this forum. This forum will ensure mutual accountability by all partners in the process of implementing the development agenda.

National Economic and Social Council

Once the National Economic and Social Council (NESC) becomes operational, it will be able to assist in giving an independent view on the implementation of programmes and advise on emerging policy concerns. The Ministry of Planning and National Development and Ministry of Finance will host and facilitate discussions in the Forum.

Chapter 2: Situational Analysis of the Economy and Poverty in Kenya

After two and half decades of deteriorating economic performance, Kenyan citizens elected a new government in December 2002 that is committed to improving the living standards of all, especially the poor. Despite taking over with severe resource constraints, the government has begun implementing a wide ranging and deep set of reforms. Top on the reform agenda are measures to improve governance and to provide universal primary education.

The Economy

Since the 1980s, the economy has performed below its potential, with low economic and employment growth and a decline in productivity. Consequently, per capita income in constant 1982 prices declined from US$271 in 1990 to US$239 in 2002. The number of people openly unemployed currently stands at over 2 million or 14.6 per cent of the labour force, with the youth accounting for 45 percent of the total. The majority of the unemployed, though educated, do not have necessary skills. In addition, the number of the working poor is staggering comprising primarily subsistence farmers, female-headed households and slum dwellers. Disguised unemployment is also a serious problem, especially in the public sector. Moreover, the incidence of HIV/AIDS has increased, thereby imposing an increasing social and economic burden. The factors underlying the weak economic performance and high incidence of poverty include the persistence of pervasive governance failures, the slow pace of economic reforms, low savings and investment, intermittent shortages and high costs of power, and poor physical and telecommunications infrastructure.

The weak economic growth has been accompanied by deterioration in the fiscal position and a growing domestic debt. As a result of reduction in the tax rates, Government revenue fell from 29 percent of GDP in 1999/2001 to 22 percent in 2002/03. This reduction in tax rates was in line with Government policy of creating an enabling environment for business. However, a weakening tax administration resulting largely from widespread corruption contributed to fiscal pressure as the revenue declined. As the tax revenue declined, public expenditure did not respond concomitantly and continued to come under expansionary pressure on account of increased spending on wages, salaries and interest, as well as the burden of supporting a large parastatal sector. With donor budgetary support falling concurrently, the resulting fiscal pressures was accommodated by a squeeze in spending on operations and maintenance and public investment, an increase in arrears, including pending bills and stalled projects, and growing domestic borrowing.

Despite improvements in governance, several external developments have kept economic growth subdued. Recent data indicate that overall economic performance remained weak due to recent terrorism alert, which has taken a heavy toll on the tourism industry. Partly due to this reason, real GDP growth in 2003 is projected to remain below 2 percent. Excluding food and energy, inflation has risen to 3.7 percent in June 2003 from 1.6 percent in October 2002, reflecting in part a loosening of monetary conditions during 2002 that was accompanied by a depreciation in the nominal and real effective exchange rates of the shilling. While the exchange rate does not appear to have been a major impediment to export performance in recent years, the government has been monitoring exchange rate developments closely, as a continuation of the recent appreciation trend could have adverse effects on export and output growth.

Poverty Diagnostics in Kenya

Poverty rose in Kenya during the 1990s. Three national surveys conducted in the 1990's provide valuable information about welfare levels, poverty and other household and individual characteristics. Several poverty profiles have been constructed spanning 1991/92, 1994 and 1997. The surveys are, however out of date and not fully comparable. Nevertheless, it is estimated that the proportion of the population living in poverty has risen from about 48.8 percent in 1990 to 55.4 percent in 2001. The proportion is estimated to have risen to more than 56 percent in 2003. Poverty increased sharply during the early 1990s, declined during the mid-1990s, and rose steadily since 1997. Thus, an additional 2.7 million people were living below the poverty line in 2001 than were in 1997 (from 14.4 million in 1997 to 17.1 million in 2001). Regionally, there are pockets of very high poverty that exceed the national average, calling for deliberate intervention in such regions.

Non-income dimensions of poverty worsened. In step with poor economic performance, key social indicators during the 1990s. Illiteracy rates increased as enrolment rates in primary school declined during the 1990s. Life expectancy declined from 57 years to 47 years between 1986 and 2000, while the situation in infant and child mortality and HIV/AIDS worsened. Preliminary results of the Kenya Demographic and Health Survey conducted in 2003 indicate that Infant mortality increased from 62 per thousand in 1993 to 78 per thousand in 2003, while under five mortality rose slightly from 96 per thousand births to 114 per thousand in the same period. Trends in nutritional status of children under age three show that the percent of stunted children (short for their age) increased from 29 percent in 1993 to 31 per cent in 2003. Similarly, the percent of children aged 12-23 months who were fully vaccinated dropped from 79 percent in 1993 to a dismal 52 percent in 2003. These national averages conceal substantial regional variations. For example, the proportion of children fully vaccinated in Nyanza, Western and North Eastern provinces falls below 50 percent as of 2003.

Estimates on unemployment also indicate an increasing trend over the last two decades. In 1978 the urban unemployment rate was approximately 7 percent. By 1986 it had increased to 16 percent and continued to rise to 25 percent by 1999. The unemployment rate in the rural areas for the same period was less acute at 9.4 percent, while for Kenya as a whole it was estimated at 14.6 percent. However, underemployment is significant, which has contributed to the existence of a class of Kenyans who are the working poor.

Currently, **Geographical variations in** the distribution of **poverty** are large**.** The WMS indicate that three quarters of the poor live in rural areas while the majority of the urban poor live in slum and peri-urban settlements. The 1994 WMS revealed that North Eastern Province had the highest proportion of people living in absolute poverty (58 percent), the highest in Kenya, followed by Eastern Province (57 percent) and Coast Province (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) were living in poverty. In urban areas, Kisumu town recorded the highest prevalence of poverty (63 percent), followed by Nairobi with 50 percent. Results of poverty mapping in Kenya indicate similar patterns in levels of poverty at the provincial levels, but depict large differentials at the sub-district level. For instance, rural poverty rates within Central province (least poor province in Kenya -31 percent) ranges from 10 per cent to 56 percent across its 171 locations. In Coast, about 61 per cent of the rural people are poor, and poverty ranges from 13 per cent to 90 per cent across the 140 rural locations. As in the rural areas, the urban areas similarly exhibit considerable heterogeneity with sub location measures showing high variability in the incidence poverty. In Nairobi, for instance, overall poverty rate is 50 percent, but at the sub-location level (110 sub-locations) poverty ranges between 6 and 78 percent. The poor in urban areas are concentrated in small areas (slums) where living conditions are pathetic. In all provinces except North Eastern, poverty levels show significant variations between locations in the same division and similarly for divisions within the same district. The Poverty mapping estimates also show that people in relatively less poor districts, divisions and locations depict 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.

Households that are large, headed by females, headed by adults with low educational attainment, or deriving most income from agriculture are more likely to be poor than others**.** In Kenya, as in other countries, poverty increases with household size.[1] Thus, households with a larger number of infants and children have a lower level of consumption, and thereby a higher probability of being poor. Female-headed households in urban areas are poorer than otherwise similar households. Not surprisingly, the educations of both the household head and of the spouse appear to be important determinants of poverty. For example, an urban household whose head has at least some primary education has a level of consumption 20 percent higher than a comparable household whose head has no education at all. In rural areas, the gap is only 13 percent. As the level of education attained by the head and spouse increases, the effect on consumption also increase. Working in the non-farm sector in rural areas is associated with a higher level of consumption. Wage workers, whether in the public or private sector, are better off than informal workers such as unpaid family workers. Land ownership, it is associated with higher levels of consumption in rural areas. Land owners can expect a 7 percent increase in consumption versus otherwise similar households, and each hectare of land brings an additional gain.

Determinants of Poverty: The key determinants of poverty in Kenya include location (rural/urban); household size; level of education of head of household, gender (male versus female headed households); agricultural output (cash crop farmers or subsistence farmers); access to land; and ownership of livestock and of selected durable farm tools. Factors highlighted in participatory poverty studies as affecting household consumption include having low agricultural productivity and poor access to markets; being unemployed or earning low wages; living in areas with poor infrastructure (especially roads), and with limited availability of affordable basic services; living with HIV/AIDS or with a disability; being a member of a minority or other group that is discriminated against; and living in an area with a poor and degrading environment. The poor also attribute their poverty to natural calamities, and traditions and cultural beliefs that deny women access to productive assets. The government recognizes that much is still to be done to understand the causes of poverty and to identify interventions that can effectively and rapidly reduce poverty.

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. Efforts are ongoing to mainstream gender in the Economic Recovery Strategy. Constraints*,* however*,* include lack of gender-disaggregated analysis, except for the fields of basic education and some areas of healthcare. In addition, gender specific targets for defining

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[1] This analysis is based on the 1997 household survey.

improvements in the economic, social and legal situation are still lacking. The macroeconomic framework that forms the core of the Economic Recovery Strategy is still analyzed in gender-neutral terms.

Actions to deepen the understanding of the incidence, depth, trends, distribution, and determinants of poverty: An improved process for poverty diagnostics has been undertaken recently by the government in collaboration with the World Bank, through the establishment of a Poverty Analysis and Research Unit in CBS which is spearheading poverty analysis including poverty mapping exercise aimed at revising the poverty profiles for all the districts. The first volume of the poverty mapping exercise was released in October 2003 and further analysis to produce a volume two on socio economic dimensions is underway. To further improve on prior weaknesses of the WMS type of surveys, the CBS is planning to undertake an Integrated Household Budget Survey in 2004/05, which will provide critical data for estimating poverty headcount, distribution, causes, and trends. These data will provide the basis for a comprehensive poverty assessment to be undertaken during 2005/06. While the comprehensive survey data are very important for assessing poverty trends, the government recognizes a need for frequent information on poverty trends. It therefore plans to implement a program to generate such data through the use of quick monitoring survey instruments such as the Core Welfare Indicators Questionnaire (CWIQ) preferably every 2-3 years.

Such information will be used not only for designing targeted poverty interventions but also for monitoring and evaluating the 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.

Chapter 3: Economic Growth

After two decades of weakening economic growth, low productivity and high unemployment, the ERS's first priority is to restore the economy on a path of high growth as a condition for the achievement of all other developmental objectives. The strategy calls for redefining the role of the state as a facilitator for private sector growth and investment. This will entail strengthening policy and regulatory functions of the state and transferring productive and service delivery activities to the private sector. Within this framework, the government commits to maintaining a stable macroeconomic framework, reforming the financial sector and strengthening its regulations to increase savings and investment, implementing mechanisms for private sector participation in provision of infrastructural services, and establishing a competitive environment able to attract increased private investment in productive sectors such as tourism, industry and trade.

Macroeconomic Framework

The overall objective of macroeconomic policy is to restore economic growth within a sustainable framework of low inflation, declining fiscal imbalances, declining net domestic borrowing and healthy balance of payments. Specific objectives include increasing domestic savings and investment, improving accountability in the use of public resources, and restructuring and refocusing public spending toward priority activities.

Economic Forecasts

Table 3.1 below gives the economic forecasts for the period 2003 to 2007 for key economic variables. This forecast is consistent with the expected external environment especially trading partner growth and price levels, prices of key commodity exports and imports and expected growth in external support which will be used to boost Government investment and reduce domestic financing needs. The main elements of the forecast are as follows:

- **Economic growth** is expected to rise from 1.1percent in 2002 to 1.3 percent in 2003 and continue to reach 4.9 percent in 2007;
- **Investment growth** is expected to be the primary driver for economic growth. Investment levels are expected to rise from 13.6 percent of GDP to 24.3 percent. Domestic savings are expected to rise from 13.8 percent to 18.5 percent over the period, implying that there will be need for substantial external inflows for the investment levels to be achieved.
- **Exports and imports** are expected to be a major factor in the growth outcome. Exports to begin with are seen to be constrained by the low prices of Kenya's major commodities. However, a quick response by the exporters to the policy regime currently being put in place to make them more competitive is expected to provide almost immediate gains by 2005. As for the imports, the volume growth will be driven mainly by the movements of the other components of the GDP, primarily investments and exports.
- **Private consumption** is expected to remain low as the Government focuses on investments and as lower proportion of incremental profits is disbursed from the private sector to households.
- **Inflation**: continuation of the conservative monetary policy will allow Kenya's underlying inflation to remain below 3.5 percent, comparable with the forecasts for trading partner inflation. This will allow for the maintenance of a stable nominal exchange rate policy without risking real appreciation of the Kenyan shilling. Low inflation as well as

externalization of the deficit is expected to allow the rate of interest on Government debt to remain below 6 percent in the medium term.

Table 3.1: Forecasts for key economic parameters

	2002	2003	2004	2005	2006	2007
GDP Growth (percent real)	1.1	1.3	2.5	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 annual)	-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

Fiscal Strategy for Economic Recovery

The Government in June 2003 published an Economic Recovery Strategy that will guide major reforms to be undertaken over the period 2003 – 2007. The Budget mechanism presents one of the most fundamental instruments of implementing the economic reforms and other policy options outlined in the ERS in order for the objectives and the outcomes of the strategy to be realised. Core to the Budget is the ability to have a stable and sustainable Macroeconomic Framework. The overall objective of macroeconomic policy in the ERS is to restore economic growth within a sustainable framework of low inflation, declining fiscal imbalances, declining net domestic borrowing and healthy balance of payments. Specific objectives include increasing domestic savings and investment, improving accountability in the use of public resources, and restructuring and refocusing public spending toward priority activities. Fiscal policy together with other instruments such as monetary policy provides the Government with useful handles that can be used to ensure the realisation of the goals of the ERS. In the following section, the fiscal strategy that will guide the Government's fiscal framework in the next three fiscal years is outlined.

Objectives of the Fiscal Strategy

Kenya's Fiscal Strategy that will cover the period 2003/04-2006/07 has three core objectives. These include Fiscal Sustainability, expenditure restructuring for growth and poverty reduction, and improving public sector service delivery.

Fiscal sustainability: Under this objective, the fiscal policy's aim is to maintain a level of expenditures that can be funded without either an increase in the present value (NPV) of overall debt to GDP or an increase of external debt growth. This is consistent with the desire of the country not to become a Highly Indebted Poor Country (HIPC).
Expenditure restructuring for growth and poverty reduction: This objective will be anchored in increasing the shares of development expenditures especially those targeting Government investments, core social expenditures (education and health) and core poverty expenditures. The increase will be both as a share of total expenditure and as a percent of GDP.

Improving public sector service delivery: This will entail enhancing both the efficiency and effectiveness of public expenditure through a process of internalizing the Public Expenditure Review (PER) and carrying out Public Expenditure Management (P.E.M.) reform.

The fiscal strategy will serve as the basis for defining a realistic medium term Government finance framework covering revenues, expenditures and financing, which allows for an aggregate expenditure ceiling to be derived that is consistent with the objectives indicated above. The strategy will also allow for the setting of expenditure ceilings both by category and by MTEF sectors.

Factors underlying the Fiscal Strategy

Several critical factors underlie Kenya's fiscal strategy. The strategy is hinged on the projected performance of the economy. The key factors determining the projected economic performance will be:

a) **Recovery and sustained good performance in Kenya's trading partners' growth**: Recent economic data shows that the European Union, East African Community, rest of Africa, and East Asia are Kenya's major trading partners accounting for 31 percent, 11.4 percent, 15.7 percent and 14.4 percent respectively of Kenya's major exports. It is forecast that Kenya's trading partners will have an annual average growth rate of 4.2 percent over 2003 to 2007.

b) **Forecasts for trading partner inflation**: It is also projected that Kenya's trading partners will have a weighted average inflation of between 3.2 to 3.6 percent. Hence, a low inflation regime will be imperative for Kenya's international competitiveness:

c) **Growth in export and import prices is expected to be subdued:** Kenya's merchandize export basket is heavily oriented towards agricultural products and commodities (coffee and tea account for over 31 percent while manufactured products account for less than 40 percent) while its import basket is heavily biased in favour of petroleum fuels (16.3 percent) chemicals (13.9 percent) machinery and transport equipment (32.4 percent) and manufactured goods (16.3 percent). Given the low price forecasts for both export and import commodities, overall external trade prices are expected to be low.

d) **Interest rates**: Kenya has recently moved to a low domestic interest rate regime as a result of low underlying inflation and stable exchange rate regime. With restoration of donor support, the Government is expected to rely less on domestic borrowing allowing for interest rates to remain low and stable.

The expected trends of these key economic variables between 2003-2007 are shown in table 3.2 below.

Table 3.2: Forecasts for key economic variables affecting Kenya

	2002	2003	2004	2005	2006	2007
Trading Partner Growth	3.70	3.37	4.17	4.44	4.45	4.45
Trading Partner CPI	3.24	3.52	3.58	3.25	3.25	3.25
Growth in Export Prices (Kshs.)	6.7	-9.34	1.55	3.94	0.78	0.78
Growth in Import Prices	6.4	-5.45	-4.14	0.15	0.78	0.78
Domestic Treasury Bill Rate	7.9	4.0	3.00	5.00	5.00	5.00

(ii) Donor relations and implications

Like most other low income countries, Kenya relies on its development partners to assist it in accelerating economic development. Table 3.3 shows the trends of inflows during 1999/2000 to 2002/03 fiscal years. Over 1999/2000 to 2002/2003 the Government received disbursements amounting to Kshs 52,436 million of grants (including Kshs 12,444 million of drought related grants in 2000/01 fiscal year) and Kshs 48,480 million of loans (including Kshs 4,382 of drought related loans and Kshs 4,045 of programme loans). Hence, donor inflows into the budget totaled Kshs 100,916 million. However, over the same period the country repaid external principal to the tune of Kshs 90,059, implying that net inflows over the period totaled Kshs 10,857 million, and excluding drought related inflows were negative[2]. The low level of donor support were primarily driven by Kenya being "off track" with key development partners and especially the Bretton Woods institutions.

Table 3.3: External Loans and Grants, 1999/00-2002/03 (Values in Kshs. mn)

	1999/2000	2000/01	2001/02	2002/03
Programme grants	4,247	5,955	1,473	458
Project grants (cash)	938	1,521	1,090	3,804
Project grants (AiA)	3,309	4,160	4,260	10,777
Drought related grants	0	12,444	0	0
Project loans (AiA)	6,020	5,323	7,133	5,276
Programme loans	0	4,045	0	4,045
Project cash loans	2,830	4,337	2,898	2,191
Drought related loans	0	4,382	0	0
Total Grants	**8,494**	**24,080**	**6,823**	**15,039**
Total loans	**8,850**	**18,087**	**10,031**	**11,512**
Total external support	**17,344**	**42,167**	**16,854**	**26,551**

This situation has however changed following Kenya's accessing the IMF's Poverty Reduction and Growth Facility (PRGF) and the holding of a successful Consultative Group (CG) meeting in November 2003 where US$4.1 billion in support was pledged over 2004-2006. The restoration of working relations with development partners therefore enables the Kenya Government to accept a more ambitious stance with respect to donor assistance to the budget.

Domestic factors

The following are the key domestic factors that will underlie the economic recovery efforts and thus the fiscal strategy:

- Response of private investors to the incentives and measures put in place by the Government,
- The capacity of the Government to absorb the external inflows and the restructuring capacity given the need to shift resources from one expenditure category to another,
- The Monetary policy stance adopted by the Central Bank of Kenya,

Private Investment

Private investments in Kenya have continued to perform below expectation and to a large extent the poor performance explains partly the slow economic growth that the economy has transited

[2] The level of net external resources accessed by Kenya on a per capita basis was as low as US$1 over the period.

to. An in-depth analysis of private investment behaviour in Kenya indicates that private investment is driven by: growth in national income; profitability; interest costs; crowding-in factor of public investments; and availability of credit to the private sector. The link with the interest costs is weak implying that fiscal policy lends itself as a more effective instrument that the Government can use as part of its economic recovery strategy to stimulate investments.

The measures currently in-built in the ERS in line with the key determinants of private investments in the country is the restructuring of public expenditures towards public investments outlined in this strategy. Immediate dividends through the crowding-in factor of such public investments are expected will create a positive response for the private investments. In addition, the public investments will are expected will reduce the costs, particularly infrastructural facing private firms, and this will lead to increased profitability. Private investors in the country on average have been shown to re-invest one-third of their profits net of interest costs in a given year. The increased profits through lower costs occasioned by public investments are also likely to be positively augmented by a continuation during the ERS implementation period of strong fiscal policy that addresses the profitability of private businesses through the use of current tax policy that allows faster depreciation of machinery and equipment. This has a direct effect of raising retained earnings in businesses and subsequently private investments.

The principal objective of fiscal policy under the ERS is fiscal consolidation to reduce domestic debt, and fiscal restructuring to reallocate resources to high priority programs. The budget envisages substantial reduction in domestic borrowing requirements which will maintain the on-going efforts to remove competition between the public and private sector for domestic credit. With the realisation of increased credit availability for the private sector, it is anticipated that the impetus for private investments will be supported.

Government Capacity

The public sector has been undergoing continual reform since the early 1990's with a view to reducing the share of Government recurrent expenditure (especially wages) and increasing the development budget. The country has however failed to register any major successes in this areas as indicated by the continually rising wage bill, under provision for operations and maintenance and declining development vote. Given the ambitious targets of the recovery strategy, achieving success in restructuring the public sector and enhancing its capacity will be paramount. Success in this area will depend on the following:

- Internalising the MTEF process to ensure all budgets are MTEF budgets;
- The Public Expenditure Review (PER) process which seeks to institutionalise an annual Ministerial PER (MPER) process and use this annual process as the basis for guiding resource allocation; and
- The Public Expenditure Management (PEM) reform process which seeks to improve the efficiency and effectiveness of Kenya's public expenditure and ensure the tax payer gets value for money.

Fiscal Strategy targets

The fiscal strategy is built around the following key areas:

- A **revenue policy framework** that seeks to maintain revenues to GDP at above 21 percent to enable the bulk of government expenditures to be met from domestic resources excluding borrowing,
- An **expenditure strategy** that gradually reduces the level of recurrent expenditure to GDP to allow for a rapid increase in development expenditures within a sustainable macro economic framework. Public Expenditure management reforms and the MPERS will be used to redirect expenditures to national priorities and away from low priority areas,
- **Reducing the budget deficit** from 4 percent of GDP in 2003/04 to below 3 percent of GDP by 2005/06 and focusing deficit financing on concessional external borrowing to allow for a reduction in the level of domestic debt to GDP and for maintenance or lowering of the present value (NPV) of overall debt to GDP.

Revenues

Table 3.4 below shows the recent revenue performance as well as projections for 2003/04-2006/07 consistent with the fiscal strategy. Kenya's recent revenue experience has seen the revenue to GDP ratio decline from 23.3 percent in 1999/2000 to 20.8 percent in 2002/03. In 2003/04 the ratio is expected to remain below 21 percent of GDP. Decline in revenue performance has been occasioned by a reduction in tax rates partly as a result of liberalization measures and partly as a means of lowering consumption costs, to non adjustment of specific tax rates for inflation and to administrative and capacity constraints. Government policy will focus on arresting the decline in the revenue to GDP ratio to ensure the ratio is maintained above 21 percent. The overall tax and administrative reform agenda will focus on achieving the above revenue target as well as ensuring that revenue enhancement measures are not based on additional taxation.

Table 3.4: Revenue and Grants, 1999/00-2006/07

	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Total revenue	178,443	192,312	194,507	210,759	228,819	255,907	285,109	310,689
Direct taxes*	54,402	54,497	60,555	70,452	73,113	70,865	79,485	83,737
Indirect taxes	98,042	10,7342	104,294	112,455	119,124	137,555	152,196	163,573
Non-tax revenue**	25,999	30,473	29,658	27,852	36,582	38,386	41,174	47,460
Revenue enhancement measures***	0	0	0	0	0	9,100	12,254	15,919
Revenue/GDP	23.34	22.91	21.00	20.78	20.83	21.66	22.34	22.42
Grants****	8,494	24,080	6,823	15,039	24,108	27,028	22,518	23,357
Total revenue and grants	186,937	216,392	201,330	225,798	252,927	282,934	307,627	334,046
Revenue and grants/GDP	24.4	25.8	21.7	22.3	23.0	23.9	24.1	24.1

Tax reform

The objectives of tax reform are to improve 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). To improve the structure of taxation, the government will undertake 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 will be achieved by undertaking a comprehensive review of past policy regime, evaluate its effects on growth and poverty and use the lessons learnt to draw a pro-growth tax policy regime. In particular, the Government will establish an optimal tax rate framework for those tax heads considered high currently, institute tax regime that encourages new investments, economic growth and employment creation and use tax instruments to make social interventions for alleviating poverty.

In view of the prevailing low tax efforts for a number of tax heads, the Government will make expansion of the tax base a priority. This is in recognition of the relationship between tax policy and tax administration capacity. Towards this end, the Government is well aware that without effective tax administration infrastructure, little economic growth can be achieved through tax policy instruments. Making tax administrative effective will achieved by instituting effective enforcement in revenue administration. To strengthen tax collection, the reform will implement a modernization of tax administration, including computerization of the tax administration infrastructure through the development of integrated information architecture. In addition, as already initiated, Kenya Revenue Authority will implement a functional based tax administration to enhance efficiency and effectiveness of the tax administration system in Kenya. Further system support enhancements to Income Tax, Value Added Tax and Customs functions and strategic capacity building and development will be will a priority.

Harmonization and rationalization of tax regimes and integration of trade arrangement within the EAC and COMESA includes, among others, the lowering of tariffs and other barriers to imports of goods from the rest of the world. The loss in revenue arising from trade arrangements and subsequent tariff reductions 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 warehouse.

During the 2003/04 - 2005/06, Kenya Revenue Authority's operational reform agenda will be guided by the 2003-2006 Corporate plan. Among the key goals envisaged are the reorganization of the tax administration, restructuring the port handling facilities and procedures of revenue administration, implementing effective strategy for the management of excisable products, enforcing the withholding requirement by public sector and collection-agents to enhance compliance with tax laws and revamped and streamline the bond and transit cargo management. Other reform measures include strict enforcement of the traffic Act and development of new number plates and second generation driving licenses to improve compliance.

Expenditure

Despite the declining performance on the revenue side, the bulk of Kenya's fiscal strategy will need to focus on expenditure reduction, expenditure restructuring and expenditure reform. Whereas Kenya's revenue performance at over 21percent of GDP has been above par for low income countries, Kenya's expenditure levels at over 26percent of GDP have been significantly above that for low income countries, yet the public investments level at below 2.5percent of GDP is below the recent sub Saharan African performance. The country also has a poor public expenditure management record with only 3 out of 16 indicators of public expenditure management being considered acceptable[3].

[3] The focus of the Public Expenditure Management Reform is in the 3 core areas of expenditure performance, namely, budget formulation, budget execution and budget reporting. 15 initial indicators were identified for measuring performance. A review carried out in 2003 found that Kenya found that only 3 of the 15 indicators were rated as acceptable. A 16th indicator has since been added.

Table 3.5 below shows the major categories of expenditure over 1999/2000-2002/03 and the forecast of the fiscal strategy over 2003/04-2006/07.

Table 3.5: Expenditure, 1999/00-2006/07

	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Consolidated fund services	116,333	89,634	107,661	107,478	131,540	118,676	118,699	121,341
Of which: Principal repayment	79,921	52,530	59,998	54,453	80,034	74,661	71,686	71,142
Payment of arrears			4,104	3,295	0	0	0	0
Foreign interest due	8,635	7,803	6,357	8,459	6,419	5,991	5,752	6,194
Foreign interest paid	8,635	3,479	7,858	8,459	6,419	5,991	5,752	6194
Domestic interest (inc. CBK Comm.)	20,752	23,232	23,744	26,767	27,323	21,090	21,724	21,816
Wages and salaries	132	146	153	353	360	367	374	382
Constitutional Review		300	1,100	701	800	0	0	0
Goods and services	296	281	215	215	215	215	215	215
Current transfers(pensions)	4,717	5,709	8,627	11,653	13,493	15,517	17,844	20,521
Capital transfers (guaranteed loans)*	1,880	3,957	1,862	1,582	2,897	835	1,103	1,072
Discretionary Expenditures	140,464	198,008	175,669	212,984	245,813	280,837	289,244	318,456
Total Expenditures	256,797	287,642	283,330	320,461	377,354	399,513	407,943	439,797
Total Expend. Excluding principal	176,876	235,112	223,332	266,008	297,320	324,852	336,257	368,655
Total Exp. Exc. Principal/GDP percent	23.1	28.0	24.1	26.2	27.1	27.5	26.4	26.6

As shown in the table above, total expenditure excluding interest grew from Kshs. 176,876 million in 1999/2000 to Kshs. 266,008 million in 2002/03, an annual average growth of 14.6percent.. There was a consistent trend of rising expenditure to GDP, from 23.1percent in 1999/2000 to 26.2 in 2002/03[4]. The fastest growing component of expenditures was the pensions expenditures which grew at an annual average of 41percent over this period. Given that the rise in expenditure coincided with declining revenue performance, it will clearly be imperative to rein in expenditure growth as a key plank of the fiscal strategy.

In achieving the expenditure objective of restructuring to focus on poverty alleviation, promotion of economic growth and increasing access of the poor to social services, the following will be the main areas to be covered by the expenditure strategy:

- Reducing overall expenditure to GDP ratio as the primary means by which the budget deficit will be brought down to sustainable levels;
- Raising the level of development expenditure from 4.3 percent of GDP in 2002/03 to [6.7 percent] by 2006/07,
- Ensuring that core poverty expenditures are maintained at or above 4percent of GDP;
- Ensuring that the wage bill to GDP ratio declines to 8.5 percent by 2005/06 and to 7.2percent 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 12percent of total expenditures by 2010 while maintaining the level of primary education expenditures;
- Improved public expenditure management by tackling PEM shortcomings and internalizing the annual MPER process,

[4] The rapid increase in expenditure in 2000/01 was due to drought related expenditures.

- Reduction in Government contingent liabilities through termination or completion of stalled projects and elimination of pending bills.

Table 3.6 below shows the forecast expenditure outcomes by economic categories. The major forecasts are:

- Overall expenditure is expected to rise from Kshs 266,008 million to Kshs 370,623 million over 2002/03-2006/07 representing a rise from 26.2 percent of GDP to 26.5 percent of GDP; and
- Expenditure composition is expected to change in favour of development (from 16.3 percent in 2002/03 to 25percent in 2006/07) and core poverty (from 7.3percent to 8.3 percent over the same period) while wages (from 32 percent to 31 percent) and interest payments (from 13.2 percent to 7.6 percent) and transfers to paratstatals and universities (from 5.4 percent to 5.0 percent) decline.

Table 3.6: Economic Analysis of Expenditure, 1999/00-2006/07

	1999/2000	2000/01*	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Total Expend. excl. principal	176876	235112	223332	266008	297320	324852	336257	368655
Wages and salaries	65861	68119	78125	85087	96716	101583	108514	115585
Retrenchment costs	443	6095	1665	957	0	5335	0	0
Goods and services	56256	84215	74454	83071	92267	96697	97941	103843
Of which: core poverty programmes	6696.14	9232	10150	14536	18347	20100	21708	23577
Transfers and subsidies	8224	11280	14008	17636	27246	30103	25637	28503
Interest	29387	31035	30101	35226	33742	27081	27476	28010
Other (Constitutional review)		300	1100	701	800			
Development	16705	34068	23879	43330	46549	64054	76688	92715
Of which: core poverty programmes	9704.58	8751	12599	19487	24790	27158	29332	31856
Wages / Exp. (percent)	37.24	28.97	34.98	31.99	32.53	31.27	32.27	31.35
Retrenchment/Exp (percent)	0.25	2.59	0.75	0.36	0.00	1.64	0.00	0.00
G&S / Exp. (percent)	31.81	35.82	33.34	31.23	31.03	29.77	29.13	28.17
Transfers / Exp. (percent)	4.65	4.80	6.27	6.63	9.16	9.27	7.62	7.73
Interest / Exp. (percent)	16.61	13.20	13.48	13.24	11.35	8.34	8.17	7.60
Dev. / Exp. (percent)	9.44	14.49	10.69	16.29	15.66	19.72	22.81	25.15
Core poverty programmes/Exp/(percent)	5.49	3.72	5.64	7.33	8.34	8.36	8.72	8.64
Transfers to parastatals & universities/Exp.(percent)		5.99	7.54	5.42	5.49	5.14	5.24	5.03
Wages/Revenue (percent)	36.91	34.93	35.95	40.37	37.93	38.55	36.34	35.63
Transfers to parastatals & universities/GDP (percent)		1.68	1.82	1.42	1.48	1.41	1.38	1.34
Core poverty programmes (percent of GDP)	2.14	2.14	2.46	3.35	3.93	4.00	4.00	4.00
Development expenditures/GDP (percent)	2.18	4.06	2.58	4.27	4.24	5.42	6.01	6.69

The above forecasts are based on the following underlying assumptions and measures:

- **Wages and salaries**: Wages are expected to decline from 8.7 percent of GDP in 2003/04 to 8.5 percent by 2005/06. The Government, in 2003/04, awarded substantial increases to the disciplined forces (police and prisons) as well as begun implementation of the teachers salary award. No awards have as yet been given to civil servants. Achieving the 8.5percent 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. To this end, 21,500 civil servants are forecast to leave the service through a Voluntary Early Retirement (VER) scheme to enable civil service wages to be raised as part of an overall pay and benefits strategy.

- **Interest payments**: the fiscal strategy is based on the premise that the Government will be able to raise substantial additional external resources and thus allow for a reduction in both domestic borrowing levels and interest rates. The Central Bank will also continue with its policy of lengthening the term structure of domestic debt,
- **Ministerial recurrent expenditures**: non-wage ministerial expenditures (excluding transfers to subvented bodies) depend on exchequer releases and Appropriations in Aid (AiA) expenditures. The strategy assumes that these expenditures will be maintained constant in real terms, other than education, health and core poverty expenditures.
- **Transfers to parastatals and universities**: are expected to be maintained at their 2003/04 levels in real terms, with any increases in personnel emoluments being catered for through downsizing,
- **Pensions**: Kenya currently operates a non-contributory pension scheme. Pension payments have however been rising at an unsustainable rate and there will be a need to reduce these expenditures. The Government is scheduled to introduce a contributory pension scheme in the 2004/05 fiscal year. The fiscal strategy assumes that pension payments will continue to rise at 15percent per year, but an early introduction of the contributory scheme could lower this growth.
- **Core poverty expenditures**: The main objective of re-prioritizing and selecting the core poverty programmes was to allocate and ring-fence resources to those programmes that have a direct impact in reducing poverty levels in the medium term. The objective of the core poverty expenditures is to ring fence and deliver a set of programmes that improve access of the poor to infrastructural and social services especially rural infrastructural services, education and health, enhance the capacity of the poor to participate in productive service activities, and improve the governance and security environment.

  The Government has recently reexamined 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. In 2003/04 the Government expects to spend Kshs. 43,137 million or 3.93percent of GDP over 2004/05-2006/07 the policy objective is to maintain core poverty expenditures at 4percent of GDP. Consequently, Kshs. 153,729 million is expected to be spent on core poverty expenditures over this period.

- **Guaranteed loans and capital transfers**: the major components of this category have tended to be Government repayments of parastatal debt. However, the Government has adopted an ambitious strategy to restructure the National Bank of Kenya (NBK). It is proposed that over 2003/04 and 2005/06 Kshs. 12,000 million be used in this endeavour.
- **Health expenditures**: the Government is committed to raising the level of health expenditures to at least 12percent of total expenditures as part of its strategy for providing adequate health services. Since overall recurrent health expenditures were 6.7percent of total recurrent expenditures, achieving the 12percent target by 2010 will require that recurrent health expenditures grow by at least 7.5percent 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.
- **Development expenditures**: Over the recent past development expenditures in Kenya have declined as a percentage of total expenditures and as a percentage of GDP. Implementing the ERS will require a massive increase in development expenditures. Over 2002/03-2006/07 development expenditures are expected to rise from Kshs. 43,330 million to Kshs.

92,715 million, an annual average of 23.6percent. Over 2003/04-2006/07 a total of KShs. 280,006 million will be available for implementing development projects in the ERS.

- **Stalled projects**: Over the 1990s Kenya built up a substantial inventory of stalled projects as lax fiscal control led to the initiation of more projects than could be sustained by the development budget. As a result, by 1997 the completion rate for projects was as low as 3percent. Stalled projects, those projects that were initiated, not completed and which are currently not receiving funding, mushroomed. 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 than 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. The Government will review all stalled projects with a view to terminating as many as possible and only completing those that fall in the ERS core priority areas or which have potential for meeting ERS core objectives. It is estimated that reviewing the stalled projects will cost Kshs. 90 million.

Public Expenditure reform

The 1997 Public Expenditure Review concluded that expenditure management trends were not consistent with the objectives of achieving sustained growth and poverty reduction. Following this review, the Government introduced a number of reforms to strengthen expenditure management. These include: The adoption of Medium Term Expenditure Framework (MTEF) approach to budget formulation in 2000/01; establishment of the Budget Monitoring Department in 2000; introduction of the Integrated Financial Management Information System (IFMIS); and ministerial rationalization. The 2003 PER noted that expenditure management weaknesses identified in the 1997 PER still persist.

The Government recognizes that economic recovery efforts will require efficient use of public resources and sound management of public expenditure geared towards enhanced service delivery and value for taxpayer’s money. In this regard, the government has institutionalized PER as part of the wider efforts to improve budget planning, execution and monitoring. In June 2003, a comprehensive public expenditure management reform program was initiated. This program includes legislative changes to improve the legal framework for public expenditure management as well as institutional and system changes. It incorporates the recommendations emanating from the Country Financial Accountability Assessment (CFAA) and a Public Expenditure Management Assessment and Action Plan (PEMAAP) exercises, both carried out by the Government in collaboration with key development partners.

As part of the PER institutionalization process, the Government issued the Treasury Circular No 26/2003 dated 3rd December to initiate the 2004 PER process at the ministry level. Unlike the 2003 PER which involved only eight key ministries, the process has been rolled out to cover all the other ministries and integrated with the MTEF budget process. The PER will support the budget process by analysing expenditure allocations and budget institutions to identify weaknesses and recommend measures to enhance the impact of public expenditure. The MTEF budget process is being reviewed and the exercise will also involve development of an action plan to strengthen the budget process.

The IFMIS has been procured and IFMIS team and supervisors trained. Piloting of the system in the Ministries of Finance and Planning and National Development started in January 2004 and roll out to all other ministries is expected by mid 2004.

The government is improving the legislative framework for Public Expenditure Management (PEM). This includes: the enactment of the Anti-Corruption and Economic Crimes Bill (facilitated the establishment of an anti-corruption commission) and the Public Officer Ethics Bill (requiring the declaration of wealth by public officers) in 2003. Additional three pieces of legislation have been published and are awaiting enactment. These are: The Government Financial Management Bill (2003), which aims at enhancing accountability in public financial management practices; the Public Audit Bill (2003)- which aims at strengthening the independence and operational capacity of the Controller and Auditor General; and the Public Procurement and Disposal of Assets Bill (2003) which aims at enhancing the oversight role of the Directorate of Public Procurement.

The government is creating the institutional framework in which these reforms can be effectively designed and implemented; establishing a robust program of analysis and evaluation that can be the basis for building the expenditure management reform program; and defining a timetable for reforms. Priorities include: i) the creation of strong coordination and management arrangements between the departments in the Ministry of Finance and the Ministry of Planning and National Development that have lead responsibility for designing and implementing the expenditure management reform program; ii) phased reform of the MTEF; iii) implementation of short term reforms set out in the government's Action Plan for Enhanced Financial Management in the Public Sector; vi) adherence to the timetable for the budget process for 2004/05; vii) early conclusion of the PER work program to provide information on the costing of ERS priority programs, and savings from low priority programs, and track expenditures of core poverty programs; and viii) design of MTEF budget for 2004/05 based on early decisions on the macro-economic framework and sector ceilings, on the objectives of the ERS, and on the analysis of the PER.

Development partners are supporting the public expenditure management reform through a technical coordination group that includes each of the main donors' active in this area. In addition to supporting the PER process, the development partners are members of the PER steering committee and technical working group. These arrangements already provide a means for coordinated dialogue. Further, the government is exploring the use of a formal common memorandum of understanding to capture donor assistance to the PER. Development partners will consider the provision of basket funding within this framework for the PER and other aspects of the public expenditure management reform program.

Public Expenditure Management Reform

Public expenditure management has been a major weakness in Kenya in recent years. In particular, Kenya has had declining performance with respect to forecasting expenditures and/or disbursing the same. As table 3.7 below shows, the poor performance has been especially visible with respect to the development budget. Over 2000/01-2002/03 less than 40percent of projected ministerial development expenditure were actually realized. Given the rapid increase in development expenditures required to ensure the recovery targets are met, the Government will be focusing its efforts on improving public expenditure management.

Table 3.7: Projcted and Actual Ministerial Expenditure (values in Kshs. mn)

Year	Actual			Target			Actual/Target (percent)		
	Recur.	Develop.	Total	Recur.	Develop.	Total	Recur.	Develop.	Total
1999/2000	108809	7095	115904	109169	7339	116508	99.67	96.68	99.48
2000/2001	144019	22998	167017	149216	20012	169228	96.52	114.92	98.69
2001/2002	154403	14668	169071	163975	43577	207552	94.16	33.66	81.46
2002/2003	165724	19111	184835	182247	49735	231982	90.93	38.43	79.68
99/00-02/03	572955	63872	636827	604607	120663	725270	94.76	52.93	87.81

Following recommendations from a Country Financial Accountability Assessment (CFAA) study done in 2001 and the Public Expenditure Management Assessment and Action Plan (PEMAAP) exercise done in 2003, an Enhanced Financial Management Action Plan was prepared. Since the recommendations covered a broad scope, it was decided that concentration be focused first on the public sector before moving to the private sector actions.

The main objectives of the Enhanced Financial Management Action Plan include:-

- Enabling the Government to focus resources within realistic fiscal constraints, on core priorities including economic recovery and poverty eradication. These will be achieved through improving and strengthening the tools used in the budget preparation and in particular, the MTEF process;
- 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;
- Improving the quality 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.

To achieve the above objectives, the Enhanced Financial Management Action Plan addresses the following key areas:

- Budget Formulation – focus is on government policies, resource allocation, comprehensiveness, classification and projections
- Budget Execution – this covers issues on financial management procedures which include commitment control, payment management, project management, procurement and debt management
- 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.
- Institutional and Human Resources – actions will 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.
- State Corporations – the main actions will 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.

Public Expenditure Tracking (PETS)

The Kenya Government recognizes the importance of Public Expenditure Tracking (PETS) as a tool for diagnosing problems of service delivery and as a cost effective way for overcoming systemic problems in service delivery. To this end, it has already initiated a pilot PETS, which was carried out by the Kenya Institute for Public Policy Reasearch and Analysis (KIPPRA).

KIPPRA conducted a Public Expenditure Tracking Survey (PETS) in 2003. The PETS covered education, health, and the agriculture sectors. The KIPPRA survey had the following shortcomings:

- It does not track expenditures through the release system in terms of identifying the amounts allocated to particular votes, and tracking them down to the end user.
- It does not clearly define the kind of leakages that exist.

Recognizing the weaknesses of the KIPPRA study, the Government has initiated the process of undertaking another PETS. Programmes aimed at directly having a positive impact in poverty reduction have been identified and the second PETS will focus on tracking expenditures for specific core poverty programmes. Two programmes, (i) School Equipment Scheme and (ii) Bursary Programme for primary schools have been identified as pilot programmes for the exercise. Preliminary preparations started in early March 2004.

Deficit and Financing Strategy

The objectives to be pursued by the deficit and financing strategy are to first reduce the overall deficit including grants to a sustainable level and secondly to externalize deficit financing to reduce pressure on domestic financial markets and increase private sector access to credit. Over the medium term 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 provisional overall deficit for 2002/03 was Kshs. 40,210 million or 3.96 percent of GDP. Current forecasts for revenue and expenditure for 2003/04 indicate a widening of this deficit to Kshs. 49,700 or 4.52 percent of GDP, mainly driven by increased expenditures on the free education programme and health. Initial actions on restructuring the NBK as well as wage awards to the teachers and disciplined forces. As this fiscal strategy is implemented, this deficit is expected to decline to 3,67 percent in 2004/05, 2.38 percent in 2005/06 and 2.64 percent in 2007/08.

There will therefore be need for deficit financing over the fiscal strategy period. The Public Sector Borrowing Requirement (PSBR) is expected to total 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 will be required for financing the cumulative deficits, Kshs. 76,559 million will be required for external redemption, Kshs. 220,964 for domestic redemptions and Kshs. 3,000 million projected for paying of pending bills.

Financing the deficit will focus on maximizing external concessional borrowing consistent with maintaining the external debt to GDP ratio of below 36 percent. Given the nominal GDP forecasts and projected exchange rate movements, external borrowing over 2003/04-2006/07 is expected to total Kshs. 198,306 million, of which Kshs. 26,647 million will be rescheduling, and over 2004/05-2006/07 Kshs. 143,385 million of which Kshs. 20,718 million will be rescheduling. Net external borrowing over 2003/04-2006/07 will then total Kshs. 121,747 million, compared to a net repayment of Kshs 25,225 million over 1999/2000-02/03.

With external debt accounting for Kshs. 198,306 million, there will be need for domestic financing totalling Kshs. 262,334 million over 2003/04 and Kshs. 187,521 million over 2004/05-06/07. Of the 262,334 million, Kshs. 220,964 million will be accessed by rolling over domestic debt, while the remainder, Kshs. 41,370 million will be accessed through additional domestic borrowing. Of the Kshs. 187,521 million over 2004/05-06/07, Kshs. 165,723 will be accessed by rolling over domestic debt while Kshs. 21,798 will be accessed from additional domestic borrowing.

The outcome of the deficit and financing strategy is expected to be an external debt to GDP ratio that remains below the 36 percent level achieved in 2002/03 and a domestic debt to GDP level that declines from 24.3 percent in 2002/03 to 20.8 percent in 2006/07. Such declines will lead to a significant reduction in the Present Value (NPV) of debt to GDP ratio.

Privatization proceeds: The Government has published a privatisation bill which will lay the legal framework for its privatisation programme. Once the bill is enacted into law, the privatization process is expected to begin in earnest. This fiscal strategy has not factored in privatisation proceeds. However, should they arise, they will be used to reduce the net domestic borrowing requirement.

Table 3.8: Deficit and Financing Strategy, 2003/04-2006/07

	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Deficit before grants (commitment basis)	1567	-42800	-28825	-55249	-68501	-68945	-51148	-57966
Deficit before grants/GDP(percent)	0.20	-5.10	-3.11	-5.45	-6.24	-5.84	-4.01	-4.18
Overall Deficit (Revenue+Grants-Exp.)	10061	-18720	-22002	-40210	-44393	-41918	-28630	-34609
Overall Deficit/GDP percent	1.32	-2.23	-2.38	-3.96	-4.04	-3.55	-2.24	-2.50
Overall Deficit: cash basis	4026	-15608	-30286	-38005	-44393	-42918	-29630	-35609
Repayment of domestic principal	-48903	-45374	-38458	-36897	-55241	-55241	-55241	-55241
Repayment of external principal (current FY)	-31018	-7156	-21540	-17556	-24793	-19420	-16445	-15901
Repayment of external principal (arrears)	0	-5390	-4104	-3295	0	0	0	0
Public sector borrowing requirement	-75895	-73528	-94388	-95753	-124427	-117579	-101316	-106751
External financing (borrowing)	15546	18087	10031	11512	48992	38207	37063	47397
External financing (rescheduling)	0	21793	0	0	5929	8930	8064	3724
External Financing (change in arrears)	0	5886	2738	1114	0	0	0	0
Privatisation proceeds	5660	0	955	0	0	0	0	0
Sale of housing				0	0	0	0	0
Domestic financing needs	54689	27762	80664	83128	69505	70442	56189	55630
Change in pending bills	-2285	5163	-765	6686	0	0	0	0
Securitised pending bills	3472	3538	2788	4481	0	1000	1000	1000
IMF PRGF	0	1968	0	0	0	0	0	0
Net foreign borrowing	-15472	5541	-12875	-8226	30128	27717	28682	35220
As percent of GDP	-2.02	0.66	-1.39	-0.81	2.74	2.35	2.25	2.54
Net domestic borrowing	17536	616	47334	44025	14264	15201	948	389
As percent of GDP	2.29	0.07	5.11	4.34	1.30	1.29	0.07	0.03
Total domestic debt	206127	213773	227655	296378	310643	325844	326792	327180
On lending		5701	5701					
Govt. deposits and Treasury advances	42722	38357	24880	49578	49578	49578	49578	49578
Net domestic debt	163405	164205	202775	246800	261065	276266	277214	277602
Net domestic debt/GDP percent	21.37	19.56	21.90	24.33	23.77	23.38	21.73	20.03
Total external debt	409419	390971	376859	364582	387351	416602	449941	488672
total External Debt to GDP (percent)	54	47	41	36	35	35	35	35
Expenditure - Interest	147489	204077	193231	230782	263578	297771	308781	340645
Primary surplus	39448	12315	8099	-4984	-10651	-14837	-1154	-6599
Primary surplus/GDP percent	5.16	1.47	0.87	-0.49	-0.97	-1.26	-0.09	-0.48
Expenditure - Capital	158291	197087	197591	221096	247874	259963	258466	274868
Current surplus	20152	-4775	-3084	-10337	-19055	-4056	26643	35821
Current surplus/GDP percent	2.64	-0.57	-0.33	-1.02	-1.73	-0.34	2.09	2.58
GDP at market prices	764624	839534	926039	1014441	1098497	1181449	1275992	1385831

External Aid and Debt Policy Framework

Kenya's external debt and Foreign Aid policy framework is built around the following Principles:

- Maintaining Kenya's external debt sustainability to ensure Kenya does not become a Highly Indebted Poor Country (HIPC) or Severely Indebted Low income Country (SILIC);

- Ensuring only concessional borrowing is contracted to minimize servicing costs and maximize the grant element of borrowing;
- Implementing a Foreign Aid policy that harmonizes donor practices along the lines proposed in the Rome Declaration of February 2003 and minimizing the transaction costs related to external aid; and
- Ensuring that foreign aid is aligned to the national budget, the national development priorities and implementation should be based on best practice principles.

External debt

During January 2004, the Paris Club of Creditors agreed to reschedule US$ 350 million of arrears and maturities for interest and principle 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 county will graduate from future 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, the country's debt strategy will be built around the following

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

Foreign Aid policy

The government has initiated measures for the development and eventual publishing of an External Aid Policy to guide in the optimal utilisation of external resources received from development partners. The policy will aim to harmonize and simplify donor practices in the country, as required under the Rome Declaration of February 2003 to which Kenya is a signatory. The policy will provide a framework for effective multilateral and bilateral negotiations and assess capacity building needs to manage external resources. The objective is to increase external inflows, and improve disbursement rates. It is envisaged that an External Aid Policy will be in place before December 2004.

External Resource Requirements

In considering the overall external resource requirements for the ERS, the following were taken into account:

i. Total demand for foreign exchange for all purposes, including for imports, debt service and buildup of official reserves, taking into account the macro projections and requirements;
ii. Projections of resource availability taking into account macro level projections of exports, private and public transfers, foreign direct investment, other projected private inflows and the public inflows for which there are existing commitments;
iii. Estimation of the financing gap taking into account existing; and
iv. Taking account of resources pledged during the Consultative Group (CG) meeting held in November 2003 and implications for disbursement levels if the ERS is to be adequately funded.

Overall Financing Needs

The overall external financing framework including the financing gap is shown in table 3.10 below. Total financing needs are estimated at US$ 23,513 million over 2003-06 and US$ 25,398 million over 2004-2007. These requirements include the following:

a) Overall import demand of US$ 20,191 million over 2003-2006 and US$ 22,097 million for 2004-07 of which US$ 4,909 million will be required for 2004 alone;
b) Total debt service of US$ 1,377 million over 2003-2006 and US$ 1,249 million over 2004-07 of which US$ 380 million will be required in 2004;
c) IMF repayments estimated at US$ 56 million over 2003-06 and US$ 49 million over 2004-07 of which US$14 million are required in 2004;
d) US$ 1,418 million needed for buildup of official reserves over 2003-06 and US$ 1,567 million over 2004-2007; and
e) Estimated private interest payments of US$ 365 million and US$ 387 million over the two periods respectively.

Domestically available Resources

Domestically available resources are estimated to total US$ 20,083 million over 2003-06 and US$ 21,728 million over 2004-07 and include the following:

f) Merchandise exports estimated to total US$ 11,221 million over 2003-2006, and US$ 12,348 million over 2004-07 of which 2004 merchandise exports are expected to total US$ 2,788 million;
g) Service exports estimated to total US$ 4,878 million over 2003-2007 and US$ 5,042 over 2004-07 with a 2004 estimate of US$ 1,077 million;
h) Net foreign direct investment (FDI) of US$ 234 million over 2003-2006 and 257 million over 2004-07 with a 2004 estimate of US$ 55.4 million;
i) Private transfers of US$ 1,466 million over 2003-06 and US$ 1,378 million over 2004-07 with US$ 376 million estimated for 2004,
j) Other capital movements (private) estimated at US$ 1,975 million over 2003-2006 and US$ 2,301 million over 2004-07 with 2004 estimated to total US$ 535 million[5].

[5] Other capital movements are also assumed to include under estimates for tourism receipts

Given the required external resources, this leaves a financing gap of US$ 3,430 million over 2003-2006 and 3,670 million over 2004-2007.

Existing External Commitments to the Public Sector

In closing the financing shortfall the Government, based on existing commitments, expects to have access to US$ 2,439 million over 2003-04 and US$ 2,645 over 2004-07. These commitments comprise the following[6]**:**

a. Project grant support of US$ 984 million over 2003-2006 and US$ 1,156 million over 2004-2007;
b. Project loans of US$ 778 million over 2003-2006 and US$ 1,016 million over 2004-2007;
c. Other public loans of US$251 million over 2003-06 and US$ 209 million over 2004-07;
d. Projected IMF disbursements of US$ 261million over 2003-06 and US$ 265 million over 2004-07;
e. Paris Club rescheduling of pre-cutoff debt[7]: following agreement with the Paris Club the country can expect to benefit from US$ 341 million of rescheduling over 2003-06 and US$ 295 million over 2004-07;and
f. Programme support already received in 2003 and 2004 totaling US$ 165 million.

These resource estimates leave a residual financing gap of US$ 649 million over 2003-06 and US$ 730 million over 2004-07. This implies total external support of US$ 3,430 million over 2003-06 and US$ 3,670 million over 2004-07. This compares to US$ 4,100 million pledged during the 2003 Consultative Group meeting. The implication is that virtually all the pledges made during the consultative meeting will need to be turned into commitments if the external financing gap is to be closed. Virtually all the additional resources will need to be programme support to the budget to reduce the domestic borrowing requirements to sustainable levels.

Table 3.9: External Financing Requirements

(Values in $mn)	2002	2003	2004	2005	2006	2007	2003-06	2004-07
Domestic Resources Available								
Merchandise exports	2165	2424	2788	2880	3129	3551	11221	12348
Service exports	1112	1258	1077	1211	1332	1422	4878	5042
Private transfers	576.8	421.11	376	335	334	333	1466	1378
Foreign Direct investment (net)	50	50.4	55.4	61	67.1	73.8	234	257
Earnings from reserves	35.4	46.6	56.5	89.7	116.2	139.6	309	402
Other capital (net)	-5	306	535	502	632	632	1975	2301
TOTAL	**3934**	**4506**	**4888**	**5079**	**5610**	**6151**	**20083**	**21728**
Financing Needs								
Imports	3740	4277	4909	5279	5726	6183	20191	22097
Net factor payments	32	6	13	12	12	12	43	50
Debt service: principal	253	277	291	235	210	210	1013	945
Debt service : interest	86	106	89	84	84	47	364	304
IMF repayments	19	19	14	9	14	12	56	49
Reduction in arrears	107	64	0	0	0	0	64	0

[6] The commitments refer to agreements already signed with the IMF as part of the PRGF process as well as firm commitments in the forms of project loans and grants. Prograsmme support referred to here is that which has already been disbursed.

[7] Pre December 1991 debt

Private interest payments	76	80	90	95	100	102	365	387
Buildup of official reserves	3	192	168	462	596	341	1418	1567
TOTAL	**4315**	**5021**	**5574**	**6175**	**6742**	**6907**	**23513**	**25398**
FINANCING GAP	**381**	**515**	**687**	**1097**	**1131**	**755**	**3430**	**3670**
External Public Financing (estimated)							0	0
Project grants (cash)	32	44	141	101	103	103	389	447
Project grantrs (AiA)	97	81	132	188	194	194	595	709
Programme grants	12	106					106	0
Project loans (AiA)	48	29	98	154	193	193	474	639
Project loans (Cash)	33	26	87	93	98	98	304	377
Drought related loans	0	0	0	0	0	0	0	0
Programme loans	26	58					58	0
Defense loans	30	33	32	21	21	21	107	95
IMF diusbursements	0	36	75	75	75	40	261	265
Parastatal borrowing	39	56	36	26	26	26	144	114
TOTAL	**317**	**469**	**601**	**659**	**710**	**675**	**2439**	**2645**
Others							0	0
Rescheduling of principal	0	26	79	79	57	0	240	214
Rescheduling of interest	0	13	32	30	19	0	94	81
Change in arrears	64	7	0	0	0	0	7	0
Sub-Total	**64**	**46**	**110**	**108**	**76**	**0**	**341**	**295**
FINANCING GAP	**0**	**0**	**-25**	**330**	**345**	**80**	**649**	**730**

Higher case scenario

The high case scenario is predicated on a faster response of the economy to the bold economic reforms envisaged in the ERS resulting on a growth increase from 1.4 percent in 2002/2003 to 2.4 percent in 2003/2004 and 5.5 percent growth in 2006/07 to deliver an average yearly growth of 3.9 percent during 2003-2007.

In this scenario recovery is driven by a better performing export sector and investment. Exports would grow at 6 percent in 2003/04 from 5.8 percent growth in 2002/2003, and peak at 7.6 percent growth in 2006/2007. Gross investment would increase from 11.4 percent of GDP in 2002/2003 to 16.7 percent in 2006/07. Higher consumer confidence would support the pace of economic recovery with a private consumption growth rising from -6.7 percent in 2002/03 to 1.0 percent in 2003/04 and 3.3 percent in 2006/07. The faster growth in household consumption is in line with the desired policy of its growth being at least higher than the population growth rate. Gross domestic savings would improve gradually from 9.0 percent of GDP in 2002/03 to 9.6 percent in 2003/2004 and 14.6 percent in 2006/2007.

Imports would be expected to rise in response to the recovery in investments and private consumption. Export growth is expected to continue as the potential existing under COMESA and EAC continue to be exploited with the improved competitiveness of the Kenyan exports. AGOA related exports are also expected to continue expanding and these will sustain the expected higher export growth. The current account is therefore expected to be around 2 percent of GDP and the import cover to improve from 3.3 months of imports in 2002/03 to 7.7 months in 2005/06.

The objective of fiscal policy is to maintain revenues at above 21 percent of GDP and achieving a sustainable overall deficit (including grants) of below 3.2 percent of GDP over the 2003/2004-2006/07 period. The restructuring of public expenditure would entail public consumption to rise slightly from 14.8 to 15.5 percent of GDP during 2002/03-2003/04 due to increased social spending commitments, and thereafter fall to 14.3 percent of GDP in 2005/06. Salaries and wages of the civil service, teachers' service and the disciplined forces which are part of public consumption would remain at below 8.5 percent of GDP over the period 2003/04-2006/07. Transfers to parastatals and universities will be maintained at current levels i.e. below 1.8 percent of GDP which is equivalent to 6.9 percent of total expenditures over the period 2003/04-2006/07. Total capital expenditure would rise from 4.1 percent of GDP in 2002/03 to 4.7 percent of GDP in 2003/04 and 5.9 percent of GDP in 2005/06 and eventually rise to 6.3 percent in 2006/07. This reflects an increasing proportion of capital expenditure in the budget from 16.2 percent of total expenditures in 2002/03 to 23.4 percent in 2006/07.

Low case scenario

Te basic purpose of the low case scenario is to investigate what would be the impact on the base case scenario were the economy to be affected by various shocks which would undermine some of the key assumptions underpinning the base case scenario. To construct the low case scenario, the following assumptions were made:

- The country's return to good relations with the donors does not lead to high inflows and anyway, absorptive capacity constraints undermine the potential to absorb all available funding. Hence actual disbursements remain in line with 1999/2000-2002/03 levels,
- The rescheduling agreed with the Paris Club of creditors is not reversed,
- The Central Bank of Kenya continues with its monetary policy targeting 3.5 percent underlying inflation rate,
- Terms of trade do not deteriorate further due to the low prices for commodities already existing and the lack for a basis to assume higher oil prices,
- Private sector response to the changed policy and institutional environment is muted, meaning that investment does not recover as fast as expected.

Table 3.10 below provides the outcomes for the major economic variables under this scenario.

Table 3.10: Economic Outturn for Low Case Scenario (Annual percentage changes, unless otherwise specified)

	2002	2003	2004	2005	2006	2007
GDP (factor cost and constant prices)	1.1	1.3	0.9	1.2	1.5	1.7
Consumer Price Index	2.0	9.8	3.7	3.2	3.6	3.6
Exports Volume growth	5.0	6.6	9.7	4.5	4.4	5.3
Imports Volume growth	-18.7	3.6	3.9	3.3	2.5	3.3
Gross National Savings (percent of GDP)	13.40	13.17	13.81	14.32	14.51	15.12
Govt. External Debt (US$ mn)	4690	4696	4563	4575	4545	4522
Govt. External Debt Service Ratio (percent)	10.49	10.00	9.09	7.10	6.17	5.68
Govt. Foreign Interest Payments Ratio	2.88	2.60	1.99	1.75	1.66	1.60
Interest Rates	7.9	4.0	8.00	8.0	8.00	8.00

As a result of the expected shocks, the economy experiences lower growth, lower levels of external debt, slower growth in import volumes and higher domestic interest rates due to the need for increased domestic borrowing to meet budgetary requirements.

This poor performance would be in line with the low growth phase that the economy transited between 1997 and 2002.

To appreciate the major areas of change, table 3.11 below indicates the magnitudes of change of major variables from the base case scenario.

Table 3.11: Magnitudes of Changes in Key Economic Aggregates

	2003	2004	2005	2006	2007	'03-06	'04-07
GDP growth (Real, percentage points decline)	0	-2	-2	-3	-3	-2	-2
Exports (US$ milion reduction)	82	140	189	83	-65	494	348
Imports (US$ million)	76	-453	-623	-842	-1,022	-1,842	-2,940
Savings/GDP percent points change	-2	-2	-3	-4	-5	-3	-3
Investment/GDP ratio: percent points change	-2	-7	-10	-11	-11	-7	-9
Estimated change in formal employment(000"s)	0	-18	-31	-36	-49	-85	-134
Estimated change in poverty rates(percent points)		1	2	2	4		
Inflation rate (percent points decline)	0	0	0	0	0	0	0
Treasury bill interest rates (percent points change)	-4	5	3	3	3	2	4
Revenues (Kshs billion, Fiscal Year)	0	-10,420	-24,517	-34,376	0	-69,312	-69,312
External Grants (Kshs. Billion, Fiscal year)	-11,320	-17,603	-11,736	-13,792	0	-54,451	-43,131
Net external borrowing (Kshs million, Fiscal yr)	-35,573	-29,356	-28,605	-38,610	0	-132,144	-96,571
Net resources shortfall (incl. External borrowing)	**-46,892**	**-57,379**	**-64,858**	**-86,778**	**0**	**-255,907**	**-209,015**

From the table above the following are the major impacts;

i. GDP growth declines by an average of 2percent points over 2003-2007. Given that economic growth is the major driver for poverty reduction, poverty rates are estimated to increase by 3 percentage points compared to the base case;
ii. With the assumption of employment growth being tied to economic activity a net total of 80,000 jobs are lost over 2003-2006 and 134,000 over 2004-2007,
iii. The tight monetary framework leads to inflation remaining as per the base case. However, the need for domestic borrowing increases the domestic (t-bill and bond) interest rates by 3 percentage points over the period,
iv. Investment rates are substantially lower as a result of Government not being able to access investible resources and the lower than expected response by the private sector. Since the base case assumed a much higher dependence on foreign savings for investment, there is a lower savings gap and thus improved balance of payments,
v. Imports decline drastically improving the trade balance. The main drivers are reduced importation of investment goods and those commodities (oil products, chemicals and manufacturing inputs) that tend to grow in line with GDP,
vi. The greatest impact is however felt on the budget. Over the 2004/05-2006/07 fiscal period, revenues decline by a cumulative total of Kshs. 69,312 million, while net external borrowing declines by Kshs. 132,144 million and external grants by Kshs. 54,461 million, for a cumulative resource shortfall (compared to the base case) of Kshs. 255,907 million. It is this resource shortfall that the Government expenditures will have to adjust to.

Government adjustment to a resource constrained scenario will be based on 2 core principles:

- To the largest extent possible fiscal sustainability must be maintained. This will be interpreted to mean that whereas it may be impossible to maintain a declining domestic debt position, the overall debt to GDP ratio should be maintained in present value terms. Thus, given that the NPV of external debt is below its face value, the net increase in domestic borrowing shall only compensate for the shortfall in NPV of external borrowing,[8]

- To the largest extent possible expenditures in education and health and core poverty expenditures will be shielded from expenditure cuts.

Table 3.12 below shows the expected adjustments that would occur under this scenario.

Table 3.12: Adjustments to Reduced Revenues and External Resource Inflows in Low Case Scenario

(values in Kshs million)	2003/04	2004/05	2005/06	2006/07	'03/04-06/07
Change in net domestic borrowing	46446	24652	30670	40111	**141879**
Change in total expenditures	-446	-32,726	-34,188	-46,668	**-114028**
Of which interest payments	0	14,870	12,477	15,692	**43039**
Of which wages and salaries	0	1967	2007	2047	**6021**
Of which ministerial expenditures*	0	-842	-1,427	-1,879	**-4148**
Of which transfers to subvented bodies	0	0	-110	-147	**-256**
Of which free education and health**	0	-27	-51	-79	**-157**
Of which development expenditures	-12446	-34220	-45258	-60554	**-152478**
Other changes in total expenditures	12,000	-14,475	-1,825	-1,748	**-6048**
Change in core poverty expenditures	0	-648	-1,695	-3,060	**-5403**

*Excluding education and health

The following are the major adjustments resulting from the adjustment scenario adopted:

- Domestic borrowing is increased by Kshs. 141,879 million over 2003/04 to 2006/07 to counter the net external outflows and maintain the NPV/GDP ratio of overall debt. The domestic debt/GDP ratio rises from 24.6.percent in 2002/03 to 32.9percent in 2006/07 compared to a decline to 21percent in the base case,
- Interest payments increase as a result of both increased domestic borrowing and increased interest rates,
- Expenditures on wages and salaries are assumed to increase given that the programme grants required for downsizing are no longer forthcoming while the legally binding teacher's salary awards will still need to be honoured. The scenario assumes no salary awards for civil servants,
- Ministerial expenditures (excluding education, health, defence and subventions) decline as they are maintained in real terms only,

[8] The Debt Sustainability analysis done in 2002 found that the NPV of external debt was approximately 70percent of its face value. Thus, in the context of maintaining a constant NPV/GDP ratio, only 70percent of the external borrowing shortfall will be converted to domestic borrowing.

- Transfers to subvented bodies (parastatals, universities and the KRA) are assumed maintained constant in real terms with the decline being attributed to a lower estimate for the GDP deflator,
- Changes in core poverty expenditure result from a lower GDP growth with the Government maintaining a policy of keeping core poverty expenditures at 4percent of GDP,
- The minimal decline in health and education expenditures is attributable to a reduction in health expenditures. With the rapid decline in resources, it proves impossible to maintain a sustainable fiscal situation as well as rapidly increase health expenditures. However, given the substantial increase in the non wage non transfer health expenditures, (from Kshs. 3,481 million to 9311 million), there is a substantial real increase in health expenditures. Free education expenditures remain at previous levels,
- The major casualty is development expenditures which were scheduled to rise fastest under the base case scenario. In this scenario, development expenditures decline by a cumulative total of Kshs. 152,478 million to maintain overall fiscal balance. It is this decline in development expenditures and the knock on effect on private investment that is the major cause of the reduced growth rate.

In an ideal situation, a downward reduction in external inflows and revenues should not be allowed to affect either the level of the core poverty expenditures or the development expenditures. However, given the previous commitments and the difficulty of expenditure adjustments in the absence of external support. This low case scenario represents a realistic adjustment to the potential shocks.

Monetary Policy Framework

The Kenya Government will continue to focus monetary policy on maintaining stability in the general price level and fostering the functioning of a stable market based financial system. In line with this objective and cognizant of projected inflation in the country's major trading partners, the Central Bank of Kenya (CBK) will continue with its policy of keeping overall inflation below 5 percent annually while targeting underlying inflation of 3.5 percent.

In the short to medium term, the Government will rely on monetary targeting as the principal monetary policy tool. In the framework, broad money supply (M3X) will be the intermediate target and reserve money will serve as the operating target. Broad money, M3X, comprises currency outside banking institutions, term and non-term deposits held by the private and the public sectors but excluding central and local government in banking institutions and residents' foreign currency deposits with local banks. Reserve money comprises currency in circulation and deposits of commercial banks and non-bank financial institutions at the Central Bank.

To facilitate effective implementation of the monetary policy, the Central Bank will continue to rely on Open Market Operations (OMO), cash ratio requirements, and rediscount facilities to influence monetary aggregates**.**

During the Economic Recovery Strategy period, money supply is projected to increase at 8.1 percent per year by December 2007 as shown in table 3.13 below. This will adequately support the projected real economic growth. Both net foreign assets and domestic credit to the economy will support the money supply growth projected. Net foreign assets of the Banking system are projected to rise by 13.6 percent while domestic credit is expected to rise by 4.9 percent by December 2007. Over the ERS period, it is programmed, that credit will be redistributed to both

Government and private sector. Government will gradually reduce its borrowing from the domestic sources paving way for increased lending to the private sector. Private sector credit is programmed to accelerate by 14.9 percent while credit to Government will decline by 37.6 percent in the year to December 2007.

Table 3.13: Monetary Survey, percentage annual growth rates

	Dec. 2002	Jun. 2003	Dec. 2003	Jun. 2004	Dec. 2004	Jun. 2005	Dec. 2005	Jun. 2006	Dec. 2006	Jun. 2007	Dec. 2007
1.Net foreign assets	8.2	6.6	8.4	13.6	16.9	19.9	25.5	30.2	22.5	16.5	13.6
2.Net Domestic assets	10.9	12.4	6.5	5.0	4.3	3.6	1.1	-1.3	1.1	3.6	5.0
3.Domestic credit	9.3	12.0	7.4	4.5	4.1	3.7	1.6	-0.4	1.7	3.7	4.9
4.Government (net)	21.9	30.7	16.2	3.9	-1.8	-7.3	-14.4	-22.0	-25.8	-30.5	-37.6
5.Rest of the economy	4.7	4.9	3.6	4.8	6.9	8.9	8.6	8.3	11.1	13.7	14.7
6. Other public sector	-0.1	-4.7	-19.8	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
7. Private	4.8	5.2	4.4	4.9	7.0	9.0	8.7	8.5	11.3	13.9	14.9
8.Other items (net)	1.7	10.6	11.7	2.3	3.1	4.0	4.1	4.2	4.3	4.5	4.7
9. M3X	10.2	10.9	7.0	7.1	7.5	7.9	7.9	7.9	8.0	8.1	8.1

Exchange rate policy

Since the mid 1990's Kenya has been committed to a flexible, market determined exchange rate policy. Exchange controls were abolished following the repeal of the Exchange Control Act in 1994. This flexible exchange policy has been fundamental to ensuring that the country's balance of payments remains sustainable and the country has an adequate level of foreign exchange reserves. The Government will continue the policy of a flexible market determined exchange rate regime. Exchange rate interventions will be limited to smoothing short-term volatility and the variability of donor flows, affecting external debt payments and maintaining a sound level of the net international reserves. The Government is committed to making full use of exchange rate flexibility to respond to both medium and long-term exogenous shocks.

Financial Sector Reforms

The main objective of financial sector reforms is to enhance the environment for private savings and investment, and lower interest rate levels and spreads. The reforms will address poor governance and market structure by establishing a new regulatory framework and enhancing competitiveness.

New regulations will strengthen 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 Central Bank of Kenya, tighten provisioning regulations to conform to international best practice and implement anti-money laundering legislation.

To strengthen competition, the government will uphold a financial system with market-determined deposit and lending rates, as well as bank charges and commissions. At the same time, the government will implement measures to ease cost pressures on the sector, including supporting secured transactions, lowering credit risk, improving borrower accountability, encouraging establishment of credit bureaus and endeavouring to reduce the stock of non-performing loans (NPLs). Reforms will be geared towards strengthening Deposit Protection Fund to enhance depositors protection including: i) Preparation of a new Deposit Protection Fund act, ii) Implementation of capacity building in workouts and workout management techniques, and iii) Liquidation of distressed small banks. The Government will divest from commercial banking operations starting with the restructuring and privatisation of National Bank of Kenya to be completed by December 2005. Other banks like Kenya Commercial Bank require limited state intervention since the bank's management is resolving the problems facing the bank. The government will support the bank's right issue so as to improve its capitalisation.

Following the outcome of a recent study on reforms in the banking sector, the government is reviewing several options regarding state bank's restructuring and privatisation. These options are:

- Partial restructuring of the Banks
- Full restructuring of the Bank
- Immediate sale of the bank to a strategic investor
- Allowing the institution to resolve problems on its own.

The government also intends to reform Development Finance Institutions especially the ones owned by Government and in poor financial condition. These institutions, which provide financial services to specific groups and certain sectors of the economy, have large share of non-performing loans in their loans portfolio, which have been accumulated as a result of poor institutional capacity in assessing client creditworthiness. They have also been susceptible to political interference. The Government has commissioned a study with World Bank support, which will clearly define the role and propose reforms necessary for development finance institutions.

The Government's reform agenda places much emphasis on provision of targeted credit to strategically important sectors, such as agriculture and SMEs. As a short-term measure, the government has already taken the first step to revive Kenya's Development Finance Institutions by providing new capital to the Agricultural Finance Corporation (AFC).

The government appreciates that DFIs require a more comprehensive reform program, particularly for institutions such as IDB, KIE and KTDC. These institutions are deeply troubled financially and would need substantial injection of funds for them to operate effectively.

Key reforms needed in these institutions include:

- Development of a national policy on access to financial services, development finance and micro finance.
- Provide a framework for proper supervision of the institutions
- Designing a strategy for development financing that minimises the adverse effects on private financial intermediaries.

As part of the reforms in the financial sector, the government is in the process of developing the legal framework to regulate micro finance institutions and SACCOs. This will improve access to credit by SME and form the basis for any future reforms. Once the legal framework is in place, large SACCOs effectively collecting deposits from the public and with Front Office Service Areas (FOSA) will be subjected to rigorous licensing standards and prudential regulations by the Central Bank. This will help to avoid possible misperception about the status of non-supervised SACCOs compared to that of banks and reduce risk of regulatory arbitrage. There is need to undertake more extensive work on access to financial services, particularly with respect to measures that would facilitate improving access to credit by the rural population, farming households, and on the present and future role of existing DFIs.

The reforms will also involve undertaking a comprehensive mapping exercise to estimate the demand and supply by different categories of borrowers in different geographical locations so as to identify gaps in service delivery to different segments of population. This exercise will eventually help in the formulation of a national policy on access to financial services and will be used by the government to develop and secure consensus on a coherent national policy and strategy for micro and small business finance which clearly defines the respective roles of the Government, micro and SME finance stakeholders in providing and broadening access to basic financial services.

Institutions like Kenya Post Office Saving Bank, which have wide outlet network, have a potential to be used to expand linkages between the micro finance sector and the banking sector. This will enable micro finance providers to take advantage of the physical presence of KPOSB outlets for the transfer of funds to their accounts with their clearing banks.

Financial requirements for the reforms are expected to come from the financial sector adjustment credit that will be financed by the World Bank.

In other areas, the Government is preparing pension reforms, designing a comprehensive strategy for insurance services market development and reforming capital markets including the establishment of a central depository system, the strengthening of disclosure rules, and the introduction of second tier market to enhance medium sized firms' access to capital markets.

The pension reforms specifically target introducing a contributory pension scheme for civil servants in the year 2004/2005.Other reforms in the pension department are aimed at improving claims settlement procedures. Legislation has already been passed in parliament that will ensure that claims are settled within 30 days after retirement.

Infrastructure

The ERS identifies infrastructure as one of the main pillars of Kenya's economic recovery program. Modern infrastructure is viewed as critical to lower the costs of doing business and increase the competitiveness of Kenyan products on the international markets. Developmental objectives include an expanded and well-maintained road network, improved safety of urban transport, increased access to water resources, increased availability, reliability and affordability of energy, efficient telecommunications services and a vibrant information technology sector.

To increase efficiency of investment in infrastructure, the government plans to significantly increase private sector participation and investment. Pillars of this strategy include the development of a satisfactory regulatory and legal framework, and the transfer of key operations to the private sector within the government's overall privatization and competition frameworks.

Regulatory and competitive frameworks

The main objective of developing new regulatory and competitive frameworks for infrastructure is the provision of an environment conducive to private sector participation while at the same time ensuring competitive practices that will deliver greater access and affordability to final users. Toward this end, the government has initiated action to review regulatory arrangements in infrastructure sectors, and assess the viability of establishing a multi-sector independent regulatory agency and/or strengthen the regulatory capacity of existing agencies (e.g., telecommunication and energy sectors). The government is also committed to enact the Water Act 2002 and the new Investment Code, and amend the Electric Power Act, the Petroleum Act, Kenya Roads Board Act, and the Monopolies and Price Control Act.

Privatization

The Kenya Government considers privatization as an integral part of the public sector reforms required to spur the recovery of the economy. In this respect, a number of privatization measures are scheduled to be implemented as part of the country's economic recovery strategy. These measures are outlined in a draft privatization strategy which is currently being finalized for submission to the cabinet.

The legal and institutional framework for implementing the strategy is in the Privatization Bill approved by the Cabinet in June last year, published in the Kenya Gazette on 7th November 2003 and read in Parliament (First Reading) in December. Once the bill is enacted it will entrench the privatization process in the law and provide for establishment of the Privatization Commission.

The privatization program will include several modalities for private sector participation in water, energy, roads, transport, and communications. It is targeting key utilities and infrastructure service providers that are either the main providers in their sector or represent large portions of the market. Major candidates for privatization/private sector participation in infrastructure include Telkom Kenya Ltd (TKL), Kenya Railways Corporation (KRC), Kenya Power and Lighting Company (KPLC), KenGen, Kenya Ports Authority, and road financing, management and maintenance works (e.g. Mombasa-Nairobi North Corridor Road).

The Cabinet approved and sent to Parliament the Privatization Bill, which will establish a strong privatization commission and pave the way for a transparent and accountable process of privatization. The Privatization Bill is being complemented by the reform of sector-specific legislative frameworks to facilitate private sector participation.

Water and sanitation

The government is implementing structural reforms to make water and sanitation services autonomous, mobilize investment for construction and rehabilitation, and enter into partnerships with community based organizations to expand services to urban poor and rural communities. Implementation of the Water Act 2002 entails the establishment of Water Service Boards, the Water Services Regulatory Board and the Water Services Trust Fund, as well as the transfer of water assets from the Ministry of Water to the Water Boards (Kenya Gazette notice, 18th March

2003). These institutions effectively separate the functions of policy formulation, service delivery and regulation of the water and sanitation sector.

The reform will increase availability of national fresh water resources from the current level of 247 cubic meters per capita to 900 cubic meters per capita by 2007. Specific targets include: i) 200 hydrological and quality water monitoring stations will be rehabilitated country-wide; ii) 1,200 water samples analyzed per year; iii) unaccounted water wastage reduced from 60 percent in 2003 to 25 percent in 2005 through rehabilitation/augmentation of urban water supply and sewerage schemes in Nairobi and Mombasa; iv) 30 rural water supply schemes in 2003, 90 in 2004, 180 in 2005, and 300 in 2006 rehabilitated and handed over to local level management; v) 100 small dams and water pans rehabilitated and handed over to communities per year; and vi) 500 boreholes drilled and equipped/rehabilitated and handed over to local communities per year.

The financing requirement for the water and sanitation programmes was estimated at Kshs 24.5 billion between 2003 and 2005. Out of this the cost of priority programmes will total Kshs 14.3 billion.

Roads

The road sector is a priority in the ERS as it greatly affects the cost of doing business and marketing potential for Kenyan products. The sector objectives are to expand the road network, reduce the rehabilitation and maintenance backlog, strengthen road safety and control overloading, and expand private sector management and financing. The government is formulating a long-term road sector strategy, and will consider a multi-agency model for managing responsibilities and financing for trunk roads, highways, park roads and rural roads. On the latter, the government is rationalizing the number of agents responsible for rehabilitation, construction and development of urban roads under the Kenya Roads Board (KRB) Act. The government is completing a road inventory and condition survey study, reducing the audit backlog for the road levy fund and improving public information on the use of the fund, considering the establishment of a new road safety authority, enforcing axle load control limits, and launching a national road safety campaign.

The centrepiece of the strategy is an accelerated timetable for concessioning major roads' construction and maintenance to the private sector. The study on Road Concession (phase 2) was completed in June 2003. Based on the assessments done conventional tolling is proposed for the 1,208 kilometres of the Northern Corridor. Three viable road concessions have been identified. These are (i) Mombasa - Machakos, (ii) Machakos-Rironi, and (iii) Rironi to Malaba via Eldoret and to Busia via Kisumu. The government has taken a firm decision to move ahead with the preparatory work on Roads Concessioning Framework by preparing the regulatory and legal instruments to allow for concessioning. Concessioning will start with the Machakos Turn Off-Nairobi Southern Bypass section of the Northern Corridor under BOT arrangements. This phased approach will test the willingness of the road users to pay. At the moment, significant financing is available from donors (US$ 309.4 million for rehabilitation of about 500 Km of the Northern Corridor). Further financing is expected to come from interested investors (US$ 326.7 million for 641 km of road).

To address rural road maintenance and improvement, the government is implementing the Roads 2000 programme in 26 districts so far, with the participation of local communities and labour-intensive local contractors. Several donors (European Union, SIDA, DANIDA, ADB, AFD and

KfW) are supporting this program and expected to finance significant portions of it. The challenge is to adopt this programme countrywide.

Selected targets over the planned period include: Roads 2000 programme expected to rehabilitate 2,815 km and create 18,800 jobs; reconstruction of 150 km of trunk roads per annum; and concessioning up to 1,208 km of trunk road during 2004-07.

Transport

Transport services greatly affect the competitiveness of Kenya goods. Reforms are geared toward improving the management and security of transport infrastructure.

Railway transport

The government will complete the ongoing process of concessioning Kenya Railways Corporation by means of a long-term concession covering passengers and cargo operations. The concessioning process has been extended to include joint concessioning with the Uganda Railways. The concessionaire is expected to be in place in 2005. This will assist to raise investment funds necessary to improve rail services.

Air transport

Kenya is the major airline hub in East Africa. Its air transport services have facilitated and will continue to sustain development in sectors such as trade and tourism. Efficient and secure air transport is therefore one of the ERS priorities for economic growth. While air transport services were liberalized in 1996 with the privatization of Kenya Airways, airports management has remained in the hands of the state under the Kenya Airport Authority (KAA) and performed below potential. A Civil Aviation Authority was established in 2002 to regulate aviation activities and improve air traffic control. Airport management, safety and security under KAA remain weak. Reform objectives include raising airport security and safety service levels to international standards, improving airport facilities, management and operations, and lowering operating costs.

The first priority is to address security concerns, and enhance the security and safety service levels to attain the Federal Aviation Authority/International Civil Aviation Organization Category 1 standards from the current Category 2. Attaining Category 1 status will allow direct flight to the US from JKIA, strengthen Kenya's competitive position as the regional airport hub, and Kenya Airways to compete with other airlines. This will require significant refurbishing of airport facilities, investment in security equipment and safety facilities, and training. Already, the government decided to reorganize the passenger terminal at JKIA to separate arrivals from departures and relocate the domestic terminal (terminal 3) to the Old Airport at Embakasi in an effort to provide additional space for the international flights.

Second, a study funded by PPIAF will be undertaken to determine PSP options in the management and financing airport activities in Kenya. Accordingly, the Kenya Airport Authority Act and the Kenya Civil Aviation Authority Act, which currently allow for private sector management of only commercial activities (aircraft landing services, and cargo handling), will be amended to allow for private sector management or concession of the airports.

Finally, airport charges, currently above those charged by competing regional airports, will be reviewed and harmonized accordingly. Alternative mechanisms to finance airport infrastructure are under review, including expanding commercial activities on airport grounds and reviewing current commercial concessions.

Maritime and inland waterways

Managed by Kenya Ports Authority (KPA), the port of Mombasa is one of the main ports on the east coast of Africa, serving the whole of Kenya and land-locked countries such as Uganda, Burundi and Rwanda. To maintain its competitive edge, the government is putting Mombasa Port on an accelerated reform schedule to convert it to a landlord port. The landlord port is the most widely-used model for introducing private provision of services into port operations. Under this model, key infrastructure facilities will remain under KPA ownership.

A new Maritime Sector Policy Paper is being prepared. The policy proposes the creation of a Maritime Authority responsible for the regulation of all marine and maritime affairs. The office of the Coast Guard will be placed under the KPA to manage maritime and port facility security. Other measures will include a reform of all clearances affecting passage of goods through the port and streamlining of customs procedures to improve transparency and reducing time and costs.

The Kenya Ferry Services is operated as Public Service Obligation (PSO) by the Government to enable pedestrians who work in town to cross the channel on a daily basis. The Ferries have outlived their economic life and are a hazard to users. Since FY 2002/03 Kenya Ferry Services (KFS) has been implementing two government funded projects. These are the construction of maintenance facilities for above water maintenance and for overnight stay (Ksh58 million in 2002/03 and Ksh100 million in 2003/04), and the expansion of walkway terminus (Kshs 14 million in 2001/02). The KFS proposes to purchase two ferries at a cost of Kshs 600 million to replace MV Pwani (1975) and MV Mvita (1969), which have outlived their life span.

Communications and information

Telecommunications

The government recognizes the urgent need to open the doors for a major expansion of the telecommunications sector as one of the necessary conditions for accelerating growth in other productive sector of the economy. The poor performance of the fixed-line telecom sector has been due to inefficiency and monopolistic structure in the sector. For example, only 2 percent of household have fixed lines, 60 percent of them located in the Nairobi area; and waiting time for new lines is eight years. While Telkom Kenya's current monopoly license runs to 2004, the government has taken steps to respond to service failures on the part of the monopoly. Communications Commission of Kenya (CCK) will move quickly to introduce competition in the international segment, which will induce Telkom Kenya to lower rates for international calls; it will go ahead and license other operators of fixed (local) telephone services outside Nairobi, as soon as the rural access study currently being undertaken in collaboration with the International Development Research Centre and CCK is completed; and it has allowed other operators to provide public payphone services and inter-corporate data exchange. Towards this end the bidding process for the second national operator has already commenced. In the meantime, the government is preparing a privatization strategy for Telkom Kenya that will maximize the growth prospects for the sector.

In the mobile phone sector, competition between Safaricom and Kencell, introduced since 1999, has significantly expanded access to telecommunications services to about 2.2 million subscribers. Yet cross-subsidization schemes by Telkom with its subsidiary Safaricom have kept cellular phone rates high. To increase subscriber base, widen geographical coverage, lower consumer rates and expand job opportunities CCK by end 2003 completed the bidding process for the licensing of the third cellular phone operator. However, the issuing of the license has been delayed by a case filed in court by one of the bidders challenging the award.

Internet service provision is fully liberalized and the CCK has so far licensed over 60 Internet Service Providers and about 31 of these are in operation. More potential exists in this area for exploitation by the private sector especially outside Nairobi and Mombasa, and in lowering costs.

Other initiatives include reviewing the Telecommunications and Postal Sector Policy in view of the expiration of Telkom Kenya's license in June 2004; withdrawing idle broadcast frequencies and reallocating them under a transparent, equitable regime; and supporting the development of a submarine cable on the east coast of Kenya linking to cables to the south and the north of the region to reduce data transport costs in the long term.

Information and communications technology

The Government recognizes the importance of Information and Communications Technology(ICT) for improving performance in the productive sectors and Government, and as a potentially fast growing and employment generating industry. The sector has been hampered by low access to telecommunication, limited penetration of ICT usage in Kenya especially in the rural areas and inadequate legislative framework.

In order to achieve rapid growth in the sector, the Government has consulted widely with major stakeholders and these consultations have culminated in the finalization of an ICT policy. The Stakeholders included, Private Sector, Civil Society, Internet Service Providers(ISPs), manufacturers of ICT equipment, International agencies and Development Partners. The ICT policy has received Cabinet approval is scheduled for full implementation. It provides guidance for the operationalisation and management of internet technology, Communications and Radio/TV.

To facilitate the smooth implementation of the ICT policy, the Government has liberalized the telecommunications sector by removing the monopoly hitherto enjoyed by Kenya Telecommunications Corporation. In this regard, the Government has licensed a second telecommunications provider to ensure vigorous competition in the provision of telephony.

Other critical measures will include the following: -

(i) Invest in adequate ICT education and training. In this context, the Government will streamline the education curriculum to incorporate IT studies to develop appropriate skill requirements.

(ii) Implement a well targeted tax reduction and/or tax incectives on both computer software and hardware to make them affordable to micro enterprises and low income earners.

(iii) Removal the impediments that have discouraged adoption and use of e-commerce.

The Government will also complete the implementation of e-government by June 2004. This will include the use of information technologies such as Wide Area Networks, internets, and mobile computing by Government agencies in order to improve effectiveness, efficiency, service delivery and promote democracy. E-government will enable citizens to access Government services and information as efficiently and as effectively as possible through the use of internet and other channels of communication. Specifically the Government will: -

(i) Improve collaboration between Government agencies through reduction of duplication of efforts, enhanced efficiency and effectiveness of resource utilization.
(ii) Reduce transaction costs incurred by the government, citizens and the private sector through provision of products and services electronically; and
(iii) Provide a forum for citizens' participation in Government activities through opinion polls, surveys on Government policy and administrative direction.

To ensure proper coordination and timely implementation of the above, the Government has constituted a technical steering committee to work closely with the National Economic and Social Council (NESC), to mainstream ICT into government operations. This streamlining will entail building the government information infrastructure, implementing the Government Information Technology Investment Management (GITIM). Phase I of this Government information infrastructure component is in the process of installing structured cabling in all central government buildings. Phase II will extend connectivity of district offices. GITIM implementation will develop and enforce ICT standards, guidelines and principles that will guide the management of information technology resources within the public service. The focus of e-government efforts will be to improve government back-office functions, develop public services to be delivered through the internet, develop modalities for acceptance of electronic documents for instance by KRA, foster interactions with large businesses, and post key information to improve transparency. The technical steering committee in charge of the formulation of a national ICT policy will also oversee the development the e-government.

Goals of e-government in Kenya

The achievement of an e-Government is one of the main priorities of the Government towards the realisation of national development goals and objectives for Wealth and Employment Creation. An effective and operational e-Government will facilitate better and efficient delivery of information and services to the citizens, promote productivity among public servants, encourage participation of citizens in Government and empower all Kenyans. To this end, the Government is committed to establishing e-Government by June 2004.

The e-Government Strategy objectives aim at: enhancement of transparency, accountability and governance; making the Government more result oriented, efficient and citizen centred; and enabling citizens and business to access Government Services and Information as efficiently and as effectively as possible through the use of internet and other channels of communication.

The effective and efficient realisation of e-Government objectives depends on the availability of skills and the right attitudes across Government. The Government personnel at all levels will be adequately equipped through relevant training to effectively carry out this initiative. This calls for a change in the way Government carries out its operations and requires training in change management. In order to ensure a continued pool of IT knowledge base within Government, all training programmes will have an IT component.

The objectives of e-government include to

a. Improve collaboration between Government agencies through reduction of duplication of efforts and enhanced efficiency and effectiveness of resource utilization;

b. Improve Kenya's competitiveness by providing timely information and efficient delivery of Government services;

c. Reduce transaction costs incurred by the Government, citizens and the private sector through provision of products and services electronically; and

d. Provide a forum for citizens' participation in Government activities through opinion polls, surveys on Government policy direction, etc.

The targets for June 2004 are:

a. Develop and implement e-Government Strategy for Kenya.

b. Establish an appropriate institutional set-up for e-Government.

c. Undertake an inventory of ICT capacity and assets within Government.

d. Sensitize all Government Officials on the e-Government Strategy to develop consensus and a common understanding of its implementation.

e. Establish a Directorate of e-Government to coordinate the implementation of the Strategy and ensure security of Government systems and information.

f. Continue with cabling of Government Buildings.

g. Increase internal operational efficiency and effectiveness by fully implementing systems as the Integrated Financial Management System (IFMIS) and the Integrated Personnel and Payroll Database (IPPD) systems which are already underway.

h. Harmonise all Ministry websites in a single Government Portal and create email addresses for all civil servants to ease access to Government information and improve communication.

i. Undertake capacity building by training the core implementation team on computer literacy and web-based applications and internet use.

The medium term targets are

a. Train all civil servants on computer literacy and web-based applications and internet use.

b. Operationalise email addresses for all civil servants.

c. Implement an integrated system for registration of persons including births and deaths; immigration; property and assets registration systems including land and motor-vehicles; and implement integrated taxation databases and information systems e.tc.

d. Complete the implementation of messaging and collaboration services to facilitate the exchange of mail among discussion groups and calendaring of events across a common platform.

e. Roll-out the information infrastructure to district offices.

f. Accelerate automation and integration of Government information and records.

g. Operationalise web-enabled databases and expedite data sharing and document workflow within government.

Other targets include

a. Introduce e-talking to citizens by providing citizens with Government publications such the Kenya gazette, laws and regulations, immigration forms, passport application form e.t.c through websites;

b. Enhance listening to citizens by increasing the input of citizens into public sector decisions and actions;

c. Enhance e-policing so that a traffic policeman could for example access electronically details of a car or driver at the event of an accident;

d. Enhance the provision of election services online such as e-voting to ensure that there is no congestion at polling halls and that vote counting is done quickly; and

e. Introduce an electronic payment system to enable payments of utility bills electronically.

Implementation of e-government is, however, faced with several challenges including

a. Accomplishing the targets for June 2004 requires Kshs.100 million which is yet to be provided by Treasury.

b. Financial Resources – It is estimated that kshs.500 million for equipment, connectivity, training e.t.c will be required annually for the next five years for the successful realisation of e-Government.

c. Human resources – All civil servants will need to be trained to ensure adequate capacity in the use of internet, email and e-Government applications.

d. Right attitudes – An e-Government requires a change in attitudes, cultures and norms. Civil Service Reform is key to the continued implementation of e-Government.

e. Enabling Legal and Regulatory environment – the legal framework must be reviewed to enable handling of Government records and information electronically and to ensure the security and integrity of information.

f. Sustained Championing of e-Government is necessary at the highest level of Government to ensure focus and commitment to the realisation of e-Government objectives.

Energy

Electricity

The electric sector is in urgent need to deepen reforms to enhance reliability of service supply, increase access to electricity, and lower energy costs. Expanded private sector participation in generation and distribution of electricity is at the heart of the agenda. To achieve this, the government will further legislative reforms and strengthen regulatory functions of the Electricity Regulatory Board (ERB) including a review of the existing tariff regime and the methodology for setting tariffs; reduce its direct equity in the Kenya Power and Lighting Company (KPLC) from 51 percent to below 39 percent in order to remove it from the purview of the State Corporation's Act; and restructure Kenya Electricity Generating Company (KenGen) to enable a public private partnership necessary to mobilize the investment needed for expanding generation capacity. A cabinet paper on the recovery programme of KPLC was prepared and presented to Parliament and has undergone through the second reading.

To accelerate the pace of rural electrification, the government will streamline the current institutional arrangements for the implementation of the rural electrification programme by creating a special body, the Rural Electrification Authority (REA), under the Electric Power Act, 1997. The aim of the government is to reach a penetration rate of at least 40 per cent of the rural population by 2020 from the current 4 per cent. The government is aware of the high costs of new connections under rural electrification (currently KSh 180,000 per rural consumer or 8 times per capita income in 2000), and will be investigating more efficient new connection arrangements alternatives.

Petroleum

The petroleum sector lacks an effective regulatory framework. It suffers from poor competition, enforcement of safety standards and high barriers to entry. The government has prepared a new Energy Act that combines the Petroleum Act and Electricity Act for ease of administration. This is expected to significantly improve service delivery and expand the existing facilities including financing and management modalities on the extension of the oil pipeline from Eldoret to Kampala.

New and renewable energy

While the country has significant energy resources, including hydropower, geothermal, solar, wind and biomass, biomass (mainly wood fuels) accounts for over 70 percent of total energy consumption, 80 percent of the population depending on it their domestic energy needs. The use of woodfuel has been responsible for significant deforestation and the government is committed to reverse this trend in favour of a policy promoting sustainable wood resource management and efficient harvesting, and end-use technologies.

The government is also committed to harnessing traditionally underutilized solar energy in various applications including alternative grid extension for electricity provision, telecommunications repeater facilities, water heating, crops drying, refrigeration, and water pumping. Solar energy usage is very small relative to its potential. Only about 150,000 photovoltaic home systems are currently in use in the country with an expected yearly increase of about 20,000 units. The government in partnership with the private sector and NGOs will develop a framework to provide incentives for solar energy users. Increasing the rate of adoption to 50,000 units would deliver energy savings of about 150,000 tonnes of oil equivalent or US$ 30 million annually at current oil prices.

The government is supporting initiatives to popularize wind power (now contributing only about 0.2 million KWH to the national grid). Technological development has made wind powering increasingly more attractive especially to remote areas with no access to electric energy and oil supply outlets. Applications include battery charging, water lifting, small hydropower systems and power supply to community centres and health clinics. Major constraints are: lack of appropriate technology, absence of data regimes and poor promotion strategies.

Productive Sectors

The main drivers of the Kenyan economy are tourism, manufacturing and trade. They contribute 25 percent of Gross Domestic Product and employ 4 million people, of which more than 90 percent are in the informal sector. The government is committed to improving the environment for private sector growth and investment in these sectors, mainly by removing barriers to investment and lowering the cost of business.

Tourism

Tourism plays a central role in the Kenyan economy and is a major source of potential growth and employment generation. As such, the government is committed to working with the private sector in removing the hindrances to its growth, and strengthening the linkages between tourism and the rest of the economy. To do so, government organizations (Kenya Tourism Board, Wildlife Service, the Tourism Development Corporation and the Hotel & Restaurant Authority) will work hand-in-hand with a wide range of representatives from the private sector (Kenya Tourism Foundation, its member groups, and other stakeholders) to develop and implement a coordinated strategy for revamping the sector (tourism development policy and plan). The strategy will address the need to attract tourists from a wider range of countries, diversifying tourist attractions, expanding the benefits to the local population, protecting the environment, and improving quality and standards.

The main concern the government is addressing is security. The medium-term strategy includes a full reform of security forces (see governance), and the strengthening of airport security (see infrastructure). As an interim measure, the government is instituting tourist and anti-terrorist police units, to improve security in the surroundings of hotels and resorts.

To improve competitiveness of the Kenya relative to other tourist destinations, the government will be reviewing the structure of taxation in the sector (which currently results in a 22 percent average tax on tourist spending), and providing tax incentives for tourism infrastructure refurbishment.

To improve marketing of Kenyan destinations, the government has strengthened the Kenya Tourist Board, which together with the Ministry of Information and Tourism and the Kenya Wildlife Service will embark in a major promotion campaign and improve information systems. The promotion exercise is intended to market the diversity of attractions available in Kenya, to include eco-, conference, sports, retirement, film industry and domestic tourism. The budget for this activity is however severely limited relative to that available to Kenyan competitors, and will need to be expanded either by earmarking selected tourism revenues or expanding private sector contributions.

To strengthen the linkages with the rest of the economy and make tourism pro-poor, efforts will be made to: foster community-based and eco-tourism particularly to northern and western areas of the country and targeted to backpackers and nationals; strengthen community–based wildlife conservation, adopt an appropriate compensation policy and take measured to reduce human-wildlife conflicts; provide guidance, access to credit, and incentives to small and medium enterprises; and review the structure park tariffs to expand tourism on less-visited parks. The Kenya Tourist Development Corporation (KTDC) will be restructured to play a key role in facilitating local investment and proving credit to small and medium enterprises.

For environmental protection, the government, in partnership with the private sector and communities, will focus on land management. Elements of land management include an integrated costal zone management structure to oversee development in Mombasa and Malindi; government-private-community partnerships to extend reserve areas around national parks; local community involvement in designing and implementing plans for sustainable land use management as part of the National Environment Management Act, modelled after the Selenkay Conservation Area experience; and certification schemes for eco-friendly resorts.

Finally, to address quality and standards, the government plans to: expand the facilities of Kenya Utalii College, including reviewing the proposal for establishing an additional branch in the coastal region by July 2005; and enhance the role of the Catering Levy and Development Trustees (CTLDT) to provide affordable credit to local tourism operators and a regulatory framework for the standardization of training in the sector.

Trade and investment

As a result of early 1990s trade liberalization reforms, price and exchange rate restrictions have been eliminated, tariffs lowered, and suspended duties scrapped, giving Kenya a high rank for openness. The government has also recently embarked on a comprehensive reform of its trade system within the context of the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC). By 2004, Kenya will reduce the number of nonzero tariff bands to four, the top tariff rate to 25 percent, and the duty on raw materials and capital goods. It will also build capacity to address trade disputes and dumping claims, and harmonize investment incentives.

To increase trade and investment performance, the government will review licensing agreements, provide market information to Kenyan manufacturers, and support the private sector in identifying new markets, improving quality of Kenyan goods, reducing non-commercial risks, organizing export trade fairs, and exploiting AGOA. A sessional paper on trade policy will be completed by the Ministry of Trade by September 2004. The World Bank and other partners are assisting the government carry out a trade diagnostic study, expected to be completed by June 2004.

To increase foreign investment, the government will work to improve the business climate and speeding up privatization. Measures include developing a new regulatory framework for finance and infrastructure, strengthening the rule of law, improving security, and reducing the number of regulations and steps required for investing in the country. The government drafted a new Investment Code, which, among others, entails the establishment of an Investment Authority in charge of investment policy and the development of an investment roadmap by 2005.

Industry

Kenya's manufacturing sector is performing better than its neighbours but still well below its potential. To expand its growth and employment generating capacity, the government will focus on removing the barriers to investment and lowering the cost of business in the sector. This will include measures to further liberalize trade, deepen the financial market, enhance infrastructure, improve security, facilitate use of technology licenses, review mechanisms for wage determination, and improve access to quality training.

Many of these activities will require close coordination with other sectors (trade, finance, infrastructure, justice, and labour) to ensure that reforms in those sectors are consistent and supportive of labour-intensive growth in manufacturing. Even more importantly, the government will ensure the existence of adequate mechanisms for private sector consultation to ensure that policies address the heart of private sector concerns. To this end, the government will be preparing, in consultation with its private sector partners, an industrial master plan to operationalize the sessional paper on industrial transformation. In addition, the government will undertake benchmarking exercises for key industries, including sugar and textiles, to measure Kenyan industries' competitiveness in the international market and identify constraints to improved productivity.

Chapter 4: Equity and Poverty Reduction

Human Resources Development

Human resource development is at the core of the ERS strategy to level the playing field and provide opportunities for all Kenyans to productively and self-reliantly participate in employment and wealth creation. Developing human resources requires complementary efforts in education and training, health and HIV/AIDS, labour and nutrition.

Education: attainment of universal primary education

Education, and particularly primary education, is the top priority on the NARC Government agenda. The government's first policy action in January 2003 was to institute free primary education. As a result, enrolment has increased by 1.5 million children in 2003. To strengthen the education system and ensure proper linkages at various levels the government is negotiating with the donors a comprehensive education sector program and a national forum on education was held in November 2003. Program priorities include ensuring equitable enrolment by targeting disadvantaged areas, particularly ASAL areas and urban areas, and vulnerable groups, such as girl child, street children, etc; improving quality and internal efficiency through teacher training and redeployment, reforming the curriculum to focus on core skills, providing teaching and learning materials and improving the learning environment, redefining the roles of local authorities, and decentralizing decision-making to district and school-level administrators, and parents' representatives.

To sustain and motivate participation and completion in primary schools as well as to improve transition levels efforts will also be made to enhance secondary schools capacity in order to accommodate more primary school graduates.

The free primary education program implementation has necessitated increases in both recurrent and development expenditures. However, making public resource utilization more efficient is now a priority without which the attainment of universal primary education could remain elusive.

Health: provision of basic health services

The primary objective of the health sector reform process is to enhance accessibility and affordability of quality basic health services for all Kenyans with special emphasis on the poor and vulnerable. Formidable challenges in the sector make the achievement of this objective an uphill task. These include the emergence and re-emergence of some diseases such as HIV/AIDS, tuberculosis and drug-resistant malaria, which have increased the disease burden, and the increasing poverty levels. This has led to an overburdened health sector, ever-increasing costs of essential inputs for medical supplies as well as human resources, and a decreased capacity to financially contribute to the cost of health care by the majority of Kenyans. As in education, the labour and skill-intensive nature of health services leads to most of the resources going to wages and leaving very little for non-wage recurrent expenditures and capital inputs.

In order to face these challenges the Ministry of Health aims to achieve the following reforms and targets:

Revisit the financing of the health sector. The objective is to reduce the unaffordable level of out-of-pocket expenditures by the poor and vulnerable and to protect them from financially catastrophic expenditures for health care services. The government is committed to the introduction of a social health insurance scheme, to achieve the objective of making health affordable. The strategy envisages a phased approach to ultimately achieve national coverage in the medium term.

Focus its investments on interventions that will in particular benefit the poor and vulnerable. The Ministry of Health will step up the efforts to increase the immunization coverage to 85 percent, reduce the children under five years mortality rate to around 100/1,000 by 2008, reduce the maternal mortality rate from 590/100,000 to 560/100,000 by 2005, reduce the HIV prevalence rate by 10 percent, increase the accessibility and availability of essential drugs, reduce the mortality rate for malaria by 10 percent annually, increase the cure rate for tuberculosis, and improve health service delivery for the underprivileged rural and urban slums. In order to achieve this the ministry will re-allocate resources towards promotive, preventive and basic health services and enlist additional capacity through partnerships with civil society, faith based, and private sector organizations.

Improve cross-sectoral cooperation for health promotion and public health, especially to achieve public health standards that are currently not realized for the poor. In view of the importance and critical roles that other sectors play in achieving better health outcomes, the ministry will strengthen its ties and collaboration across sectors in the areas of water and sanitation, reproductive health, gender, HIV/AIDS, nutrition, school health, road safety and tobacco control.

Increase the efficiency and effectiveness of the combined investments of GoK and its partners. In order to achieve synergy and reduce inefficiencies related to independent and fragmented efforts, the Ministry of Health will further pursue the modalities that allow a programmatic approach by all partners involved. These include a jointly agreed National Health Sector Strategic Plan, a jointly agreed and supported monitoring and evaluation framework, mechanisms for annual health sector program reviews, a jointly agreed and supported medium term expenditure framework, and an annual sectoral public expenditure review to evaluate the effectiveness of actual expenditures against the objectives of the health sector program.

Increase total government spending on health from the current 5.6 percent as a share of total public expenditure to 12 percent over the time period of this investment program. Such an increase in the investments in human capital may seem ambitious, but past public spending per capita on health in Kenya has significantly lagged behind as compared to global and regional experiences. In addition, the challenges described and the commitment of the government to make significant progress towards the Millennium Development Goals justify such an increase.

HIV/AIDS

The government is implementing a comprehensive multi-sectoral national strategy in the fight against HIV/AIDS (National Strategic Plan on HIV/AIDS, 2002-2005). The strategy includes institutional, legal and programmatic reforms. To strengthen policy formulation and oversight, the government has established a cabinet sub-committee on HIV/AIDS, chaired by the President, and is in the process of restructuring the National AIDS Control Council (NACC). To provide for an explicit legal framework for the national response to the HIV pandemic, the government recently promulgated a bill on HIV/AIDS. At the programmatic level, the government implemented a new policy on decentralization to focus attention on the need to strengthen action at the community level, with the constituencies serving as the focal points. At the same time the government is committed to continue its focus on the prevention of new HIV infections among the 90 percent of Kenyans who are not infected. In order to achieve this, the government plans to pay particular attention to the empowerment and protection of the most vulnerable. The government recognizes that vulnerability factors for HIV infection, including those related to poverty, gender, discrimination, educational attainment and socio-cultural factors, are diverse and complex and can only be coherently addressed when the multi-sectoral dimensions of the response to HIV/AIDS are significantly strengthened. The government also plans to intensify advocacy campaigns and education to mitigate stigma and discrimination; coordinate the strategies for prevention, treatment and mitigation; develop a roll-out plan for the increasing amount of resources devoted to treatment; intensify prevention activities; develop capacity building plans for private and public agencies involved in HIV/AIDS programs; and develop a creative and strategic approach for caring for and supporting the rapidly increasing number of orphans. For the infected, the government is committed to availing Anti-retroviral drugs(ARVs) to an increasing number in line with WHO goals. It is expected that nearly 110,000 will have been put under ARVs by the end of 2005.

The government acknowledges the large contribution that development partners and other stakeholders have made in the fight against HIV/AIDS and is committed to maintain an open and productive dialogue with all stakeholders. To this end, the government will reformulate its overall partnership plan that will include modalities for stakeholder participation in the planning and operationalization of new policies, partnership environment for policy dialogue, a jointly agreed strategic plans, jointly supported institutional arrangements, a jointly agreed Monitoring and Evaluation framework, and a Joint HIV/AIDS Programme Review mechanism.

Labour

The objective of labour reform is to quicken the pace of labour productivity growth. The newly established Productivity Centre of Kenya is expected to implement it's strategic plan with a view to developing a productivity policy as well as productivity measurement mechanisms. In addition the government plans to undertake a study of the labour market to identify a set of consistent recommendations for improving labour productivity, and is seeking donor support for this activity. The study would review the legislative framework; identify the inefficiencies that have led to high unemployment and high labour costs; develop an inventory of available skills and propose reforms to improve labour market flexibility and strengthen the links between education, training and industry demands. In the area of industrial and labour conflict management, the government plans reforms to enhance the dispute settlement machinery, strengthen the tripartite committee secretariat, fortify the labour inspection services, and reduce the backlog of workmen dispute cases.

Labour market policies

The Government recognizes that the labour management policies must involve a multi-faceted approach consisting of general wages and incomes policy, improvement of working conditions and environment, improving occupational safety and health, clear guidelines on export of labour and employment of foreigners, education and training, and mainstreaming the disadvantaged groups in employment. It's in this respect that the Government has appointed a tripartite Taskforce to review the six core labour Acts and make recommendations for review of all other pieces of labour related legislations. The Core Acts are the Employment Act, Regulation of Wages and Conditions of Employment Act, Trade Disputes Act, Trade Unions Act, Factories and other places of work Act, and the Workmen's compensation Act.

The review of these laws is expected to create a better environment for investors and protect the interest of the labour force. The review will also ensure that Kenya domesticates international Standards and Conventions that it is party to, while at the same time meet some of the African Growth and opportunity Act (AGOA) conditionalities relating to freedom of Association, child labour and good governance. Other measures envisaged in the medium term and which are specifically targeted at removing the labour market rigidities and impediments to employment are:

- Developing and orientating Kenya's policies on industrial relations and occupational health and safety programmes.
- Use of productivity indices produced by the newly established Productivity Center, in addition to the traditional in used price indices, in setting the wage guidelines, and in collective bargaining agreements.
- Reorganization and strengthening of the wage setting mechanisms in Kenya including reorganization of labour Advisory Board and wage Councils, quick processing and registration of collective agreements, and allowing market mechanisms to influence wage negotiations.
- Encouraging Tripartism, Social dialogue, and training and research.

Mainstreaming special groups in employment

Special groups, which refer to women, children, the youth, persons with special needs, retirees and the aged persons face many barriers for entry and progression into a number of socio-economic activities, and have led to their low participation rates in decent sustainable employment and their optimum utilization.

Women

Gender disparities in employment opportunities have remained wide in many sectors of the economy. Though women constitute the majority in the labour force their participation remains low relative to those of men. For example, in 1998/99 Labour Force Survey, women participation rate was 72.6 percent compared to 74.7, percent for men. Factors contributing to these disparities in employment opportunities include negative social attitudes towards women; inadequate capacity on the part of many women in terms of their knowledge and skills; in access to productive resources; and lack of gender responsive policies and programmes. This has led to increased unemployment, underemployment, poverty and powerlessness among many Kenyan women.

To reduce the marginalization of women, the Government policy is to remove barriers and promote the education and training in order improve their effective participation in the labour market. Measures will be put in place to assist women to gain access to more productive resources. These will be through intense sensitization campaigns among key decision-makers in policy and programme implementation positions in various sectors. The Government will further strengthen units of gender issues in various line ministries.

Government will also institute measures that will prepare and encourage women to compete for all jobs through other appropriate policies and instruments such as promotion of equal employment opportunities and removing limiting clauses of employment related laws that inhibit their effective participation in labour market.

Children

The Government recognizes the existence of child labour together with employment of young persons in hazardous situations despite of legislations against the same alongside unemployment. Currently it is estimated that Child Labour in Kenya stands at 1.3 million, mainly working in commercial agriculture, fishing and domestic services. This has negative impact not only on the health of the child but also on the country's future labour force. Child labour has been attributed to poverty, HIV/AIDs pandemic and inadequacy in polices to address child labour. The Government however remains committed to protection of children and eradication of child labour.

The main challenge in addressing this problem has been school enrolment, retention, and re-integration of working children back to school. The implementation universal free primary education is a critical initial step in addressing the challenge. The next in line will be secondary education. Complete free education will therefore be one of the effective instruments in attacking poverty and elimination of child labour.

While the Government continues to fight poverty and HIV/AIDs at all fronts, its policy is to develop programmes and schemes that will identify child headed households and children from poor households on a continuous basis and provide for their health needs and social welfare, education and training. The Government has taken encouraging steps through legislations to reduce and eventually eliminate child labour and improve their capacity for implementation and promotion of targeted, pro-poor employment generating projects both in urban and rural areas.

Youth

The majority of the unemployed are the youth aged 16-39 yrs. The Government appreciates that the problems of increased youth unemployment have been accentuated amidst depressed economy. Lack of skills, assets and access to credit facilities has rendered self-employment difficult for the youth hence leading to high crimes, street begging and drugs. In response the Government is in collaboration with stakeholder developing programmes such as creation and sustention of a revolving youth fund for promotion of self-employment. Other measures will include providing mechanisms to manage transition from school to work, career guidance, industrial attachment, mentoring and couching; and rendering business counseling advisory services.

Agriculture, Livestock and Environment

With 67 per cent of people living in rural areas, over 50 percent of whom are living in poverty, the agriculture sector is the growth sector, which is most likely to play a central role in reducing poverty and increasing food security. To reverse recent trends of low growth in agriculture, comprehensive and far-reaching reforms must be implemented to promote productivity growth and lower the costs of agricultural inputs, particularly among smallholders and subsistence farmers. While smallholder farmers account for 70 percent of marketed agricultural production, their yields are below potential. Tea and coffee yields, for example, are only two-thirds and one-half that of large farms, respectively. By raising the productivity of these farmers much can be achieved for reducing poverty. It is targeted that average yield of major crops rises by 5 percent over the investment period.

Agricultural research and extension. The objective of reforms in the agricultural research and extension area is to strengthen the link between farmers' demands, extension provision and the direction of research, and increase the productivity of public investment. The government is in the process of restructuring and rationalizing the network of agricultural research institutes by consolidating operations into the Kenya Agricultural Research Institute. Already three out of thirteen institutes have been merged with KARI. The government also plans to open the policy dialogue on the issue of genetically modified seed to investigate the pros and cons of adopting a clear GM policy. In extension, the government will be reviewing alternative modalities for service delivery and exploring modalities for introducing private sector provision. The Government requires support from its development partners for analysing options for greater private sector participation in extension.

Agricultural financial services. One of the main constraints to increased investment in agricultural production is poor farmer access to credit and insurance. The government is interested in investigating and selecting options to deepen the financial credit market for small agricultural borrowers. The rural SACCOs will be expected to enhance their role in mobilizing savings for on-lending to their member farmers.

Agricultural inputs. Price movements in the local agricultural input market do not reflect international market conditions. Between 1997 and 2001, seed and fertilizer prices rose 80 percent, fuel prices 50 percent, and animal feed prices 40 percent. At the same time international prices for inputs declined. Erratic price movements point to serious governance issues in the market for inputs, which have affected investment in agricultural production and farmers' profitability. The government is identifying reforms to improve competition in inputs distribution and marketing and to enforce the law against fraudulent practices of input suppliers and marketing agents. In addition, through the on-going reform in the cooperative movement, the agricultural production and marketing cooperatives will be expected to contribute to improvement in the supply of agricultural inputs at least to their members.

Commercialization. Commercialization of farm and non-farm products is the key for increasing rural incomes. The government activities will focus on reducing transport costs by improving rural roads and reducing fuel taxes; reducing irrigation and factory operating costs by bringing down electricity costs (see section on energy); and improving access to market information by strengthening communications.

Marketing and value addition. Lack of market for products has led to losses of income by farmers and investors in the sector. By adopting appropriate marketing strategies, the government, the private sector and the farmers' organisations can improve incomes and promote economic growth. Some of these strategies include processing, packaging, storage, transportation and research. In this regard the government is committed to supporting cooperative, private investors and other institutions to undertake necessary investments in these activities including market information and dissemination.

Land administration. The government will formulate a national land policy to address land use and administration, land tenure, and land delivery systems. Modernization of land information management systems is ongoing.

Gender. Due to traditional roles and male rural urban migration, smallholder farmers are predominantly women who provide 75 percent of the labour for small-scale agriculture. They are however constrained in their access to land, credit, information and markets. As part of its constitutional review, the government is reviewing the laws of succession, which greatly affect gender land imbalances. It will also work to identify mechanisms to increase women's access to credit, information and input and output markets.

Food security. The government is reassessing food security policies with the intention of introducing pro-poor reforms. Issues under consideration include the liberalization of the maize and sugar markets that impose a significant tax on the poor who are net buyers of maize and sugar. Curtailing the Kenya Sugar Board to regulatory function and privatizing sugar factories are also under study. Rehabilitation and expansion of irrigation schemes will be part of the strategy.

Pyrethrum. The government is planning to liberalize the pyrethrum sector, and restrict the pyrethrum board to regulatory functions.

Coffee sector. Following reforms in the tea and dairy sectors, the government is considering similar reforms in the coffee sector with the objective of increasing the share of final sales that farmers receive. Reforms would include legislative amendments to the Coffee Act to allow growers to sell coffee outside the auction, and the establishment of an agency to operate processing, marketing and inputs distribution. Improvement in cooperative governance among the coffee marketing societies is expected to raise the proportion of end market value received by members and thus boost the members' morale to increase coffee output.

Cotton and rice sectors. The government plans to support plans for rehabilitation and development of irrigation systems to support the revitalization of cotton and rice sectors.

Livestock sector. This sector has a high growth potential and is of priority importance for subsistence farmers and pastoralists. The government plans to implement a concerted strategy for disease outbreak prevention and control, and improving quality and certification of veterinarians and other service providers. It is also considering the introduction of a single permit system for cattle movement, reviewing options for a decentralized and private sector provided network of slaughterhouses, expanding access to water sources, and improving security.

Fisheries Sector. Fresh water and marine fisheries have significant growth potential in improving the livelihood of communities of Western and Coastal regions of Kenya, and they are a source of foreign exchange earnings. The government is committed to developing an enabling environment to ensure sustainability in fisheries development and management. A fisheries policy and master plan is currently under development.

Public resource allocation. The government is committed to restructuring public spending in the Ministry of Agriculture to allocate a greater share of resources to priority programs. This will require significant rationalization of agricultural parastatals.

Environment. Adequate management of environmental resources is key for long-term sustainable economic growth in rural areas. The government is in the process of implementing the National Environment Action Plan (NEAP) and Environment Management and Coordination Act (1999). As a result, the government established the National Environmental Management Authority, responsible for setting and enforcing environmental standards and which is expected to be fully operational by 2005. The Ministry is carrying out a natural resource inventory and valuation. Other activities include the implementation of WSSD, MDG, and Lake Victoria Environmental Management Project.

Forestry. Activities in forestry include implementation of the Forestry Development Policy, enforcement of the Forestry Act, and promotion of private sector participation in afforestation and management of forest plantations.

Wildlife management. The government is working with local communities in conservation of wildlife and benefit sharing, implementing measures to manage human-wildlife conflicts, and strengthening the capacity of Kenya Wildlife Services.

Areas for further private sector involvement. Reforms are opening the doors for greater private sector participation in the areas of rural infrastructure, fisheries, mineral exploration and exploitation, slaughterhouses and livestock exports, particularly from arid and semi-arid lands (ASALs), agricultural processing and marketing, financial services, and input supply.

Overall, the government is requesting additional support from its development partners to operationalize agricultural policy in the areas outlined above, and promote environmental protection under the strong belief that careful and timely reforms can help release the major untapped potential of the sector.

Poverty Targeted Programs

To address poverty reduction targets, the ERS identified some priority programs that target poor communities, the poor in arid and semi-arid areas, the urban poor, and marginalized groups. These programs include the establishment of a social action fund, the development of arid and semi-arid areas, the implementation of slum upgrading programs, and the development of a program to reduce the vulnerability of marginalized groups.

The social action fund

The government plans to establish the Kenya Social Action Fund to support and finance the implementation of productive community-driven development projects. The fund will operate within a framework for community project development, improved planning, and transparent selection and financing. The fund is meant to foster community-driven development in an accountable and transparent manner.

Arid and semi-arid lands (ASAL) program

The ASAL program is a multi-sector program designed to cater to geographical areas with high poverty incidence that have traditionally been a low priority in public resource allocation and programs. This government has committed to reverse past inequities and promote development and poverty reduction in these areas.

The strategy in ASAL aims at combining activities in infrastructure and productive sectors, with human resource development, security enhancement, and land tenure reforms. On the productive sectors side, the program aims at supporting infrastructure development to rehabilitate roads and mobilize community participation in feeder road maintenance; implement a broad-based livestock development policy; facilitate private sector development of fishing infrastructure; and strengthen community-based- and eco-tourism. In human resource development, the objective is to start closing the gap with the rest of the country by developing a creative schooling program for pastoralist children, strengthening community-based health care systems and preventive medicine, and improving food security through the implementation of community-based early warning systems. Additional activities include strengthening security and increasing border surveillance; and improving land tenure by undertaking data based inventories of tenure arrangements, reviewing adjudication processes, and establishing accountable land boards.

Currently the most comprehensive integrated intervention in ASAL is undertaken by the Arid Lands Resource Management Programme (ALRMP), which is a community-driven initiative to finance community projects on livestock marketing, small infrastructure, development and rehabilitation of bore holes, dams and water pans, animal disease control, development of roads and stock routes, and promotion of bee-keeping. The government plans to expand this program to all ASAL districts.

Slum upgrading and low-cost housing

The objective of the slum upgrading program is to improve the 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 program will develop slum upgrading and relocation plans that will include land adjudication and registration, expansion of water network and sanitation facilities, provision of electricity distribution points, upgrading of slum roads, and enactment of housing legislation to facilitate private sector expansion of low cost housing and housing financing.

In housing, the government is targeting construction of 150,000 housing units annually through its slum upgrading program, completion of stalled housing projects, adoption of innovative cost effective building materials and technologies, provision of new tenant purchase housing schemes, and promotion of full scale development of secondary mortgage market. The government seeks private sector participation for construction of low cost housing in selected urban centres under concessionary terms.

Vulnerability

The vulnerability program will be designed to target marginalized and vulnerable groups and begin closing the gap in their access to public services. Particular attention will be focused on orphans, the youth, women and the disabled. The government seeks the support of development partners in the development of these programs.

Chapter 5: Governance

Poor economic governance, including high levels of corruption and poor management of public resources, is one of the key impediments to economic and social development. It undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends. The harmful effects of weak governance are especially severe on the poor, who are most reliant on the provision of public services, and are least capable of paying the extra costs associated with bribery, fraud, and the misappropriation of economic resources. Corruption, a major manifestation of poor governance, and poverty are linked through many indirect channels. At a macro level, corruption hampers a country's ability to attract investment, the effectiveness of its institutions and revenue generating capacity. Corruption affects the way public money is allocated, diverting expenditures away from sectors such as health and education to sectors such as public works where contracts can be manipulated and bribes more easily secured.

The government is committed to eliminating corruption, restoring the rule of law and bringing about equitable development that favours all citizens. Securing lasting improvements in governance represents a major challenge that will require focused and sustained effort to build stronger institutions that are able to effectively apply the law and to manage public resources with integrity. The government has already taken important steps. It created a new department of governance and ethics in the Office of the President, and the Ministry of Justice and Constitutional Affairs with strong leadership to co-ordinate reforms across the various institutions in this highly interconnected sector. A process of review and harmonisation's of Kenyan laws has also started under the reconstituted Law Reform Commission, in charge of updating several important acts, including the company and investment laws intended to improve the investment climate. This chapter presents key government programs and initiatives in these areas.

Public Safety, Law and Order

Contributing to weak public safety, law and order are the poor terms and conditions of service for police and other security personnel, weak legal and justice regimes, increasing sophistication of criminals, proliferation of firearms and light weapons, strengthening networks of international terrorist organisations, insecurity in neighbouring countries, weakening of traditional conflict resolution mechanisms, and rising drug trafficking and substances abuse. A lack of prison capacity and lack of ineffective co-ordination between the police, judiciary, and other institutions of public security make the problem worse.

The broad sector objectives are to restore rule of law, to maintain an efficient and motivated police force, to promote good governance by developing a strong co-ordinated administration and governance system; to eliminate corruption; to strengthen capacity for crime management, investigation and prosecution; and to strengthen capacity and co-ordination of institutions within the sector. Other objectives are to increase the efficiency and lower the costs of the judiciary, especially for the poor; to strengthen the legal and justice institutions; to create an enabling legal and regulatory framework; and to reduce overcrowding of prisons.

Outcome targets are (a) to increase the ratio of convictions from 21 percent of reported criminal cases in 1999 to 60 percent in 2006, and (b) to reduce the number of reported crimes from 63,000 in 2001 to 35,000 in 2006.

Priorities include improving training of police officers, recruiting new police officers, equipping the police with modern equipment and technology; improving living conditions of police officers; rehabilitating 20 courts; and strengthening the specialised police units. Other activities include establishing a taskforce outside the Civil Service Reform Commission; operationalizing the Human Rights Commission; completing investigations into the Goldenberg scandal; establishing the office of the Ombudsman; developing and operationalizing a 5-year strategic master plan to fight corruption; and implementing a framework for cross-border policing and collaboration.

Police reforms

The police force plays a major role in promoting public safety, law, and order. However, unsatisfactory enforcement of the rule of law and low standards of professionalism and competence within the police force has worsened the security situation in the country.

The government is addressing the problem by preparing a full diagnosis of the police and budgetary allocations within the sector ensuing recommendations will be incorporated in the design of a comprehensive strategy to professionalize the police force, reform the structure of incentives police forces face, increase their linkages and accountability to the community. Professionalism in the police will require the implementation of a training and re-equipment program to enhance efficiency and effectiveness in handling crimes. Due to wage bill constraints, the restructuring of incentives in the short term will focus on improving the living conditions of police officers including through provision of decent accommodation.

By January 2004, the police force salaries were increased which is expected to improve their morale and boost their productivity. To strengthen the linkage with the community, the program will promote redeployment of police, initiation of the community policing aimed at friendly working relations with the public, establishment of monitorable outcome indicators, and strengthening of partnerships between the police force and the private sector security agencies. The police Department is implementing a Rapid Result Initiative of one hundred days with an objective of enhancing security in the Central Business District. The launching was done on 23rd January 2004 and has been very successful. The members of the private sector organisation have expressed the willingness to support the initiative as a collaborative effort with the Government. The outcome will be replicated to the other major urban centres and throughout the country. The recruitment of the police to effectively undertake these initiative will be carried out in the medium term. The recruitment will enable the effectiveness and efficiency in the security forces and further establishment and strengthening of anti-banditry units, a tourism police unit, anti-terrorism police units, port patrol units, and community policing initiatives and anti-corruption units. The reform will be complemented by the development of a framework to undertake comprehensive intelligence research in crime and security; and a revision and enactment of laws to deal with modern crime challenges such as terrorism, fraud, money laundering, e-commerce crimes, and tax evasion.

Anti-corruption measures

Pervasive corruption has slowed growth and deepened the poverty levels in the country. Eliminating corruption will free significant resources for investment in infrastructure and in programs that deliver services to the poor.

To eliminate corruption the government enacted and is implementing the Economic Crimes Act (2003). This provides for the establishment of an Anti-Corruption Commission, which the government intends to make fully operational by early 2004. The commission mandate is to achieve a zero tolerance on corruption, enhance accountability and transparency in the conduct of the national affairs focusing on internationally accepted standards. It also held a national conference on corruption and announced the preparation of a five-year anti-corruption strategy.

The action plan to support the strategy is currently under preparation and will include regular surveys and monitorable indicators to measure progress made in curbing corruption. To reduce corruption in the public service, parliament approved the Public Officers Ethics Act in 2003, which requires all public officials (including the President), employees and their families to declare their assets. This provision was implemented in October 2003. Finally, the government is strengthening the capacity of the Kenya Anti Corruption Commission.
These policies are reflected by concrete actions, such as: i) investigation of the Goldenberg scandal, ii) replacement of corrupt judges, iii) repossessing of grabbed land and public housing, and iv) banning of corrupt contractors from participating in public procurement.

Other measures are intended to reduce opportunities for corruption and eliminating conflicts of interest. These include the transfer of the responsibility for the regulation of the financial sector from the Ministry of Finance to the Central Bank of Kenya; the cancellation of all stalled projects; the elimination of pending bills; the timely presentation of final accounts on government operations by the Controller and Auditor General; and the reform of the public sector procurement system.

The programme outcome is to reduce corruption incidents and lower Kenya's international rating by 50 percent annually, ensure that the Publics Ethics Act is fully implemented and set up an office of ombudsman where members of public can lodge complaints and petitions.

Judicial reforms and dispensation of justice

The reliable and accessible dispensation of justice is critical for a well functioning society. Hence a sound system that is speedy, accessible, and affordable to the poor, fair, and not corrupt promotes and sustains economic development.

The government has taken several actions to improve the dispensation of justice. Of key importance is the establishment of the Ministry of Justice and Constitutional Affairs, which is responsible for policy on administration of justice, law reform, anti-corruption strategies, integrity and ethics, legal sector reform, legal aid and advisory services, and the Kenya National Human Rights Commission. The ministry's five-year strategy is to improve legal education, increase access to justice through support to legal aid, create mechanisms for community justice, zoning of courts in various parts of the country into 12 circuit courts to offer Judicial Service to areas without Courts and develop and implement a five year anti-corruption campaign. The campaign of fighting corruption has started by forming a tribunal to try judges on allegation of corruption and related cases that were identified. The ministry has also spearhead an ambitious program of law reform to take into account the provisions of the constitution that is expected to be adopted in 2003. The Ministry is expected to benefit from a proposed Justice and Integrity Project being supported by development partners.

Activities/Programmes to be undertaken involves recruitment of Magistrates/Kadhis to cope with the increased cases, training of staff to enhance efficiency, automation of court registries to enhance information flows, acquisition of more vehicles to facilitate accessibility to remote areas for delivery of Judicial services and court hearings in up country stations and installation of security equipment in Courts.

In addition, the government will take steps to reduce overcrowding of jails and prisons. These steps will address prison capacity, institutional coordination between the judiciary and the office of the Attorney General, prisons, the police, and the children and probation department, inspection and enforcement of rules and regulations. It will also sentence more non-violent offenders convicted of petty crimes to community service, implementing the community service order act.

Improving immigration services

Immigration services control the entry and exit of persons seeking to live temporarily or permanently in the country. Despite the critical role of immigration services, various obstacles hinder delivery of services, such as lack of collaboration among stakeholders, inadequate computerization, and lack of appropriate equipment.

The government has recruited 116 immigration officers to assist in curbing entry of illegal aliens. It is also preparing to provide visa stickers that contain a security mark that cannot be forged, rather than issuing manually stamped visas. In the future it will enhance collaboration with relevant stakeholders, computerize the institutional system and provide specialized equipment, and ensure that all immigrants are in possession of requisite passes and permits.

Public Administration

An efficient public administration ensures that public services are delivered efficiently, effectively, and for their intended purposes. The government aims to create a leaner, more efficient, motivated and productive public service. It also intends to accelerate the parastatal privatisation process.

The Government will continue with reforms in the civil service, Local Authorities and public enterprises to attract private sector investment and improve delivery of public services. Other critical components of the government's strategy include separating powers between various branches of government; strengthening the rule of law; decentralising delivery of public services; and making the conduct of public operations at all levels of government more accountable and transparent. These measures are expected to improve revenue collection; reduce rent-seeking; and increase the productivity of public investments.

Targets are to eliminate pending bills in all sectors, resolve stalled projects, and increase the project completion rate, during 2003–06. Other targets are to increase the proportion of budgetary resources controlled by local governments, and to increase the proportion of communities reporting having greater control over local development resources.

Civil service reforms

The government will accelerate the public service reform programme to focus public financial and human resources on the delivery of core government functions, and to reduce the share of the wage bill in the GDP to 8.5 percent of GDP by 2005/06. Reforms have previously included rationalization of ministerial functions, structures, and staffing.

The civil service reform will in the medium term focus on improving performance by: (a) rightsizing the civil service, (b) reforming pay structures, (c) reforming pensions, and (d) building capacity of the public administration. Most of the resources will be spent on rightsizing the civil service. As part of the measures aimed at reducing the relative size of the wage bill in total expenditure, a study is being undertaken to recommend modalities for reducing the wage bill.

Public expenditure systems

The government places considerable importance on the effective control and close monitoring of public expenditure as a means of reducing corruption, minimizing deviations of budget outcomes from intentions, promoting budget discipline, and preventing the accumulation of new arrears. For detailed actions in this area, see public expenditure reform in chapter 2.

Parastatal reform

The government set up a high level committee, chaired by the head of the public service, to review the performance and viability of state corporations. One hundred thirty six (136) state corporations and statutory boards are covered in the analysis. The recommendations of the committee, including possible restructuring, mergers and legislative reforms, have been discussed by the cabinet Economic sub-committee and are waiting finalization and submission to cabinet for approval.

Local government reforms

As part of the Constitutional review process, local government reforms will be implemented to improve delivery of services and accelerate the devolution of decision-making authority to the local levels.

Currently, local finances are being improved through the local authority transfer fund (LATF). Local business licensing has also been rationalized and other measures have been introduced to improve local level financial management, revenue mobilization and service delivery linked to the LATF system. The government with the support from development partners is also supporting capacity building in local authorities and a comprehensive training programme and master plan for training of local authority personnel is being developed.

During the recovery period, local government reforms will be strengthened. Actions include strengthening of monitoring and evaluation systems to cover programs implemented by local governments. Reforms also include further Operationalizing the Kenya Local Government Reform Programme (KLGRP) by implementing the local authority service delivery action plan and establishing an integrated financial management information system; developing and implementing a comprehensive decentralization strategy; and reviewing the Local Authority Act. These reforms are aimed empowering local authorities, and reducing conflicts between the central government and local authorities.

Chapter 6: Financing Framework

1. Introduction

The Interim Investment Programme of the Economic Recovery Strategy had a total estimated cost of Kshs. 706.92 billion compared to committed funding (in the ***Printed Estimates*** of the 2003/04 budget) of Kshs. 154 billion, including Kshs. 47 billion of donor funds. This therefore left a substantial financing deficit to be met from increased external borrowing, public expenditure restructuring and private sector investment. The investment programme estimated that Kshs. 96.9 billion would be raised from private sector participation, Kshs. 171 from additional external borrowing (bringing the total external resources to Kshs. 219 billion or US$ 2.9 billion at prevailing exchange rates) while Kshs. 119.4 billion was to be raised from expenditure restructuring. To ensure that the funding was adequate to implement the existing projects, a prioritization schedule was provided in the strategy, with activities not provided for going into a pipeline to be reviewed should funding allow.

Since the launch of the investment programme, several important changes have taken place including:

- The successful holding of a Consultative Group (CG) meeting, where a total of US$ 4.1 billion was pledged: this sets an upper limit on the level of external resources available for funding the programme;
- The country entering into a Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF with implications for the macro economic framework;
- The completion of an exercise on prioritization which has enabled the sectors to be more focused in their expenditure requirements.

The changed environment has enabled a complete review of the ERS investment programme and thus its financing framework.

2. COSTS OF IMPLEMENTING THE REVISED INVESTMENT PROGRAMME

Table 6.1 below provides an estimate of the cost of implementing the projects and programmes enumerated in the sectoral chapters.

Table 6.1: Costs of Implementing the Economic Recovery Strategy (values in Kshs. mn)

Sector	**Implementation Cost (Kshs.Mn)**	**percent of Total Costs**
Macro Economic Sector	8,599.4	2.51
Public Administration	7,914.5	2.31
Public Safety Law and Order	43,890	12.83
Agriculture and Rural Development	38,488.5	11.25
Tourism Trade and Industry	16,254.8	4.75
Human Resource Development	143,400	41.92
Physical Infrastructure	81,018	23.68
Information Technology	2,500	0.73
Total	**342,062.2**	**100.0**

From the table above, the human resource and infrastructure sectors are expected to account for the bulk of expenditure, 66percent while the public administration sector accounts for only 2.31percent.

Table 6.2 below provides a breakdown of currently forecast expenditures under the base case scenario. The table shows that total Government expenditures are expected to total Kshs. 1,326 billion over 2003/04-2006/07. Of this, Kshs. 422.4 billion are expected to be personnel emoluments, Kshs. 116.3 billion for interest payments, and Kshs. 69.7 billion for pensions. An expected Kshs. 369.3 billion is available for ERS expenditures, of which Kshs. 280 billion will be development expenditures, Kshs. 36 billion for the free education programme and Kshs. 26.2 billion for non-wage health services.

Table 6.2: Projected Expenditures

EXPENDITURE CATEGORY	2002/03 Actual	2003/04 Estimates	2004/05 Proposed	2005/06 Proposed	2006/07 Proposed	TOTAL 2003/04-2006/07
Current						
Salaries and Allowances	85,087	96,716	101,583	108,514	115,585	422,397
Ministerial expend.(Excl. Free educ& health.)	29,897	35,336	35,202	32,484	32,800	135,822
Transfer Payments						
Transfers to local Government	3,708	3,656	3,543	3,974	4,187	15,360
Transfers to households						
Pensions	12,220	14,067	16,099	18,434	21,118	69,717
Civil Service Reforms	957	0	5,335	0	0	5,335
Transfers to non profit institutions	40,189	45,749	46,315	46,534	47,806	186,404
Parastatals (Excl. in MOH)	7,630	8,840	9,130	9,767	10,362	38,099
Parastatals in MOH	3,933	4,430	4,621	4,803	4,992	18,846
Universities	6,795	7,470	7,566	7,865	8,174	31,075
Others	21,831	25,009	24,998	24,099	24,278	98,384
Interest Payments	35,226	33,742	27,081	27,476	28,010	116,309
Capital Transfers	1,582	2,897	835	1,103	1,072	5,907
Total Identified Components	**208,867**	**232,163**	**235,993**	**238,519**	**250,576**	**1,143,655**
Total Projected Government Expenditures	256,115	297,194	324,726	336,131	368,529	1,326,580
Expenditure in USD millions	3,313	3,923	4,270	4,371	4,755	17,319
Implied Other Expenditures	47,248	65,031	88,733	97,612	117,953	369,329
of which Development Expenditure	39,630	46,549	64,054	76,688	92,715	280,007
of which GOK for free education	2,850	9,000	9,000	9,000	9,000	36,000
of which Recurrent Non-Wage Health	2,916	3,481	5,175	7,138	9,390	25,185

Chapter 7: Monitoring & Evaluation and National Statistics

A key area of the government policy to improve governance is the development of an integrated system for monitoring and evaluating the Economic Recovery Strategy for Wealth and Employment creation.

The objective of the integrated monitoring and evaluation system is to provide the government with reliable mechanisms to measure the efficiency of government programs and the effectiveness of public policy in achieving its objectives. With appropriate links to the budget and the medium-term expenditure framework, the system will provide the government with the needed policy implementation feedback to efficiently reallocate its resources overtime. It will also set the basis for a transparent process by which the government and the international donor community can undertake a shared appraisal of results and ensure smooth release of external support including budgetary support.

Integrated M&E System

The integrated M&E system for the ERS will assemble and use available data and information to inform public policy. Specifically, it will track progress of the key indicators identified in the ERS logframe matrix, and provide feedback to policy-makers for improving public policy and use of public resources.

The system will monitor indicators that measure government efficiency in utilising the available resources and achievements made in the reduction of poverty. These indicators will include:

- *Input and process indicators, s*uch as budget execution and adoption of reforms, across programs and governmental institutions to ascertain progress in the implementation of policies and programs;
- *Output indicators*, such as goods and services provided by the public sector, to measure the efficiency in the utilization of government resources, and indicators that ascertain the effectiveness of public policy in achieving its developmental objectives; and.
- *Outcome and impact indicators,* that inform on the actual achievements made on the Country's economic recovery and reduction of poverty will form the basis for the evaluation of the ERS policies and programs.

In the latter case, it is recognized that changes in developmental outcomes and impacts may be affected by external factors that may not be under the control of the government, such as weather conditions, world economy, conflict, etc. For this reason, attributing change to particular policies is often difficult. To address this issue, the government plans to (i) develop a *national research agenda* in consultation and collaboration with the academic and donor communities. This agenda will include impact evaluation studies that will analyze the effectiveness of key government policies and programs in reaching desired objectives in greater depth; and (ii) the strengthening the Poverty Analysis and Research Unit (PARU) of the CBS with a view to increasing its capacity in undertaking outcome and impact oriented evaluation and other related studies.

Finally, but most importantly, the Monitoring and Evaluation System will provide *feedback mechanisms* to policy-making, budget and medium-term expenditure framework to ensure that the lessons learnt by monitoring and evaluating government programs and policies are used to improve the effectiveness of such programs and policies. While the inputs and outputs will be monitored and reported on quarterly basis, the outcome and impact indicators will be reported at intervals ranging from one year to five years.

Logframe Matrix and Priority Indicators

The government has developed *a monitorable result-based logical framework matrix*, which is consistent with the strategies and priorities of the ERS and PRSP. The matrix spells out a consistent framework for ERS implementation, identifies key indicators and targets, and identifies major constraints and risks (see Annex I). It provides a solid foundation for the development of a well-focused monitoring and evaluation system. However, not all the input, output, outcome and impact indicators as listed in the matrix can be effectively monitored and evaluated. In the short term, only manageable number of priority indicators that focus on the MDG indictors will be made mandatory for monitoring and evaluation at all levels of the M&E framework. The indicators that will be identified through a process of stakeholder consultations will form the basis for an M&E baseline data that will regularly be collected through household surveys, establishment based surveys and/or administrative records.

Statistics strategic plan

The government, through Parliament endorsed a Strategic Plan for Statistics and gathered donor support for its implementation. The Plan, which is being reviewed to transform it into a STATCAP Master Plan, will ensure that the data required for poverty assessments and public policy evaluation are produced and disseminated regularly and in a timely manner. The Plan will introduce a paradigm shift towards integrated surveys with diverse objectives geared towards addressing ERS and PRSP objectives, as well as the MDGs. The Central Bureau of Statistics will be responsible for improving the quality of data collection and analysis of data, building capacity, and dissemination.

Institutional framework

The Government in consultation with stakeholders has developed a system-wide institutional framework for monitoring and evaluating the ERS. The framework is an all-inclusive system that allows maximum participation of the community, civil society, and all development partners at all levels. Within the evolved framework, three institutions namely, the NESC, Monitoring and Evaluation Unit and National Stakeholders Forum will play a pivotal role in spearheading the implementation of the M&E system for tracking the ERS. The *National Economic and Social Council* will provide oversight in the implementation of the ERS and policy advice to Cabinet and Ministries of Finance and Planning on national economic and social issues. The council will also be responsible for liasing with the private sector and civil society organisations, and agreeing on modalities for public information access and dissemination, and feedback mechanisms.

To ensure that M&E activities are well coordinated, the government has transformed the Poverty Eradication Unit (PEU) into a Monitoring and Evaluation Unit (MEU) with the specific role of coordinating M&E for ERS activities, store and disseminate M&E information and data. The MEU will have a wide range of responsibilities. These include:

i. Lead the design and implementation of the government-wide M&E action plan. The Unit will take a very active role in spurring the adoption of M&E across the government, ensure M&E standards, and support M&E needs assessments and capacity building activities.
ii. Head the annual ERS review, coordinating the preparation of sector reviews, and drafting the overall annual progress report.

iii. Coordinate the national research agenda, policy analysis and dissemination of research results to policymakers.
iv. Develop protocols for horizontal (sector to sector) sharing of knowledge and transfer of data within the government, and
v. Liaise with other organizations (academic, international and nongovernmental) to strengthen the ability of the government to leverage outside resources.

The responsibilities of MEU will highly be complemented by those of CBS. In addition to its current responsibilities, the *Central Bureau of Statistics* will be responsible for managing the integrated data management system, and for making available the information in a timely manner to the MEU who will in turn make it available to National Economic and Social Council, and other users.

The Forum that brings together the sector working and the thematic groups, civil society and private sector organisations will ensure ownership and legitimisation of the M&E for ERS processes. A twelve member M&E Steering Committee will serve as a technical arm to the Forum and its main responsibilities will be to provide a link between policy decision makers with the technical working groups on M&E.

At the devolved level, similar structures will be put in place. A District Stakeholders Forum that incorporates existing government structures with communities and civil society organisations in the monitoring and evaluation of poverty reduction programs at the district and community level. The District Stakeholders Forum will provide strategic direction on M&E at the district level. The District Planning Units will be strengthened to coordinate M&E activities at local level. It will collect, collate, analyse, store and disseminate M&E data and information. At the community level, efforts will be made to develop structures for facilitating participatory monitoring and evaluation of poverty programs. This is aimed at ensuring that even the targeted poor themselves track and give feedback on the ERS policy and programs implementation.

Institutionalizing monitoring and evaluation as a management tool across different levels and sectors of government will require not only an operating institutional framework, but also capacity building of the implementers. Training and technology for national and local governments is critical and the government plans sensitise and train staff of key Ministries and public institutions on the value of M&E for program management, institutional efficiency, and policy effectiveness, and install needed equipment.

Integrated data management system

The government plans to establish an integrated data management system to facilitate timely and opportune delivery of information to MEU, the unit responsible for tracking progress in the implementation of the ERS. The system will afford the government with vertical and horizontal monitoring capacity, strengthen its ability to identify problem areas and low performers, and improve its capability to affect success.

The system will include administrative information from all key sectors (finance, education, health, agriculture, infrastructure, etc), and information derived from the analysis of survey and census data.

Administrative data will be assembled from the Ministries' own management information systems. CBS will establish protocols for the sectors to transfer information to the integrated data management system. In each case, sector management information systems will need to be evaluated for quality and content. Sector-specific needs assessments and capacity-building plans will be implemented as required to ensure that relevant and good quality information is collected.

Although produced less frequently, survey and census data are more reliable than administrative data and will 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. Mainly, survey data will be used for household level data analysis and for impact evaluation analysis of government programs and policies. The CBS is planning to undertake an integrated household budget survey (KIHBS), which is a modular survey able to provide good socio-economic benchmarks, and has a CWIQ incorporated for subsequent M&E activities. The KIHBS will provide critical data for estimating poverty head counts, distribution, causes, and trends. It also intends to complete a census of establishments, an international comparison of prices survey, a tourism expenditure survey, and a foreign investment survey. Finally, it plans to compile a governance statistics database.

Data from the integrated household budget survey, the 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 sources of data, such as participatory poverty assessments and client satisfaction surveys, 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.

National research agenda

The government will develop a medium-term research agenda in consultation with interested partners and with the support of the Kenyan academic community. The research agenda will put forth the priorities of the government for policy analysis and evaluation. It will also spell out programmatic areas that are critical to the achievement of the government targets specified in the logical framework matrix of the ERS.

While the Ministry of Planning and National Development has long collaborated with local research institutes and gained from their knowledge and technical capacity, the government also recognizes that evaluating the policies of the ERS may take a significant amount of resources and excellent technical skills. For this reason, the government will establish a medium-term schedule for the implementation of its research agenda following the medium-term ordering of ERS priorities.

Some of the resources will come from the government participation in the regional Poverty Analysis and Data Initiative (PADI), which supports research activities in key policy areas of regional interest.

Performance-based decision making

For monitoring and evaluation to be effective as a learning tool, the incentives structures for civil servants (salary and advancement) and for public institutions (budgetary allocations) must be designed to reward performance. For this reason, M&E activities will be closely linked to the ongoing civil service and program- and result-based budget reforms. The government will work to develop a consistent framework linking budget, MTEF and M&E.

Participatory monitoring, dissemination and feedback
One of the key elements of participatory monitoring is the availability of information. To enhance transparency and accountability, therefore, the government plans during 2003/04 to develop and implement a p*ublic information access policy*. The policy will classify information gathered by the government as public or confidential, and establish the mechanisms through which public information is made available. The open access policy will be coupled with an aggressive dissemination strategy to enable communities and other developmental actors to hold service deliverers accountable for quality and quantity of their services.

The government will partner with the private sector and non-governmental organizations and agree on modalities for a shared strategy for dissemination of information and community monitoring. To this end the government will agree with civil society: i) an acceptable NGO disclosure policy, ii) a common strategy for the private sector and NGO active involvement in dissemination of information to business and special interest communities, and policy feedback activities, iii) mechanisms for public information release to private sector and NGOs, and iv) standards for NGO data collection and evaluation methodologies.

Conclusion

This investment programme is a bold attempt by the Government to fulfil its obligations to Kenyans and Kenyan investors as promised in the Economic Recovery Strategy for wealth and Employment Creation. Through this programme the Government plans to mobilise all accessible and absorbable resources to trigger faster economic growth and development, to provide better social services, to improve equity in access to the national resources, and to provide more opportunities and better environment for private sector prosperity.

The Programme provides an excellent foundation for nurturing a mutually fruitful and sustainable partnership between the Government and the private sector and between the Government and development partners. The Government hopes that our dialogue with both the private sector and the development partners will be anchored on this programme in the short to medium term.

APPENDIX 1

MATRIX OF OBJECTIVES, OUTCOMES COSTS AND ENABLING ACTIVITIES

SECTOR	GENERIC OBJECTIVE	MONITORABLE OUTCOME(S)	SOURCE OF INDICATOR	TARGET (including year by which target to be achieved)	RSPONSIBLE DEPARTMENT/ INSTITUTION AND PARENT MINISTRY	ENABLING ACTIVITIES	TOTAL ESTIMATED COST (2003/04-2006/07) (Kshs. mn)	Estimated costs 2004/05	Estimated costs 2005/06	Estimated costs 2006/07
Macro Economic	Ensure sustainable fiscal framework	Budget deficit	Quarterly Budget review, Budget out turn	Reduce to 3.3percent of GDP by 2005/06	**Ministry of Finance**, F&MAD, BSD, ERD, DMD, Acct. General, **KRA**	*Computerization of KRA, *Consolidation of revenue collection in KRA, *Regional tax harmonization,	2,635			
		Net domestic debt levels	Quarterly Budget review, Budget out turn	Reduce net domestic borrowing to zero by 2005/06	**Ministry of Finance**, F&MAD, BSD, ERD, DMD, Acct. General **Central Bank**	, *Lengthen maturity of debt				
		External debt	Quarterly Budget review, Budget out turn	Maintain NPV of external debt at 24percent of GDP over 2003-2007	**Ministry of Finance**, F&MAD, BSD, ERD, DMD, Acct. General	*Develop External aid policy	64.4			
	Price stability	Level of inflation	Monthly Economic Review (CBK); Leading Economic Indicators (CBS)	Underlying inflation below 3.5 percent	**Central Bank of Kenya**	Prudent monetary policy (money supply growth in line with economic growth)				
	Public expenditure restructuring for increased growth and poverty reduction	Increased capital expenditure	Quarterly Budget Review; Budget Outturn	Capital expenditure as per cent of GDP to rise to 6.3percent by 2006/07	**Ministry of Finance** BSD; MTEF	Reduce public consumption by capping salaries and wages at 8.5percent of GDP				
		Increased pro-poor expenditure	Quarterly Budget Review; Budget Outturn	Increase core poverty expenditures to 4percent of GDP	**Ministry of Finance** BSD; MTEF					

		Reduced transfers to parastatals	Quarterly Budget Review; Budget Outturn	transfers to parastatals and universities not to exceed 1.8percent of GDP	**Ministry of Finance** BSD; MTEF	Complete parastatals rationalization exercise				
	Improved public expenditure management	Elimination of pending bills	Quarterly Budget Review; Budget Outturn	Pending bills eliminated by 2006/07	**Ministry of Finance** BSD; MTEF	1. Complete verification of stock of pending bills; 2. Finalisation of strategy for clearing bills; 3. Implementation of plan for clearing bills.	6,000	2,000	2,000	2,000
		Termination of stalled projects	Quarterly Budget Review; Budget Outturn	All stalled projects terminated by 2006/07	**Ministry of Finance** BSD; MTEF	1. Review stalled projects and identify those to be completed; terminated or disposed off; 2. Estimate cost and provide schedule of completion; termination; and disposal 3. Adequate budgetary allocation				
		Introduction of commitment control system			**Ministry of Finance** BSD; MTEF	Implementation of IFMIS				
	Increased private investment	Increase in private investment	Annual economic survey	Private investment to rise to 12percent of GDP	**Ministry of Finance CBK**	Increased credit to the private sector				
		Increased credit to the private sector	Monthly Economic Review	Credit to private sector to grow to 40percent of	**Ministry of Finance, CBK**	Reduced demand for credit by Government from domestic market				

				GDP						
	Enhanced role of trade	Enhanced export growth	Monthly Economic Review; Leading Economic Indicators	Export growth to average 5.7percent per year	**Ministry of Finance, CBK, Ministry of Trade and Industry**	1. Implementation of trade policy; 2. Implementation of customs union; 3. Exploit AGOA; 4. Enhance regional trade				
		Rising share of trade to GDP	Annual Economic Survey							
	External sustainability	Adequate official foreign exchange reserves	Monthly Economic Review	Official foreign exchange reserves to rise from 2.7 months to 4.2 months of imports	**CBK**					
Public Administration	Improve transparency and accountability of public administration	Fiscal resources released for allocation to priority programs	Budget and Quarterly budget Review - Budget Outturn	Wage Bill/GDP reduced to 8.5percent of GDP by 2005/06	Ministry of Finance, Directorate of Personnel Management	-civil service rationalized and right sized -Implementation of pay and benefit reforms -targets for achieving a sustainable wage bill set, -IPPD implementation, -Ministerial strategic plans completed	7,357.0m 10.45m 78.06m 99.0m			
			Budget and Quarterly budget Review - Budget Outturn	Fiscal transfers to Parastatals reduced by 40percent by 2006/07	Ministry of Finance,	-Government approval for initial proposals, -submission of final proposals to the cabinet for approval, -amendment of laws to facilitate and support the				

						proposed reforms, -implementation of approved specific strategies,				
			Auditor and Controller General Report	Proportion of budgetary resources controlled by local governments increased.	Ministry of Local Government	-M&E strengthened in LAs -KLGRP operationalized -Decentralization strategy for LAs developed -fiscal decentralization modalities, single disbursement systems and performance based system achieved. -Local Govt Act reviewed -Viability of LAs reviewed	40.0m 30.0m 160.0m 30.0m 80.0m 30.0m			

Human Resources	Universal primary education	Free primary education Transition to secondary	School census (MoE) KDHS, CBS, NGOs, Development partners	Gross enrolment rate of 100percent attained by 2005. Increased net enrolment rate from 80percent to 85percent by 2007 Transition rate from primary to secondary from 47percent to 70percent by 2005 Primary school fees eliminated by 2003, 150,000 more children fed in school 70,000 poor children in secondary schools provided with bursaries Primary school enrolment of pastoralist increased from 20percent to 40percent by 2006 Pupil/textbook	MoEST	Support to free primary education Improve infrastructure (Renovate and increase number of classrooms) Invest in human capacity (teacher training) Strengthen education management information system in MoE and districts Reduce indirect costs of primary education to families Increase enrolment of girls, pastoralist, street children and slum children Availability of learning and teaching materials in primary schools				

				ratio increased to 3:1 in std 1-5 and 2:1 in std 6-8 by 2004 10,000 additional classrooms built						

	Improve access to basic health services	Affordable health care available to all Kenyans	KDHS, health facility data (MoH) census reports, HIS (MoH)	IMR reduced and immunisation coverage raised to 85 percent. Reduce under 5 mortality from 114/1,000 to 100/1,000 by 2008 Establish a NSHIF ***MMR reduced from 590/100,000 births to 560/100,000 births by 2005*** Reduce malaria morbidity by (currently at 30percent) 10percent annually in 2004-2008 Increase proportion of children fully immunised from 74percent to 85percent Reduce household out of pocket financing of health from	Ministry of health	Revisit financing of health sector to reduce out-of-pocket expenditures by the poor and vulnerable Develop a strategic plan for provision of basic health care package and increase coverage of quality health care to the poor Focus investments on pro-poor interventions: immunisation, IMR, MMR, HIV prevalence, accessibility and availability of essential drugs, mortality rates of malaria, cure rate of TB and urban health service for the poor Improve cross-sectoral cooperation for health promotion and public health, in the areas of water and sanitation, reproductive health, gender, HIV/AIDS, nutrition, school				

				53percent to 40percent by 2008 Increase budget allocation for rural health centres and dispensaries from 11percent to 15percent of MoH budget by 2005 and budget allocations for drugs from 12percent to 16percent of MoH budget by 2006 Sessional paper on National Social Health Insurance Fund (NSHIF) Plan prepared by 2004 Contraceptive prevalence rate increases from 38percent to 45percent in 2008 Increase the proportion of mothers delivering in health facilities from 56percent to 70percent in		health, road safety and tobacco control Increase efficiency and effectiveness of the combined investment of GoK and its partners through joint programmatic approach				

				2008 All HIV pregnant mothers receiving Navirapine treatment by 2008 Proportion of population in Western and Coastal areas and pregnant mothers using ITNs from 5percent to 50percent by 2008 Guidelines for appointment of DHMBs reviewed by 2003, all DHMBs and DHMTs trained on management by 2004 Share of health expenditure increase from 5.6percent to 12percent of public budget						
	Reduction of HIV/AIDS prevalence	Reduction in prevalence Improve treatment	Sentinel surveillance (NASCOP) OP (NACC),	Reduce HIV/AIDS prevalence to 10percent by	NACC	Strengthen multi-sectoral response to HIV/AIDS				

		for HIV/AIDS patients Promote home-based care and care for OVCs	MoH, MGCS&SS	2006 Increase the number of ARV users from 10,000 in 2004 to 110,000 by 2005 Several VCT centres established in unattended areas by 2004 Condom use as a percent of the sexually active population		Coordinate strategies for prevention, treatment and mitigation Condom use increased as a result of the sexually active population Intensify prevention activities including voluntary counselling and testing School based prevention Intensify HIV awareness an behaviour change among vulnerable groups Promote home based care Develop capacity building plans for private and public agencies involved in HIV/AIDS programs Develop a creative and strategic approach for caring for and supporting the				

						rapidly increasing number of orphans				
	Employment creation	Job creation Promotion of enabling environment for industrial development Increase productivity of factors of production	Labour force survey (CBS), MOL, COTU, FKE, CPU, Industrial courts	Employment policy approved by 2004 500,000 jobs created each year in 2004 – 2006 Establish an information centre for networking between education, training and industry by 2005 Identify inefficiencies that have led to high unemployment and high labour cost and implement reforms to improve labour market flexibility by 2006 Review labour laws the period 2004-2005 Review the existing	Ministry of Labour	New employment policy Decreased labour costs Reduced industrial unrest More efficient resolution of industrial disputes Productivity policy in place Improve adult literacy				

				industrial labour framework to promote harmony, employment and productivity including wage guidelines and minimum wage legislation Finalize productivity policy by 2004 Enhance dispute settlement machinery by 2005 Reduce backlog of workman’s compensation cases from 40percent to 20percent by 2006 Strengthen the tripartite Committee secretariat Promote international labour relations Implement Strategic Plan						

				of the Productivity Centre Measure productivity of factors						
Tourism, Trade and Industry	Increase the contribution Tourism in the economy	*Increase of revenues from Tourism *Increase No of jobs * Increase No of SME's offering new tourism products.	Tourism arrivals, hotel occupancy and Central Bank tabulation of Forex earnings	Doubling earnings from the the current 24 billion annually from 2005/6 and creation of 150,000 new jobs	**MOTI CBS and Central Bank of Kenya**	*Aggressive promotion and marketing. *community-based eco-tourism and wildlife conservationt. * Source markets diversification in East Asia China and USA.	Kshs 4.982 billion Kshs 9.579 billion Kshs79.2 million			
Public Safety Law And Order	Increased ratio of concluded cases to reported criminal cases from 21percent in 1999 to 60percent in 2006	New constitution in place by June 2004	Criminal Investigation Department	2004-30percent 2005-45percent 2006-60percent	**MOJ,AG,Judiciary & OOP**	Complete constitutional review	134.4			
	Reduced number of criminal offences from 63,000 in 2001 to 35,000 in 2006	Number of trained and deployed in the policeforce	OOP	2004-51000 2005-41000 2006-35000	**OOP**	Retrain, reequip and redeploy police force and other security services				
						Complete stalled housing projects	2698	3810		

						for security staff.				
		Completed Goldenberg investigation	MoJ & AG	2004	**MOJ,AG,Judiciary**	Golden berg Commission				
		Corrupt judges replaced	Criminal Investigation Department, Statistical Abstract (CBS)	2004	**Judiciary & MOJ**	Tribunal constituted				
		Grabbed land and public housing repossessed	Criminal Investigation Department, Statistical Abstract (CBS)	2004	**MOL, MORP&H**	Reposition of lands & demolition				
		Corrupt contractors banned from public contracting	AG,MORP&H	2004	**MORP&H, AG**	Gazzete notice				
		Number of civil service prosecuted in corruption ralated cases in 2003-2006	MOJ,AG	2004	**MOJ,AG**	Declaration of wealth				
		Ratio of cases awaiting trial/reported case reduced from 75percent in 1999 to 50percent in 2006	Judiciary,CID	2004-65percent 2005-56percent 2006-50percent	**Judiciary, CID**	Automation of the Judiciary for speedy processing, efficiency storage & retrieval of information				
		Registries installed by 2004	Judiciary		**Judiciary**		8	13		
		Number of inmates per cell reduced	OVP&MHA		**OVP&MHA**	Reduce prison congestion	125.5	125.5		
Physical Infrastructure	Expanded and well maintained road network	Improved road network and reduction in cost of transport	MRPW&H and KRB Surveys	Proportion of road networks in bad or poor condition reduced from 43percent to 20percent by 2006	MRPW&H KRB	Construction and rehabilitation of the road network	19,200			
		Key road links rehabilitated and upgraded	MRPW&H and KRB Surveys	150 km of trunk roads reconstructed per annum	MRPW&H KRB	Rehabilitation and upgrading of key road links	10,990			

		Access to markets and social services for rural communities improved	MRPW&H and MoLG Surveys	Roads 2000 programme to rehabilitate 2,815 km of rural roads and create 18,800 jobs during 2003-06	MRPW&H MoLG DRCs	Rehabilitation of rural access roads	10,802			
		Mombasa-Malaba Highway concessioned and converted to dual carriageway	MRPW&H and KRB Surveys	Concessioning of up to 1,208 km of trunk roads by 2006	MRPW&H KRB MOF	Concessioning of the Mombasa-Malaba Highway	15,003			
						Finalization of the required legal and institutional framework				
		Improved trade related roads	MRPW&H and MOTI Surveys	100 km of roads per annum developed	MRPW&H MOTI	Development of roads under East African Road Network Project	11,505			
		Improved network in national parks	MRPW&H, KWS MTI surveys	200 km of roads per annum rehabilitated/maintained	MRPW&H KWS MTI	Rehabilitation/maintenance of roads in national parks	5,506			
		Improved road infrastructure in ASALs	MRPW&H Surveys	100 km graveled per annum	MRPW&H MRD	Bitumising major roads and rehabilitating others to all weather status				
						Utilising relief food in food for work projects				
						Using community groups in the maintenance of strategic feeder roads				
	Improved safety of urban transport	Traffic congestion reduced	MRPW&H KRB and MOLG Surveys	Average time to cross Nairobi at peak hour reduced by	MRPW&H KRB MOLG NCBDA	Construction of Northern and Southern bypasses in Nairobi and	4,803			

				2007		Mombasa				
	Improved air transport	Improved airport services and increased airline traffic	MOTC KAA and KCAA Surveys	Airport charges conform to competitive rates Airline traffic increased Meet ICAO standards by 2006	MOTC KAA KCAA	Modernize CNS/ATM	120			
						Upgrade capacity of airports by lengthening and strengthening the runaways	260			
						Privatize commercial non-regulatory and non-security services at airport	0			
						Upgrade JKIA by providing additional aprons for cargo and passenger terminals	460			
						Relocation of local flights from JKIA to old Embakasi Airport	960			
						Reorganization of terminal space at JKIA to separate arrivals from departures	220			
						Construction of 2^{nd} runway at JKIA to	1,200			

						boost international flights				
						Strengthening perimeter fence at airports	120			
						KAA to explore potential for PSP role in building new terminals	0			
	Develop an efficient marine transport	Improved service delivery at the port	MOTC and KPA Surveys	New equipment purchased by 2005	MOTC KPA	Modernization and replacement of obsolete equipment at the port of Mombasa including development of cruise ship facilities	230 1,500 0 2,000			
				Sea to Shore Cranes, Gantries and Tug Masters replaced by Dec 2004		Replacement and refurbishment of Sea to Shore Gantries Cranes, Rail Mounted gantries, tug Masters				
				Convert the port of Mombasa to a landlord port by June 2005		Concessioning of the port of Mombasa				
			MRPW&H Surveys	Bypass constructed by 2006	MRPW&H MOTC KFS	Build the Dongo-Kundu bypass to replace ferry services				
	Develop an	Concessioned	MOTC & KRC	Concessioning	MOTC	Complete the				

	efficient rail transport	railways and rehabilitated permanent way, locomotives and wagons including class 62 and 65 locomotives	Surveys	of KRC by 2005	MOF KRC	concessioning of KRC Finalization of the Kenya-Uganda joint concessioning plan	5,000 15,430 3,600			
Physical Infrastructure	Expanded and well maintained road network	Improved road network and reduction in cost of transport	MRPW&H and KRB Surveys	Proportion of road networks in bad or poor condition reduced from 43percent to 20percent by 2006	MRPW&H KRB	Construction and rehabilitation of the road network	19,200			
		Key road links rehabilitated and upgraded	MRPW&H and KRB Surveys	150 km of trunk roads reconstructed per annum	MRPW&H KRB	Rehabilitation and upgrading of key road links	10,990			
		Access to markets and social services for rural communities improved	MRPW&H and MoLG Surveys	Roads 2000 programme to rehabilitate 2,815 km of rural roads and create 18,800 jobs during 2003-06	MRPW&H MoLG DRCs	Rehabilitation of rural access roads	10,802			
		Mombasa-Malaba Highway concessioned and converted to dual carriageway	MRPW&H and KRB Surveys	Concessioning of up to 1,208 km of trunk roads by 2006	MRPW&H KRB MOF	Concessioning of the Mombasa-Malaba Highway	15,003			
						Finalization of the required legal and institutional framework				
		Improved trade related roads	MRPW&H and MOTI Surveys	100 km of roads per annum developed	MRPW&H MOTI	Development of roads under East African Road Network Project	11,505			
		Improved network in	MRPW&H,	200 km of	MRPW&H KWS	Rehabilitation/mai	5,506			

		national parks	KWS MTI surveys	roads per annum rehabilitated/maintained	MTI	ntenance of roads in national parks				
		Improved road infrastructure in ASALs	MRPW&H Surveys	100 km graveled per annum	MRPW&H MRD	Bitumising major roads and rehabilitating others to all weather status	3,207			
						Utilising relief food in food for work projects				
						Using community groups in the maintenance of strategic feeder roads				
	Improved safety of urban transport	Traffic congestion reduced	MRPW&H KRB and MOLG Surveys	Average time to cross Nairobi at peak hour reduced by 2007	MRPW&H KRB MOLG NCBDA	Construction of Northern and Southern bypasses in Nairobi and Mombasa	4,803			
	Improved air transport	Improved airport services and increased airline traffic	MOTC KAA and KCAA Surveys	Airport charges conform to competitive rates Airline traffic increased Meet ICAO standards by 2006	MOTC KAA KCAA	Modernize CNS/ATM	120			
						Upgrade capacity of airports by lengthening and strengthening the runaways	260			
						Privatize commercial non-regulatory and non-security services at airport	0			
						Upgrade JKIA by providing additional aprons for cargo and passenger terminals	460			
						Relocation of local flights from JKIA to old Embakasi	960			

						Airport				
						Reorganization of terminal space at JKIA to separate arrivals from departures	220			
						Construction of 2nd runway at JKIA to boost international flights	1,200			
						Strengthening perimeter fence at airports	120			
						KAA to explore potential for PSP role in building new terminals	0			
	Develop an efficient marine transport	Improved service delivery at the port	MOTC and KPA Surveys	New equipment purchased by 2005	MOTC KPA	Modernization and replacement of obsolete equipment at the port of Mombasa including development of cruise ship facilities	230			
				Sea to Shore Cranes, Gantries and Tug Masters replaced by Dec 2004		Replacement and refurbishment of Sea to Shore Gantries Cranes, Rail Mounted gantries, tug Masters	1,500			
				Convert the port of Mombasa to a landlord port by June 2005		Concessioning of the port of Mombasa	0			
			MRPW&H Surveys	Bypass constructed by 2006	MRPW&H MOTC KFS	Build the Dongo-Kundu bypass to replace ferry services	2,000			
	Develop an	Concessioned	MOTC & KRC	Concessioning	MOTC	Complete the	5,000			

	efficient rail transport	railways and rehabilitated permanent way, locomotives and wagons including class 62 and 65 locomotives	Surveys	of KRC by 2005	MOF KRC	concessioning of KRC Finalization of the Kenya-Uganda joint concessioning plan	15,430			
				Track, locomotives and wagons rehabilitated by 2006		Complete rehabilitation and modernization of track, locomotive and wagons				
				Gulf Services divested by 2005		Divesture from gulf marine services from L. Victoria	3,600			
	Efficient telecommunications services	Increased competition and lower costs	MOTC & Telkom Surveys	Privatization complete by June 2005	MOTC MOF Telkom CCK	Privatization of Telkom	0			
				3rd mobile service provider to be licensed by Dec 2004		License 3rd mobile service provider	0			
				Second fixed line operator licensed by June 2005		License a second fixed line operator	0			
			MOTC & Telkom Surveys	VSAT services liberalized by 2004	MOTC CCK Telkom	Fully liberalize the use of VSAT services by Dec 2004	0			
				4 gateway service provider to get license by 2005		License 4 gateway service providers	0			
	Increased access to water resources	Improved water resource management	MOWRMD Surveys	200 hydrological and quality water monitoring stations to be rehabilitated by	MOWRMD	Rehabilitation of hydrological and quality water monitoring stations	1,600			

				2007							
				1,200 water samples analyzed per year		Analyzes of water samples	500				
				Water Act 2002 implementation by 2004		Implementation of the water Act 2002	95				
				Unaccounted water wastage reduced by 25percent by 2005		Rehabilitation/augmentation schemes in major urban towns (Nairobi, Mombasa, Kisumu, Nakuru and Eldoret	3,220				
			MOWRMD Surveys	Privatization water services by 2005	MORWMD MOF	Privatization of water supply services in Nairobi, Mombasa and coastal region, Nakuru and Kisumu	0				
			MOWRMD Surveys	300 rural water supply schemes to be rehabilitated and handed over to local level management by 2005	MOWRMD	Rehabilitation of rural water supply schemes	4,000				
			MOWRMD and MRPW&H Surveys	continuous	MOWRMD MRPW&H	Rehabilitation and construction of flood control dykes	985				
			MOWRMD	continuous	MOWRMD	Rehabilitation and augmentation of existing irrigation canals	300				
			MOWRMD Surveys	100 small dams and water pumps rehabilitated and handed	MOWRMD MRD	Rehabilitation of small dams and water pumps	6,954				

				over to ASAL communities per annum						
			MORWMD Surveys	500 boreholes drilled and rehabilitated and handed over to ASAL communities per year	MORWMD MRD	Drilling and equipping/rehabilitation of boreholes	1,930			
	Increased availability, reliability and affordability of energy	Reliable energy services available at lower costs	MOE Surveys	Power tariffs reduced from .percent to .percent by 2006	MOE KenGen KPLC AG ERB	Develop Energy Sector Policy				
						Arusha-Nairobi electricity interconnection	25,000			
						Implement Least Cost Development (LCD) Plan for power development				
						Implement Olkaria II Geothermal power plant	5,600			
						Implement Power Projects	5,000			
						Enhanced collection of receivables to reduce working capital costs				
						Targeted interventions to improve transmission and distributions Amendment of Electric Power Act	6,200			

						to increase competition				
						Completion of Sondu-Miriu Power Project Power market designs and privatization studies	9,640			
		Access to electricity by rural communities is increased.	MOE Surveys	Increase access by 1percent per annum for the rural population from 3.8percent to 8percent by 2006.	MOE	Creation of the Rural Electrification Authority to implement the Rural Electrification Programme	3,430			
		Increased usage of alternative energy technologies	MOE and MENRD Surveys	Continuous continuous 10percent increase in KCJ adoption, 5percent increase in maendeleo stove adoption by 2006 National wind resource Atlas by 2006 Installed capacity of solar energy increased by	MOE MENRW NEMA	Promote sustainable wood resource management and efficient harvesting and end-use technologies Promote various energy efficient devices Improved stoves, fireless cookers energy saving bulbs Develop wind resource Atlas Solar PV and thermal	136			

				10percent per year		Development				
			MOE and CBS Surveys	Household energy survey report by 2006	MOE CBS	Carry out household energy survey under the energy sector project				
		Increase in LPG consumption	MOE Surveys	LPG consumption increased from 32,000 m/tons to 50,000 m/tons by 2006. LPG storage facilities constructed by 2006	MOE	Complete the study on LPG cylinder valves and regulators standardization Develop adequate LPG storage facilities	1,200			
		Lower costs and Improved competition, enforcement of safety standards and removal of barriers to new entrants	MOE Surveys	Bill to be enacted by Dec. 2004 Pipeline extended by 2007 Pipeline rehabilitated and a booster pump constructed at Morendat by 2007 Additional Tanks constructed at KOSF by 2007 Study report ready by Dec. 2004	MOE AG Oil Companies KPRL KPC	Table the Petroleum Bill Extend oil pipeline to Kampala	657			

				Loading facilities constructed by 2006						
						Rehabilitate pipeline and construct a booster pump at Morenda	1,100			
						Construction of more tanks at KOSF Carry out an independent study on viability of KPRL refinery Develop common user truck loading facilities in Mombasa	1,800 144			
		Discover petroleum and coal deposits	MOE NOCK	Petroleum and coal deposits discovered - continuous	MOE NOCK	Petroleum exploration Coal exploration	427			
Total							**192,034**			
Agriculture and Rural Development	**Improve Agricultural Productivity**	Agricultural sector becomes more competitive globally.	Trade and agricultural reports. Number of legislation passed in parliament.	Value of agricultural exports rises by 5 percent per year during 2003–06	**MOA**	Improvement of Infrastructure-roads, energy, communication Enactment of Supportive legislation and support. Increase production under	1,619.4			

						irrigation. Improve access to affordable and quality inputs by farmers. Strengthen research-extension-farmer linkages. Seed cotton buying process, ginning and lint marketing.	335.0 800.0			
		Food security increases.	Food security reports	Headcount of food insecure population falls by 10percent annually. Proportion of malnourished children reduce by 30percent by 2006.	**MOA, CBS, OOP**	Improve efficiency in food distribution network. Promote production of drought resistant crops. Diversification of food crops and income sources.				
		Incomes of crop producers increase.	Agricultural Trade Reports	Incomes increase by 3percent annually over 2004-06.	**MOA, MT&I, CBS**	Reduce costs of inputs. Reduce wastage. Diversify to non-traditional markets.				
		Management and control of pests and diseases improved.	Surveillance reports	Incidences of outbreaks declines by 2006	**MOA, KARI, KEPHIS**	Intensify provision of extension services. Intensify surveillance and information sharing. Increase compliance with the MRLs.				
		Value addition on agricultural products increased	Trade reports	Manufacturing Value Added (MVA) increase by 20percent by	**MOA, CBS, MT&I**	Construction of required processing plants. Promote branding and establishment				

				2006		of packaging enterprises. Increase technology transfer and promote suitable on-farm processing technologies.				
		Linkages between farmers, the research system, and extension strengthened.	Agricultural Reports	Adoption of new technologies and production of new varieties increase by 20percent by 2006	**MOA, KARI**	Formulation of New Extension Policy and strengthen collaborative extension. Cotton extension services in cotton districts Research Subventions to KARI	4831.00 214.20 175.00			
	Improve Livestock and fisheries Productivity	Animals are healthy and more productive.	Surveillance and yield reports	Incidences of animal disease outbreaks declines by 2006	**ML&FD**	Veterinary services provision. Animal movements are controlled. Develop appropriate technology to detect lead content in fish. Establishment of disease free zones.	3,856.5			
		Incomes of livestock and fish producers increase.	Livestock marketing reports, National Accounts and Survey data	Household incomes increase by 3 percent annually	**ML&FD, CBS, MT&I**	Improve marketing of Livestock and fish products. Improve infrastructure. Promotion of apiculture	944.8 107.82			

						Fisheries development	2,166.4			
		Livestock marketing infrastructure (holding grounds, watering points) expanded.	District reports,	No. of supporting facilities increase by 2007	**ML&FD, MP&ND**	Construction of the infrastructure	661.9			
		Process livestock and fish products – Value addition	Trade reports	Value of products increase by 5 percent	**ML&FD, CBS, MT&I**	Construction of required processing plants				
		Linkages between farmers, the research system, and extension strengthened.	Agricultural Reports	Adoption of new technologies and production of new varieties increase by 20percent by 2006	**KARI, MOL&FD**	Forge close working relationship between farmers' organizations, research institutes and extension service providers.				
	Undertake Legal and Institutional Reforms	Agricultural research institutes consolidated.	Public sector reform reports. Number of legislation passed in parliament.	Consolidation of agricultural research institutes completed by 2005.	**MOA, MOL&FD, MOF, OOP.**	Review of supportive legal and institutional framework.				
		Parastatal reforms and rationalization carried out.	Public sector reform reports. Number of legislation passed in parliament.	Reforms undertaken by 2007	**MOA, MOL&FD, MOF, OOP.**	Review of supportive legal and institutional framework.				
	Ensure sustainable utilization and management of natural resources	Reduced conflict over natural resources. Sustainable utilization of natural resources.	Conservation Reports. District reports and surveys. Number of projects subjected to EIA. Natural Resource Inventory and valuation reports.	Hectarege of conserved habitat and forest cover and reclaimed land. Number of wild animals by species.	**MENR&W, MoA, MOL&FD, KWS, MLS**	Improve Governance in Forestry management. Reaforestation programmes. Encourage farm forestry. Formulation of	2,244.5 2,015.0 1,366.3 31.5			

						mining policy. Intensify soil and water conservation. Watershed protection. Pollution control. Sustainable and participatory wildlife conservation.				
		Natural resources inventory	Valuation Report	Natural resource valuation undertaken by 2007	**MENR&W,**					
		Environmental standards in place	EIA reports	No of projects subjected to EIA. Prosecuted cases of EIA	**NEMA**					
		National Environmental Authority fully operational	Gazette and implementation reports	NEMA fully operational by 2005, Board, Provincial and District Environment Committees, Standards Enforcement Committee and National Environmental Council established	**MENR&W**	Implementation of EMCA (1999) Implementation of NEAP Implementation of WSSD and MDGs	645.1 265.0 44.5			
	Improve rural financial services	Improved access to affordable financial resources by farmers and agro-processors.	Financial Reports	Amount of credit disbursed to farmers increased by 30percent by	**MOA, MOCDM, AFC**	Development of Micro Finance Institutions Revival of	2,155.3			

				2006.		Agricultural Finance Corporation. Development of modalities for providing agricultural credit and implementation of the GMR. Development of appropriate credit products.	5,806.0			
	Improve land use management	Increased investment and reduced conflicts over land.	Conflicts Reports	Rural fixed investment in the land increased	**MLS**	Computerization of land records. Implementation of commission on inquiry. Review of adjudication process. Upgrading of informal settlements People demand and get titles to the land to which they have user rights.	132.0 166.9 176.62 244.16			
		Improved land use planning and administration.	Land Reports	National Land Policy in place	**MLS**	National Land Policy formulated	34.2			
	Improve marketing and market access	Marketing system for smallholders becomes more efficient.	Trade reports.	The ratio between small farmer price received and auction price for coffee rise from 30percent	**MOA, CBK, MCD&M**	Provision of supportive policy and legal framework. Reform of cooperatives and commodity boards	1,230.8			

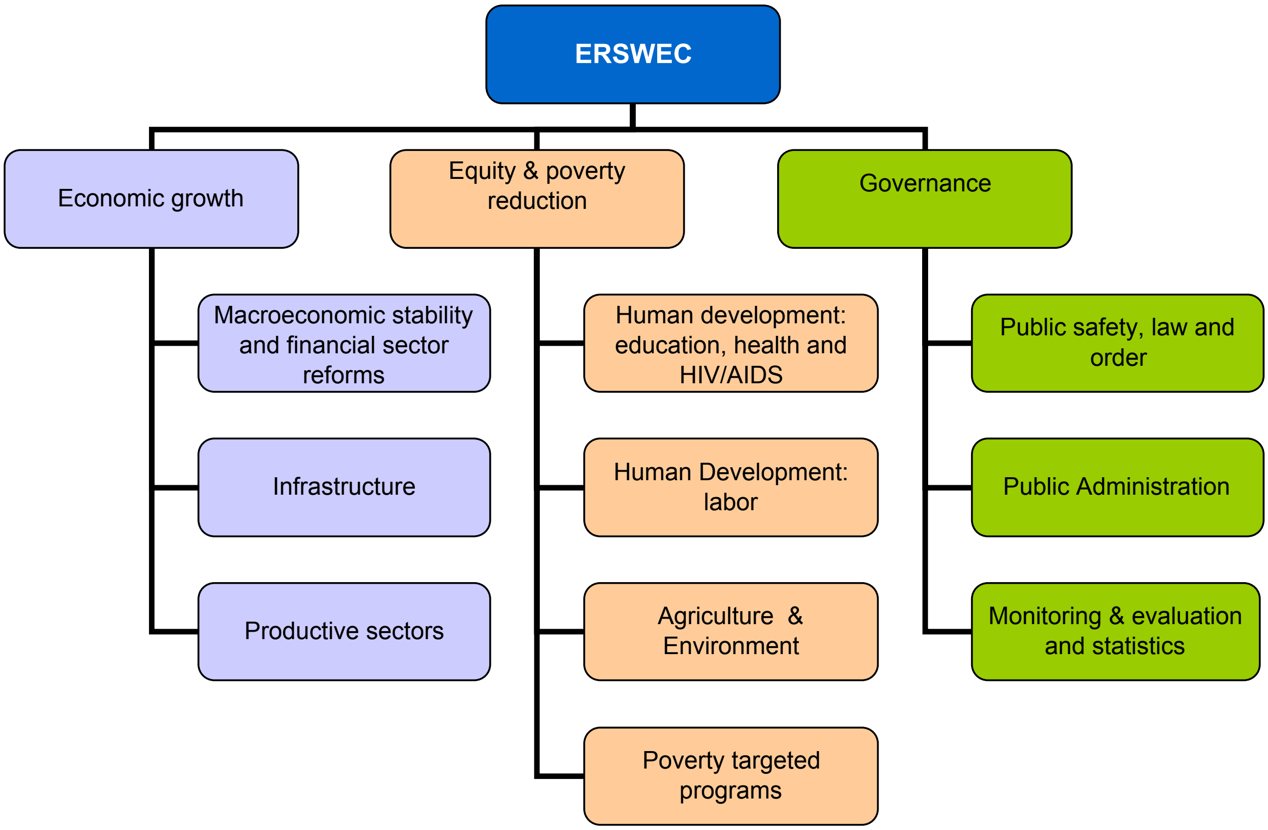
				to at least 60percent by 2006. Marketing margin between consumer and producer prices for grains falls.		to reduce marketing chain while improving marketing efficiency. Underwriting debt in cooperative sector. Sensitization of members.	5,696.2 52.0			
		Market information system improved.	Marketing reports	Improved incomes to farmers by 3percent annually.	**MOA**	Supportive infrastructure is available in districts. Networking of districts and installation of internet facilities in the districts. Production of marketing reports for farmers and traders.				
		Sanitary and phytosanitary standards are met.	Trade Reports	The number of cases related to non-compliance with SPS declines by 2006	**MOA, KEPHIS, Fisheries Dept**	Increased surveillance and testing of compliance with SPS standards. Intensified training of farmers on SPS requirements. Increase capacity to detect lead content in fish.				
	Enhance partnerships between government, private sector and NGOs	Strengthened public-private sector linkages with an effective interactive feedback mechanism.	Minutes of meetings. Workshop/ seminar reports		**MOA, MOL&FD, MT&I, KEPSA, NGOs**	Jointly formulate, design and implement delivery of services such as extension, research, policy				

						reviews, etc.				
TOTAL							38,018.1			

Annex I:
Logical Framework Matrix for Kenya's Economic Recovery Strategy (ERSWEC)

February 12, 2004

Structure of the Economic Recovery Strategy for Wealth and Employment Creation



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Logical Framework Matrix for Kenya's Economic Recovery Strategy for Wealth and Employment Generation (ERS)

SUMMARY AND SELECTED INDICATORS

Narrative		Indicators *from....to....by(date)*	M&E *data source and responsibility*	Page number	Matrix
Objectives					
O1	Economic growth	GDP growth rate increases from 1.2% in 2002/03 to 1.9% in 2003/04 to 3.1% in 2004/05 and to 4.5% by 2006/07	Annual Economic Survey (CBS)	I-4	A
O2	Human development and poverty redution	Reduce proportion of the people below the absolute poverty lines (Kenya and $1PPP) by 10% by 2006 from 57% in 1997 (MDG1)	Kenya Living Standard Survey-KLSS (CBS) (in design stage)	I-18	B
		Reduce proportion of people living in hunger by 10% by 2006 (MDG2)	MoA, WFP, FAO, KLSS		
O3	Governance	Proportion of corruption cases leading to conviction increased	Criminal Investigation Department	I-29	C
Development outcomes					
DO1	Macroeconomic stability	Overall fiscal deficit (including grants) reduced to 3. % GDP by 2006/07	Quarterly Budget Review (Treasury)	I-4	A.1
DO2	Financial sector development	Stock of non-performing loans reduced by one third duirng 2003-2006	Monthly Central Bank Reports	I-4	A.1
DO3	Increased private sector participation in infrastructure	Proportion of population with access to infrastructure services expanded		I-11	A.2
DO4	Increased dynamisms in the trade, tourism and manufacturing sectors	Trade and Tourism growth rate increased from 1.3-1.5% in 2002 to 8.7-9.6% in 2007	National Accounts (CBS,CBK, KTB, Catering Levy Trustees (CLT))	I-16	A.3
DO5	Universal Primary Education	Increase primary school gross enrollment rate from 90% to 100% by 2005 and net primary school enrollment to close to 100% by 2015 (MDG3); reduce gender disparities in access to primary and seconday education (MDG 4)	School census (MoE), KDHS (CBS), WMS (CBS)	I-18	B.1
DO6	Expanded basic health services	Reduce under 5 child mortality from 114 per 1,000 to 100 per 1,000 by 2008 (MDG5)	KDHS (CBS), health facilities data (MoH), Census reports, Registrar of Births and Deaths	I-18	B.1
		Reduce maternal mortality rate from 590 per 100,000 to 450 per 100,000 by 2008 (MDG6)	Health facilities data (MoH), Census reports, Registrar of Births and Deaths		
		Reduce malaria morbidity (currently at 30%) by 10% annually in 2003-2008 (MDG8)	HIS of MoH		
DO7	Halted and reduced HIV/AIDS spread	Reduce HIV/AIDS prevalence by 10% annual in 2003-2005 among the youth age 15-25 (MDG7)	Sentinel Surveillance (NASCOP-MoH); KDHS (CBS)	I-18	B.1
DO8	Strengthened employment creation and productivity	Half a million jobs created annually in 2003-2006	Labor force Survey (CBS), Jua Kali associations records	I-21	B.2
DO9	Increased agricultural productivity	Value of agricultural exports rises by 3% per year during 2003–06	Annual National Accounts/ Economic survey data (Central Bureau of Statistics)	I-22	B.3
DO10	Protected the environment	Hectage of forestry remaining and reclaimed (MDG9)	MoA, KWS, MLS	I-22	B.3
DO11	Improved conditions of rural poor	Coverage for rural water increased to 60% by 2006 (MDG 10)	Ministry of water resources, KLSS and census (CBS)	I-26	B.4
		Proportion of rural population with access to secure tenure expanded (MDG 11)	Ministry of Land and Settlements		
DO12	Improved conditions of urban poor	Coverage for urban water and sanitation services increased by 2% per year from 73% to 83% and 64% to 74% respectively (MDG 10-11).	Surveys by MoW with relevant NGOs, annual reports from water services providers.	I-26	B.4
		Proportion of urban population with access to secure tenure expanded (MDG 11)	Ministry of Land and Settlements		
DO13	Strengthened public safety, law and order	Number of criminal offences reduced from 75,352 in 2001 to 65,000 in 2006	Criminal Investigation Department, Statistical Abstract (CBS)	I-29	C.1
DO14	Improved public administration systems	Wage bill reduced to below 8.5% of GDP and programmatic budget implemented		I-31	C.2
DO15	Established adequate monitoring and evaluation mechanisms	Monitoring and evaluation system in place provides timely feedback into budget process and yearly progress reports		I-33	C.3

Logical Framework Matrix for Kenya's Economic Recovery Strategy for Wealth and Employment Generation (ERS)					
PART A.1: ECONOMIC GROWTH Macroeconomic Framework and Financial Sector Reforms					
Narrative			**Indicators**	**M&E**	**Assumptions/Risks**
			from….to….by(date)	*data source and responsibility*	
Objective					
	Economic Growth		GDP growth rate increases from 1.2% in 2002/03 to 1.9% in 2003/04 to 3.1% in 2004/05 and to 4.5% by 2006/07	Annual Economic Survey (CBS)	
Development outcomes					
1	**Macroeconomic stability and financial sector development**				
DEVELOPMENT OUTCOMES	Sustainable fiscal framework		Stock of Domestic Debt (net, end of period) reduced from 25.1% of GDP in 2002/03 to 17.7% by 2006/07	CBS and Treasury ,CBK, Quarterly.	Availability of concessional financing, no unanticipated govt borrowing
			NPV of external debt (end period) kept below 24% of GDP by 2006/07		shortfalls, emergency spending higher
			Overall fiscal deficit (including grants) reduced to 3.3 % of GDP by 2006/07	Quarterly Budget Review (Treasury)	contingencies, exchange rate stability, Rapid economic growth strong fiscal consolidation at the beginning of the period,
	Increase in official foreign exchange reserves		Gross international reserve coverage in months of next year imports (end of period) to increase from 2.9 in 2002/03 to 5 in 2006/07	CBK	Stable money supply growth and exchange rate
	Improved environment for private savings and investment		Private Savings increases from 11% of GDP in 2002 to 15% of GDP by 2005/06.	CBS and CBK, Annual report.	Tax burden does not rise or falls in relation to GDP, financial intermediation improves.
			Gross Investment rises from 14.5% of GDP in 2002/03 to 24.9% of GDP in 2005/06	CBS and CBK, Annual report	Private investment response to improved business climate, lowe corruption and "smarter regulation" , judicial /business dispute arbitration, better infrastructure, lower cost and better availability of credit and share capital . Privatisation of commercial activities
	Low stable and market determined interest rates		Average Deposit Rates increase and Lending Rates decline	CBK (monthly)	Banking system responds to monetary policy signals .
					Competition for deposits. Deposit insurance.
	Low and stable inflation		Rate of inflation below 5% anuually	CBS Monthly CPI Reports	Weather, exchange rate stability, stable petroleum prices
	Prudent, effective and accountable management of public resources, and restructuring in favor of discretionary priority spending (development, operations and maintenance and the poor)		Reduced budget share of non-discretionar and non-priority spending	Quarterly budget review (treasury)	
	Stable and effectively regulated financial sector		100% reports from Commercial Banks submitted to Central Bank on time in accordance with Central Bank Act by 2006	CBK, CBS Economic Survey; Parliamentary Accounts and Investment Committees' Reports	No political interference in management of financial institutions
			Stock of non-performing loans reduced by one third duirng 2003-2006	Monthly Central Bank Reports	Stable legislative environment
Outputs					
1	**Macroeconomic stability and financial sector reforms**				
1.1	**Macroeconomic Framework**				
	Fiscal Policy				
	Achievement of more sustainable fiscal position		Overall fiscal deficit (including grants) decreases from 3.6% of GDP in 2002/03 to 3.3% in 2006/07	MoF, Quarterly Budget Review, Central Bank	No shocks negatively impact the economic growth forecast
	Monetary policy				

	Narrative		Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
	Money supply growth consistent with rea GDP and nominal inflation target		Money supply increase in line with Nominal GDP goal i.e. Real Growth + inflation target (about 10% annually)	CBK Monthly Banking Survey	Sustainable domestic Govt, financing without recourse to Central Bank
					Reliable and timely forecasts
					Constant demand for money.
	Tax reform				
	Sustainability of fiscal revenues		Total revenues to increase from 21% of GDP in 2001/02 to 23.4% by 2006/07	KRA monthly reports	Robust growth, Revenue neutral tax changes
	More transpartent tax structure and increased enforcement capacity of KRA		Tax compliance increased by 2005.		
	Harmonized taxation in E.A. countries				
	Public expenditure reform				
	Structure of expenditures more pro-growt and pro-poor		Core poverty spending increased from 3.3% of GDP in 2002/03 to 4% of GDP ir 2003/04		
			Wage bill declines from 9.5% to below 8.5% of GDP by 2006.	Treasury, DPM	
	Enhanced linkage between policy, planning and budgeting		Within year deviations of actual expenditure from printed estimates reduced by 30% by 2006/07	Budget Monitoring Dept - annua report; Appropriation Account Report (C&AG)	No unpredictable shocks (e.g. drought) impact government expenditure requirements
			Deviation of MTEF projected estimates from printed estimates reduced by 30% by 2006/07	PRSP Secretariat/MTEF	
	Improved transparency of the budget		Budget published and publicly available	Website, newspapers, public notices, District Information Documentation Centers	
			Budget records all donor funded expenditure		
	Improved expenditure control		Pending bills cleared and not accumulating anymore		better financial management
			Low level of supplementaries		
	Debt policy and external aid				
	Decline in public domestic borrowing		Annual net domestic financing declines from 4.9% of GDP in 2002/3 to 3.3% of GDP in 2003/04 and to -0.4% in 2004/05.	CBS and Treasury ,CBK, Quarterly.	Availability of Concessional support commensurate with Policy Effort
	Increase in external concessional borrowing		Concessional international borrowing and grants rises from 0.8% of GDP to 5.9% in 2005/06	CBS and Treasury ,CBK, Quarterly.	
	Public debt maturity lengthened		Maturity profile of Govt debt lengthened from 45% long term T bonds in FY02/03 to 70% in FY03/04	CBS and Treasury ,CBK, Quarterly.	Yield curve is reasonable in relation to Bank's liquidity preferences.
1.2	**Financial sector reforms**				
	Reduced government participation in the government sector		Share of government in total equity/capita in the banking sector not to exceed 25% by 2006/07	CBK	
	Low and stable interest rates		Interest rates and interest rate spread decline	CBK monthly report	
	Increased availability of credit to the private sector		Domestic credit to private sector increase as a % of GDP	Central Bank publications	Rule of Law Reforms improve enforcement of contracts and reduce risk
	Higher non-formal sector lending		Proportion of businesses that received loans from tertiary financial institutions increased by 20% during 2003-06	CBK	Improved Climate for lending
	Stock shares capital market issuance		Increased volume of trade on stock exchange during 2003-06	CMA, NSE Annual Report	
			Increased listings on NSE	CMA, NSE Annual Report	
	Enhanced capacity of Central Bank to coordinate, supervise and regulate financial sector		Stock of non-performing loans reduced by 30% in 2003-2006	Monthly Central Bank Reports	No political interference in management of banks

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
	Strengthen confidence in financial sector		Deposits in commercial banks increased as a % of GDP in 2003-2006	Central Bank publications	
			Loan to reserve ratio increased during 2003-06		
			Entreprise managers report greater confidence	Quarterly Business Expectation Enquiry (CBS), Business surveys (KMAP-KREP, others)	
	Undertake actions to allow first tranche release of proposed Financial Sector Adjustment Credit by May 2004:		1. Adoption by the Government of a financial sector reform strategy.		
			2. Adoption and publication by the Government of a restructuring and privatization policy for the state-influenced banking sector acceptable to the Bank and providing the MoF with the authority required to secure the full cooperation of all parastatal bodies.		
			3. Adoption and publication by the Government of a policy on the resolution of NPA's carved out of state-influenced banks (as a component of the policy on th restructuring and privatization of state-influenced banks described above) which calls for the utilization of the private sector to work out these assets either under contract to the state or by means of transparent auctions of NPA's to the private sector.		
			4. Bank Restructuring & Privatization Unit to be adequately funded and staffed, including consultants, and operating in a manner satisfactory to the Bank.		
			5. KCB to comply with all regulatory capital requirements. All state-nominated board members to be replaced with independent professional directors. Tender for private sector investor(s) to purchase the state's shares to be launched.		
			6. NBK: All state-nominated board members to be replaced with independent professional directors. Adoption and implementation by NBK of a short term restructuring plan and credit policies and procedures satisfactory to the Bank. Recapitalization of NBK to not less than 2% CAR and compliance with regulatory minimums for liquidity.		
			7. Consolidated: Sale of all state-influenced shares to private sector investor(s). Either: (a) withdrawal of IDB's banking license; or, (b) sale of all state-influenced shares in IDB to either multi/bi-lateral investors or private investors.		

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
			8. NPA's Carved Out of Banks. Governance and control arrangements acceptable to the Bank to be adopted for NPA management and partial sale arrangements. Assets carved out of NBK to be either: (a) placed under management of the private sector; or, (b) sold to the private sector via a transparent auction process. Bank Restructuring & Privatization Unit to demonstrate adequate supervision of NPA management contracts and partial sale arrangements.		
Activities/Policies		**Impl. Agency**	**Inputs**		
1	**Macroeconomic stability and financial sector reforms**				
1.1	**Macroeconomic framework**	MOF, KRA			
	Fiscal Policy	MOF			
	Fiscal consolidation and restructuring including:				
	Set realistic resource envelope (domestic and external resources): coordinate external resource mobilisation; disaggregate macroeconomic model by sector, update economic & social data				
	Constrain government spending within sustainable fiscal framework				
	Monetary Policy	CBK			
	Monetary policy signal, change on repos rate and treasury bill repurchases to lower interest rates				
	Strengthen Monetary Policy Committee		Fund Committee and supporting secretariat. Select members	Budget and CBK financial reports. MPC recommendations in semi-annual Monetary Statement	Broader Oversight improves accountability, Legislative action feasible
	Strengthen monitoring of CBK balance sheet		Effective forecasting by CBK staff	CBK daily reporting to Governor and MoF	Effective monetary instruments for managing liquidity
	Macroeconomic real and monetary forecasts		Staffing of CBK, Availability of alternative independent forecasters (e.g. KIPPRA)		
	Tax reform	MOF, KRA			
	Modernize tax administration, including:		Information systems, equipment, training, capacity building		
	Computerization of the Kenya Revenue Authority (KRA), systems enhancement support to income and value added tax functions, , and development of new number plates and second generation driving licenses.				
	Consolidate revenue collection in KRA, improve incentives for revenue collection (KRA's share based on audited results) and forecasting		Policy review (task force) MoF		Amendment to public Finance act, in next year's budget (FY03/04)

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
	Improve structure of taxation, undertake an assessment of tax policy and its impact on the economy, study optimal tax rates, and expand the tax base				
	Monitor revenue targets		Appropriate staffing in reporting units	KRA and Treasury , monthly, available within one month .	Tax Revenue administration performance, and Tax Policy consistent with revenue targets.
	Monitor commitments and disbursements		Appropriate staffing in reporting units	Treasury , monthly, available within one month.	Upgrading of reporting and control systems, IMFS
	Continue regional tax harmonization initiatives				
	Public expenditure reform	MoF, MoP			
	Creation of strong coordination and management arrangements between the departments in MoF and MoP that have lead responsibility for designing and implementing the expenditure management reform program				
	Enactment of the new legislation on Government Financial Management, Public Procurement and Disposal, and Public Audit				
	Shift to programme budgeting: (i) review budget classifications, ii) prepare guidelines, iii) develop and implement training program				
	Increase comprehensiveness of budget: include all government spending and extrabudgetary funds within the budget				
	Phased reform of the MTEF including:				
	Build capacity for ministries and departments on MTEF process	MoP	Training manual on MTEF preparation, training	Training records (MoP)	
	Introduction of the IFMIS, including full roll out to Line Ministries by mid 2004				
	Implementation of short term reforms set out in the government's Action Plan for Enhanced Financial Management in the Public Sector				
	Adherence to the timetable for the budget process for 2004/05, including the PER				
	Conclusion of a new PER work program, by the end of 2003, to provide informatio on the costing of ERSWEC priority programs, savings from low priority programs, expenditure tracking of core programs for to poverty reduction, and external evaluation of progress in expenditure management reforms				
	Design of a MTEF budget for 2004/05 based on early decisions on the macro-economic framework and sector ceilings, on the objectives of the ERSWEC, and o the analysis of the PER				
	Debt policy and external aid				

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
	Lengthen maturity of domestic debt		Appropriate staffing in CBK borrowing dept units	CBK , weekly	Yield curve is reasonable in relation to Bank's liquidity preferences, pension funds and insurance companies. Profile and predictability of Govt net domestic borrowing.
	Substitute concessional external financing for domestic debt				
	Develop external aid policy				
	Customs				
	Improve Mombasa Port revenue				
	Revamp bond and warehouse facilities for				
1,2	**Financial sector**				
	Financial sector reforms				
	Development of financial sector strategy	CBK	Advisory and consulting services		
	Develop State-Influenced Bank Restructuring & Privatization Policy to provide MoF with clear mandate to restructure state-influenced banking sector				
	Establish highly professional unit to advise and provide operational support to the authorities throughout the restructurin and privatization process for the state-influenced banks				
	Reform of strategic banking institutions including: i. privatization of National Bank of Kenya; ii. privatization of Kenya Commercial Bank; iii. privatization of Consolidated Bank of Kenya; iv. restructuring of Industrial Development Bank; v. recapitalization of Cooperative Bank of Kenya	CBK	Specialized bank privatization and restructuring advisor services		No political interference in the management of banks, expanded capacity and greater transparency of commercial courts
	NBK to be quickly privatized by sale of state-influenced shares to, and an associated capital increase by, new multilateral or developmental investors capable of providing good governance and strategic direction to the bank. Gov to implement short term restructuring efforts and strong pre-privatization governance to improve prospects for full recapitalization.				
	KCB to complete a rights offering raising about KSh 2 billion in new capital without state participation in the 4th quarter of 2003. The state's shareholding would be diluted from 35 percent to about 25 percent. Process of seeking a strategic investor to purchase the state's shares to start once the rights offering is completed.				
	Consolidated Bank of Kenya: to be privatized				
	Ease cost pressures on the sector, including supporting secured transactions, lowering credit risk, improving borrower accountability, and develop policy on management & disposition of nonperforming Assets to reduce the stock non-performing loans (NPLs)				

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
	The CBK to undertake, with strong technical support, a comprehensive diagnostic of the condition of the small and medium sized banks (excluding NBK Consolidated and IDB) to ascertain their true condition and implement enforcemen actions to resolve any banks which are undercapitalized before the end of 2004.				
	Establish credit reference bureau and other measures to improve credit evaluation	CBK			
	Strengthen DPF to enhance depositors protection including: i. new DPF Act; ii. Capacity building in workouts and workout management techniques; iii. Liquidation of distressed small banks		Legal advice to draft new DPF Act, staffing and training, operational support		
	Strengthen judicial infrastructure for resolution of commercial disputes and insolvencies, and computerize registries				
	Microfinance				
	Enact Micro Finance Institutions Act				
	Continue MicroSafe-Africa program		Research services		
	Build institutional capacity to deliver services to the poor				
	Capital Markets				
	Complete Central Depository System				
	Strengthen disclosure rules and their enforcement				
	Introduce second tier market to allow medium firm access to capital markets				
	Insurance markets				
	Develop comprehensive strategy for insurance services development				
	Financial sector regulation				
	Enforce Central Bank Act	CBK		Reports on status of commercial banks (CBK)	
	Transfer banking system licensing, regulatory and disciplinary authority from the Ministry of Finance to the CBK				
	Strengthen supervisory and enforcement capacity of CBK	CBK	Training, cap building		
	Tighten provisioning regulations to conform to international best practice				
	Remove regulation on banks charges and commissions				
	Implement anti-money laundering legislation.				
	Develop a modern national payments system				
	Build CBK Research Department capacity				
	Survey level of access to financial service by household and businesses		Surveying services		
	Map outlets of formal and semi-formal finance institutions to determine geographical distribution of services		Surveying services		

Logical Framework Matrix for Kenya's Economic Recovery Strategy for Wealth and Employment Generation (ERS)

PART A.2: ECONOMIC GROWTH Infrastructure

	Narrative	Indicators	M&E	Assumptions/Risks
		from….to….by(date)	*data source and responsibility*	
Objective				
	Economic Growth	GDP growth rate increases from 1.2% to 6.5% by 2006	Annual Economic Survey (CBS)	
Development outcomes				
	Increased private sector participation in infrastructure			
	Access, affordability and reliability of infrastructure services increased	Proportion of the poor household budget allocated to infrastructure services reduce	KLSS (CBS)	
	Competitiveness and quality of infrastructure services improved	Proportion of infrastructure related production costs reduced	Industrial survey (CBS), CBK and KAM.	
	Expanded supply of clean water	Incidence of water borne diseases reduced	KDHS (CBS), WSRB, WSBs	PSP framework in Water Act clarified; consensus with local authorities
	Roads network and safety are improved	Road transport cost reduced (HDM 4)	Surveys by MoPW&H, KTA.	**Strict enforcement of existing traffic rules.**
	Efficiency and safety of urban transport increased	Road accidents in urban areas decline	Surveys and inquiries by MoTC, NCBDA & councils.	
	Usage of alternative energy increased	Usage of alternative energy increased	Surveys by MoEn	
Outputs				
	Private sector participation in infrastructure			
	Water			
	Private sector concessions in Nairobi, Mombasa, Nakuru and Kisumu		Concession papers	
	Urban water services are improved and extended to unserved areas.	Coverage for urban water and sanitation services increased by 2% per year from 73% to 83% and 64% to 74% respectively.	Surveys by MoW with relevant NGOs, annual reports from water services providers.	
	Rural water supply systems rehabilitated and services improved.	Coverage in rural areas increased by 10 % per year with specific target for ASAL regions.	Surveys by MoW with relevant NGOs	**Continous support to afforestation Programmes**
	Water Resource management improved	Number of water related conflicts reduced	Surveys by MoW	
	Improved access, conservation and protection of water resources.	Pollution due to discharge from industry and sewer reduced	Surveys and reports by MoEnnv, MoW and NEMA.	
	Roads			
	Deterioration of road networks arrested	Proportion of road networks in bad or poo condition reduced from**43%** to 20**%**	Surveys by MoRPW&H and KRB.	**Community/Private sector participation**
	Key road links rehabilitated and upgraded.	Number of road links rehabilitated and upgraded.		
	Access to markets and social services for rural communities improved	Roads 2000 programmeto rehabilitate 2,815 km of rural roads and create 18,800 jobs during 2003-06	Surveys by MoRPW&H and MOLG.	
	Road safety awareness by road users increased	***Number*** of fatalities from road accidents reduced	Surveys by Kenya Police & Kenya Road safety council	Expanded institutions offering Road Safety courses.
	Transport			
	Kenya transport industry's position as a regional hub is strengthened and transit services are improved.	Container clearing time through Mombasa Port reduced to less than***5 days*** by 2005.	Surveys by MoT&C with Freigh Forwarders Assoc.	
		Waiting time at borders crossing kept within 3 hours maximum.	Surveys by MoRPW&H and KRA with KTA.	
	Airport services improved and airline traffic increased.	Airport charges reduced	Surveys by MoT and KCAA wit Airlines.	
		Airline traffic increased		
	Traffic congestion reduced	Average time to cross Nairobi at peak hour reduced	Surveys by NCBDA	
	Convenience and safety of pedestrians an non motor users improved.	Accident involving pedestrians or non-motor users reduced	Surveys by Kenya Police & Kenya Road safety council.	
	Communications and Information			

Narrative			Indicators	M&E	Assumptions/Risks
			from....to....by(date)	*data source and responsibility*	
	Telkom privatized		International public bidding undertaken b _June 2005__		**Modalities of restructuring and privatisation agreed upon.**
	Telecom and ICT services expanded		Tele-density increased from 3 per 100 to **per 100** by 2006.	Surveys by MoTC and CCK, and reports of service providers	
			Internet user increased from current **1.2** per 1000		
	IT Policy in place				**Concensus on IT Policy**
	Significant expansion of e-Government		Number of internet connection in government institutions rise from to by 2006.		
	Energy				
O	Reliable energy services available at lowe costs improved.		Power tariff reduced from 5% to 3% by 2006. Electricity rates reduced	Published tariff by KPLC	
	Access to electricity by rural communities is increased.		Increase access by 1% per annum for the rural population from **3.8%** to **8%** by 2006.	Surveys by MoEn & KPLC.	**Ability to subsidise rural communities**
U	Increased usage of alternative energy technologies		Installed capacity of solar energy increased by 10% per year.	Surveys by MoEn with relevant industry	
T	Increase in LPG consumption		LPG consumption increased from 32,000 m/tons to 50,000 m/tons by 2006.	Surveys by MoEn	
	Privatization and competitive framework				
P	Privatization Bill		Privatization Bill approved by 2003	Kenya Gazette	
	Competitive framework		Competitive framework in place by 2005		
	Regulatory framework for infrastructure				
U	Improved regulatory frameworks for all infrastructure sectors		Regulatory framework in place for all infrastructure sectors by 2006	Surveys by CBK and all Infrastructure Ministries	Privatization bill passed and private sector is interested
T					Key infrastructure restructuring and reforms are completed (i.e. water, energy, roads, telecom)
S	Established water sector boards (WSBs), water resources management authority (WRMA) and water services regulatory board (WSRB) as stipulated in the Water Act 2002		Strategies for Integrated WRM and WSS gazetted under Water Act 2002	Surveys by MoW and CBK	Private sector interest; legal and regulatory framework and arrangements for PSP in Water Act clarified; consensus and linkages with other water using agencies and with local authorities; clarity on decentralization of functions
			WSRB issuing licenses to Water Services Boards (WSB) - 2004	Annual reports of the WRMA and WSRB	
			WRMA operational including, local level institutions (basin/catchment and community level) in priority areas - 2005		
	Better trained staff of the existing regulatory agencies such as ERB and CCK		Number of regulatory agency staff trained by 2006	Surveys by ERB and CCK with MoT and MoE	Relevant training institutions are identified
	Implementation of Maritime laws		Number of offenders arrested		Finalisation of regional laws.
Activities/Policies		**Impl. Agency**	**Inputs**		
	Private sector participation in infrastructure				
	Water and Sanitation	MoW			
I	Government carries out structural reforms to put WSS services on an autonomous basis and introduce PSP in Nairobi and Mombasa & Coastal region, Nakuru and Kisumu		WSB lincenses, contract with service providers		Privatization bill approved by Parliament; consensus built with local authorities; clarification of Water Act's framework for PSP

Narrative		Indicators	M&E	Assumptions/Risks
		from….to….by(date)	*data source and responsibility*	
Government mobilizes investment to support rehabilitation and services extension		Number of rehabilited facilities by private sector.		Strong private sector interested in involvement in operational management and investment in water services.
Government in partnership with CBOs and private providers carries out programs to extend WSS services to urban poor and rural communities		Number of urban poor participating		Development Partners willing to support Kenya Water sector at the appropriate scale.
		Number resettled		Land tenure issues in informal urban settlements are addressed.
Implement the water act 2002 including the establishment of Water Service Boards, the Water Services Regulatory Board and the Water Services Trust Fund		Operational Boards		Political will and coordination among relevant ministries
Roads	MRPW			
Gov to complete institutional reforms of road management under Kenya Roads Board.				Reform of road management and financing sustained.
Govt to develop and launch multi-year integrated roads program				Support from Kenya Development Partners mobilized.
Govt to concession the Mombasa-Malaba Corridor and sections of the Norther Corridor to the private sector		Concessioning 1,208 km of trunk road during 2004-07	Concession documents	New Road Bill passed , Private sector interested.
Gov to launch National road safety campaign involving stakeholders i.e. drivers, police, insurance companies.		**Gazettement**		Relevant stakeholders mobilized
Gov to enforce axle load limits		**Number of cases**		
Gov to decongest major urban areas by building by-pass road for Nairobi and Mombasa			Implementation reports	
Gov to implement Northern Corridor Improvements (Lanet-Timboroa, Machakos Turn Off- Sultan Hamud, Mau Summit- Awasi)		**Kms constructed**	Implementation reports	
Government pursues improvement and rehabilitation of rural roads and bridges under Road 2000 program		**Kms completed**	Implementation reports	Sustainability of the roads 2000 program and training of small scale contractors continues.
Transport	MRPW			
Prepare National Transport Policy		**Publication of document**		
Implement institutional strengthening plan for the transport sector				
Gov. sector operators and stakeholders to speed up full implementation of transport facilitation programs agreed within EAC and COMESA		**Operationalisation of program**		Political will and commitment to regional collaboration within the EAC and COMESA.
Gov. to finalize the concessioning and rehabilitation of Kenya Railways (KR) in coordination with EAC railways and development partners;				Privatization bill approved by Parliament
and divest from Gulf Marine service on Lake Victoria				Coordination with Uganda and possibly Tanzania

	Narrative		Indicators	M&E	Assumptions/Risks
			from....to....by(date)	*data source and responsibility*	
	Convert Mombasa Port to a landlord port by June 2005. KPA to maintain regulatory functions and port ownership. Private sector to operate the port infrastructure (channels, locks, berths) plus the port superstructure (surfacing, sheds, and fences). Private operators will provide user services in a competitive environment (pilotage, towage, berthing, supplies, cargo handling, storage, repair, security), and manage the container terminal by means of a long-term concession.		**Number of private sector operatos engaged**		Capacity to address social retrenchment plan
	Gov to address airport security, and obtain Federal Aviation Authority security grading class 1. Activities: refurbishing of airport facilities, investment in security equipment (e.g. security procedures, fencing, terminal reorganization, security equipment, and training of security inspectors) and reduce airport charges				Private sector interested
	Implement KCAA reform to meet ICAO standards		Training, cinsulting services and equipment		
I	Improve handling capacity including upgrade capacity of regional airports, privatize commercial non-regulatory services at airport, explore potential for Private Sector participation in building new terminals and handling non security services				
N	Gov and municipalities to develop and implement traffic management and urban mobility plans i.e. bus-stops, non-motorized traffic.				Revival of traffic lights in major urban centers
	Gov and NCC to plan and implement urban bypass to divert transit traffic from city center (e.g. Donyo Kundu).		**Kms constructed**		
P	*Communications and Information*	MoTC, TelKom, CCK			
	Gov to complete liberalization of Telecom and ICT services		**Publication of ICT policy & licencing of 2nd telccommunications provid**	ICT policy.	Private sector interested in investment
	Privatize TelKom				
	License 3rd mobile provider and 3-4 gateway service providers				
U	Gov. to accelerate programs to modernize regional and global systems linkages.				Regional collaboration framework sustained.
	Develop policy, legislative and financial framework for ICT growth		**ICT policy operational**	Implementation report	
T	Promote ICT adoption and skill development, including a country-wide ICT awareness campaign; and implement an ICT skill enhancement campaign integrating ICT in school curricula as training, teaching aid and learning materials		**Introduction of Curriculum in schools**	Implementation report	
	Promote e-Government		Adoption of e-Government strategy	Implementation report	
	Install infrastructure				
S	Implement Gov information technology investment management framework (GITIM)		Installation of Structured cabling	Implementation report	
	Implement e-government services		Completion of connectivity	Implementation report	

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
	Energy	MoEn			
	Gov. to develop Energy Sector Development Strategy, including power, petroleum and rural energy subsectors, to turn around the sector's operational and financial performance		Energy Sector Development Strategy approved by Feb 2004		Strong political will to reform
	Strengthen regulatory functions of the Electricity Regulatory Board (ERB) and review existing tariff regime and methodology for setting tariffs				
	Implement policy on privatization of KPLC to enhance KPLC performance on commercial operations, transmission, distribution, and collection of receivables, with special emphasis on reinforcement and rehabilitation of distribution systems in Nairobi and Mombasa				
	Implement policy on privatization of KenGen to improve management performance				
	Implement rural energy program including electrification, wind energy, minihydros, solar PV				Public and private funding of investments, maintenance and operation costs ensured .
	Gov to complete and implement the LPG study including standardizing valves				
	Gov to explore opportunities and expedite negotiations for increased power imports and other links to regional power pools (e.g. South Africa, Uganda, Tanzania)				
	Gov to implement Least Cost Development Plan for power development including:				
	Implement Olkaria II Geothermal Power Plant	KenGen			
	Implement other power projects	IPPs, MoEn, KenGen			
	Convert existing gas turbines in Mombasa				
	Complete Sondu-Miriu power project	MoEn, KenGen			
	Develop clear policy and institutional arrangements on the exploitation of geothermal resources, and development of private/public partnerships				
	Decide on the future of the KPRL refinery	MoEn			
	Privatization and competitive framework				
	Prepare Privatization bill to provide a legal framework for the privatization process				
	Enact and reform laws relating to competition including reforming the Monopolies and Price Control Act				
	Enact Investment Code and establish Investment Authority (a one-stop investment office)	MTI, IPC			
	Develop Investment Road Map				
	Carry out comprehensive review of licensing arrangements	MTI, IPC, MoF, AG			

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
	Regulatory framework for infrastructure				
I N	Establish an inter-ministerial committee to review, with the aim to increase PSP i public utilities, the regulatory arrangements of key sectors (telecom/IT, water, energy, roads and transport)		The Cabinet forms the committee and makes Ksh.... available to facilitate its tasks		
P U	Assess the feasibility and options for setting up an independent multi-sector regulatory agency for all infrastructure sectors as a way of boosting private sector participation and reducing regulatory costs				
T	Implement the newly passed Water Act 2002 as a way of spearheading PSP in the water sector		Technical assistance from development partners to set up the WSBs, WRMA and WSRB		
S	Strengthen the capacities of the existing regulatory agencies (ERB and CCK) to boost private sector confidence in the telecommunications and energy sectors and better monitoring of performance targets in these sectors.		Technical assistance from development partners to complement the training budget of ERB and CCK		
	Energy: Amend Electric Power and Petroleum Acts to allow for appropriate regulation		New power act		

Logical Framework Matrix for Kenya's Economic Recovery Strategy for Wealth and Employment Generation (ERS)					
PART A.3: ECONOMIC GROWTH Productive Sectors					
Narrative			**Indicators**	**M&E**	**Assumptions/Risks**
			from….to….by(date)	*data source and responsibility*	
Objective					
	Economic Growth		GDP growth rate increases from 1.2% to 6.5% by 2006	Annual Economic Survey (CBS)	
Development outcomes					
	Increased dynamisms in the tourism, trade, and industry				
	Increase contribution of Trade and Tourism to the economy		Trade and Tourism growth rate increased from 1.3-1.5% in 2002 to 8.7-9.6% in 2007	National Accounts (CBS,CBK, KTB, Catering Levy Trustees (CLT))	Improved international and domestic security
			Sector generates 150,000 new jobs	Employment survey	Strong world economic conditions
			Tourist earnings double in 2003/04 from KSh 24B in 2005/6	National Accounts	Adequate capacity availability
			Number of tourist arrivals increase from 0.8 to 1.5 million by 2003/04	National Accounts	New investments in tourist infrastructure including airports
	Increased revenues from tourism		Tourism levy receipts increased from KShs 400m to KShs 1 bn	MoF	Legislation
	Decreased dependency on traditional agricultural exports		Share of agricultural exports in total export earnings decline	National Accounts	Increase in Agricultural productivity
	Increase cotton related exports		Export of cotton products increases	National Accounts	Continued liberatlisation in World Trade
Outputs					
O	**Tourism, Trade and Industry**				
U	Simplified Trade Legislation		# of steps required for importing/exportin goods and services reduced	MoT reports	Labor market reforms in place; infrastructure improved
T	Local Authority Trade Licensing revoked		Local Authority Trade Licensing revoked by 2004	Gazette	
P	New EPZs and MUBs established		Number of scheduled zones increased	MoT reports	
U	Investment related offices on line		Proportion of investment related offices with internet connection	Implementation reports	
T	Tourist Levy increased and base widened		Tourist levy increased from 2% to 4%	Levy Collection returns by Trustees.	Levy consistent with Macro targets.
S	Tourism promotion campaigns		Media purchases; # of tourist office in key markets	Implementation reports	Absence of negative travel advisories
	Tourist Police Force upgraded		# of tourist police force trained and reequipped	Police Deployment records	
	Improved information access to national hotels and restaurants		Information available on line	Website, web search	
	Industrial Master Plan published		IMP prepared by 2004	Published document	
	Sessional Paper on Industrial Transformation operationalized		Stakeholder consultation	Implementation reports	
	Sessional paper on MSE		Sessional paper on MSEs issued in 2004	Implementation reports	
	Title deeds issues to Jua Kali Associations		No. of title deeds issued to Jua kali Associations		Absence of land disputes
	Increased access to MSEs services		25% of MSEs access loans by 2006		Availability of loanable funds
			25% of MSEs with market outlets by 2006		
			25% of MSEs trained by 2006		
Activities/Policies		**Impl. Agency**	**Inputs**		
	Tourism				
	Develop and implement aggressive marketing of Kenya as major tourist destination	MT	2 million tourists per annum	Arrival data	International security, international cooperation on terrorism
	Exploit film industry and sports tourism niches		New films being shot in Kenya	Filming licences sought.	
	Encourage domestic tourism		Increase in %tage of domestic tourists	Increase share of Domestic for 19% to 50%	Increase local disposable incomes.

Narrative			Indicators	M&E	Assumptions/Risks
			from....to....by(date)	*data source and responsibility*	
	Publish classification of Hotels and Restaurants on the gazette and on the web		Web services	Gazette MTI staff, web publication by KTB	Completion of classification exercise by MOTI
	Upgrade and reorganize Tourist Police Force (see Governance)		Training, personnel emoluments, equipment, and logistics	Patrol Coverage	
	Review structure of taxation in the sector		Number of taxes reviewed	Reduction in the overall price structure in establishments	
	Foster community-based eco-tourism and community–based wildlife conservation; provide guidance, access to credit and incentives to SMEs; and review structure of park tariffs in favor of less-visited parks. Restructure KTDC.		Support 80 new SME's	No. of Jobs created	Robust growth in Tourism
	Trade & Investment				
INPUTS	Complete sessional paper on Trade Policy by 2004	MTI	Stakeholder consultation	Document published	
	Review licensing agreements, provide market information to Kenyan manufacturers, support the private sector in identifying new markets, improve quality of Kenyan goods, reduce non-commercial risks, organize export trade fairs, and exploit AGOA.		Improved market access	% increase in trade and investment volume	
	Develop and export development strategy including review of export promotion schemes	MTI, EPC, IPC, EPZA, MoF	Comprehensive export strategy estblished	Incresed exports	
	Review trade related legislation	MTI	Inter -Ministerial Committees		
	Revoke local authority trade licencing	MTI	Reduction in transaction costs	Official Gazette Notice	Political will; Equivalent compensation through transfers (LATF)
	Establish export processing villages for smallholder producers; and expand EPZs and Manufacturing Under Bonds (MUBs for export promotion	MLG, MTI, MoF, MoL	Increased EPZ&MUB investments	Increased volume of processed exports.	Suitability of the designated sites;
	Implement investment code and reduce the number of regulations and step required for investing in the country		Reduction in transaction costs	Reduction in no of regulations	
	Industry				
INPUTS	Implement comprehensive strategy to remove barriers to investment and lower the cost of doing business, including further liberalizing trade, deepening the financial market, enhancing infrastructure, improving security, facilitating use of technology licenses, reviewing mechanisms for wage determination, and improving access to quality training.	MTI	Improvement of the business environment	New investments registered	
	Benchmark key industries (sugar, textile) to international competitors	MIT, EPC, IPC, MoF	Improvement in competiveness	Benchmarking schedule	
	Promote backward linkage in Textile Industry to exploit AGOA		Cotton production extension services, credit to ginneries, industrial promotion campaigns	Increased production of cotton	
	Operationalize Sessional Paper on Industrial Transformation through the Industrial Masterplan		Consultancy services, Inter-ministerial and private sector consultations	Implementation schedule.	
	Micro, Small and Medium Enterprises				
	Finalize sessional paper on MSEs with focus on employment creation				

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
	Strengthen financial institutions providing small business credit, such as the Kenya Industrial Estates (KIE),				
	Develop market for training small business entrepreneurs, possibly through demand incentive schemes,				
	Strengthen vertical linkages within the industrial sector and subcontracting arrangements built in privatization processes,		Identification of institutions, dissemination & sensitization		
	Provide information on technology and marketing				
	Enhance provision of infrastructure and finance for the Jua Kali sector		Rehabilitation of 653 sheds & construction of 14 more sheds while putting in place a micro-financing policy by end of 2004.		

Logical Framework Matrix for Kenya's Economic Recovery Strategy for Wealth and Employment Generation (ERS)					
PART B.1: EQUITY AND POVERTY REDUCTION Human Resource Development: Education, Health and HIV/AIDS					
Narrative			**Indicators**	**M&E**	**Assumptions/Risks**
			from….to….by(date)	*data source and responsibility*	
Objective					
	Poverty Reduction		Reduce proportion of the people below the absolute poverty lines (Kenya and $1PPP) by 10% by 2006 from 57% in 1997 (MDG1)	Kenya Living Standard Survey-KLSS (CBS) (in design stage)	
			Reduce proportion of people living in hunger by 10% by 2006 (MDG2)	MoA, WFP, FAO, KLSS	
Development Outcomes					
DEVELOPMENT OUTCOMES	**Education, Health and HIV/AIDS**				
	Universal primary education		Increase primary school gross enrollment rate from 90% to 100% by 2005 and net primary school enrollment from 80% to 85% by 2007	School census (MoE), KDHS (CBS), WMS (CBS)	Guiding and counseling in schools, teachers able to enforce discipline without corporal punishment, parent involvement in child homework, nutrition programs effective, children health status improved
			Reduce gender gap in access to primary and seconday education (MDG 4)	School census (MoE), KDHS (CBS), WMS (CBS)	The girl child will given opportunities for education and that cultural barrier will not hinder them.
			Transition rate from primary to secondary from 47% to 70% by 2005	School census (MoE), KDHS (CBS), WMS (CBS)	Physical facilities will be renovated and expanded
	Improve access to basic health services		Reduce under 5 child mortality from 114 per 1,000 to 100 per 1,000 by 2008 (MDG5)	KDHS (CBS), health facilities data (MoH), Census reports, Registrar of Births and Deaths	HIV prevalence declines
			Reduce maternal mortality rate from 590 per 100,000 to 560 per 100,000 by 2008 (MDG6)	Health facilities data (MoH), Census reports, Registrar of Births and Deaths	Distances to nearest facility reduced, staff trained and equiped
			Reduce malaria morbidity (currently at 30%) by 10% annually in 2003-2008 (MDG8)	HIS of MoH	Distances to nearest facility reduced, staff trained and equiped
			Reduce the households out of pocket financing of health from the current 53% of the total health budget to 45% by 2008.	Household Expenditure Survey (CBS), National Health Accounts (MOH)	NSHI established, GoK allocation to health increased
	Halted and reduced HIV/AIDS spread		Reduce HIV/AIDS prevalence to 10% by 2006	Sentinel Surveillance (NASCOP-MoH); KDHS (CBS)	Youth change their sexual behavior (abstinence and safer sex); religious organizations will not actively oppose condom programming; mitigation of socio economic causes programs effective; keeping girls in school
Outputs					
OUTPUTS	**Education, Health and HIV/AIDS**				
	Education	MoE			
	Reduced costs of primary education to families		Primary school fees eliminated by 2003, 70,000 poor children provided with bursaries, and 150,000 more children fed in school	MoE, Education NGOs	parents from poor families will allow their children to go school
	Increased enrollment of girls, pastoralist, street children, slum children		Primary school enrollment of pastoralist increased from 20 to 40 % by 2006. No. of street children in school increased. No. of slum children in school	School census (MoE), KDHS (CBS), WMS (CBS)	parents from poor families as well those from pastoral communities will allow their children to go school
	Availability of learning and teaching materials in primary school		Pupil/textbook ratio increased to 3:1 in std 1-5 and to 2:1 in std 6-8 by 2004.	School records and MoE records (MoE)	
	Additional classrooms		10,000 primary school classrooms built.	School mapping reports (MoE)	Funds are available
	Strengthened education management information system		Education management information system in place in MoE and districts		
	Health	MoH			

Narrative			Indicators	M&E	Assumptions/Risks
			from....to....by(date)	*data source and responsibility*	
	Increased equity and affordability for low-income patients		Increase budget allocation for rural health centers and dispensaries from 11% to 15% of MoH budget by 2005; and budget allocations for drugs from 12% to 16% of MoH budget by 2006.	Budget estimates; PER	Distances to nearest facility reduced, staff trained and equiped
	Strategic Plan for National Social Health Insurance		Sessional Paper on National Social Health Insurance (NSHI) plan prepared by 2004		
	Strengthen promotive and preventive health		Increase proportion of children fully immunized from 74% in 2002 to 85% in 2008	KDHS (CBS)	
OUTPUTS			Contraceptive prevalence rate increases from 38% to 45% in 2008	KDHS (CBS)	Advocacy and counseling will continue to be carried out
			Increased proportion of mothers delivering in health facilities from 56% to 70% in 2008	KDHS (CBS), HIS (MoH)	Distances to nearest facility reduced, staff trained and equiped
			All HIV pregant mother receiving Navirapine treatment by 2008	HIS (MoH), NASCOP	Supply and distribution of drugs will be efficient
			Proportion of population in Western and Coastal areas and of pregnant mothers using ITNs from 5% to 50% by 2008	KDHS (CBS), HIS (MoH	Supply and distribution of drugs will be efficient
			Guidelines for appointment of DHMBs reviewed by 2003; all DHMBs and DHMTs trined on management by 2004	Gazzette notice; MoH	
	Increased budget allocations to health		Share of health expeditures increase from 5.6 to 12% of public budget		
	HIV/AIDS	NACC			
	New institutional and legal framework for HIV/AIDS			Gazette, decrees	
	Strengthened HIV prevention		Condom usage increased as a % of the sexually active population	BSS (NASCOP/CBS); KDHS (CBS)	
			Several VCT centers established in unattended areas by 2004	NASCOP data	
	Expanded HIV treatment		Proportion of patients covered by ARV increased by 2005	MoH	ARVs will be available in adequate numbers
Activities/Policies		**Implementing Agency**	**Inputs**		
	Education, Health and HIV/AIDS				
	Education	MoE			
	Ensure equitable enrolment by targeting disadvantaged areas and groups, including				
	Elimination of school levies		School grants	Budget disbursement	Overcrowding, demoralized
	Introduction of alternative education delivery methods (multi-shift, multi grade, non formal)		Teacher training; hardship allowances; training materials; alternative curricula; school meals	Training records, budget disbursements; MoE records	
	Provision of bursaries to students from poor families, particularly in ASALs				
	Expand school feeding program by 150,000 students				
	Improve quality and internal efficiency through teacher training and redeployment				
	Reform the curriculum to focus on core skills				
	Provide learning materials and improving the learning environment		Textbooks, exercise books, pencils, equipment	School accounts and inventory records (Schools/MoE), budget disbursements	teachers, repetition and drop out, cooperation from school committees, cooperation with other providers of primary
	Redefine the roles of local authorities				
	Decentralize decision-making to district and school-level administrators, and parents' representatives				

Narrative		Indicators	M&E	Assumptions/Risks
		from....to....by(date)	*data source and responsibility*	
Enforce Children's Act		Children Department facilitation (budget)	Budget disbursements, workplans (MHA)	
Construction of additional classrooms		Provision of building material	Budget disbursements	education, external financing, community resources
Building capacity including primary schools accounting systems, and management information systems for districts and MoE				
Health	MoH			
Revisit financing of health sector to reduce out-of-pocket expenditures by the poor and vulnerable and protect them from catastrophic expenditures for health care services as a short-term alternative to:				
Study feasibility and develop strategic plan for provision of basic health care package and increased coverage of quality health care to the poor, including establishment of National Social Health Insurance Fund (NSHIF)				
Focus investments on pro-poor interventions: immunization, infant mortality, maternal mortality, HIV prevalence, accessibility and availability of essential drugs, mortality rate for malaria, cure rate for tuberculosis, and urban health service for the poor:				
Expand program on immunization		Vaccines	MoH accounts	
Improve child and maternal health including:				
Advocacy campaigns for family planning		IEC (printed materials), radio, chief meetings, school curricula		
Strengthen capacity of health facilities for deliveries		Delivery kits, ambulances, training		
Reduction in the rate of HIV transmission		Navirapine treatment for pregnant mothers and STIs treatment		
Implement malaria control action plan		Insecticide treated bed nets (ITNs), communication campaign	MoH accounts	AMREF continues its program on bed nets distribution
Enhance managerial skills of DHMBs, and DHMTs				
Design essential curative care package		drugs	MoH accounts	
Further decentralize health services		financial management training	Training records (MoH)	
Increase programming for rural health care service delivery		budget allocations	MoH budget	
Overhaul drugs procurement and distribution system				
Improve cross-sectoral cooperation for health promotion and public health, in the areas of water and sanitation, reproductive health, gender, HIV/AIDS, nutrition, school health, road safety and tobacco control.				
Increase the efficiency and effectiveness of the combined investments of GoK and its partners through joint programmatic approach				
Increase total government spending on health from the current 5.6% as a share of total public expenditure to 12%				
HIV/AIDS	NACC			
Implement HIV/AIDS legislation				

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
INPUTS	Strengthen multi-sectoral response to HIV/AIDS				
	Intensify HIV/AIDS awareness and behavioral change communication campaign		Condom programming, provision of information and education		Availability of funds for ARV drugs; interagency coordination;
	Coordinate strategies for prevention, treatment and mitigation				
	Develop a roll-out plan for the increasing amount of resources devoted to treatment				
	Intensify prevention activities including:				
	Voluntary counseling and testing		Establishing VCT centers, provide trainin and equipment		
	Develop capacity building plans for privat and public agencies involved in HIV/AIDS programs				
	Develop a creative and strategic approach for caring for and supporting the rapidly increasing number of orphans				

Logical Framework Matrix for Kenya's Economic Recovery Strategy for Wealth and Employment Generation (ERS)

PART B.2: EQUITY AND POVERTY REDUCTION Human Resource Development: Labor

Narrative		Indicators	M&E	Assumptions/Risks
		from….to….by(date)	*data source and responsibility*	
Objective				
Poverty Reduction		Reduce proportion of the people below the absolute poverty lines (Kenya and $1PPP) by 10% by 2006 from 57% in 1997 (MDG1)	Kenya Living Standard Survey- KLSS (CBS) (in design stage)	
Development outcomes				
Strengthen employment creation and productivity				
Job creation		Half a million jobs created annually in 2003-2006	Labor force Survey (CBS), Jua Kali associations records	Ther will be continious investment by both local and overseas organisations
Promotion of enabling environment for industrial development		Increased investor confidence	Quarterly Business Expectation Enquiry (CBS)	Macro economic stability
Increase productivity of factors of production		Industrial labor productivity rises	Survey of Industrial Production (CBS)	
Outputs				
Employment and Productivity				
New employment policy		Employment policy approved by 2004		Macro economic stability
Decreased labor costs		Average industrial gross wage for low-skill labor declines		Macro economic stability
Reduced industrial unrest	COTU	Frequency of labour inspections increased	Industrial reports	The new employment policy is implemented
	FKE, CPU, MoL	Ratio of workmen compensation cases processed to total increased		
More efficient resolution of industrial disputes	Industrial court	No of disputes settled per month increase	Industrial reports	The new employment policy is implemented
Productivity policy in place				
Adult literacy improved		Literacy rate increased		
Activities/Policies	**Impl. Agency**	**Inputs**		
Labor				
Employment Generation				
Completion of employment policy		5 workshops by end of 2003	Finalised policy	
Review of Labour Laws		10 consultative meetings and seminars by 2005	Labour laws	
Identify inefficiencies that have led to high unemployment and high labour costs; and implement reforms to improve labour market flexibility	MoL		Survey reports	
Strengthen linkage between education, training and industry	MoL	Establish Information Center for networking between education, training & industry.	Labour force surveys	
Industrial and Labor Conflict Management	Mol, MTI, MoF, MPND			
Review existing industrial labour framework to promote harmony, employment and productivity incl. wage guidelines and minumum wage legislation	Mol, MTI, MoF, MPND			
Enhance dispute settlement machinery		Settlement of industrial disputes		The new employment policy is implemented
Strengthen the Tripartite Committee Secretariat		Capacity building		The new employment policy is implemented
Enhance efficiency and strengthen labour inspection services		Labour inspection services for dispute prevention and resolution		
Promote international labour relations		Participation in international labour matters		
Reduce backlog of workmen's compensation cases		Compensation cases		
Productivity				

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
	Implement Strategic Plan of the Productivity Center				Strategic plan will be completed
	Finalize productivity policy & disseminate		Policy formulation, development & dissemination		
	Measure productivity of factors of production.	Mol, MTI, MoF	Measuring factors of production using different measurement criteria for the entire economy.		
	Strengthen literacy programs				

Logical Framework Matrix for Kenya's Economic Recovery Strategy for Wealth and Employment Generation (ERS)					
PART B.3: EQUITY AND POVERTY REDUCTION Agriculture, Rural Development and Environment					
Narrative			**Indicators**	**M&E**	**Assumptions/Risks**
			from....to....by(date)	*data source and responsibility*	
Objective					
	Poverty Reduction		Reduce proportion of the people below the absolute poverty lines (Kenya and $1PPP) by 10% by 2006 from 57% in 1997 (MDG1)	Kenya Living Standard Survey-KLSS (CBS) (in design stage)	
			Reduce proportion of people living in hunger by 10% by 2006 (MDG2)	MoA, WFP, FAO, KLSS	
Development Outcomes					
	Agriculture and livestock				
	Agricultural sector becomes more competitive globally.		Value of agricultural exports rises by 3 percent per year during 2003–06	National Accounts/Economic survey data provided annually by the Central Bureau of Statistics.	Infrastructure (roads, energy, communications) improved. Supportive legislation is passed by parliament.
					Trade agreements create a level playing field.
	Marketing system for smallholders becomes more efficient.		The ratio between small farmer price received and world market price for coffee rise from 30% to 70% by 2006. Marketing margin between consumer and producer prices for grains falls	Data from the ministry of agriculture, cooperatives, and commodity boards, KLSS (CBS) Rural Market Prices Survey (CBS),	Supportive legislation is passed by parliament. Reform of cooperatives and commodity boards implemented.
	Incomes of crop and livestock producers increase.		Income rises in communities that benefit from rehabilitation of irrigation works, compared with a baseline.	Participatory Poverty Assessments, KLSS (CBS)	
	Food security increases.		Headcount of food insecure populations falls, proportion of malnourished children falls	KLSS (CBS), malnutrition data from the ministry of health, WFP, FAO	Rainfall patterns are normal.
	Animals are healthy and more productive.		Incidences of animal disease outbreaks declines by 2006	Ministry of agriculture, department of veterinary services, Husbandry Surveys (ILRI)	Animal movements are controlled.
	Rural Water				
	Increase access to drinking water in rural areas		Increase access to 60% coverage in rural areas by 2006.	Ministry of water resources, KLSS and census (CBS)	Catchment areas are protected fo water supply; multi-donor sector investment program
	Health improves in beneficiary communities.		Incidence of waterborne diseases declines in 2003-6.	KDHS (CBS), MoH surveillance data, and reported data on outbreaks of waterborne diseases.	Community members practice good hygienic standards.
	Sustainable use of water resources		Reduced conflicts over water resources.	MoRMD, WRMA, District Commisioner and Officer Commanding Police Division/Office of the President and NGOs data.	Consensus and clear institutional linkages and support; cooperatior among communities
	Land Resources				
	Increased investment and reduced conflicts over land.		Rural fixed investment in the land increased	Agricultural Production Survey (CBS)	People demand titles to the land to which they have user rights.
	Improved land use planning and administration.		Increased use of agricultural inputs	Ministry of Lands and Settlements	Input prices not above international market levels
	Environment				
	Conservation of the environment		Hectage of conserved habitat	MoA, KWS, MLS	
			Hectage of forestry remaining and reclaimed	MoA, KWS, MLS	
			Number of wild animals by species	KWS, ILRI	
Outputs					
0	**Agriculture and livestock**				
U	Agricultural research institutes consolidated		Some of research institutes merged and staff rationalized by 2006		

	Narrative		Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
TPUTS	Linkages between farmers, the research system, and extension strengthened.		75% of farmers able to chose extension services BY 2006	Farmer score cards (MoA)	Government adopts a strategy that increases the participation of farmers in setting priorities for research and extension.
	Management and control of pests and diseases improved.		Number of hectares treated.	Annual report by MoA.	Animal movements are controlled.
			Proportion of livestock vaccinated.		
	Market information system improved.		Market information bulletins are issued weekly/monthly, distributed to DAOs and communities, and posted on the web.	MoA, DAOs, cooperatives and farmer associations	Supportive infrastructure is available in districts.
	Sanitary and phytosanitary standards are met.		Proportion of agricultural products and produce for export rejected for SPS failure declines by 80% by 2006	Kenya plant health inspectorate services data.	International standards remain constant and if they change donors help Kenya comply.
					Quality of pesticides is as claimed.
	Parastatal reforms and rationalization carried out		Legislation passed. Parastatals rationalized	Published in the Kenya gazette.	Supportive legislation is passed by parliament.
OUTPUTS	Marketed beef output rises.		Marketed beef output increase per year.	Ministry of livestock and fisheries, marketing division.	Incidence of diseases remain under control.
	Livestock marketing infrastructure (holding grounds, watering points) expanded.		Number of holding grounds rehabilitated	MoLF	
			Number of watering points rehabilitated.	MoA, MoW	
	MoA structure of spending pro priority program		Proportion of MoA budget devoted to priority programs; number of parastatals rationalized		
	Rural Water				
	Boreholes		1,000 boreholes per year 2003–06.	Ministry of water resources.	Communities participate with funding and performing O&M.
	Small dams/pans		100 dams/pans in the ASALs per year.	Ministry of water resources implementation reports.	Communities participate with funding and performing O&M.
	Irrigation systems.		20 schemes constructed.	Ministry of water resources implementation reports.	Communities participate with funding and performing O&M.
				Irrigation Board.	
	Irrigation canals and flood control dikes.		Number of km of canal rehabilitated.	Ministry of water resources.	Communities participate with funding and performing O&M.
			Number of dikes rehabilitated.		
	Irrigation policy adopted.		Legislation passed.	Published in the Kenya gazette	Supportive legislation is passed by parliament.
	Land reclaimed.		1. Implement 44 community based development projects in ASAL districts.		
			2. Provide specialized training to 200 project beneficiaries and communities.		
	Land Resources				
	Titles issued.		Number of titles issued each year 2003–06.	Ministry of Lands and Settlements.	Adjudication mechanisms are efficient.
	Land information system modernized.		Proportion of land records that are available in electronic format rises by 30% by 2006.	Ministry of Lands and Settlements.	Supportive infrastructure is in place.
	Land laws harmonized.		Legislation passed.	Published in the Kenya gazette.	Supportive legislation passed by the parliament.
	Environment				
	National Environmental Authority fully operational		NEMA fully operational by 2005, Board, Provincial and District Environment Committees, Standards Enforcement Committee and National Environmental Council established	Gazette and implementation reports	
	Environmental standards in place		No of projects subjected to EIA	KWS	
			Prosecuted cases of EIA		
	Natural resources inventory		Natural resources inventory carried out	KWS	

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
			Natural resource valuation undertaken by 2007		
	Community workplans		No. of workplans completed and implemented		
	Conservation of wildlife		Hectage of conserved habitat	KWS	

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by(date)	*data source and responsibility*	
Activities/Policies		**Implementing Agency**	**Inputs**		
	Agriculture and livestock	MALD			
	Restructure and rationalize agricultural research				Supportive legislation passed by Parliament
	Implement National Agricultural Extension policy emphasizing demand-driven services and private sector participation /Establish database for extension planning and performance monitoring				Needed analytical work undertaken as a basis for reform of agricultural marketing boards and other regulatory issues
	Carrying out PRA throughout the country facilitated by extensionists.			Statements of expenditures, Public Expenditure Review	Actual allocations match what is planned at the beginning of the budget year.
	Develop strategy to improve public sector efficiency in agriculture and livestock, including rationalization of parastatals				
	Develop strategy for deepening markets of agricultural financial services				
	Liberalize and regulate inputs market				
	Promote commercialization of farm products including reducing transport costs by improving rural roads and reducing fuel taxes; reducing irrigation and factory operating costs by bringing down electricity costs; and improving access to market information by strengthening communications.				
	Revitalize quality assurance laboratory.				
	Provide crop and livestock information services through radio, bulletins, internet, and the like.				
	Develop a coherent land policy to address land use and administration, land tenure, and land delivery systems				
	Liberalize maize and sugar markets				
	Implement plans to liberalize the pyrethrum sector, and restrict the pyrethrum board to regulatory functions				
	Coffee: implement reforms in the coffee sector with the objective of increasing the share of final sales that farmers receive				
	Cotton: Reestablish Cotton Board, clear outstanding debts, expand irrigation schemes, review Cotton Act, encourage small scale ginning	MoALD			
	Rice: rehabilitate irrigation schemes to enhance rice production	MoALD			
	Livestock. Implement strategy for disease outbreak prevention and control.Introduce single permit system for cattle movement. Review options for a decentralized and private sector provided network of slaughterhouses. Expand access to water sources. Improve security. Provide breeding services (cattle, goats, sheep).				
	Cooperatives: review Cooperative Societies Act (1997), address indebtedness, sensitize coop members on their rights	MoCD			

Narrative		Indicators	M&E	Assumptions/Risks
		from….to….by(date)	*data source and responsibility*	
Restructure public spending in the Ministry of Agriculture to allocate a greater share of resources to priority programs				
Rural Water				
Water Conservation				
Drill boreholes.			Statements of expenditures, Public Expenditure Review	Actual allocations match what is planned at the beginning of the budget year.
Rehabilitate dams and pans			Public expenditure review.	
Rehabilitate 20 irrigation systems.				
Rehabilitate irrigation canals and flood control dikes				
Formulation of a land policy.				
Formulation of an agricultural policy.				
Formulation of irrigation policy.				
Carry out geophysical and hydrogeologica and hydrological surveys.				
Implement the Water Act 2000.				
Land reclamation: implementation of community projects.				
Land Resources	MoLS			
Develop a coherent land policy to address land use and administration, land tenure, and land delivery systems				
Land valuation, registration of titles, and land administration.				
Convening tribunals to hear and resolve land/boundary disputes.				
Procurement of modern survey and mapping equipment, and computerization of land records				
Implementation of recommendations of Njonjo Commission of Enquiry				
Environment				
Environmental Management: implement National Environment Action Plan (NEAP) and Environment Management and Coordination Act (1999), implement WSSD and MDG, implement Lake Victoria Environmental Management Project, and consolidate National Environment Management Authority functions	NEMA			
Forestry: Implement Forestry Development Policy, enforce Forestry Act and promote private sector participation in Afforestation and management of forest plantations	NEMA			
Wildlife Conservation: work with local communities in conservation of wildlife and benefit sharing, manage human-wildlife conflicts, and strengthen KWS capacity	KWS	hiring and training of rangers, security equipment, road rehabilitation and maintenance of fences		

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PART B.4: EQUITY AND POVERTY REDUCTION Poverty Targeted Programs			
Narrative	**Indicators**	**M&E**	**Assumptions/Risks**
	from….to….by(date)	*data source and responsibility*	
Objective			
Poverty Reduction	Reduce proportion of the people below th absolute poverty lines (Kenya and $1PPP) by 10% by 2006 from 57% in 1997 (MDG1)	Kenya Living Standard Survey-KLSS (CBS) (in design stage)	
	Reduce proportion of people living in hunger by 10% by 2006 (MDG2)	MoA, WFP, FAO, KLSS	
Development Outcomes			
Poverty Targeted Programs			PEC coordination
Improve conditions of ASAL's residents	50% of road upgrading to marginalized ASAL district 2003-5 and average transport cost reduced	MRPW reports and weekly retail market prices (CBS), Rural Market Prices Survey (CBS)	
Conditions of slum dwellers significantly improved	Income of slum dwellers increased, incidence of water borne diseases decreased, incidence of crime in the slum declined	Poverty map, KLSS with slum clusters (CBS), KDHS (CBS), MoH, City Councils, Crime Investigation Department, UNDF crime victims survey, APHRC	
Reduce vulnerability of marginalized groups	Reduced gender disparities in access to primary and seconday education (MDG 4)	School census (MoE), KDHS (CBS), WMS (CBS)	
	Proportion of orphans receiving adequate care		
Outputs			
Poverty Targeted Programs			
Social Action Fund			
Promote community-driven development projects	more communities benefit		
Arid and Semi-Arid Lands (ASALs)			
Increased ASALs incomes and assets from livestock and tourism activities	Increased value and diversity of livestock/productive and household assets	Baseline survey based on enhanced EWS sublocations samples for March and Sept	
Improve ASALs nutritional status	Stunting rate reduced during 2003-2008		
Improved capacity to deal with disasters in the ASALs and mitigate their effects	Proportion of food insecure to total ASAL population reduced		
Reduced ASALs conflicts over land	Number of reported land conflicts		
Gap in service delivery between ASAL areas and the rest of Kenya narrowed	ASALs enrollment rates increase by 50% by 2007		
Improved health status in ASALs	Gap in morbidity rate in ASALs to overall morbidity narrowed		
Reduced insecurity in ASALs	ASALs cross-border incidences reduced		
Improved road infrastructure in ASALs (see Infrastructure section in Economic Growth Matrix)	all major roads rehabilitated		
Slum Upgrading			
Security of tenure improved	50,000 people a year in 2004-5 awarded tenure to the land	MLS records	Community mobilization, poverty map
Upgrading plans	Kibera (Soweto) plan completed in 2004, Kisumu slum plan completed in 2004	MRPW and MLA reports	Establishment of fund
Increase of slum dwellers with access to clean water and sanitation	Coverage for urban water and sanitation services increased by 2% per year from 73% to 83% and 64% to 74% respectively.	Surveys by MoW with relevant NGOs, annual reports from water services providers.	
Increase in the number of electric distribution points in the slums	a number of electric distribution points in the slums provided in 2004-5	MoEnergy	Affordabiliy of power
Slum road network improved	50% of slum road network improved	MRPW	

	Availability of housing expanded for slum dwellers		150,000 new dwellings built in 2003-2007	Number constructed	
	Squatter communities in the coastal provinces regularized.		all squatter communities regularized	MLA, MLG, MRPW, housing department	
	Vulnerability				
	Rehabilitated street children		all street children provided with shelter, are off-drugs and back in school by 2007	Number rehabiltated	
	Establishment of the Commission; Approval of Sessional Paper on Gender and Development		Act of Parliament	Gazette	
	Policy paper completed; enactment of Disability Bill		Act of Parliament	Gazette	
	Communities receive grants for their priority project		1,500 groups receive grants in 2003	Department of Social Services (MGCSS) records	
	Rehabilitation of VRCs, curricula updated increased variety of courses		Six VRCs rehabilitated in 2003-6	MRPW, MoE, MoH	
	Rehabilitated and maintained roads, increased hardship allowances for social service providers		all major roads to marginalized communities rehabilitated		
Activities/Policies		**Implementing Agency**	**Inputs**		
	Poverty Targeted Programs				
	Social Action Fund				
	Establish Social Action Fund				
	Arid and Semi-Arid programs				
	Livestock development: implement a broad based livestock development policy to be implemented, focusing on marketing of livestock, providing adequate water, conducting research on livestock breeds and strengthening animal health delivery system, developing supporting infrastructure and legislative and institutional measures; and facilitate the establishment of livestock based industries by removing inhibiting policies and offering appropriate investment incentives	OP, MoALD MENR, MOWR, MRPW, MIT, Ags			
	Fishing development: Facilitate private sector development of fishing infrastructure in regions with fishing potential; and sensitize communities on the nutritional importance of fish	MENR, OP			
	Tourism development: Strengthen community based wildlife conservation; develop appropriate compensation policy to deal with human wildlife conflict and support development of eco tourism	OP, MIT			
	Disaster and emergency response: strengthen food distribution and targeting mechanism, develop and implement a disaster management policy and establish community based drought early warning systems.	OP, MENR			
	Land Tenure: undertake data based inventories of tenure arrangements; review adjudication process in trust land areas; and establish accountable land boards	OP, MLS			

INPUTS	Education: initiate an out of school programme for pastoralist children; develop linkages and equivalences between non formal and formal education system; improve schooling facilities; and strengthen capacities of communities to ensure better planning and management of schools	OP, MoE			
	Health: strengthen community based health care systems; intensify immunization of children an other members of pastoralist community;provid public health education to communities	OP, MoH			
	Security: strengthen security apparatus in ASALS; ensure that constumary mechanisms for conflict resolution are recognized; and increase border surveillance	OP (police), OP (prov admin)			
	Infrastructure: bitumize major roads and rehabilitate others to all weather status; implement food for work program in food insecure areas; and mobilize community maintenance of feeder roads	OP, MRPW			
	Implement Arid Lands Resource Management Project				
	Slum Upgrading				
	Land adjudication and registration	MSL	Land surveys, compulsory acquisition (KSh), legal services, adjudicator services	MLS records and reports, budget allocation (MoF) and accounts (MLS/MRPW	High level political commitment needed, dwelling owners' resistance appeased
	Develop slum upgrading and relocation plan	MRPW	Land physical plan, acquisition of alternative sites, relocation incentives	MRPW and MLS project reports; UoN (HABRI) Research Reports; NCC, Mathare4A (Archdioceses of Nairobi)	Coordination of MRPW with MoE, MoH, MLS, MoW, MoGCSS, MoLG, MoEnergy, MoF, OP and other institutions (NHC, Habitat)
INPUTS	Housing: Enact housing legislation to facilitate private sector development of affordable housing, surveying current housing facilities, facilitating construction (design and building) and financing (tenar purchase and mortgage-backed securities)	MRPW/ NHC	Surveys of structure, design, construction equipment, facilitation of tenant purchase (NHC), engineers	MRPW reports, Habitat	
	Water and sanitation: expansion of water network and sanitation facilities	MoW/ Loc Auth	Completing surveys	MoW reports	Private sector participation in the water and sanitation sectors, AMREF effective
	Electrification: provision of security lighting and electricity distribution points	MoEn	Manpower, electric materials	MoEnergy, Kenya Power	Energy sector reforms in place
	Roads: slum road upgrading	MRPW	In Progress		
	Vulnerability				
	Street children and orphans' programs		Drug treatments, beds, clothes distributed, meals, medical treatments, medications, in house teachers, vocational training		
	Mainstreaming gender: National Gender and Development Commission; Sessional Paper of Gender and Development		legal services, Gazette Notice		Attorney General drafts bills, Parliament approves the Sessional Paper for Gender and Development
	Youth and vulnerable groups: policy development; improve targeting and programming				Attorney General drafts bills, Parliament approves Disability Bill
	Community development: project plannin and group facilitation		grants, transport, training, field allowances		
	Vocational training for persons with disabilities		training, placement funds		

	Marginalized communities: improve physical access, access to markets, access to social services				

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PART C.1: GOVERNANCE Safety, Law and Order

Narrative		Indicators	M&E	Assumptions/Risks
		from….to….by (date)	*data source and responsibility*	
Objective				
Improved Governance		Control of corruption and rule of law: proportion of corruption cases leading to conviction increased	Criminal Investigation Department	
Development Outcomes				
Public safety, law and order				
Strengthened justice and rule of law/ achieving predictable and impartial justice system		Increased ratio of concluded cases to reported criminal cases from 21% in 1999 to 60% in 2006	Criminal Investigation Department, Statistical Abstract (CBS)	
Improved security		Reduced number of criminal offences from 63,000 in 2001 to 35,000 in 2006	Criminal Investigation Department, Statistical Abstract (CBS)	
Outputs				
Public safety, law and order				
New constitution approved		New constitution in place by June 2004	Gazette notice	
Security force strengthened		Number of trained and deployed in the policeforce	Police Dept/Office of the President	
Corruption cases prosecuted		Completed Goldenberg investigation	MoJ, Anti-Corruption Commission	
		Corrupt judges replaced	MoJ, Anti-Corruption Commission	
		Grabbed land and public housing repossessed	MoJ, Anti-Corruption Commission	
		Corrupt contractors banned from public contracting	MoJ, Anti-Corruption Commission	
		Number of civil service prosecuted in corruption ralated cases in 2003-2006	MoJ, Anti-Corruption Commission	
Reduced average time taken from filing to disposal of cases from 5 years to 2 in high court years and in magistrate courts from 3 to 1		Ratio of cases awaiting trial/reported case reduced from 75% in 1999 to 50% in 2006	Criminal Investigation Department, Statistical Abstract (CBS)	
Computerized registries for Justice institutions.		Registries installed by 2004	MoJ progress reports	
Reduced congestion in the prisons		Number of inmates per cell reduced	OVP&MHA	
Activities/Policies	**Implementing Agency**	**Inputs**		
Public safety, law and order				
Constitutional review	GoK			Parliament reviews and approves constitutional draft
Complete constitutional review	MoJ	A new constitution developed		
Review and harmonize laws	AG			
Disseminate				
Police reforms	OOP, MHA,			
Hire additional security staff to start closing the gap with international/UN standards.		New wages implemented in January 2004. Hiring ongoing to meet the ratio		
Retrain, reequip and redeploy police force and other security services	OOP	Train, procure equipment and redeploy security parsonnel		
Strengthen partnerships between the police force and the private sector security agencies				
Computerize police department		Equipment and training		
Complete stalled housing projects for security staff.		Number of houses completed and occupied by security personnel	Public Works	
Strengthen specialized anti-banditry units, a tourism police unit, anti-terrorism police units, port patrol units, and community policing initiatives and anti-corruption units.		Number of units established and police recruited and deployed in the specialised units		

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by (date)	*data source and responsibility*	
	Develop framework to undertake comprehensive intelligence research in crime and security		Established framework for comprehensive intellligence service		
	Revise and enact laws to deal with modern crime challenges such as terrorism, fraud, money laundering, e-commerce crimes, and tax evasion.		New legislations enacted		
	Anti-corruption measures	MoJ, AG, KACC, OP			
	Implement the provisions of the anti-corruption Economic Crimes Act (2003)		Public Ethics Act in place and implemented		
	Prepare a five-year anti-corruption strategy				
	Mount anti-corruption campaign involving stakeholders and community leaders				Strong and sustained political commitment
	Provide autonomy from political interference to departments and institutions fighting corruption		Decrees		Political interference significantly reduced
	Identify and prosecute corruption cases		Legal services		
	Remove civil servants including judges involved in corruption		Severance arrangements		
	Judicial sector reform	MoJ			
	Prosecute corruption cases involving judges and other judicial staff		Legal services		
	Increase access to justice through support to legal aid, and mechanisms for community justice		Zoning of courts in various parts of the country into 12 circuit courts		
	Improve legal education, recruit and train new judicial personnel		Capacity building		
	Strengthen judicial system information systems		Equipment, training		
	Renovate and rehabilitate court buildings		Courts rehabilitated and judges and magistrates posted		
	Strengthen the Judiciary Service Commission		Improved adminstration of justice		
	Improve adjudicating complaints against practicing advocates	MoJ	Autmation of the Judiciary for speedy processing,efficiency storage & retrieval of information		
	Implement proposed Justice and Integrity Project				
	Prisons: Fully implement Community Service Order	MHA	Reduce prisons conjestion		

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PART C.2: GOVERNANCE Public Administration

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by (date)	*data source and responsibility*	
Objective					
	Improved Governance		Improve transparency and accountability of public administration		
Development Outcomes					
2	**Public Sector Transparency and Devolution of Power**				
	Fiscal resources released forallocation to priority programs		Wage Bill/GDP reduced to 8.5% of GDP by 2005/06	Budget Outturn, Treasury	civil service reforms successful
			Fiscal transfers to parastatals reduced by 40% by 2006/07	Budget - MoF	Parastatal reforms successful
	Empowerment of communities		Proportion of budgetary resources controlled by local governments increased	Budget - MoF	fiscal discentralization undertaken
			Communities report having greater control on local development resources	Participatory assessments e.g. score cards	fiscal discentralization undertaken
Outputs					
2	**Public Sector Transparency and Devolution of Power**				
OUTPUTS	Size of the civil service rationalized		civil service reduced by 2008	IPPD/Directorate of Personnel Management	resources to undertake the execise and political will
	Improved incentive structure for civil service employees		New salary structure in place. New promotion policy approved	IPPD/Directorate of Personnel Management	retrenchment leads to savings for the exchequer
	Rationalized structure of parastatals		Number of parastatals reduced	Privitization commission Report, MoF	Political will
	Greater fiscal decentralization		Proportion of fiscal resources managed by the decentralized administration as a % of total government spending increased	Budget (MoF)	fiscal decentralization successful
Activities/Policies		**Implementing Agency**	**Inputs**		
	Public Sector Transparency and Devolution of Power				
	Civil Service Reform	OP			
	Establish target and reforms for achieving a sustainable wage bill	MoF			
	Implement rationalization and retrenchment of civil servants to reduce wage bill/GDP ratio to level agreed with MoF	MoF/ DPM	Reduce the number of civil service by 2007/08	Increased allocation to productive sectors and Infrastructure, Treasury	2000 civil servants leave through natural attrition ever year, freeze on recruitment continues apart from the critical areas.
	Undertake job evaluation exercise as the basis for regrading and establishing salary structure for the civil service	DPM	Job evaluation carried out by 2005	Evaluation report - DPM	Capacity to undertake the evaluation
	Develop new policy of pay and benefits for civil servants with emphasis on performance-based advancement and accelerate implementation of IPPD	DPM	Permanent Pay and Review Board in place by 2004, and New Policy on Pay and Benefit approved by end of 2005.	Terms of Reference for the Board and policy document, - DPM	No capacity constraint within the government.
	Develop training and capacity-building policy	DPM	Policy developed and approved by 2005	Policy document - DPM	
	Produce and implement ministerial strategic plans and service delivery benchmarking exercises	DPM/ all ministries	Ministerial strategic plans in place by mid 2004 and service delivery benchmarks developed by 2004	Strategic Plans, DPM	The strategic plans will be implemented and there is no capacity constraint
	Public expenditure systems				
	See Public ex[penditure reforms in Matrix A.1	MoF			
	Parastatal reform				
	Finalize plan to restructure the 136 existing state corporations and statutory boards, including rationalization, restructuring, mergers and legislative reforms, and submit to the Cabinet for approval and implementation.	MoF	Privitization bill passed and the Privitization commission formed by end of 2003	Privatization bill and the Privitization commission (AG chambers and MoF).	Strong and sustained political commitment.

Narrative			Indicators	M&E	Assumptions/Risks
			from….to….by (date)	*data source and responsibility*	
I	**Local government reforms**	MoF, MLG			
N	Develop national policy on decentralization consistent with constitutional reform, and review Local Authority Act	MoLG	National policy on decentralization in place by 2005 and the LA Act reviewed b 2005	Policy document and the Reviewed local authority Act, (MoLG and the AG Chambers)	no political interferance.
P U	Deepen local government reforms including operationalizing Kenya Local Government Reform Programme (KLGRP) by implementing the local authority service delivery action plan and establishing an integrated financial management information system, and staff rationalization	MoLG	LA Service delivery plan implemented from 2005, IFMIS functionsl from 29005	Audit and Controller General Report - AG	Political will and capacity
T	Review fiscal decentralization modalities/ establish single disbursement system to the localities and system of performance-based rewards and punishments	MoF	Legal services to revise Local Governmen Act	New LA Act and reviewed fiscal decentralization modalities, MoF	Political goodwill
S	Strengthen M&E and vertical reporting requirements to monitor local government programs		M$E capacity built, annual audits undertaken.	Account (local governments), audits (General Comptroller)	no human capacity constraint and M$E capacity is utilised

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PART C.3: GOVERNANCE Monitoring and Evaluation

	Narrative	Implementing Agency	Indicators	M&E	Assumptions/Risks
			from….to….by (date)	*data source and responsibility*	
Objective					
	Improved Governance		Government effectiveness (MDG12)	Governance Survey, KIHBS, CWIQ (CBS)	Reliable GoK and Donor cash flow
Development Outcomes					
	Improved data quality		Survey questionnaires modified by June 2004; discrepancy between survey and administrative data reduced by 2005.	Independent assessment	Board approval of STATCAP Master Plan
	Expanded access to information		Dissemination mechanisms in place	Research, reports	
	Strengthened policy analysis		Number and quality of studies completed in priority areas of the National Research Agenda	Progress reports, peer reviews	Funds for capacity building
	M&E feedback improves budgetary allocations		Budget savings from reforms; budget allocations in ERS priority programs	PER	
Outputs					
1	Institutional framework for M&E in place		NESC and Executive Secretariat, MEC established and staffed by December 2003	Decree; Budget	Adequate GoK and donor budgetary support
2	Statistical Strategic Plan implemented		Implementation plan ready by March 2004	Progress reports	Board approval of STATCAP Ma
3	Integrated data management system		System designed and installed by June 2004	Consultant reports; procurement records; functional IDMS	Establishment of inter-ministerial
			MIS operational in key ministries (MoE, MoH, MRPW, MLD) by 2004	Implementation reports (MoE, MoH, MRPS, MLS)	
4	National research agenda		National Research Agenda approved by Jan 2004	Publication	Continued collaboration with local research institutions
5	Interinstitutional protocol for budget/MTEF/M&E linkage		MoP/MoF protocol approved by Dec 2003	Decree	MoF implements result-based budget reforms, OP civil service reforms
6	Government institutions that received training on M&E		Number of government staff that received training on M&E	Training records	
7	Public information access policy		Policy approved by June 2004	Gazette/decree	
8	Memorandum of Understanding with NGO community		NGO MoU negotiated and approved by June 2004	Publication	continued favourable climate for continued private sector participation
Activities/Policies		**Implementing Agency**	**Inputs**		
1	Develop institutional framework for M&E, including a National Economic and Social Council and an executive secretariat	MoP	Action plan	Progress reports	
2	Implement Statistical Strategic Plan	CBS	Consultancy services, Technical assistanc missions, staff, equipment	Implementation reports (CBS)	SP Bill passed; Board approval o STATCAP Master Plan
3	Install integrated data management system in CBS	CBS	Consulting services, training, equipment	Implementation reports (CBS, MoE, MoH, MRPW,MLS)	
4	Develop national research agenda in consultation with academic and donor communities	MoP	Consulting services	Report	
5	Develop inter-institutional framework to ensure linkage between budget, MTEF and M&E	MoP MoF		Decree	
6	Implement plan to institutionalize M&E across government	MoP	training courses held workshops, equipment procured	MoP reports	
7	Design and approve public information access policy	MoP	Consulting services	Draft bill	
8	Develop cooperation with NGOs to support dissemination and feedback	MoP		Memorandum of Understanding	