

ATTACHMENT
ANNEX I

Table 1. Kenya: Structural Performance Criteria and Benchmarks Under the PRGF Arrangement for 2003/04

	Implementation Date	Status
Prior Actions		
Presentation to parliament of a budget for 2003/04 consistent with program understandings.	End June 2003	Observed
Government to decide on transfer of financial sector regulatory functions from the Ministry of Finance to the Central Bank of Kenya (CBK).	End June 2003	Observed
Reaching an understanding with staff on a time bound plan for restructuring the National Bank of Kenya (NBK).	End June 2003	Observed. Subsequently, differences arose between Fund and Bank programs.
Structural Performance Criteria		
Finalize an audit of the stock of pending bills and adopt measures that provide for the clearing of the stock of pending bills over a three-year period.	End December 2003	Not observed. Financial audit completed but clearance plan to await conclusion of legal audit.
Completion of a report of the Committee of Officials on the new mechanism for determining the salaries of public officials to ensure the reduction of the wage bill in total expenditure.	End December 2003	Observed
Completion of an audit on the financial position of National Social Security Fund (NSSF).	End December 2003	Not observed. Audit was completed in March 2004
Submission to Parliament of a Banking Act Amendment Bill providing for transfer of all financial sector regulatory functions from the Ministry of Finance to the CBK.	End March 2004	Not observed. Draft legislation was held up in Attorney General's office on account of limited drafting capacity. Presented to Parliament in June 2004.
No imposition of controls by the government or the CBK on the determination by commercial bank of bank fees, charges, or interest rates.	Continuous	Observed
Structural Benchmarks		
Presentation of 2002/03 final budgetary accounts to the Auditor General.	End March 2004	Observed
Reaching an understanding with staff on new wage setting mechanisms for public employees designed to reduce the share of the wage bill in total expenditure.	End March 2004	Not observed. New wage setting mechanism agreed and incorporated in program for 2004/05.
Presentation to parliament of a bill to establish a framework for the transparent privatization and sale of public assets.	September/December 2003	Not observed. Privatization bill presented to Parliament in January 2004.
Development of an action plan and timetable for introducing a Commitment Control System (CCS) to minimize deviations of expenditure outcomes from targets and the buildup of arrears.	End December 2003	Partially observed. Most of the elements of a CCS have been implemented. A technical evaluation of the current expenditure control system to identify required actions has not yet been undertaken.
Establishment of a clear timetable for completion of initial asset declarations by all senior public officials.	End December 2003	Observed. Initial declarations completed in November 2004.
Establishment of the Kenya Anticorruption Commission (KACC), with a credible management.	End December 2003	Not observed. KACC became operational in September 2004.
Reaching of understandings on the fiscal implications of restructuring the NSSF.	End March 2004	Not observed. NSSF restructuring to be undertaken in the context of the second World Bank FSAC beginning 2005/06.

Table 2. Kenya: Results on Quantitative Performance Criteria and Benchmarks Under the PRGF-Supported Program for 2003/04 ^{1,2}
(In millions of Kenya shillings)

	2003			2004			2004		
	DECEMBER (PCs)			MARCH			JUNE (PCs)		
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status
1	Cumulative change in net foreign assets of the Central Bank of Kenya (CBK) 3/			8,747			14,974		
1a.	Adjusted NFA	2,431		-3,695	5,280	Observed	-2,905	5,202	Observed
2	Cumulative change in net domestic assets of the CBK 4/			-13,544			-19,615		
2a.	Adjusted NDA	-4,351	Observed	8,562	-5,505	Observed	2491	-2,155	Observed
3	Cumulative change in net domestic financing of the central government, excluding government debt issued for any bank restructuring, and the new securitization of expenditure arrears. 4/			19,027			19,814		
3a.	Adjusted NDF	12,223	Observed	27,930	8,942	Observed	41,565	6,309	Observed
4	Central government wages and salaries 4/			66,662	70,370	Not Observed	93,380	95,850	Not Observed
5	New contracted or guaranteed nonconcessional external medium- and long-term debt by the central government or the CBK 4/ 5/			0	0	Observed	0	0	Observed
6	New contracted or guaranteed external short-term debt by the central government or the CBK 4/ 5/			0	0	Not Observed	0	0	Not Observed
7	Accumulation of domestic budgetary arrears 4/ 5/			0	0	Observed	0	0	Observed
8	Accumulation of external payments arrears 4/ 5/ 6/			0	0	Observed	0	892	Not Observed
Memorandum items:									
	Nonproject external support (for NFA/NDA/NDF)7/	14,127	8,749	21,191	8,749		28,255	10,376	
	Privatization receipts (for NDA) 7/	0	0	0	0		0	0	
	Nonbank holdings of government debt (for NDA)	131,250	116,080	134,817	119,518		138,383	119,422	
	Program exchange rate (Kenya shillings per U.S. dollar)	78.95	78.95	78.95	78.95		78.95	78.95	

1/ The fiscal year begins on July 1, 2003.

2/ The performance criteria and benchmark under the program, and their adjusters, are defined in the technical memorandum of understanding (TMU). All test dates for the performance criteria and benchmarks are on an end-of-period basis.

3/ Floor.

4/ Ceiling.

5/ Continuous performance criterion.

6/ External payment arrears at end-December 2003 were subject to a forthcoming Paris Club rescheduling, which then also covered arrears at end-March 2004, and hence these arrears were excluded under the TMU and did not violate the performance criterion.

7/ Cumulative.

8/ Financing contracts for two security-related procurements whose value totaled Euro 72 million were signed on December 4 and December 17, 2003, respectively. One of the contracts was cancelled, and the other suspended, by June 30, 2004.

9/ As of June 20, 2004, there were two categories of external payment arrears. The first category consisted of arrears on commercial loans/suppliers credit contracts that the government had put on hold while an audit of all commercial financing contracts is carried out, in response to the Anglo Finance scandal. It is expected that these arrears will be short-term in nature, and will be settled once the underlying loan contracts are determined to be legitimate. The second category consists of arrears to a single Paris Club creditor due June 30, 2004 that were settled in July 2004. Note that under the January 2004 Paris Club rescheduling agreement, Kenya was to pay by July 1, 2004 certain nonrescheduled arrears covered under the Agreement; as of October 1, 2004, some arrears of Kenya Telkom that are guaranteed by the Government are in the process of being settled, which would then fully settle the payment of the relevant arrears.

Table 3. Kenya: Proposed Prior Actions, Structural Performance Criteria, and Benchmarks Under the PRGF-Supported Program for 2004/05

Policy Action	Implementation Date
Prior actions¹	
Initiate restructuring and strengthening of capacity of the Ministry of Finance to manage macroeconomic and fiscal policies by consolidating budget-management and planning functions in the Ministry.	End-September 2004
Agreement with the government on a revised budget for 2004/05 designed to limit domestic borrowing to below Ksh 32 billion.	End-September 2004
Agreement with the government on a system of annual declarations and verifications of the assets of ministers, permanent secretaries, and heads of state corporations.	End-September 2004
Completion of the Budget Outlook Paper for 2005/06—2007/08.	End-November 2004
Structural performance criteria	
Second Review	
No imposition of controls by the government or the CBK on the determination by commercial bank of bank fees, charges, or interest rates.	Continuous
Complete asset declaration of ministers, permanent secretaries, and heads of state bodies.	End-December 2004
Initiate detailed assessment of financial and debt positions of key parastatals.	End-December 2004
Completion of the Budget Strategy Paper for 2005/06.	End-March 2005
Issuance of new guidelines for wage arbitration by the Industrial Court. (third disbursement)	End-March 2005
Third Review	
No imposition of controls by the government or the CBK on the determination by commercial bank of bank fees, charges, or interest rates.	Continuous
Complete verification of the asset declarations of ministers and senior officials.	End-June 2005
Structural benchmarks	
Develop a time-bound plan to restructure/privatize public-sector owned banks.	End-March 2005
Introduce simplified customs processing procedures for import and export, supported by verifiable performance indicators in a pilot office.	End-March 2005
Apply new wage setting mechanism for public employees.	Continuous
Completion of detailed financial review of NSSF.	March 2005
Limit overdraft position of the NBK with the CBK to the end-June 2004 level.	End of each month
Submit to parliament an amendment to the Public Officers Ethics Act (2003) to provide for the annual verification of asset declarations of ministers, permanent secretaries and heads of state bodies by the KACC.	April 2005

¹The government is taking a number of prior actions prior to the issuance of the staff report on the first review of the PRGF arrangement.

Table 4. Kenya: Proposed Quantitative Performance Criteria and Benchmarks Under the Program for 2004/05 1/ 2/
(In millions of Kenya shillings)

	2005			
	December Benchmark	March Performance Criterion	June Benchmark	September Indicative Target
Cumulative change in net foreign assets of the Central Bank of Kenya (CBK) 3/	-7,022	-2,213	9,028	677
Cumulative change in reserve money of the CBK 4/	2,728	3,022	3,432	3,494
Cumulative change in net domestic financing of the central government, excluding government debt issued for any bank restructuring, and the new securitization of expenditure arrears. 4/	19,966	27,252	26,982	44,600
Central government wages and salaries 4/	52,064	78,096	104,128	132,613
New contracted or guaranteed nonconcessional external medium- and long-term debt by the central government or the CBK 4/ 5/	0	0	0	0
New contracted or guaranteed external short-term debt by the central government or the CBK 4/	0	0	0	0
Accumulation of domestic budgetary arrears 4/ 5/	0	0	0	0
Accumulation of external payments arrears 4/ 5/	0	0	0	0
Memorandum items:				
Programmed external budgetary support 6/	0	4,750	11,949	16,010
Privatization receipts 6/	100	169	200	200
Program exchange rate (Kenya shillings per U.S. dollar)	78.95	78.95	78.95	78.95

1/ The fiscal year begins on July 1, 2004.

2/ The performance criteria and benchmark under the program, and their adjusters, are defined in the technical memorandum of understanding (TMU). All test dates for the performance criteria and benchmarks are on an end-of-period basis.

3/ Floor.

4/ Ceiling.

5/ Continuous performance criterion.

6/ Cumulative.

Table 5: Kenya. Disbursement Schedule Under the Three-Year PRGF Arrangement

Disbursement	Amount (In millions of SDRs)	Date	Contingent on Board Approval
1st	25	November 2003	November 2003
2nd	50	December 2004	end-December 2003 performance criteria (PC)
3rd	50	July 1, 2005	end-March 2005 PC, and completion of the second review by end- June 2005
4th	25	January 1, 2006	end-September 2005 PC, and completion of the third review by end-December 2005
5th	25	July 1, 2006	end-March 2006 PC, and completion of the fourth review by end- June 2006
6 th ¹	25	January 1, 2007	end-September 2006 PC, and completion of the fifth review by end-December 2006
7 th ¹	25	July 1, 2007	end-March 2007 PC, and completion of the sixth review by end-June 2007
Total	225		

¹ While these disbursements at present fall outside the period of the arrangement, it is expected that the authorities will in the future request an extension of the arrangement.