

**Kenya: 2001 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2001 Article IV consultation with Kenya, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **December 11, 2001**, with the officials of Kenya on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on February 15, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff supplement on the National Governance Programmes and Initiatives of the Kenyan Government of **December 2001**.
- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its March 15, 2002 discussion** of the staff report that concluded the Article IV consultation.

The document(s) listed below have been or will be separately released.

Selected Issues and Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

**To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to [Publicationpolicy@imf.org](mailto:Publicationpolicy@imf.org).**

Copies of this report are available to the public from

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

Price: \$15.00 a copy

**International Monetary Fund  
Washington, D.C.**

INTERNATIONAL MONETARY FUND

KENYA

**Staff Report for the 2001 Article IV Consultation**

Prepared by the Staff Representatives for  
the 2001 Consultation with Kenya

Approved by José Fajgenbaum and Liam P. Ebrill

February 15, 2002

Contents	Page
Executive Summary .....	3
I. Introduction.....	5
II. Recent Economic Developments.....	6
III. Report on the Discussions and Medium-Term Prospects	13
A. Issues Related to the PRGF Arrangement.....	14
B. Other Governance Issues .....	14
C. Macroeconomic Policies .....	16
Fiscal policy .....	17
Monetary policy and the financial sector .....	23
External sector policies .....	24
Trade policy and tariff reform.....	25
Regional integration and trade agreements .....	25
Other structural reforms .....	26
The PRSP process .....	26
Data issues .....	26
Technical assistance.....	27
IV. Staff Appraisal .....	27
Boxes	
1. HIV/AIDS .....	7
2. Paris Club Debt Rescheduling .....	11
3. Prior Actions to Bring the PRGF-Supported Program Back on Track .....	15
4. Public Expenditure Management Reforms .....	20

5.	The Health of the Banking Sector .....	23
6.	The Poverty Reduction Strategy Paper (PSRP) Process .....	27

#### Figures

1.	Selected Economic and Financial Indicators, 1995–2001 .....	8
2.	Selected Economic and Financial Indicators, 2001–05 .....	18
3.	Gross Domestic Debt by Instrument and Maturity, 2000–01 .....	22
4.	Real Sector Indicators .....	31
5.	Fiscal Indicators, 1990–2001 .....	32
6.	External Sector Indicators, 1990–2001 .....	33
7.	Inflation and Exchange Rates, January 1991–September 2001 .....	34
8.	Money and Interest Rate Indicators, December 1993–June 2001 .....	35

#### Tables

1.	Main Macroeconomic Indicators, 1997–2001 .....	9
2.	Main Macroeconomic Indicators, 2001–04 .....	17
3.	Central Government Fiscal Sustainability Indicators, Program Scenario 1999/2000–2001/02 .....	22
4.	Macroeconomic Scenario, 2000–05 .....	36
5.	Central Government Financial Operations, 1999/2000–2005/06 .....	37
6.	Monetary Survey, 2000-02 .....	39
7.	Balance of Payments, 1999–2005 .....	40
8.	External Debt Indicators, 1998–2005 .....	41
9.	Financial Performance Criteria and Benchmarks Under First-Year Program, July 2000–June 2001 .....	42
10.	Structural Performance Criteria and Benchmarks Under the First-Year Program, July 2000–June 2001 .....	43

#### Appendices

I.	Relations with the Fund .....	44
II.	Relations with the World Bank Group .....	47
III.	Statistical Issues .....	50
IV.	Social Indicators .....	54

## EXECUTIVE SUMMARY

- **Kenya's economic performance during the past decade has been well below its potential.** This performance reflects the failure to sustain prudent macroeconomic policies, the slow pace of structural reform, and the persistence of pervasive governance problems. Consequently, Kenya's real per capita GDP is now lower than it was in 1990, and poverty is much more prevalent. In recent years, the HIV/AIDS pandemic has been incapacitating and killing an increasing number of the population and imposing a rising social and economic burden.
- **The authorities achieved a measure of macroeconomic stability in 2001, with subdued inflation and a relatively stable exchange rate.** This stability, however, is very fragile because of a difficult fiscal position, anemic growth, and a weak banking system. A severe drought in 2000 caused real GDP to contract by 0.3 percent. Real GDP is estimated to have increased by only 1 percent in 2001 in the face of low private investment, uncertainty regarding the government's policy stance, the low level of donor support, and the recent fall in tourism. The annual average inflation rate in 2001 declined to just 0.8 percent, while the external current account deficit worsened in 2000 and 2001 owing to drought-related imports and sluggish export growth.
- **The government's fiscal program went off track over the course of 2000/01.** A sizable loss of foreign program financing and the failure to privatize Kenya Telkom severely limited cash expenditure, while the overall deficit exceeded the (adjusted) program deficit by 1 percent of GDP. Recourse to arrears accumulation and a lack of finance to unwind stalled projects has also brought about an escalation of new claims of pending bills on the budget. This is a serious problem that needs to be addressed urgently.
- **The provisions of the Central Bank of Kenya (Amendment) Act (the so-called Donde Act) represent a serious risk for banking activities.** This act, which, if implemented, would set controls on bank interest rates, threatens an already very fragile sector and thereby increases the likelihood of a protracted economic downturn by further restricting access to bank credit. Recent indications are that the financial position of the banking system has weakened, particularly among the six public sector banks.
- **In late 2000, Kenya's Fund- and World Bank-supported program suffered major setbacks, and efforts to bring the program back on track have been only partially successful.** Key legislation for the reestablishment of an independent Kenya Anti Corruption Authority failed to pass, and neither the Anti Corruption and Economic Crimes Bill, nor the Public Service (Code of Ethics) Bill has yet been discussed by parliament. In addition, only partial progress has been made in the implementation of the government's reforms that are being supported by IDA.
- **The lower-than expected growth, the failure to bring the program back on track, and the associated loss of foreign financing have resulted in the emergence of a large**

**budgetary financing gap in 2001/02.** Bringing the Fund- and World Bank-supported program back on track before the end of the fiscal year could allow the remaining gap to be financed by domestic borrowing and perhaps some external rescheduling. However, with the considerable weakening of the economy, and with no program financing, Kenya will face hard choices in closing the budgetary finance gap, and this could have serious consequences for the economy.

- **The Kenyan authorities see no option but to try to get the PRGF-supported program back on track.** To facilitate this, broad understandings were reached with the staff on an alternative governance reform plan, that builds upon and strengthens the operations of the recently established Anti-Corruption Police Unit (ACPU) and includes a substantial strengthening of the Office of the Attorney General (AG), the enactment of appropriate versions of the two governance bills, the establishment of special courts for corruption cases, and the demonstration of clear results. The restrictive provisions of the Central Bank of Kenya (Amendment) Act will also have to be removed to allow commercial banks to resume normal lending operations.
- **Financial policies in the medium term should aim at adjusting the policy mix by tightening of the fiscal policy stance while maintaining a prudent monetary policy.** Pursuing prudent policies and structural and governance reforms in the context of a Fund- and World Bank-supported program could help bring about significantly better growth prospects for the medium term. Conversely, a relaxation of financial discipline would result in a much more difficult economic situation for 2003 and 2004. It will thus be critically important to maintain financial discipline in the period ahead and to resist pressures for expansionary policies that could jeopardize Kenya's budgetary and external positions for years to come.
- **The implementation of the structural reform components of the Fund- and World Bank-supported program has been disappointing.** It is critically important to make steady progress with the structural and institutional reform agenda, in order to create a more efficient and flexible economy and to enhance future growth prospects.
- **The budget process should start to reallocate resources toward spending priorities identified in the PRSP process.** Given that the government's flexibility in reallocating resources toward priority areas is still constrained by the weight of the wage bill and the heavy debt-service burden, the change of priorities will only be gradual. Thus, there is a pressing need to enhance the efficiency and effectiveness of services delivery, and improve expenditure management.

## I. INTRODUCTION

1. The 2001 Article IV consultation discussions were held in Nairobi during March 15-30, 2001, October 17-29, 2001, and December 4-11, 2001.<sup>1</sup>
2. At the conclusion of the 1999 Article IV consultation (SUR/99/139, 12/20/99), Directors commended Kenya for pursuing generally cautious macroeconomic policies but noted that weak economic growth had persisted, partly on account of slow progress in the areas of governance and structural reform. They stressed that significant and sustained efforts in these areas would be needed to address the concerns of the Kenyan population, investors, and donors, and before a comprehensive program could be supported by the Fund.
3. A three-year arrangement under the Poverty Reduction Growth Facility (PRGF), totaling SDR 150 million, was approved by the Executive Board on August 4, 2000 (EBS/00/138, 7/13/00). On October 18, 2000 the Board approved a modification of the program that significantly increased the fiscal deficit allowable to take account of the effects of drought and an augmentation of access of SDR 40 million (EBS/00/200, 9/28/00). Limited progress with the governance reforms and the declaration by the High Court that the Kenya Anti-Corruption Authority was unconstitutional meant that it was not possible to complete the first review of the program as scheduled. A mission in March initiated discussions on the 2001 Article IV consultation and on a critical mass of prior actions necessary to bring the program back on track. The staff continued discussions in May, reaching broad understandings on a budget for 2001/02 (July-June) that was to form the basis for a program for the second year under the PRGF. Further discussions were held in October and December, including the development of a new approach to deal with governance issues and corruption that, once implemented, would enable the completion of the first and second program reviews. At the request of the authorities, the staff report for the Article IV consultation was not presented to the Board until it became clear that it would not be possible to delay the discussion any further.

---

<sup>1</sup> The Kenyan representatives included Mr. Okemo and Mr. Obure, who replaced Mr. Okemo as Minister for Finance in November 2001; Dr. Leakey and Dr. Kosgei, who replaced Dr. Leakey in April 2001 as Head of the Public Service and Secretary to the Cabinet; Mr. Cheserem and Mr. Nyagah, who replaced Mr. Cheserem in April as Governor of the Central Bank of Kenya (CBK); and other senior officials. The mission was received by President Moi. The mission comprised Mr. Katz (head), Mr. Green (March), Mr. Maehle (October and December), and Mr. Powell (all AFR), Mr. Leckow (LEG, March), Ms. Kozack (PDR), Messrs. Flanagan and Szekely (FAD, March, and October and December, respectively), and Ms. Montero and Ms. Silman (Administrative Assistants, AFR, March and October, respectively). The missions were assisted by Mr. Itam, the Fund's Senior Resident Representative, and worked closely with the World Bank on structural and poverty-related issues.

4. The World Bank, through IDA, approved an Economic and Public Sector Reform (EPSR) Credit in three tranches for a total of US\$150 million on August 1, 2000. IDA's program aims at improving the fiduciary framework, strengthening the medium-term expenditure framework, restructuring the civil service, and implementing a privatization program. The second tranche<sup>2</sup> of US\$50 million would become available once the remaining conditions have been met, including cabinet approval of a new procurement law, presentation to parliament of legislation separating financial management and audit functions, and maintenance of a satisfactory macroeconomic framework as agreed with the Fund. The third and final tranche of US\$50 million would be made available after the finalization of the privatization of the telecommunications company (Kenya Telkom) and various other measures. Only partial progress has so far been made in the implementation of the reform program supported by IDA, and both the second and third tranches remain undisbursed.

5. Kenya's relations with the Fund and the World Bank are described in Appendices I and II, respectively. A description of key weaknesses in Kenyan statistics is provided in Appendix III. A table of social indicators is in Appendix IV. A selected issues paper focusing on inflation, fiscal and external sustainability, the banking system, governance, export performance, and Kenya's trade reform accompanies this report.

## II. RECENT ECONOMIC DEVELOPMENTS

6. **Kenya's economic performance during the past decade has been well below its potential because of a failure to sustain prudent macroeconomic policies, the slow pace of structural reform, and the persistence of pervasive governance problems.** This failure, together with relatively high interest rates in real terms, other high costs and risks of doing business in Kenya, and low and inefficient investment has led to weak employment and output growth. Consequently, Kenya's real per capita GDP is now lower than it was in 1990, and poverty is much more prevalent. The percentage of the population living below the poverty line was estimated as 52 percent in 1997. The number of poor has increased from 3.7 million in 1972 to 11.5 million in 1994 and is now estimated to have reached 15 million. In recent years, the HIV/AIDS pandemic has been incapacitating and killing an increasing number of the population and imposing a rising social and economic burden (Box 1).

7. **Economic activity remained weak in 2000 and 2001, and poverty increased.** A severe drought in 2000 caused real GDP to contract by 0.3 percent, thus continuing the trend of declining per capita income observed over the past decade. Real GDP is estimated to have increased by only 1 percent in 2001 in the face of low private investment, uncertainty regarding the government's policy stance, weak donor support, and the fall in tourism in the aftermath of the September 11 terrorist attacks in the United States.

---

<sup>2</sup> The first tranche was disbursed in September 2000.

### Box 1. Kenya: HIV/AIDS

As in most African countries, HIV/AIDS is a serious problem in Kenya. The HIV infection rate is estimated to be about 14 percent of the adult population, but the rate varies widely across areas and groups. Infection rates are highest in urban areas in **western Kenya (35 percent in Kisumu)** and thought to be lowest in some rural areas (**6.4 percent in Kaplong**). Occupational groups who travel or live away from home are being devastated: the infection rate on one fruit plantation is reportedly over 50 percent.

The official response to the disease was slow to start, in part because AIDS came to Kenya later than in some neighboring countries. However, the government has taken the threat seriously, and in 1999 President Moi declared AIDS a national disaster. The National AIDS Control Council (NACC) is now operational and is putting in place a **decentralized** approach to **prevention** (and eventually treatment) that will be able to take into account local customs and practice.

Business awareness is high, and a few companies have organized themselves to respond. Unilever, for example, has had an HIV/AIDS program in place for about ten years and has been able to reduce the within-company infection rate over the period while it has been rising in the local population. Company representatives have found the program, including treatment when necessary, cost-effective because absenteeism has been reduced and training costs for replacement workers avoided. Other businesses reported rapidly rising costs associated with HIV/AIDS. Plantation operators, including fruit, tea, and coffee producers, are seeing jumps in the number of AIDS cases and deaths. From a business point of view, this is causing labor shortages, **especially for skilled labor, ballooning costs for health care and terminal benefits, increased absenteeism and decreased production, and high replacement costs.**

#### AIDS and poverty

It is generally recognized that AIDS reduces the quality of life for victims' family members and pushes them into poverty. Family income—whether money income or subsistence from production—falls when adults fall victim to AIDS or they reduce work hours to care for sick family members. **An increasing number of children have been orphaned because one or both parents have succumbed to the disease:** the number of **currently living** orphans in Kenya is estimated to be **600,000**.

Poverty also increases susceptibility to AIDS. First, rural populations are harder to reach with education and condom distribution programs. Second, medical experts reported that malnourished populations were at greater risk for infection, that is, they were more likely to contract HIV when exposed. Third, social experts indicated that the poor, especially the young and unemployed might see a bleak economic future and therefore engage in risky behavior. They also felt that economic disruptions, for example, the recent drought, might separate families and cause temporary migration—both of which HIV/AIDS risk factors.

#### The macroeconomic consequences

HIV/AIDS is already having an impact on the macroeconomy and is responsible for at least some of the low GDP growth rates recorded over the past few years. Evidence of this can be seen indirectly but dramatically in the number of deaths attributed to AIDS by the NACC. In 2000, the NACC estimates that AIDS deaths will have reached 150,000 and climb to a rate of 220,000 deaths per year by 2005, or about 1 percent of Kenya's working-age population and 2 percent of the active labor force.<sup>1</sup> These high death rates imply that AIDS deaths are directly reducing potential annual economic growth in the range of  $\frac{1}{4}$  of 1 percent to  $1\frac{1}{2}$  percent a year, assuming that economic activity in Kenya is reasonably labor-intensive. The true impact could be larger if productivity growth were negatively affected, as would be expected if families care for the sick (and, therefore, cannot devote as much time or effort to economic activities) or if illness before death reduces a worker's effectiveness.

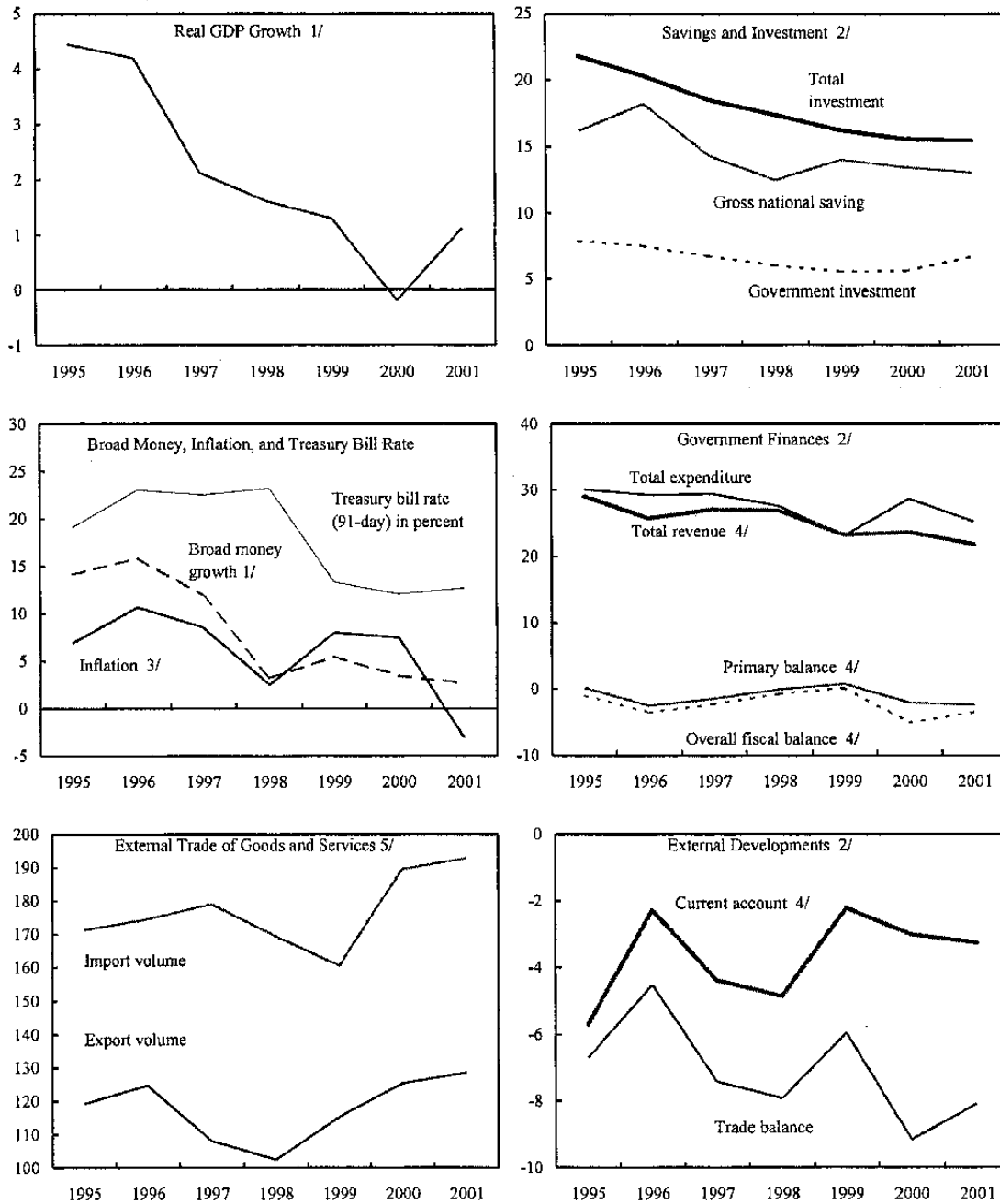
Other studies confirm losses in potential output of roughly this magnitude. One study finds that the level of GDP will be 15 percent lower in 2005 because of AIDS, and per capita income lower by 10 percent.<sup>2</sup> National saving will also be lower, implying a financing need of about 4 percent of GDP by 2005.

<sup>1</sup>The 1999 census estimated that there were 23 million Kenyans aged 5 years and older. Of these,  $3\frac{1}{2}$  million worked for pay, 8 million worked in family businesses or on family farms, and about 12 million were unemployed or economically inactive.

<sup>2</sup>Lori Bollinger, John Stover, and David Nalo, "The Economic Impact of AIDS in Kenya," *Futures Group International* (September 1999), p. 13. See also David A. Robalino, Albertus Voetberg, and Oscar Picazo, "The Macroeconomic Impacts of AIDS in Kenya." Unpublished paper, the World Bank D.C..



Figure 1. Kenya: Selected Economic and Financial Indicators, 1995-2001



Sources: Kenyan authorities; and staff estimates.

1/ Annual percentage change.

2/ In percent of GDP.

3/ Year-end 12-month percentage change in consumer prices.

4/ Excluding grants.

5/ Index 1990=100.

8. **In 2000 and 2001 Kenya achieved a measure of macroeconomic stability with subdued inflation and a stable exchange rate. This stability, however, is very fragile. It reflects anemic growth, a weak banking system, and a less than optimal policy mix with a difficult fiscal position putting pressure on monetary policy to provide the necessary stability.** The 12-month rate of consumer price inflation fell from 7.5 percent in December 2000 to -3.1 percent in December 2001 and the annual average inflation rate declined from 6.2 percent in 2000 to 0.8 percent in 2001 (Table 1). Following the drought in early 2000, a sharp increase in prices of several nonfood items (primarily fuel and power) and a more moderate increase in food prices caused overall consumer price inflation to pick up before a sizable fall in food prices caused the overall consumer price inflation rate to decelerate, becoming negative from November 2000 onward. Strong short-term nonseasonal volatility and significant changes in relative prices make it difficult to gauge the underlying inflation trend. Nonetheless, staff estimates suggest that inflation is likely to remain subdued in the near term (see Section II in the selected issues paper for a discussion of inflation in Kenya).

Table 1. Kenya: Main Macroeconomic Indicators, 1997-2001

	1997	1998	1999	2000	2001
	(Annual percentage change, unless otherwise indicated)				
GDP (factor cost)	2.4	1.8	1.4	-0.3	1.1
GDP (factor cost) per capita	0.1	-0.4	-0.7	-2.5	-0.9
Consumer price index (annual average)	11.4	6.6	3.5	6.2	0.8
M3X (M3 plus foreign currency deposits, end of period)	11.9	3.5	5.1	4.2	2.3
Interest rate (90-day treasury bill, in percent, end of period)	26.4	12.6	20.0	12.9	10.9
	(In percent of GDP, unless otherwise indicated)				
Investment	18.5	17.4	16.2	15.6	15.5
Gross national saving	14.3	12.5	14.0	13.4	13.0
Overall government balance 1/	-2.3	-0.7	0.2	-5.0	-3.8
Current external balance, incl. official transfers	-4.2	-4.9	-2.2	-2.1	-2.4
Kenya shilling per U.S. dollar rate (annual average)	58.0	61.8	70.4	76.3	78.6
Memo:					
Poverty (percent of population below national poverty line)	52.0	...	...	...	...
Population Growth	2.3	2.2	2.2	2.2	2.0

Sources: Kenyan authorities; and staff estimates.

1/ Commitment basis, excluding grants, for July-June fiscal years, staff projection for 2001.

9. **The fiscal program went off track over the course of 2000/01.** While the after-grants overall cash deficit was limited to 1.8 percent of GDP, government expenditure commitments could not be kept within the constraints imposed by the sizable loss of foreign program finance and the failure to privatize Kenya Telkom. The lower-than-programmed interest cost could only partially mitigate the pressure on the budget as primary expenditure (excluding drought-related expenditure) remained at the originally programmed level, resulting in a before-grants overall

commitment deficit of 5 percent of GDP in 2000/01. However, owing to the composition of expenditure reduction, the overall deficit exceeded the adjusted program deficit by K Sh 8.4 billion (1 percent of GDP).<sup>3</sup> Drought-related expenditure amounted to 2 percent of GDP, and the cost of civil service reform to 0.8 percent of GDP. Nonwage core poverty expenditure was 1.1 percent of GDP, some 0.3 percent below the budgeted amount. The underperformance is partly explained by the lack of capacity to implement the included development projects. The recourse to domestic arrears accumulation to meet current expenditure needs and the lack of finance for unwinding stalled projects brought about an escalation of new claims of pending bills on the budget. As the results of a special internal audit show, the recorded stock of pending bills increased by K Sh 10 billion, or 1.2 percent of GDP, over the last fiscal year.<sup>4</sup>

**10. Weak economic activity caused all the monetary aggregates to grow more slowly in 2001 than was assumed under the program.** Broad money (M3X) grew by only 2.3 percent in the year to December 2001, while private sector credit growth fell by 1.5 percent.<sup>5</sup> Treasury bill rates, which rose to 15 percent in late 2000 came down to about 10.9 percent by end-2001 as a result of weak private sector demand for credit and the government's reluctance to borrow in the domestic market. Moreover, the provisions of the Central Bank of Kenya (Amendment) Act (the so-called Donde Act), which set restrictions on deposit and lending interest rates, may lead to considerable distortions and represent a serious risk for banking activities, increasing the likelihood of a protracted economic downturn by further restricting access to bank credit.<sup>6</sup> Recent indications are that the financial position of the banking system has weakened further, particularly among the six public sector banks. Nonperforming loans had risen to about 42 percent of gross loans by December 2001 (from 34 percent at end-2000).

---

<sup>3</sup> Stronger donor support through the government of Kenya/World Food Program (WFP) appeal financed a significant food relief effort carried out by the WFP. The food relief effort carried out by the government has yet to be audited, as agreed in the modified PRGF-supported program.

<sup>4</sup> Based on the findings of this audit, the overall deficit on a commitment basis in 2000/01 reported here (5 percent of GDP) will have to be revised. However, in order to make this revision, the estimate for June 2000 needs to be finalized.

<sup>5</sup> Figure adjusted to exclude the Trust Bank, which was liquidated and ceased reporting to the Central Bank of in August 2001.

<sup>6</sup> The Donde Act stipulates that the maximum rate of interest on loans must not exceed 4 percentage points over the (91-day) treasury bill rate, and the minimum rate of interest on deposits must be 70 percent of the treasury bill rate. Moreover, total interest charged on a loan may not exceed the principal sum loaned or advanced. Following a recent High Court ruling, the legal status of this law is uncertain at present.

### **Box 2. Kenya: Paris Club Debt Rescheduling**

On November 15, 2000 the Paris Club of official creditors agreed with Kenya on a flow rescheduling on nonconcessional terms.

#### **Participants**

The Paris Club participants were Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.

#### **Coverage**

The agreement covers principal and interest arrears on **not previously rescheduled** pre-cutoff-date debt as of June 30, 2000 (\$24 million) and debt-service maturities falling due from July 1, 2000 to June 30, 2001 (\$276 million) on *previously and not previously rescheduled* pre-cutoff-date debt.

#### **Terms**

The following terms were agreed on:

- Cutoff date: December 31, 1991.
- Consolidation period: July 1, 2000 – June 30, 2001.
- Official development assistance (ODA) debt: eligible arrears and maturities were rescheduled over 20 years, with a 10-year grace period. Repayments are to be made in equal and successive semiannual installments. The interest rate on rescheduled ODA loans is to be at least as favorable as the concessional rates under the original loan agreements.
- Non-ODA debt: eligible arrears and maturities were rescheduled over 18 years, with a 3-year grace period and graduated repayments. The interest rate on the rescheduled amounts is to be determined during the bilateral negotiations on the basis of the appropriate market rate.
- Arrears on post-cutoff-date debt and previously rescheduled: to be paid no later than June 30, 2001.
- Late interest: to be paid according to the date agreed in the bilateral negotiations between each creditor and Kenya.
- Deadline for signing bilateral agreements: extended until January 31, 2002.
- *De minimis* clause: SDR 500,000.
- Debt-swap clause: all ODA debt, and 20 percent of the outstanding non-ODA claims as of December 31, 1993 or SDR 20 million, whichever is higher.
- Comparability of treatment: the government of Kenya commits itself to accord all categories of creditors—and in particular creditor countries not participating in the Agreed Minute of November 15, 2000, and private creditors—a treatment not more favorable than that accorded to the participating creditors.

11. **The external current account deficit worsened in 2000 and 2001.** The worsening in 2000 was largely caused by an increase in drought-related imports and sluggish export growth, which was also caused by the drought. Although agricultural activity (excluding coffee) picked up in 2001, the current account deficit is estimated to have worsened owing to sharply lower coffee and tea prices, a steep reduction in coffee production (caused by the lagged effects of the drought), and smaller private transfers.

12. Notwithstanding a reduction of the capital and financial account surplus in 2000, gross official reserves increased to 3 months of import cover, thanks largely to the rescheduling agreement with the Paris Club. In November 2000, the Paris Club agreed to reschedule about US\$300 million of Kenya's arrears and maturities falling due during July 2000-June 2001(Box 2).<sup>7</sup> The authorities have concluded nearly all bilateral negotiations associated with the rescheduling agreement, but have not yet reached an agreement with commercial creditors. **In 2001, the capital and financial account surplus is estimated to have risen, allowing gross reserves to increase to 3.6 months of import cover.**

13. **Kenya has accepted the obligations of Article VIII, and the exchange system is free of restrictions on current payments and transfers. Kenya maintains a flexible exchange rate regime, and, in the view of the staff, this continues to be appropriate.**<sup>8</sup> Since late 2000, the exchange rate has remained at about K Sh 79 per U.S. dollar, despite a worsening of the terms of trade. This stability reflects the current mix of monetary and fiscal policies, including high real interest rates, as well as the weak demand for imports associated with the slow economic activity. Exchange rate stability may have helped to reduce perceived currency risk premiums and interest rates over the period. The staff believes external competitiveness concerns in Kenya reflect the relatively high costs of doing business and prevalent structural bottlenecks more than specific concerns about the level of the exchange rate (see Section III of the selected issues paper). Kenya's external competitiveness, as measured by the real effective exchange rate, has remained relatively stable since 1998 (see Figure 7).

14. **Progress was made in liberalizing Kenya's trade regime during 2000/01.** To address the problem of a complex tariff structure and a proliferation of suspended duties,<sup>9</sup> several reforms

---

<sup>7</sup> The official development assistance (ODA) debt was rescheduled over 20 years, with a grace period of 10 years, while non-ODA debt was rescheduled over 18 years, with a grace period of 3 years.

<sup>8</sup> The CBK notes that, with a floating exchange rate regime, Kenya can occasionally use monetary policy to help counter large swings in the exchange rate. The CBK, however, refrains from any intervention in the foreign exchange market aimed at influencing the direction of the exchange rate.

<sup>9</sup> Suspended duties are ad valorem duties ranging from 5 percent to 70 percent, that have been levied temporarily on specific goods on a discretionary basis.

were introduced in 2000/01, including the elimination of all suspended duties, except on oil products, and the reduction in the number of tariff bands from 13 to 9. This led to a reduction of the average unweighted tariff from 18 percent to 17.2 percent, while the average weighted tariff fell to 13.6 percent. Although the progress in reducing tariffs is commendable, some structural impediments to exports, particularly in the coffee sector, still need to be addressed for Kenya to be afforded the full benefits of freer trade.

15. **In late 2000, Kenya's PRGF-supported program suffered major setbacks.** First, parliament rejected the Public Service (Code of Ethics) Bill on the grounds that it contravened the principle of separation of the executive, judicial, and legislative branches of government. Second, the Constitutional Court ruled that the Kenya Anti-Corruption Authority (KACA) was unconstitutional. Third, parliament passed the so-called Donde Bill, which sets limits on interest rates (as discussed in para. 10 above). Finally, the cabinet put on hold the privatization of Kenya Telkom and the Kenya Commercial Bank (KCB) (both decisions were subsequently reversed).

16. **The efforts since April 2001 to bring Kenya's PRGF-supported program back on track have been only partially successful.** Notwithstanding efforts by the government, the key legislation for the reestablishment of an independent KACA failed to pass, and the Anti-Corruption and Economic Crimes Bill<sup>10</sup> and Public Service (Code of Ethics) Bill were not discussed by parliament. Three out of the four structural performance criteria were belatedly met, at least in part, and only ten of the fifteen structural benchmarks have so far been met, in many cases with considerable delays. In addition, only partial progress has been made in the implementation of the government's reforms that are being supported by the EPSR credit from IDA (see para. 4).

### III. REPORT ON THE DISCUSSIONS AND MEDIUM-TERM PROSPECTS

17. The discussions covered possible ways to bring the PRGF-supported program back on track and the formulation of policies to address the impact on the budget of the weak economic growth, the lower than previously expected external financing and privatization receipts, and the worsening international environment. These discussions were held in the context of a medium-term framework which was based on important governance reforms and other structural measures for stimulating growth, as well as an appropriate mix of fiscal and monetary policies. The authorities and the mission broadly agreed on the growth and inflation outlook for 2002 and the medium term in the Fund-supported program scenario. The authorities, however, did not wish to contemplate a no-program medium-term scenario and offered no comments on the scenario presented by the staff.

---

<sup>10</sup> The Anti-Corruption and Economic Crimes Bill was originally intended to strengthen the KACA. Since the KACA's demise, the bill now focuses on strengthening the Anti-Corruption Police Unit (ACPU).

### A. Issues Related to the PRGF Arrangement

18. The authorities stressed that they saw no option but to try to get the PRGF-supported program back on track. They noted, however, that they no longer thought it possible to pass a constitutional amendment to reestablish an independent KACA at this time, given the growing polarization in parliament in the period leading to the elections. They have, therefore, developed an alternative approach to deal with governance issues. Broad understandings were reached with the staff on this alternative approach, which builds upon and strengthens the operations of the recently established Anti-Corruption Police Unit (ACPU). The alternative approach also includes a substantial strengthening of the Office of the Attorney General (AG); the enactment of appropriate versions of the two governance bills; the establishment of special courts to deal with corruption cases; and the demonstration of clear results.

19. While the authorities agreed with the staff on these points, they noted that the passage of the two governance bills was up to parliament and, therefore, the demonstration of commitment in this area should be limited to the tabling of appropriate versions of the bills. The staff stressed that the passage of the governance bills was indispensable to the government's commitment on governance and to an effective fight against corruption, noting that the enactment of appropriate versions of the two bills had been clearly established by the Executive Board as a prior condition for completion of the program reviews. Furthermore, the remaining actions under the second and third tranches of the IDA credits should be taken, so that the World Bank-supported program is brought back on track, thus facilitating the release of program financing. Finally, the restrictive provisions of the Central Bank of Kenya (Amendment) Act will have to be removed, in order to eliminate their potential distortions and allow commercial banks to resume normal operations.<sup>11</sup> A summary of the main components of the alternative governance approach and other prior actions discussed with the authorities for the conclusion of the PRGF-supported program reviews appears in Box 3. (See Section VI of the selected issues paper for a note on the impact of corruption on growth).

### B. Other Governance Issues

20. **The authorities recognized that the above-mentioned governance actions would have to be reinforced through a multifaceted approach involving the strengthening of all other institutions whose operations had a bearing on corruption.** These include, in particular, the office of the Controller and Auditor General (C&AG), the internal audit, the procurement system, and the judiciary. The production of timely and accurate audits on the basic operations of

---

<sup>11</sup> On January 24, 2002 the High Court ruled one element of the Donde Act to be unconstitutional. The full implications of this ruling for the applicability of the remainder of the act are unclear, and the CBK is expected to issue guidance to banks shortly.

### **Box 3. Kenya: Prior Actions to Bring the PRGF-Supported Program Back on Track**

#### **Governance**

Reflecting the main components of the new strategy developed by the authorities and discussed in December 2001 with the IMF staff, near-term actions and indicators of success required to allow the conclusion of the reviews under the PRGF and the approval of a new annual program would include the following:

- passage of an appropriate version of the Anti-Corruption and Economic Crimes Bill in order to strengthen and better protect the legal status of the ACPU and to ensure that all the elements of the structure of the former KACA remain active and operationally autonomous, and to ensure that there are appropriate safeguards from political interference;
- passage of an appropriate version of the Public Service (Code of Ethics) Bill to establish and enforce codes of ethics for all public officers, including the judiciary and legislature;
- evidence of a strengthening of the Attorney General's office to ensure timely action on all pending cases, and measures taken to ensure the Attorney General's actions and decisions relating to prosecution of corruption cases will be held publicly accountable through the issuing of regular press releases;
- establishment of special courts to deal with corruption cases on a fast-track basis, including the appointment of reputable judges for these courts;
- a commitment to suspend all public officials whose cases are brought to trial, irrespective of their seniority or position; and
- evidence that the new institutions are working in practice, and that this is leading to the effective prosecution of significant corruption cases in the courts.

#### **Other issues**

In addition to finalization of a full poverty reduction strategy paper that could form the basis for the second annual program, bringing the PRGF-supported program back on track will also require the following:

- taking the remaining actions required under the IDA credit to bring the World Bank-supported program back on track; and
- removing the restrictive provisions of the Central Bank of Kenya (Amendment) Act to allow commercial banks to resume normal operations.

government is key to enhancing transparency. To this end, the C&AG will require additional staffing with well-trained accountants. The performance criterion relating to the strengthening of the office of the C&AG has not been met, as the authorities feared that special terms of service for auditors would antagonize the remainder of the civil service. They have nonetheless taken steps to recruit more auditing staff through the Kenya Revenue Authority (KRA) (where better terms of service can be offered) and second them to the C&AG. In addition, a commission has been set up to review the pay structure of the civil service and seek ways of enhancing the remuneration of specialized professions. No timetable for the conclusion of its work has been established.

21. The Directorate of Internal Audit under the Kenya Treasury is also being strengthened further and reformed along the lines of the recommendations of a recent Fund technical assistance mission. Major reforms are also needed in the area of procurement. In this regard, the authorities noted the recent abolition of the Central Tender Board, the creation of the Directorate of Public Procurement, and the institution of the practice of publicly announcing the results of



government tenders. Regarding the judiciary, the staff stressed the need for a major overhaul, as problems in the judiciary regarding the prosecution of corruption cases and the recovery of bad loans had contributed to the poor economic environment in Kenya. As a starting point, the authorities are working toward the establishment of specialized courts to deal with corruption cases

### C. Macroeconomic Policies

22. **Kenya's macroeconomic and financial situation is fragile, and investor confidence is very low, while the cost of doing business in the country is high. The country's economic problems can best be tackled in a medium-term context.** The authorities agreed with the staff that financial policies should aim at adjusting the policy mix by tightening the fiscal policy stance to reduce government domestic borrowing, while maintaining a prudent monetary policy, which should reduce pressure on interest rates.

#### Medium-term scenarios

23. The staff prepared two alternative medium-term scenarios (Table 2). The baseline scenario assumes that the Fund- and World Bank-supported program is brought back on track during the current fiscal year, concessional donor program support is resumed, and structural and governance reforms are vigorously pursued over the next few years. Implementing prudent policies and structural reforms in the context of a Fund- and World Bank-supported program will improve investor confidence and help to bring better growth prospects for the medium term through increased capacity utilization, efficiency gains, and reduced costs and risks of doing business in Kenya. Better governance is also expected to raise growth rates. (see Section VI of the selected issues paper). Real GDP growth is projected to pick up steadily to reach 4.6 percent by 2005,<sup>12</sup> and the fiscal deficit (commitment basis, excluding grants) to fall to 1 percent of GDP by 2005 accompanied by a shift in spending towards priorities identified in the poverty reduction strategy paper (PRSP) process. Meanwhile, an appropriately prudent monetary policy is assumed to contain inflation at the CBK target of 5 percent, and official reserves increase to over four months of imports.

24. In an illustrative alternative scenario, it is assumed that the program is not brought back on track, and the structural and governance agenda is not pursued sufficiently and vigorously. As a result, external program support is not forthcoming from the international community. These assumptions imply continued anemic output growth of about 1 percent into the medium term, lower capacity utilization, and, as a result, a further fall in real GDP per capita, increasing poverty. Under this scenario the current account deficit is larger than in the program scenario, and the reserve buildup is smaller. In the absence of external financing, it is assumed that the fiscal deficit is monetized in large part, and inflation is projected to pick up to over 20 percent in the medium term.

---

<sup>12</sup> The projection implies modest average total factor productivity growth of 1 percent per annum over 2003-05, rising to 2 percent by 2005.

Table 2. Kenya: Main Macroeconomic Indicators, 2001-2004

	2001	2002		2003		2004	
		Prog. 1/	No Prog. 2/	Prog.	No Prog.	Prog.	No Prog.
(Annual percentage change, unless otherwise indicated)							
GDP volume (factor cost)	1.1	1.4	0.7	2.4	0.7	3.5	0.9
GDP volume per capita	-0.9	-0.5	-1.2	0.6	-1.0	1.9	-0.7
Consumer price index (annual average)	0.8	3.2	4.8	3.9	21.3	4.3	21.7
Consumer price index (end-period average)	-3.1	6.0	14.2	3.1	21.3	5.0	21.7
(In percent of GDP, unless otherwise indicated)							
Investment	15.5	14.8	14.5	15.7	14.1	16.9	14.4
Gross national saving	13.0	11.2	11.1	11.4	10.0	12.5	9.6
Overall government balance 3/	-3.8	-1.9	...	-1.8	...	-1.1	...
Current external balance, incl. official transfers	-2.4	-3.7	-3.4	-4.3	-4.2	-4.4	-4.8

Sources: IMF staff and World Bank staff (population only) estimates and projections.

1/ Assumes that foreign program loans and grants will be disbursed in full in the first half of 2002.

2/ Assumes that foreign program loans and grants will not be disbursed before 2003.

3/ Commitment basis, excluding grants for July-June fiscal years.

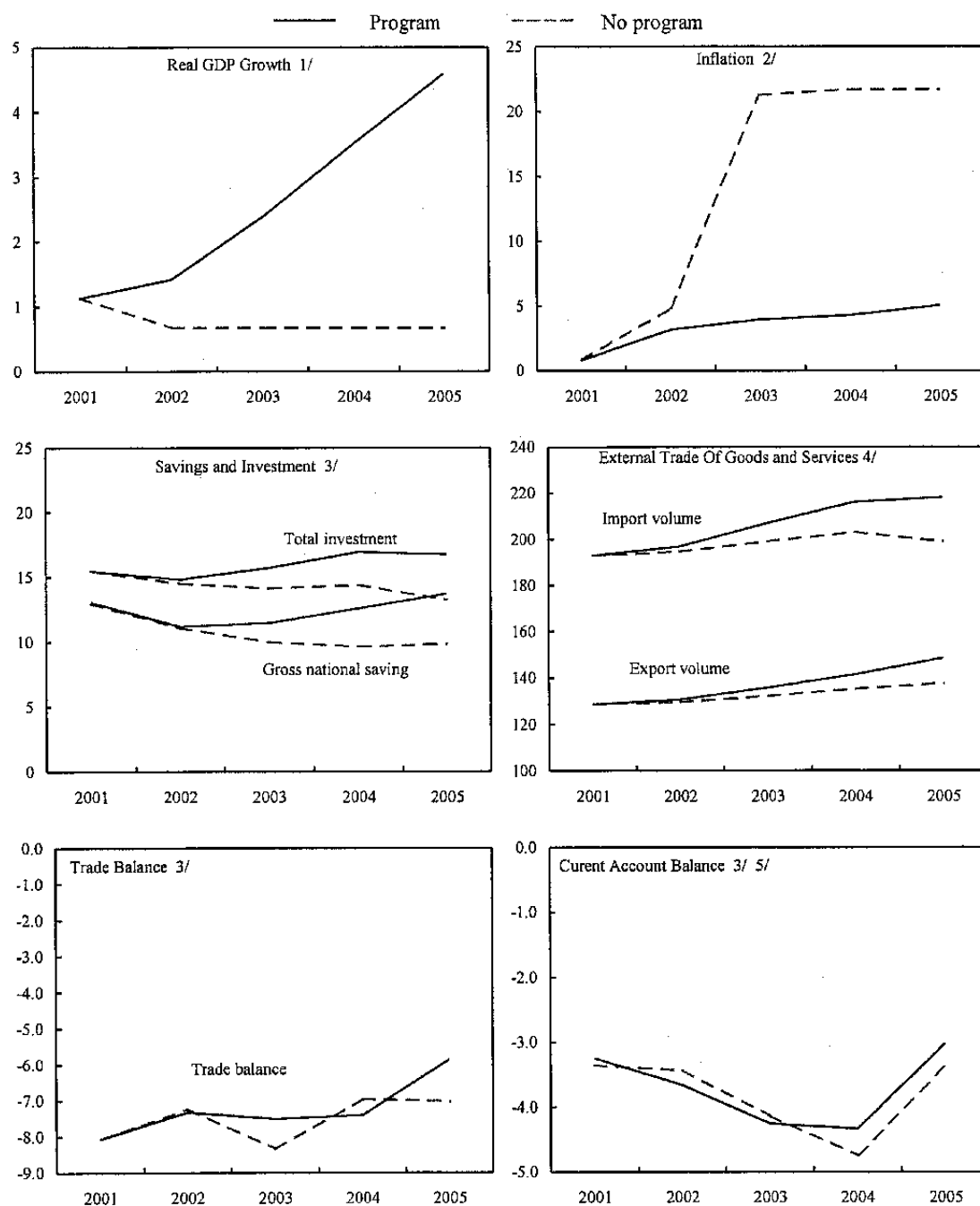
25. **Real GDP growth is unlikely to exceed 1½ percent in 2002**, in view of the weak economic activity in late 2001 and the continuing uncertainty surrounding the direction of economic policies and the resumption of donor support, as well as the 2002 presidential and parliamentary elections, all of which are likely to delay private sector investment. Furthermore, representatives of the employers' association noted that several multinational corporations were relocating their manufacturing operations out of Kenya, citing the combination of high operating costs and the continued stagnation of the Kenyan economy. Kenya based manufacturers are retrenching workers in an effort to remain afloat until after the 2002 elections.

26. **The authorities project the consumer price index to increase by an average of 3.2 percent in 2002.** The mission agreed to go along with this projection although it felt that given the negative monthly inflation recorded in recent months, this projection would imply a strong acceleration during 2002 (with the 12-month price increase in December 2002 rising to 6-7 percent).

### Fiscal policy

27. **The 2001/02 budget aimed at reducing the debt-to-GDP ratio, and changing the composition of expenditure in favor of priority social and poverty-reducing categories.** The budget targeted a commitment deficit (excluding grants) of 1.5 percent of GDP. Consistent with

Figure 2. Kenya: Selected Economic and Financial Indicators, 2001-05



Sources: Kenyan authorities; staff estimates.

- 1/ Annual percentage change.
- 2/ Percentage change in consumer prices (annual average).
- 3/ In percent of GDP.
- 4/ Index 1990=100.
- 5/ Excluding grants.

the priorities emerging from the PRSP process, there was to be zero net domestic financing of the budget (leading to a significant decline in the debt-to-GDP ratio) and a marginal decline in the civil service wage bill as a share of GDP.<sup>13</sup> Revenue was to be raised to 23.1 percent of GDP in 2001/02 from an estimated level of 22.7 percent in 2000/01,<sup>14</sup> benefiting mainly from tax administration measures, an increase in personal income tax owing to the harmonization of the housing allowance, the broadening of the value-added tax (VAT) base, and the increase in the CBK dividend transfer.<sup>15</sup> On the expenditure side, allocations to poverty-reducing programs were to rise by 0.2 percent of GDP (to some 1½ percent of GDP), and spending efficiency was to be increased; however, allocations for the consumption of electricity, water, and telephones appeared inadequate. While the budget agreed with the staff was to make inroads in solving related problems of stalled projects and pending bills, the budget approved by parliament failed to allocate sufficient funds to these areas.

**28. However, lower-than expected growth, the failure to bring the program back on track, and the associated loss of foreign financing has resulted in the emergence of a large budgetary financing gap in 2001/02.** In view of a considerably lower-than-expected level of nominal GDP, budgetary revenue is now projected to be about K Sh 11 billion (1.2 percent of GDP) lower than previously expected. And, in the absence of the privatization of Kenya Telkom and external donor support, the fiscal financing gap for 2001/02 would be about 2 ½ percent of GDP (US\$250 million). Such a gap would, of course, make it impossible to implement the expenditure program as envisaged. Bringing the Fund- and World Bank-supported program back on track before the end of the fiscal year, and thus facilitating the rolling over of the domestic debt accumulated during the first quarter of the fiscal year, would reduce the financing gap to about 1 percent of GDP. Such a gap could be financed by domestic borrowing and perhaps some external rescheduling. The staff has suggested that the authorities also consider trimming domestically financed projects where implementation is weaker than had been originally assumed. Even under this scenario, the budgetary situation will remain difficult until the foreign financing becomes available, which would not be before the April-June quarter. In compressing expenditure, the mission cautioned that care would have to be exercised to safeguard spending on priorities identified during the PRSP process, and to avoid a further accumulation of arrears.

**29. In the area of expenditure management, several positive developments have been broadly consistent with the recommendations of FAD's technical assistance recommendations, although major weaknesses remain (see Box 4).** First, to address the

---

<sup>13</sup> The small reduction in the wage bill was to reflect a reduction in the civil service complement of 14,000 (following the retrenchment of 23,000 employees in 2000/01), which would more than offset a wage and benefit award. The latter relates to housing allowance harmonization that would be phased over two years.

<sup>14</sup> GDP shares reflect the estimate of nominal GDP at the time of the discussions, however, nominal GDP estimates have since been substantially revised.

<sup>15</sup> The budget includes a transparency-enhancing initiative: the elimination of import duty exemptions in favor of explicit budgetary provisions (a structural benchmark under program).

#### Box 4. Kenya: Public Expenditure Management Reforms

Public expenditure management (PEM) reforms are an important component of institutional reforms that can improve governance in the public sector and increase the capacity of the state to reduce poverty and deliver more and better quality public services while maintaining financial stability. As a part of the PRGF- and IDA-supported program, the government of Kenya has embarked on an ambitious PEM reform program which constitutes a key element of the current economic program. Overall progress so far has been mixed, with encouraging progress in some areas and disappointing delays in others.

Some progress has been made in several areas to improve **budget planning and execution**. A new **medium-term expenditure framework** (MTEF) was introduced last fiscal year, based on a fiscal strategy paper that incorporated new poverty reduction-related priorities. As a part of the PRSP process, the MTEF has been updated this year. While the introduction of an MTEF marks an improvement in budget planning, further capacity building is needed in this area, including improvements related to the tracking of PRSP priority expenditure.

The rapid accumulation of **pending bills** threatens fiscal stability. A special internal audit completed last December revealed that the three major sources of rapid increase were stalled projects, poor budget planning, and weak commitment control. The report was discussed by the government in January 2002, and, based on its findings, a strategy to deal with the existing stock and to stop the accumulation of new pending bills is expected to be formulated shortly. To strengthen monitoring, the Kenyan Treasury plans to produce a regular report on, and analysis of, the monthly pending bill returns by the line ministries. As part of the overall strategy, the government will have to develop a strategy to deal with **stalled projects**. This will require substantial technical assistance, in particular to enable the government to deal with the legal and technical aspects of the contracts involved.

There has been moderate progress in strengthening the position of **finance officers** in line ministries. To improve **commitment control**, the Treasury introduced this fiscal year a new format of the vote book, that is now fully functional in most ministries. If spending ministries provide the necessary data, this will enhance the capacity of the Treasury to monitor and control expenditure commitments. The new vote book format will also help strengthen **cash-flow planning and management**. Several other measures were taken in this area, but a cash-planning group still needs to be established within the Treasury. The procurement of software for an integrated financial management information system was delayed because a controversial decision of the tender committee in the Treasury was not accepted by the donors supporting the project.

The Treasury has created separate bank accounts for each line ministry (vote) in each district to improve **budget execution at the district level**. While this could help to ensure that cash allocations are used as intended and to improve cash expenditure reporting, the multitude of new accounts requires a new cash disbursement process and a gradual move toward using zero-balance accounts in order to avoid creating substantial idle cash balances. The supervision of district treasury officials was transferred to the Treasury.

Measures were taken in several areas to improve **fiscal transparency**. **Internal and external auditing** is being strengthened. A new Exchequer and Audit Act is being drafted. The present draft still needs considerable work. The process would greatly benefit from technical assistance as the Treasury staff is not well placed to carry out this work. **The office of the Controller and Auditor General (C&AG)** has been strengthened by recruiting a large number of new staff and providing adequate budget allocations, but there has been little progress in providing competitive remuneration for the staff. A government committee is reviewing the terms and conditions of the civil service, but further delay in this area may endanger the results achieved so far. The merger of the office of the Auditor General (Corporations) with the office of the controller, the C&AG has also been delayed. Progress has been made clearing the backlog of public audits, and the audit reports on the execution of the 1998/99 and 1999/2000 budget have been completed and will soon be submitted to parliament. There has been some encouraging progress in strengthening the **internal audit**. A draft Public Financial Management Bill redefining the legal framework for internal audit is with the Attorney General. Following the recommendations of an FAD technical assistance mission, the Internal Audit produced a mission statement, a plan to restructure the internal audit task to fulfill the strategic view, and an annual work plan for fiscal-year 2001/2002. The scope of internal audit has been widened, while resource allocation has been radically changed to support new functions.

New **public procurement regulations** were introduced last year to meet international standards, auditing mechanisms were put in place to ensure compliance, and tender awards are now published. However, parliamentary approval of a new procurement bill is still pending. Some of the **extrabudgetary programs** were incorporated in the budget, but further progress is needed in this area.

The World Bank, with financial support from donors, has started a **public expenditure review**. The findings of this review will help the government in freeing up resources for the new PRSP priorities and in achieving the fiscal consolidation envisaged in the new fiscal strategy.

problem of misappropriation of funds by district commissioners, the authorities established bank accounts for each line ministry in each district as of July 1, 2001.<sup>16</sup> Second, the internal audit system is being reformed. However, the lack of a well-functioning reporting system for arrears, combined with a still very limited auditing capacity, poses a serious threat to fiscal management and makes it very difficult to monitor budgetary developments in a timely fashion.

30. **Following a rapid increase in the recorded stock of pending bills, the staff urged the authorities to develop a strategy to contain this growth and to find a sustainable solution for clearing it.** The authorities explained the complexity of the problem. In addition to funding the termination of stalled projects would require the mobilization of legal, accounting, and engineering experts. In order to formulate a proper strategy to deal with this problem in a timely fashion, the authorities intend to finalize the audit report and to use its results to gather a full understanding of the factors responsible for the rapid accumulation of pending bills. Such an understanding is also needed to estimate accurately developments in the current fiscal year and to avoid a further accumulation of new pending bills at an increasing rate. The lack of a reliable reporting system in this area seriously hinders fiscal policy formulation and program monitoring. The authorities intend to seek technical assistance to help address this problem.

31. **The mission examined with the authorities the sustainability of the fiscal position and its vulnerability,** taking into account the following additional factors. First, the government has large contingent liabilities in the banking system. Second, the government's gross domestic debt (excluding the full stock of pending bills and other domestic arrears that have not yet been audited and validated) totaled about 25 percent of GDP in November 2001, with heavy reliance on short-term debt instruments—about 50 percent of the domestic debt is in the form of 91-day treasury bills. The authorities have recently begun to offer government bonds, with a view to lengthening the maturity structure of the public debt. Figure 3 illustrates that the share of gross government domestic debt accounted for by 91-day treasury bills has fallen from two-thirds to one-half over the past two years. Third, resources will need to be found to deal with the social and health consequences of the HIV/AIDS pandemic. Consequently, establishing fiscal sustainability will require a major fiscal adjustment combined with rapid economic growth and adequate foreign financing (see Table 3 and Section VII of the accompanying the selected issues paper). As the government's large contingent liabilities in the banking sector (see Box 5) may threaten fiscal sustainability, it is of the utmost importance to limit fiscal costs to an acceptable level when formulating the government's bank consolidation strategy, and to take the necessary measures in a timely fashion to avoid an escalation of the situation

---

<sup>16</sup> The staff expressed concern that the multiplicity of accounts was likely to result in a substantial increase in idle cash balances and urged the authorities to implement zero-cash-balance accounts with commercial banks.

Table 3. Kenya: Central Government Fiscal Sustainability Indicators  
Program Scenario, 1999/2000-2001/02 1/  
(In percent of GDP, unless otherwise indicated)

	1999/2000	2000/01	2001/02
	Actual	Prel. Est.	Projection
<b>Budget deficit 2/</b>			
Underlying primary balance 3/	4.2	1.0	0.2
Interest costs	4.0	3.3	3.8
Overall balance 4/	0.2	-5.0	-3.8
<b>Debt sustainability indicators</b>			
Government debt (end of fiscal year stock) 5/	82.3	76.6	75.5
Of which:			
Foreign debt	54.8	50.3	47.4
Domestic debt	27.5	26.3	28.1
Short-term domestic debt 6/	17.1	17.0	14.4
Interest cost in percent of revenue 4/	17.2	14.0	15.5

Sources: Kenyan authorities; and Fund staff estimates and projections.

1/ Fiscal year ending June 30.

2/ Budget deficit on a commitment basis.

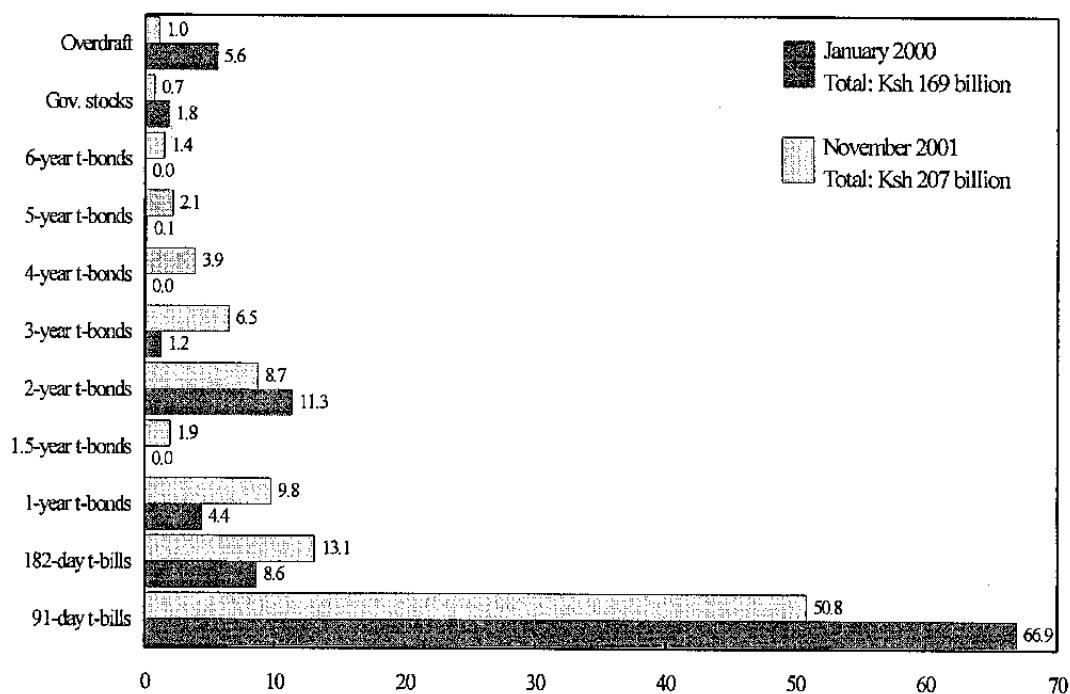
3/ Excludes expenditure on drought relief and civil service reform.

4/ Excluding foreign grants.

5/ Gross debt.

6/ Government securities with contractual maturities of 91 and 182 days.

Figure 3. Kenya: Gross Domestic Debt by Instrument and Maturity  
(In percent of total)



Source: Central Bank of Kenya

**Box 5. Kenya: The Health of the Banking Sector**

The Kenyan banking system includes 47 banks and 5 nonbank financial institutions (NBFIs), including two mortgage finance companies. The four largest banks in Kenya hold over 55 percent of gross assets in the system and a similar share of deposits. Two of the four largest banks, the Kenya Commercial Bank (KCB) and the National Bank of Kenya (NBK), are partially government-owned, and the other two are majority foreign-owned (Barclays Bank and Standard Chartered). Most of the many smaller banks are family owned and operated.

The Kenyan banking system is very fragile. Reported capital adequacy ratios appear high in many Kenyan banking institutions, but in some cases these are overstated owing to underprovisioning for potential loan losses. Kenyan reporting requirements for nonperforming loans (NPLs) and provisioning standards are weaker than international good practice and are often breached. The overall share of NPLs (including suspended interest) in the banking system is, nonetheless, very high by international standards and increased from 35 percent of total loans at June 2000 to 42 percent by December 2001. Provisions for loan losses represented about 55 percent of all NPLs in the banking system at December 2001, although for many banks the figure remains below 50 percent.

Two-thirds of the total NPLs are concentrated in the six public sector banks, which, together account for about 28 percent of total bank assets and deposits. Unprovisioned NPLs in the public sector banks have now reached a level of over 260 percent of equity capital. Recovery of NPLs and liquidation of collateral are extremely difficult as courts routinely issue last-minute injunctions against such action, leading to a drawn-out recovery process. A large and increasing backlog of cases in commercial courts also contributes to delays.

The spreads between bank deposit and lending rates have declined recently, but are still relatively high, largely reflecting the high level of NPLs. At end-December 2000 the average spread was about 9 percent. The recent Central Bank of Kenya Amendment Act (the so-called Donde Act), however, would effectively limit spreads to 4 percent plus 30 percent of the treasury bill rate. At end-December 2001, the rate was 10.9 percent, indicating a maximum allowable spread of 7.6 percent. This law, if implemented, is likely to have a number of adverse implications, especially for the smaller banks, their depositors, and small borrowers, and it is ultimately likely to affect the long-term growth of the economy (see selected issues paper Section V).

**Monetary policy and the financial sector**

32. The monetary authorities intend to continue to aim at keeping inflation low while providing a stable environment for financial markets. Accordingly, the CBK will aim to maintain an appropriately tight monetary policy, with broad money (M3X) projected to increase by about 5-6 percent in 2001/02, in order to support a climate conducive to economic recovery. The CBK will continue to use the current monetary policy framework, which is based on targeting reserve money, to achieve its policy objectives, but it might consider a shift to inflation targeting over the medium term. The mission observed that, based on the experience of emerging economies in this area, Kenya will have to opt for a stronger and more viable fiscal position and a healthier banking system as prerequisites for the effective implementation of an inflation-targeting framework. In the meantime, the effective utilization of existing instruments has enabled the CBK to maintain low inflation and little exchange variability. The challenge in the period ahead will be to maintain this stability in the face of large budgetary financing gaps and a fragile banking system. The staff stressed the importance of taking steps to preserve the CBK's independence in maintaining control of monetary policy, and to allow for bank interest rates to be market determined.



33. **The very high level of nonperforming loans in the Kenyan banking system raises serious concerns** (see Box 5 and Section V of the accompanying selected issues paper). The mission urged the authorities to establish a clear plan to deal with them, including in particular plans to deal with the problems of the National Bank of Kenya and the other smaller public sector banks. The government will need to move decisively to sell the remaining 35 percent share of the KCB to a strategic investor, as agreed under the PRGF-supported program. The Kenyan representatives indicated that under current plans the conclusion of the KCB transaction was not likely before end-June 2002. The mission noted that the poor shape of many of Kenya's banks was a result of government interference and poor governance. It therefore urged the taking of steps to achieve the full privatization of the government's ownership interests in the remaining banks in order to reduce the risk of political interference in lending decisions, the collection of bad loans, and the enforcement of prudential and regulatory standards. Regarding the safeguard assessment, the CBK has implemented a number of the recommendations, and it intends to implement the remaining recommendations in the months ahead. Moreover, to allow for a thorough examination of the vulnerabilities of Kenya's financial system, the authorities agreed in principle to undertake an a Financial Sector Assessment Program (FSAP). However, no timetable has yet been proposed by the authorities.

#### **External sector policies**

34. **The current account deficit is projected to deteriorate further in 2002, mainly owing to a reduction in private transfers associated with a drop in drought assistance.** Exports and imports are projected to grow at similar rates, and Kenya's terms of trade should improve as oil prices continue to fall. The capital and financial account surplus is projected to widen, as the scheduled amortization of foreign debt continues to decline following the hump that reflected principal repayments from an earlier rescheduling agreement. Over the medium term (in a program scenario), the current account deficit may continue to be sizable, driven by investment-related imports, while inflows of foreign financing will allow gross reserves to increase and maintain the import cover. However, failure to quickly bring the program back on track could result in a further loss of confidence, depress investment, and weaken the reserves buildup.

35. **Kenya's external debt appears to be sustainable**, based on its net present value (NPV) of debt-to-exports ratio of about 143 percent in 2000 and debt-service ratio of about 19 percent (see Section VIII of the accompanying selected issues paper).<sup>17</sup> Following the conclusion of bilateral agreements with virtually all official bilateral creditors, Kenya is expected to move toward an agreement with commercial creditors in the London Club.<sup>18</sup>

---

<sup>17</sup> These figures reflect the effects of the November 2000 Paris Club rescheduling (Houston terms) but do not include estimates of the effects of traditional debt relief.

<sup>18</sup> The mission reminded the authorities that any agreement reached with private creditors should be on terms comparable to those reached with the Paris Club. Among the three non-Paris Club

(continued...)

### Trade policy and tariff reform

36. **A comprehensive tariff reform was formulated in mid-2001.** The reform aims to reduce the top tariff rate in stages over the next four years from 40 percent<sup>19</sup> to 25 percent. The number of nonzero tariff bands will gradually be reduced from nine to four by 2004. Overall, the tariff reform aims to improve Kenya's external competitive position, facilitate duty collection through a simpler and more uniform tariff structure, and pave the way to introducing a common external tariff within the Common Market of Eastern and Southern Africa (COMESA) or the East African Community (EAC).<sup>20</sup> (See Section IV of the selected issues paper). The 2001/02 budget launched the first phase of the tariff reform and included a reduction in Kenya's top tariff rate from 40 percent to 35 percent, a decrease in the number of tariff bands from nine to eight, and a decline of the average unweighted tariff from 17.2 percent to 16.6 percent.

### Regional integration and trade agreements

37. **Kenya is a member of COMESA and EAC, and it joined the free trade area (FTA) of COMESA in October 2000.** As a member of both trade blocs, Kenya hopes to benefit from increased trade and investment as it becomes more integrated with other countries on the African continent. More recently, Kenya has benefited from the U.S. African Growth and Opportunity Act (AGOA), which provides for duty-free access to the U.S. market, and it has realized a substantial increase in textile and apparel exports to the United States. There is scope for further gains for Kenya's exports under AGOA.

38. **Both COMESA and the EAC plan to implement common external tariffs and form customs unions by 2004.**<sup>21</sup> The modalities of membership in both customs unions are unclear at this stage, especially since Tanzania is member of the EAC, but not COMESA. In addition, the establishment of a common external tariff will need to include harmonization of customs

---

bilateral creditors, Kenya has signed a bilateral agreement with China. Saudi Arabia argued its loans were not subject to rescheduling, while India was *de minimis*. Kenya has contracted an advisor to assist with the rescheduling of its London Club debt and has appointed a head of the steering committee. Once the debt-reconciliation process is complete, it is expected that a meeting between Kenya and its creditors will take place.

<sup>19</sup> Except for the tariff on sugar, which is 100 percent.

<sup>20</sup> The EAC is a regional trading bloc comprising Kenya, Tanzania, and Uganda. It was created by elevating the agreement that established the East African Cooperation into a treaty establishing the East African Community. The EAC was officially launched by the three heads of state in January 2001.

<sup>21</sup> It is expected that understandings will be reached between COMESA and EAC regarding the structure of the common external tariff.

exemptions and export support regimes. In practice the authorities recognize the difficulties of being a member of two separate customs unions and are engaged in efforts to achieve consistency in the tariff structure and other features of the two unions. Fund staff assistance in these areas both at the county and regional levels, in collaboration with the World Bank staff, is expected in the period ahead.

### **Other structural reforms**

39. Kenya's other structural reforms have focused on the following: (a) parastatal reform, including privatization of Kenya Telkom, the Kenya Commercial Bank, ports, and railways; (b) energy and water sector reforms; (c) civil service reform; and (d) reform of the coffee sector. However, the implementation of the structural reform components of the Fund- and World Bank-supported program has been very slow and disappointing. Representatives of the business community in Kenya emphasized to the mission the negative consequences of the continued delays in the privatization of Kenya Telkom, and the ports and the railways, and in the reform of the water and energy sectors. Indeed, the privatization program was to play a major role in addressing constraints in the provision of key infrastructure services. The authorities, for their part, conceded that the approach pursued in the effort to privatize Kenya Telkom was flawed, and Kenya finds itself after several years back at the starting point.

### **The PRSP process**

40. **The authorities conducted a comprehensive consultative process that should lead to the completion of a high quality full PRSP shortly (Box 6).** They are finalizing the government action paper, which should include concrete policy measures to address and cost the PRSP priorities, and link them clearly to the budgetary process. The mission noted that it would also be important to further strengthen the monitoring mechanism of PRSP-related spending with the participation of stakeholders and civil society. The authorities voiced concern that the comprehensive participatory consultations might have raised expectations that the implementation of priority programs would follow shortly thereafter. However, the lack of financing would frustrate these expectations and could make it more difficult to proceed in the future with a similar participatory process.

### **Data issues**

41. **Kenya's macroeconomic statistics have deteriorated over the past decade, and weaknesses in key statistics hamper economic analysis and surveillance.** The staff urged the authorities to speedily implement the recommendations of the recent STA balance of payments statistics report, which was based on the findings of a mission in Nairobi from May-July 2000. The staff is also concerned about (a) the problems with monitoring budgetary data, in particular domestic arrears and pending bills; (b) external debt and payments data; (c) the long lag in the provision of trade data; (d) and with accuracy of national accounts data. The authorities indicated that they would take actions, with donor assistance, to improve the quality and timeliness of these data. The recent change in the top management of the Kenya's Central Bureau of Statistics (CBS)

**Box 6. Kenya: The Poverty Reduction Strategy Paper (PRSP) Process**

Following the finalization of the interim PRSP in July 2000, the government of Kenya in October 2000 launched an ambitious consultation process for the full PRSP, with the PRSP secretariat in the Ministry of Finance as the lead agency.

Sector working groups (SWGs) were established in nine areas: Agriculture and Rural Development; Human Resource Development; Information Technology; Public Administration; Public Safety, Law and Order; Physical Infrastructure; Tourism, Trade and Industry; National Security; and Macroeconomics. There were, in addition, eight thematic groups (TGs): Gender; Governance; HIV/AIDS; Media; Pastoralists; Youth; Finance; and Disability.

Comprehensive consultations, including subdistrict-level meetings, were conducted in 25 districts with an average of 200 participants. More general consultations were held in the other 45 districts with an average of 150 participants. In-depth community level consultations were carried out in the form of Participatory Poverty Assessments (PPAs) in 10 districts. Each of the 70 districts, the SWGs, and the TGs produced its own report.

The consultations identified the following priorities by sector and in order of ranking:

1. Agriculture and Rural Development (crop development, rural water);
2. Human Resource Development (education and health);
3. Physical Infrastructure (roads, energy);
4. Trade Tourism and Sanitation (financial services, trade); and
5. Public Safety, Law, and Order (legal services, internal security).

The government has used these priorities to inform the budget process in fiscal-year 2001/02, and they are expected to be evident over the three-year medium-term expenditure framework period, 2001-04. The government is finalizing a detailed action plan to address the identified priorities within its resource constraints. It is expected that this action plan, along with the other elements of the PRSP, will be published in the near future.

should help supply the impetus for improvements in data collection, provided that adequate resources, both domestic and external, are forthcoming. The staff will work with the authorities to bring the provision of data on international reserves and external short-term debt in line with the benchmarks established by the Executive Board for determining adequacy for surveillance purposes.

**Technical assistance**

42. **Kenya has received technical assistance from the Fund in the areas of revenue administration and expenditure management; banking sector issues; and statistics.** The authorities view this assistance as valuable and they intend to request additional assistance, in particular, in the banking and statistics areas.

**IV. STAFF APPRAISAL**

43. **Kenya's economic performance during the past decade has been well below its potential.** Poor governance, a lack of sustained progress in privatization and other structural reforms, high costs and risks of doing business in Kenya, and low and inefficient capital formation have led to sluggish output performance and weak employment creation.

Consequently, Kenya's real per capita GDP is now lower than it was in 1990, and poverty is much more prevalent. Moreover, **the HIV/AIDS pandemic has been devastating**. The PRGF-supported program has sought to break with this negative record through an ambitious program of governance actions, the reinforcement of macroeconomic stabilization, and meaningful and sustained structural reforms. The program, however, suffered major setbacks, particularly in the governance area, which threw it off track. The efforts since April 2001 to bring the program back on track have been only partially successful.

44. **The authorities should be commended for achieving a measure of macroeconomic stability in difficult circumstances. Nonetheless, Kenya's macroeconomic and financial situation is fragile, and investor confidence is very low.** The challenge facing the authorities is to depart from the "stop-go" policy implementation of the 1990s and to carry out its economic program without interruption, so as to begin demonstrating tangible results. Kenya's economic problems are deep-seated and should be tackled decisively and in a medium-term context.

45. **As a first step, and in order to begin restoring investor confidence and to receive badly needed budgetary financing before the end of the current fiscal year, it is important to reinforce the efforts to bring Kenya's Fund-supported program back on track.** This requires implementation of a strong governance component, consisting of a substantial strengthening of the office of the Attorney General and the investigatory capabilities of other branches of law enforcement. Clear results will have to be demonstrated, and appropriate versions of the two governance bills will have to be enacted. Furthermore, the remaining actions under the program supported by the IDA credit should be taken, so as to facilitate the release of its second and third tranches. Finally, the restrictive provisions of the Central Bank of Kenya (Amendment) Act will have to be removed to eliminate the potential for distortions and allow commercial banks to resume normal operations.

46. **These actions on governance will have to be reinforced through a multifaceted approach involving the strengthening of all other institutions whose operations have a bearing on combating corruption.** The office of Controller and Auditor General is one such institution. The production of timely and accurate audits on the basic operations of government would go a long way toward enhancing transparency. The ongoing reform of the Directorate of Internal Audit under the Treasury will need to be accelerated. Recently agreed reforms of procurement regulations should be fully implemented. Similarly, the judiciary needs to undergo a major strengthening. Finally, the staff would welcome a commitment to the eventual reestablishment of an independent KACA.

47. **Medium-term financial policies should aim at strengthening macroeconomic stability by tightening fiscal policy while maintaining a prudent monetary policy.** To strengthen the public finances, the budget should allow for a decrease in the domestic debt-to-GDP ratio; such an action would help reduce the pressure on domestic interest rates, which remain rather high in real terms. On the revenue side, the good performance of the KRA should continue to keep the revenue-to-GDP ratio at the level of recent years; over the longer run, there is some scope for streamlining the tax system by reducing income tax rates to regional averages,

broadening the base and strengthening administration, and removing disincentives to economic activity. In order to maintain the credibility of the PRSP process and to reduce poverty in Kenya, budget execution should begin reflecting the priorities identified during the PRSP process, including seeking to reduce the wage bill as a share of GDP. Civil service wage rates, however, could rise in the medium term with further retrenchment. Finally, in order to restore fiscal sustainability, the government should urgently deal with the problem of stalled projects and pending bills.

48. Given that the government's flexibility in reallocating resources toward priority areas is still constrained by the weight of the wage bill and the heavy debt-service burden, the change in expenditure priorities will only be gradual. Thus, there is a pressing need to enhance the efficiency and effectiveness of services delivery, and improve expenditure management. The measures implemented in this area under the first annual program should be consolidated to provide a basis on which further improvements can be achieved.

49. **The 2001/02 budget was to be a good first step in reducing the domestic debt-to-GDP ratio, and changing the composition of expenditure in favor of priority social and poverty categories.** However, with the considerable weakening of the economy and with no program financing, Kenya will face very hard choices in closing the budgetary finance gap—a situation that could have serious consequences for the economy, including the very fragile banking system. Bringing the Fund- and World Bank-supported program back on track before the end of the fiscal year would make the budgetary situation considerably more manageable. In compressing expenditure, care will have to be exercised to safeguard spending priorities identified in the PRSP process, and to avoid a further accumulation of expenditure arrears. The authorities should avoid any recourse to nonconcessional external borrowing in closing the gap.

50. **Monetary policy should continue to aim at keeping inflation low while providing a stable environment for financial markets.** To this end, there is a need to preserve the CBK's independence in conducting monetary policy and to allow bank interest rates to be market determined. It would be important that the CBK complete the implementation of the recommendations of the safeguards assessment.

51. **The level of nonperforming loans in the Kenyan banking system raises serious concerns and risks, and there is an urgent need to establish a clear plan to address them, including in particular plans to deal with publicly owned banks.** The government will need to move decisively to sell the remaining shares of the Kenya Commercial Bank to a strategic investor, as has been envisaged for some time. Irredeemably weak financial institutions should be allowed to close and concrete steps should be taken for the full privatization of the government's ownership interests in the remaining banks in order to reduce the risk of political interference in lending decisions; the collection of bad loans; and the enforcement of prudential and regulatory standards. Moreover, to allow for a thorough examination of the vulnerabilities of Kenya's financial system and the formulation of remedial actions, the mission highly recommends that the authorities undertake an FSAP at this juncture.

52. **Kenya's trade policy has become increasingly oriented toward the pursuit of regional integration**, primarily through its membership in COMESA and the EAC. It has recently formulated a tariff reform that aims to simplify the tariff structure and reduce the top tariff rate in stages over the next four years, with a view to ultimately adopting the common external tariff of COMESA and the EAC. The first stage of such reform has been successfully implemented. **Looking forward, it will be important to continue to liberalize the trade regime, pursue the tariff reform strategy, and increase policy coordination with other members of COMESA and the EAC.**

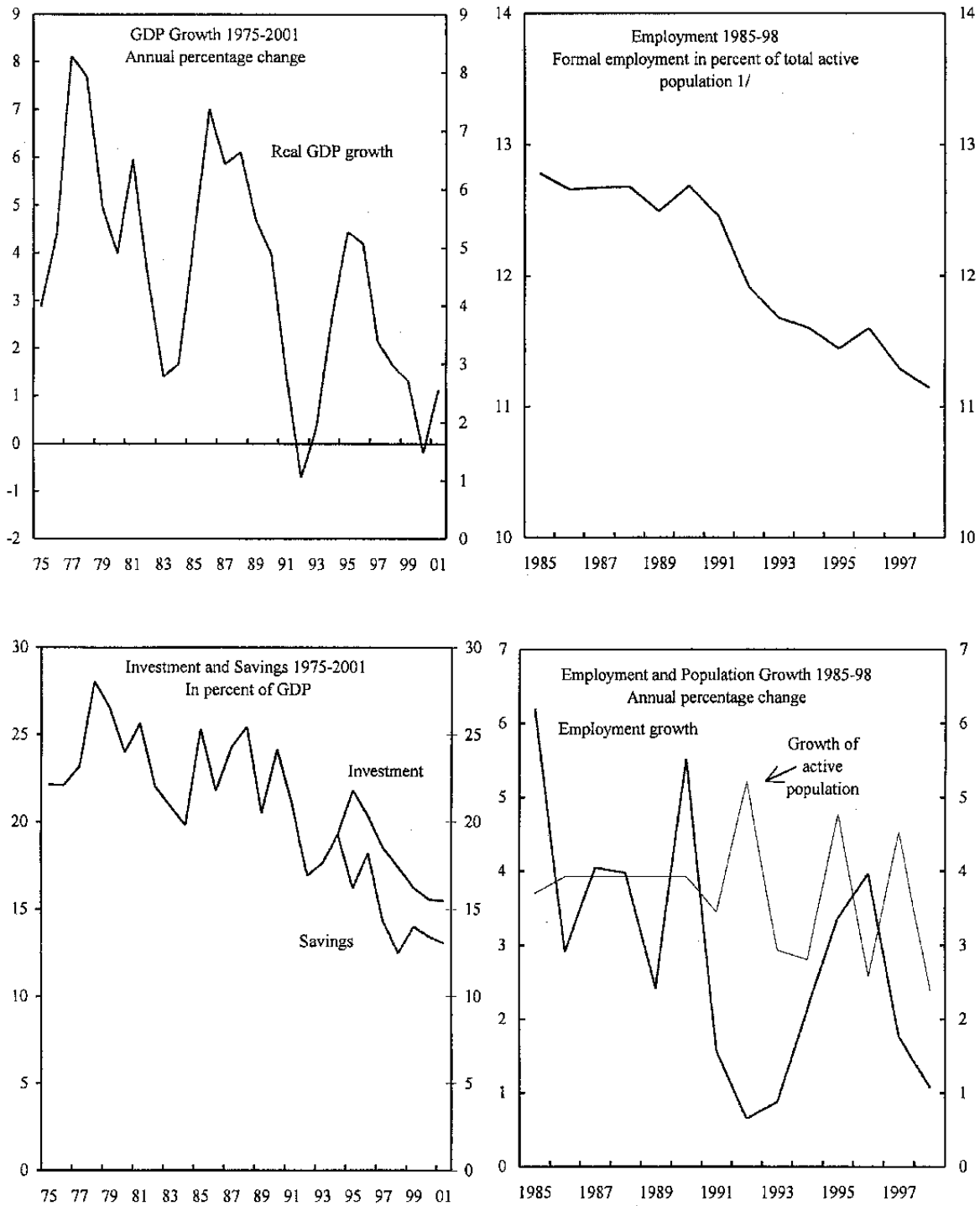
53. **The implementation of the structural reform components of the Fund- and World Bank-supported program has been disappointing.** It is critically important to make steady progress with the structural and institutional reform agenda in order to create a more efficient and flexible economy and to enhance future growth prospects.

54. **The strengthening of the management at the Central Bureau of Statistics (CBS) was a positive step toward improving Kenya's macroeconomic and socioeconomic data collection, which is indispensable for macroeconomic policy formulation and monitoring and for the poverty reduction program.** It is important that adequate resources be provided to the CBS, so as to strengthen poverty analysis and monitor the effectiveness of poverty reduction programs. At the same time, increased effort is needed to improve the core macroeconomic statistics, both in terms of quality and timeliness.

55. **Kenya's economy is facing a number of considerable risks in the period ahead.** First, Kenya's mixed record of performance may undermine the confidence of potential investors. Second, the level of non-performing loans in the banking system, especially the public sector banks, represents a serious risk to financial stability. Third, there are risks and uncertainties associated with the presidential and parliamentary elections scheduled for late 2002. Fourth, the international economic environment has worsened recently, and future prospects remain unsettled. **It will thus be critically important to maintain financial discipline in the period ahead and to resist pressures for expansionary policies that could jeopardize Kenya's budgetary and external positions for years to come.**

56. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 4. Kenya: Real Sector Indicators

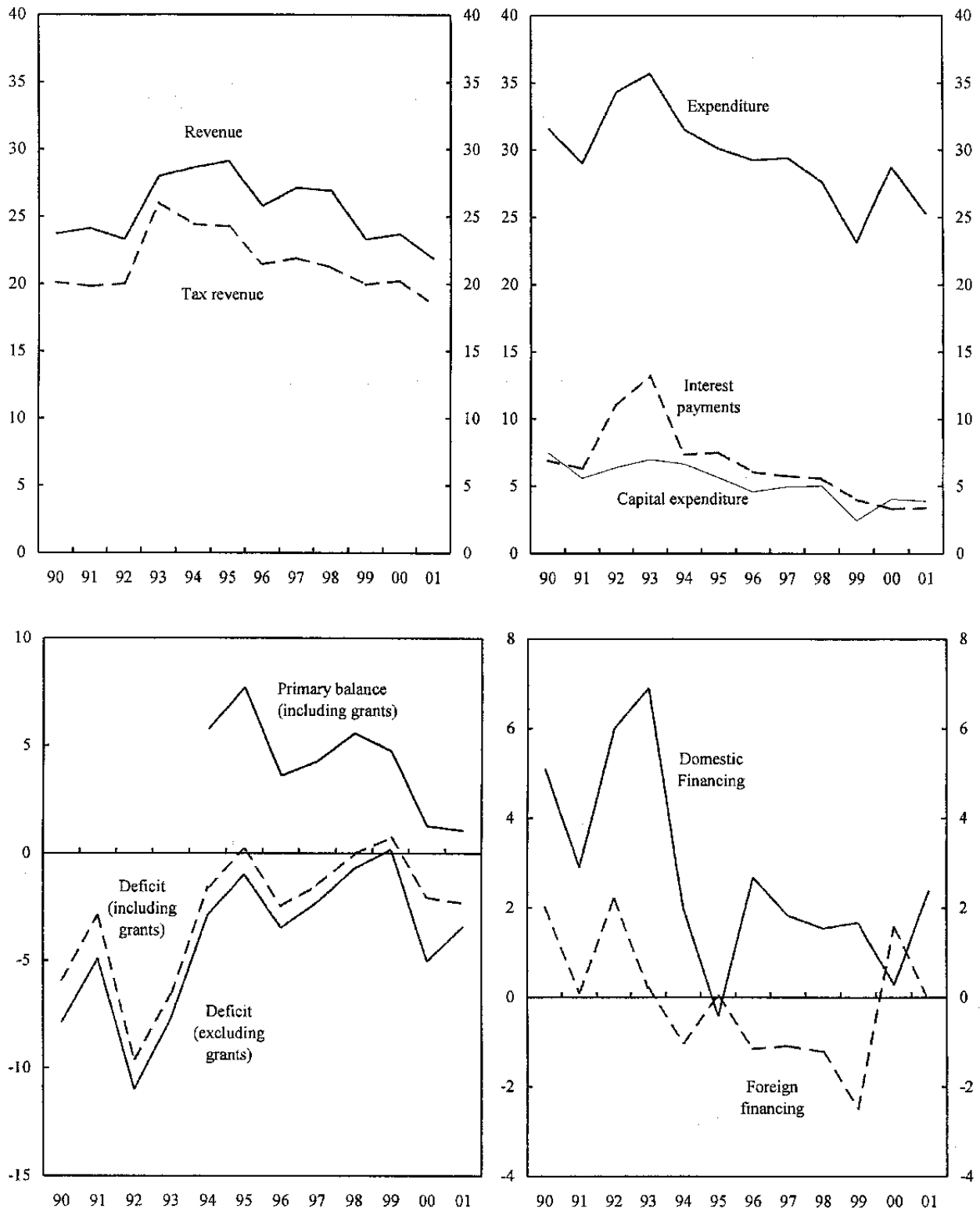


Sources: Kenyan authorities; World Bank database; and staff estimates.

1/ Active population (ages 15-64).



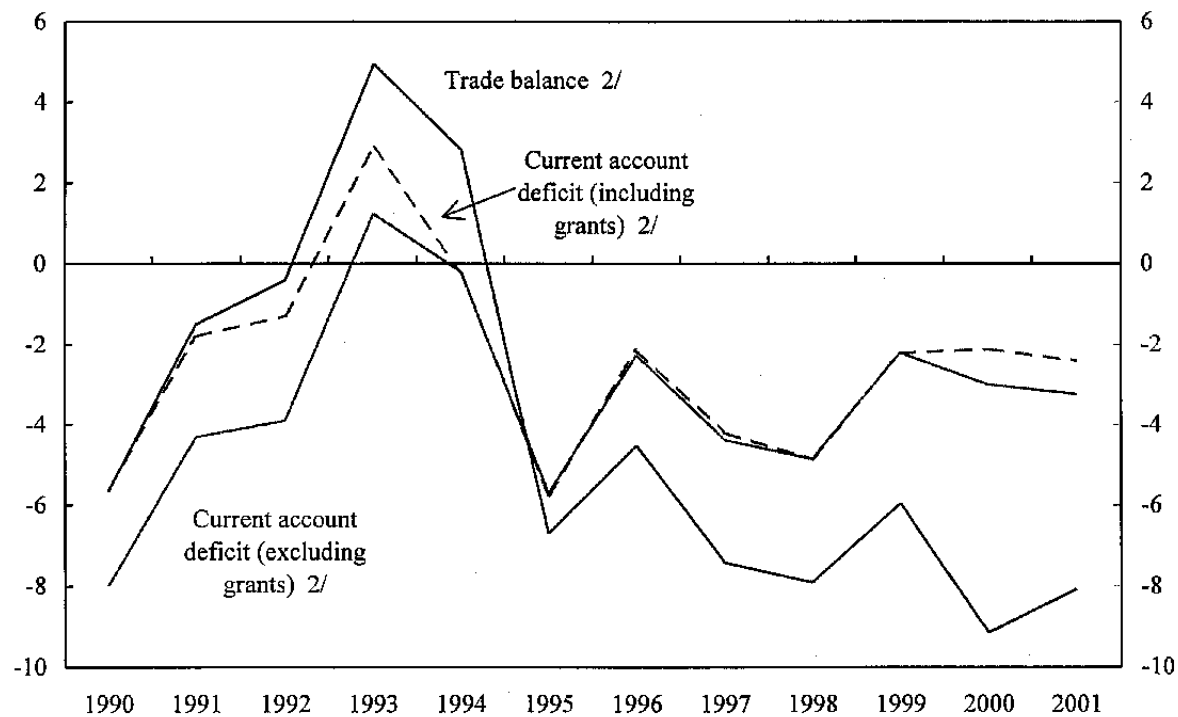
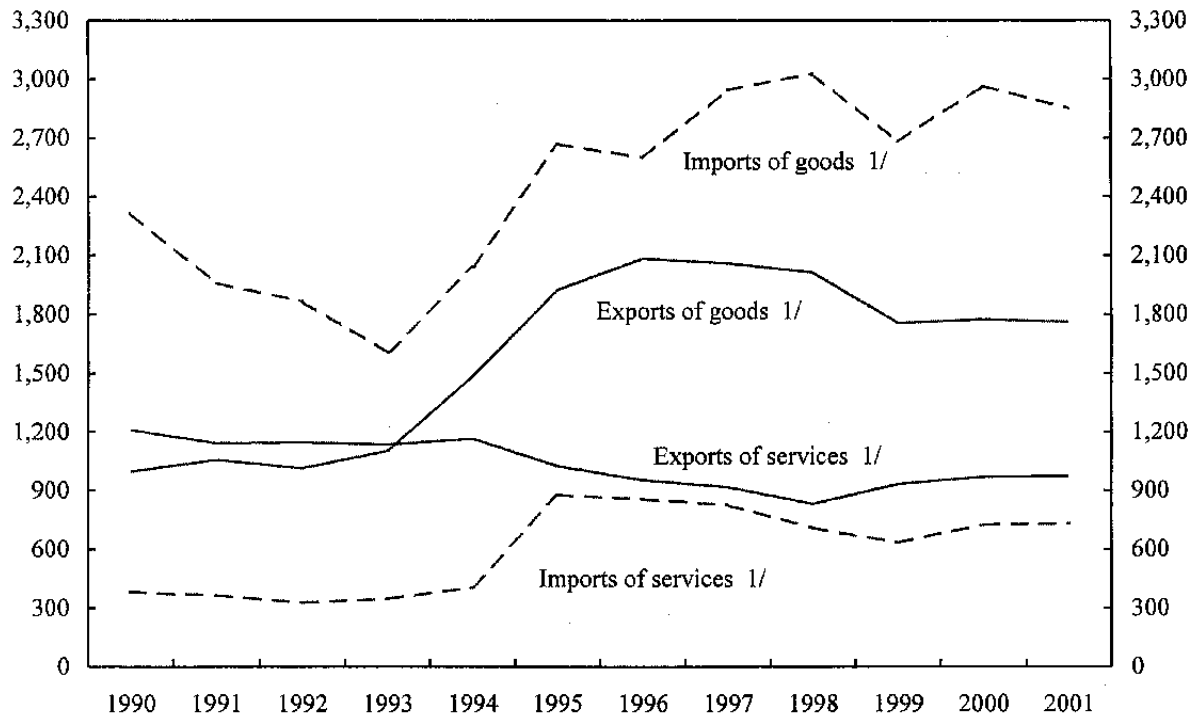
Figure 5. Kenya: Fiscal Indicators, 1990-2001 1/  
(In percent of GDP)



Sources: Kenyan authorities; and staff estimates.

1/ Data are for fiscal years (July-June); 1998, e.g., refers to 1998/99.

Figure 6. Kenya: External Sector Indicators, 1990-2001

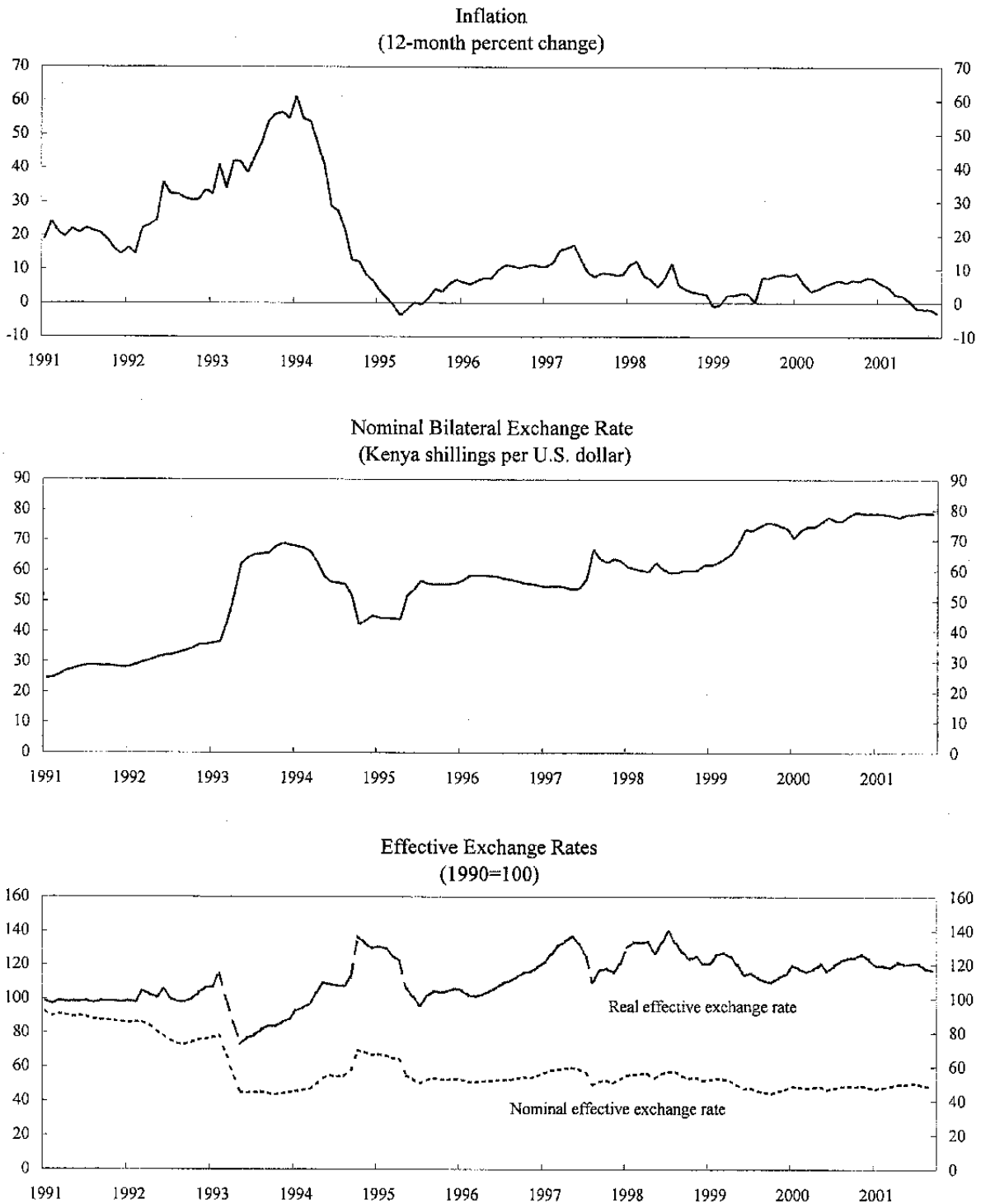


Sources: Kenyan authorities; and staff estimates.

1/ In U.S. dollars.

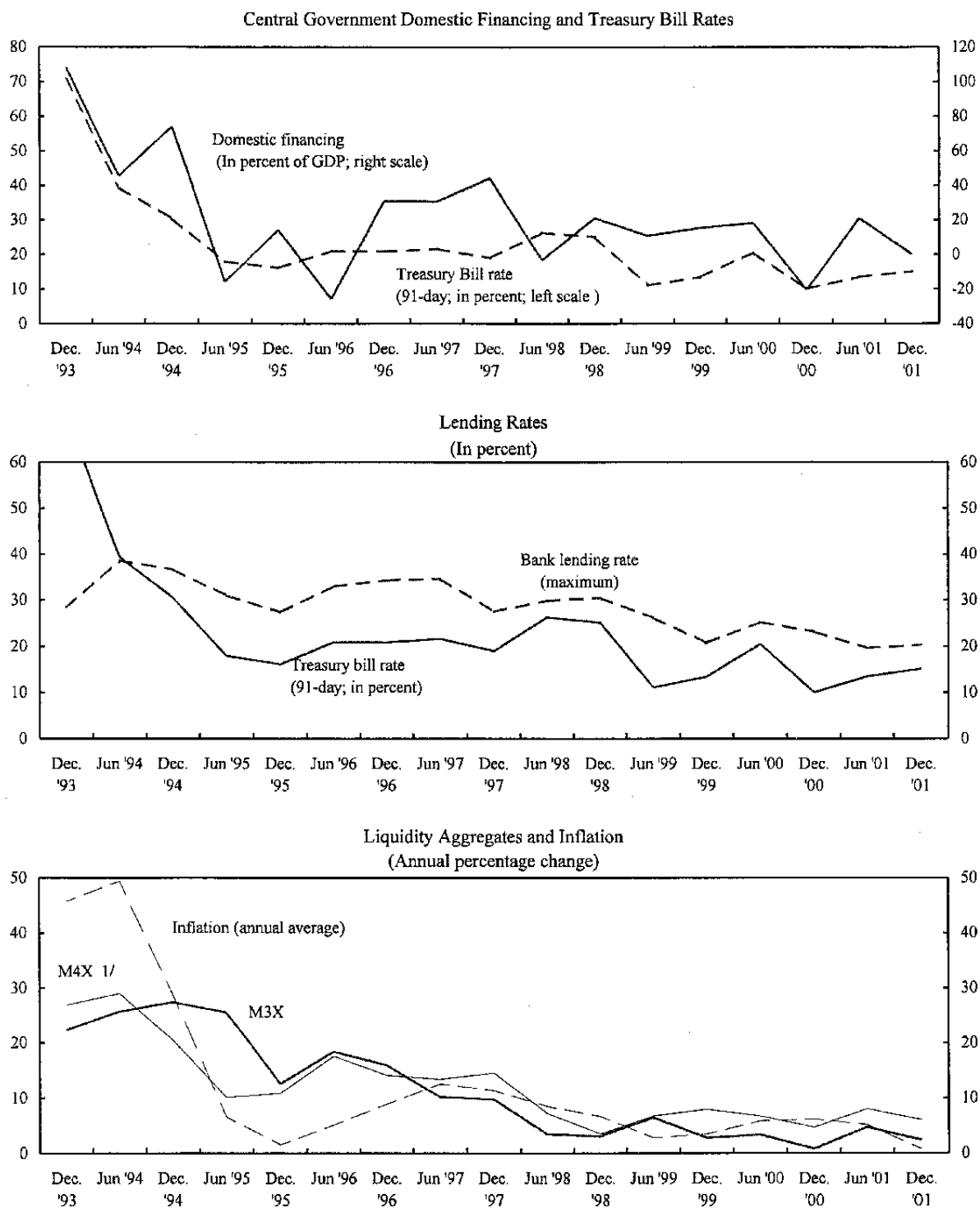
2/ In percent of GDP.

Figure 7. Kenya: Inflation and Exchange Rates, January 1991-September 2001



Sources: Kenyan authorities; IMF Information Notice System; and staff estimates.

Figure 8. Kenya: Money and Interest Rate Indicators, December 1993 - June 2001



Sources: Kenyan authorities; and staff estimates.

1/ M3X equals money and quasi money plus foreign currency deposits; and M4X equals M3X plus nonbank holdings of government debt.

Table 4. Kenya: Macroeconomic Scenario, 2000-05

	2000	2001	2002		2003		2004		2005	
			Program 1/ <sup>1/</sup>	No Program 2/ <sup>2/</sup>	Program 1/ <sup>1/</sup>	No Program 2/ <sup>2/</sup>	Program 1/ <sup>1/</sup>	No Program 2/ <sup>2/</sup>	Program 1/ <sup>1/</sup>	No Program 2/ <sup>2/</sup>
(Annual percentage change, unless otherwise indicated)										
<b>National accounts and prices</b>										
Nominal GDP (Market prices, in billions of Kenya shillings)	789	825	877	882	944	1,062	1,023	1,273	1,124	1,553
GDP volume (factor cost)	-0.3	1.1	1.4	0.7	2.4	0.7	3.5	0.9	4.6	1.1
GDP volume (factor cost) per capita	-2.5	-0.9	-0.5	-1.2	0.6	-1.0	1.9	-0.7	3.0	-0.4
Private consumption volume	6.4	2.2	2.4	1.8	3.0	2.3	2.9	1.8	3.0	1.7
Government consumption volume	4.3	-1.3	2.5	1.7	-0.2	-0.3	0.6	-0.8	2.7	-1.9
Gross capital formation volume	-4.2	0.0	-3.0	-5.2	9.2	-2.8	12.2	0.8	3.3	-7.6
GDP deflator	6.8	3.4	4.9	6.2	5.1	19.6	4.7	18.8	5.0	20.8
Consumer price index (annual average)	6.2	0.8	3.2	4.8	3.9	21.3	4.3	21.7	5.0	21.7
Consumer price index (end of period)	7.5	-3.1	6.0	14.2	3.1	21.3	5.0	21.7	5.0	21.7
<b>External sector</b>										
Export volume, goods and services	8.6	2.6	1.6	0.7	3.9	2.0	4.3	2.3	5.0	1.8
Import volume, goods and services	18.1	1.7	2.1	0.9	5.1	2.2	4.4	2.0	0.9	-2.0
Terms of trade, goods										
(- deterioration, based on c.i.f. imports)	0.1	1.2	2.8	2.2	0.2	0.1	0.4	0.3	0.5	0.4
Nominal effective exchange rate (- depreciation; end of period)	2.9	0.2 3/	...	...	...	...	...	...	...	...
Real effective exchange rate (- depreciation; end of period)	7.8	-4.4 3/	...	...	...	...	...	...	...	...
(In percent of GDP)										
<b>Investment and saving</b>										
Investment	15.6	15.5	14.8	14.5	15.7	14.1	16.9	14.4	16.7	13.2
Central government 4/	3.2	3.8	3.9	...	3.6	...	3.6	...	3.7	...
Other	12.4	11.7	10.9	...	12.1	...	13.3	...	13.0	...
Gross national saving	13.4	13.0	11.2	11.1	11.4	10.0	12.6	9.6	13.7	9.8
Central government	2.6	1.9	2.2	...	2.5	...	3.0	...	3.6	...
Other	10.8	11.2	9.0	...	8.9	...	9.6	...	10.1	...
<b>Government budget 5/</b>										
Total revenue	23.7	24.3	24.3	...	24.1	...	24.0	...	23.8	...
Total expenditure and net lending	28.7	28.0	26.2	...	26.0	...	25.1	...	24.8	...
Overall balance (commitment basis) excluding grants	-5.0	-3.8	-1.9	...	-1.8	...	-1.1	...	-1.0	...
Total grants	3.0	1.2	0.6	...	0.6	...	0.6	...	0.6	...
Overall balance (commitment basis) including grants	-2.0	-2.6	-1.2	...	-1.2	...	-0.5	...	-0.4	...
<b>External sector</b>										
Current external balance, including official transfers	-2.1	-2.4	-3.7	-3.4	-4.3	-4.2	-4.4	-4.8	-3.0	-3.4
Current external balance, excluding official transfers	-3.0	-3.2	-3.7	-3.4	-4.3	-4.1	-4.3	-4.7	-3.0	-3.4

Sources: Kenyan authorities; and staff estimates and projections.

1/ Assumes that foreign program loans and grants will be disbursed in full in the first half of 2002.

2/ Assumes that foreign program loans and grants will not be disbursed.

3/ 12-month period ended November 2001.

4/ Excludes extrabudgetary funds and includes budget-funded capital formation projects undertaken by parastatals.

5/ Data are on July-June fiscal-year basis.



Table 5. Kenya: Central Government Financial Operations, 1999/2000-2005/06 1/ 2/ (concluded)

	1999/00	2000/01		2001/02			2002/03	2003/04	2004/05	2005/06
		Program 3/	Prel. Outturn	Program 4/	Staff	No Program 5/				
(In percent of GDP, unless otherwise indicated)										
Revenue	23.3	23.7	23.7	24.3	24.1	23.1	24.3	24.1	24.0	23.8
Income tax	7.1	6.9	6.9	7.2	7.1	6.7	7.1	7.1	7.2	7.2
Import duty (net)	3.7	3.6	3.6	3.3	3.2	3.3	3.2	3.0	2.8	2.6
Excise duty	3.7	3.5	3.5	3.6	3.6	3.3	3.5	3.5	3.5	3.5
Value-added tax	5.4	6.2	6.2	6.5	6.4	5.9	6.5	6.5	6.5	6.5
Investment income	0.0	0.1	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3
Other	3.3	3.3	3.2	3.5	3.5	3.4	3.6	3.6	3.6	3.6
Expenditure and net lending	23.1	29.5	28.7	28.0	27.6	24.6	26.2	26.0	25.1	24.8
Recurrent expenditure	20.6	25.0	24.7	23.7	23.7	21.1	22.5	22.3	21.3	20.7
Interest payments	4.0	3.8	3.3	3.8	3.9	3.2	3.5	3.5	3.3	2.8
Domestic interest	2.9	2.6	2.4	2.8	3.0	2.4	2.8	2.9	2.7	2.3
Foreign interest due	1.1	1.2	1.0	0.9	0.9	0.8	0.7	0.6	0.6	0.5
Wages and benefits (civil service)	8.6	8.6	8.4	9.0	8.9	8.0	8.9	8.6	8.3	8.0
Civil service reform	0.1	1.0	0.8	0.2	0.2	0.3	0.0	0.0	0.0	0.0
Pensions, etc.	0.7	0.8	0.8	1.1	1.1	1.0	0.9	0.9	0.9	0.9
Other	5.9	6.5	7.1	7.7	7.6	6.9	7.6	7.3	6.9	7.0
Defense and NSIS	1.6	2.0	2.1	2.0	2.0	1.8	2.0	2.0	2.0	2.0
Pending bills 6/	-0.2	0.0	0.2	0.0	0.0	-0.2	-0.5	0.0	0.0	0.0
Drought relief expenditures	0.0	2.3	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development and net lending	2.5	4.5	4.1	4.3	4.3	3.5	3.5	3.4	3.3	3.3
Domestically financed	0.6	0.9	0.7	1.3	1.3	1.1	1.1	1.1	1.1	1.0
Foreign financed	1.7	2.5	1.9	2.4	2.4	2.1	2.3	2.3	2.2	2.2
Net lending	0.2	0.2	0.3	0.2	0.2	0.2	0.1	0.0	0.0	0.0
Pending bills 6/	0.0	0.0	0.4	0.5	0.5	0.0	0.0	0.0	0.0	0.0
Drought relief expenditures	0.0	0.9	0.7	0.0	0.0	0.0	...	...	...	...
Expenditure measures	0.0	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0
New PRSP-related projects	...	...	...	...	...	...	0.2	0.3	0.4	0.8
Balance (commitment basis)	0.2	-5.8	-5.0	-3.8	-3.5	-1.5	-1.9	-1.8	-1.1	-1.0
Grants	0.6	2.3	3.0	1.2	0.8	0.6	0.6	0.6	0.6	0.6
Food relief grants	...	0.5	1.5	...	...	...	...	...	...	...
Project grants	0.6	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Program grants	0.0	0.9	0.7	0.5	-0.1	0.0	0.0	0.0	0.0	0.0
Balance (commitment basis, including grants)	0.7	-3.5	-2.0	-2.6	-2.8	-0.9	-1.2	-1.2	-0.5	-0.4
Adjustments to cash basis	-0.5	-0.5	0.2	-0.1	-0.1	-0.7	-0.7	0.0	0.0	0.0
Balance (cash basis)	0.2	-4.0	-1.9	-2.7	-2.8	-1.6	-1.9	-1.2	-0.5	-0.4
Financing	-0.1	4.0	1.8	2.7	2.8	-0.9	0.3	-0.3	-0.9	-0.9
Net foreign financing	-2.5	3.2	1.6	-0.1	-0.9	-0.9	-0.3	-0.2	0.0	0.2
Project loans	1.2	2.4	1.7	1.7	1.7	1.6	1.7	1.7	1.6	1.6
Program loans	0.0	1.8	0.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	-4.1	-3.9	-3.5	-2.7	-2.7	-2.4	-2.0	-1.8	-1.6	-1.4
Change in arrears	0.4	-0.8	0.1	-0.7	-0.7	0.0	0.0	0.0	0.0	0.0
Rescheduling	...	3.8	2.7	1.0	0.7	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.7	0.9	0.0	0.1	0.1	0.0	0.2	0.1	0.1	0.1
Net domestic financing	1.7	-0.1	0.3	2.7	3.7	0.0	0.4	-0.2	-1.1	-1.2
Of which: expenditure arrears securitization	0.5	0.4	...	0.6	0.6	0.5	0.3	0.0	0.0	0.0
Financing gap (stat. discrepancy for outturns)	-0.2	0.0	0.0	0.0	0.0	2.5	1.6	1.5	1.4	1.3
Memorandum items:										
GDP (in millions of Kenya shillings)	764,624	814,836	806,934	851,233	857,298	944,864	910,698	983,344	1,073,389	1,186,951
Stock of domestic debt, net (end of period)	21.4	19.5	19.9	21.5	22.4	...	20.6	18.8	16.1	13.4
Care poverty programs (nonwage expenditure)	1.4	1.4	1.1	...	...	...	...	...	...	...
Modified primary balance excluding expenditure on drought relief and civil service reform	4.2	1.3	1.0	0.2	0.6	2.0	1.7	1.7	2.2	1.8
Wage bill	8.6	8.6	8.4	9.0	8.9	8.0	8.9	8.6	8.3	8.0

Sources: Kenyan authorities; and Fund staff estimates and projections.

1/ Fiscal year ending June 30.

2/ The fiscal accounts are on a cash basis (with the exception of foreign interest due). Adding accumulation of pending bills and subtracting cash repayment of them adjusts to a commitment basis.

3/ Program refers to the October 2000 revised PRGF-supported program in EBS/00/200 (9/28/00).

4/ Projections presented in this column take into account the revised GDP projections and assume that foreign program grants and program loans will be disbursed in full in the last quarter of the fiscal year.

5/ Projections presented in this column take into account the revised GDP projections and assume that foreign program grants and program loans will not be disbursed.

6/ According to information currently available to the staff.

Table 6 Kenya: Monetary Survey, 2000-2002

	2000 Jun. Act. 1/	2000 Sep. Act. 1/	2000 Dec. Act. 1/	2000 Dec. Prog. 2/	2001 Mar. Act. 1/	2001 Mar. Prog. 2/	2001 Jun. Act. 1/	2001 Jun. Prog. 2/	2001 Sep. Act. 1/	2001 Dec. Act. 1/	2002 Mar. Proj. 1/3/	2002 Jun. Proj. 1/3/
(In millions of Kenya shillings)												
Central Bank of Kenya (CBK)												
Net foreign assets	52,721	56,764	58,133	56,470	62,381	57,462	65,898	63,147	72,296	75,192	76,122	77,038
Net domestic assets	22,997	12,873	19,600	17,814	7,667	16,162	3,412	12,327	-2,505	3,933	625	77
Domestic credit	15,332	7,210	14,385	10,686	479	9,634	-2,934	6,199	-7,002	1,716	-4,811	-5,353
Government (net)	20,975	19,320	19,057	22,523	18,817	21,471	10,807	18,036	2,989	14,554	14,189	13,647
Commercial banks	-5,643	-12,110	-4,672	-11,837	-18,338	-11,837	-13,741	-11,837	-9,991	-12,838	-19,000	-19,000
Other items (net)	7,665	5,663	5,215	7,128	7,188	6,528	6,346	6,128	4,497	2,217	5,436	5,430
Reserve money (RM)	75,719	69,637	77,733	74,284	70,048	73,624	69,310	75,474	69,791	79,125	76,747	77,115
Currency outside banks	38,397	38,166	43,402	41,477	41,733	40,973	42,374	41,436	41,706	45,289	44,237	44,493
Bank reserves	37,322	31,471	34,331	32,807	28,315	32,651	26,936	34,038	28,085	33,836	32,511	32,622
Banks												
Net foreign assets	12,736	19,666	23,710	12,710	26,165	13,316	22,637	13,221	18,501	17,409	17,221	16,721
Reserves	37,322	31,471	34,331	39,007	28,315	38,851	26,936	40,238	28,085	33,836	32,511	32,622
Credit to CBK	5,643	12,110	4,672	11,837	18,338	11,837	13,741	11,837	9,991	12,838	19,000	19,000
Net domestic assets	252,166	247,367	251,695	266,152	241,389	264,341	246,472	275,113	256,702	256,601	256,374	257,880
Domestic credit	350,745	354,758	353,599	358,708	355,662	364,234	359,569	381,437	360,754	352,703	363,373	372,108
Government (net)	62,267	63,308	57,391	56,386	57,136	53,803	57,856	57,801	73,727	74,524	76,588	76,249
Other public sector	7,041	8,397	8,058	7,111	8,542	7,111	9,877	7,111	8,959	8,027	8,400	8,400
Private sector	281,436	283,052	288,150	295,211	289,984	303,320	291,836	316,525	278,068	270,152	278,385	287,458
Other items (net)	-98,579	-107,391	-101,904	-92,556	-114,273	-99,893	-113,097	-106,324	-104,052	-96,102	-106,999	-114,228
Total deposits	307,867	310,614	314,408	329,705	314,207	328,345	309,786	340,409	313,279	320,684	325,105	326,223
Monetary survey												
Net foreign assets	65,458	76,430	81,843	69,180	88,546	70,778	88,535	76,368	90,797	92,601	93,343	93,758
Net domestic assets	280,806	272,350	275,967	295,802	267,394	292,340	263,625	299,277	264,188	273,372	275,999	276,957
Domestic credit	371,720	374,078	372,656	381,231	374,479	385,705	370,376	399,473	363,743	367,257	377,563	385,755
Government (net)	83,242	82,628	76,448	78,909	75,953	75,274	68,663	75,837	76,716	89,078	90,778	89,897
Other public sector	7,041	8,397	8,058	7,111	8,542	7,111	9,877	7,111	8,959	8,027	8,400	8,400
Private	281,436	283,052	288,150	295,211	289,984	303,320	291,836	316,525	278,068	270,152	278,385	287,458
Other items (net)	-90,914	-101,728	-96,689	-85,428	-107,085	-93,365	-106,751	-100,196	-99,555	-93,885	-101,563	-108,798
Money and quasi money (M3)	310,355	308,320	314,666	325,253	308,791	322,530	305,590	335,217	310,649	322,325	327,681	329,576
M3 and foreign currency deposits (M3X)	346,264	348,780	357,810	364,983	355,940	363,118	352,160	375,645	354,985	365,973	369,342	370,716
Currency outside banks	38,397	38,166	43,402	41,477	41,733	40,973	42,374	41,436	41,706	45,289	44,237	44,493
Deposits	307,867	310,614	314,408	323,505	314,207	322,145	309,786	334,209	313,279	320,684	325,105	326,223
Broad money (with for. curr. deposits of resid.)	346,264	348,780	357,810	364,983	355,940	363,118	352,160	375,645	354,985	365,973	369,342	370,716
M3X and nonbank holdings of government debt (M4X)	422,994	421,726	433,267	449,220	438,516	452,831	444,064	458,670	448,897	459,706	463,412	463,955
(Annual percent change, unless otherwise indicated)												
Memorandum items:												
M3	0.2	1.8	0.8	4.2	-0.2	4.2	-1.5	8.0	0.8	2.4	5.0	7.8
M3X	1.4	3.8	3.4	5.0	3.4	5.5	1.7	8.5	1.8	2.3	3.8	5.3
M4X	5.8	4.6	4.5	7.9	4.8	8.2	5.0	8.4	6.4	6.1	5.7	4.5
Money base	4.0	2.1	-1.6	-6.0	-2.8	2.2	-8.5	-0.3	0.2	1.8	9.6	11.3
Currency outside banks	4.9	5.2	1.2	-3.3	8.9	7.0	10.0	7.9	9.3	3.0	6.0	5.0
Net domestic assets of banking sector	-4.7	-4.9	-5.3	0.9	-5.7	3.1	-6.1	6.5	-3.0	-0.9	3.2	5.1
NDA growth (as percent of base period M3X)	-4.1	-4.1	-4.9	0.8	-5.2	2.9	-5.5	5.9	-2.6	-0.8	2.8	4.4
Other items net of banking sector	25.8	24.4	27.3	15.2	26.9	10.7	17.4	12.1	-2.1	-2.9	-5.2	1.9
Private sector credit including to nondeposit fin. enterprises and foreign currency credits (FCCs) to residents	4.2	1.5	4.4	7.0	4.3	9.1	3.7	13.0	-1.8	-6.2	-4.0	-1.5
Non-bank holdings of government debt	76,730	72,946	75,457	84,238	82,576	89,712	91,904	83,026	93,912	93,733	94,070	93,239
Stock of domestic debt (millions of Kenya shillings)	159,951	154,478	151,905	162,816	158,529	164,655	160,567	158,532	170,628	182,811	184,848	183,136
Multiplier (M3/RM)	4.1	4.4	4.0	4.4	4.4	4.4	4.4	4.4	4.5	4.1	4.3	4.3

Sources: Central Bank of Kenya and staff estimates

1/ In constant exchange rates prevailing on March 31, 2000.

2/ Program refers to the October 2000 revised PRGF program in EBS/00/200 (9/28/00)

3/ Assumes PRGF-supported program brought back on track before end of fiscal-year 2001/02.



Table 7. Kenya: Balance of Payments, 1999-2005  
(In millions of U.S. dollars, unless otherwise indicated)

	1999	2000 Est.	2001 Proj.	2002		2003		2004		2005	
				Prog. 1/	No Prog. 2/	Prog. 1/	No Prog. 2/	Prog. 1/	No Prog. 2/	Prog. 1/	No Prog. 2/
Current account	-234	-220	-253	-404	-376	-499	-458	-545	-526	-409	-383
Excluding official transfers	-233	-311	-340	-402	-375	-497	-456	-544	-524	-408	-381
Exports, f.o.b.	1,755	1,774	1,761	1,798	1,773	1,926	1,857	2,080	1,941	2,260	2,028
Coffee	172	154	86	83	83	98	91	126	107	159	123
Tea	472	463	456	474	474	508	498	546	521	587	544
Oil products	138	127	111	93	93	95	95	97	97	100	99
Other	973	1,030	1,107	1,147	1,122	1,226	1,173	1,311	1,216	1,414	1,260
Imports, f.o.b.	-2,679	-2,965	-2,850	-2,820	-2,780	-3,012	-2,918	-3,198	-3,058	-3,217	-2,979
Public	-121	-94	-94	-99	-99	-103	-102	-109	-105	-114	-109
Private	-2,557	-2,871	-2,756	-2,721	-2,682	-2,909	-2,816	-3,089	-2,953	-3,103	-2,870
Oil	-527	-850	-807	-687	-677	-712	-684	-743	-694	-782	-704
Other	-2,031	-2,021	-1,949	-2,033	-2,005	-2,197	-2,132	-2,346	-2,259	-2,320	-2,167
Balance on goods	-924	-1,191	-1,089	-1,021	-1,007	-1,086	-1,060	-1,118	-1,117	-957	-951
Services (net)	298	245	241	218	220	209	208	190	198	166	181
Credit	932	969	972	987	981	1,051	1,015	1,112	1,050	1,180	1,086
Foreign travel	301	259	272	272	272	299	280	317	289	337	298
Other	631	710	700	715	709	751	735	794	761	843	788
Debit	-634	-724	-731	-769	-761	-842	-808	-921	-852	-1,014	-904
Balance on goods and services	-626	-946	-847	-803	-788	-877	-852	-928	-919	-791	-769
Income (net)	-173	-134	-154	-141	-145	-134	-144	-134	-150	-124	-155
Credit	32	45	39	46	42	52	41	55	40	60	38
Debit	-205	-179	-194	-187	-187	-185	-185	-189	-190	-194	-193
Of which: official interest payments	-164	-124	-111	-117	-117	-111	-111	-108	-109	-110	-109
Current transfers (net)	564	860	748	541	556	512	538	516	543	515	542
Private (net)	566	769	661	542	558	513	540	518	545	517	544
Official (net)	-2	91	87	-2	-2	-2	-2	-2	-2	-2	-2
Capital and financial account	214	211	278	373	343	454	409	514	443	438	297
Capital account	63	63	62	78	71	80	73	83	76	87	80
Of which: capital transfers	63	63	62	78	71	80	73	83	76	87	80
Financial account	151	148	217	295	272	374	336	431	367	351	217
Investment assets and liabilities (net)	-285	-314	-107	-35	-60	42	16	78	43	-32	-115
Official, medium and long term	-305	-170	-256	-94	-109	-46	-61	-22	-44	-5	-36
Inflows	205	304	196	217	202	268	193	205	190	214	194
Outflows	-510	-474	-452	-311	-311	-254	-254	-227	-233	-219	-230
Commercial banks (net)	21	-235	96	0	0	0	0	0	0	0	0
Private (net)	-1	91	52	59	49	88	77	100	87	-26	-79
Short-term (net) and net errors and omissions 3/	436	462	324	330	332	332	319	353	324	383	332
Overall balance	-20	-8	25	-30	-33	-44	-49	-31	-82	29	-85
Financing items	20	8	-25	30	33	44	49	31	82	-29	85
Reserve assets (gross)	-8	-106	-167	-169	21	-111	27	-73	46	-151	36
Use of Fund credit and loans to the Fund (net)	-60	2	-24	64	-18	73	-18	-12	-12	-6	-6
Change in arrears	88	-53	44	-103	-103	0	0	0	0	0	0
Rescheduling	0	166	122	0	0	0	0	0	0	0	0
Remaining gap	0	0	0	240	133	82	40	116	49	128	56
Of which: Tentatively identified	...	...	0	113	0	22	0	0	0	0	0
Unidentified	...	...	0	47	53	60	40	116	49	128	56
Memorandum items:											
Gross official reserves (end of period)	791	897	1,064	1,233	1,043	1,344	1,017	1,417	971	1,568	935
(in months of next year's imports) 4/	2.6	3.0	3.6	3.8	3.4	3.9	3.1	4.0	3.0	4.1	2.8
(percent of short-term debt by remaining maturity) 5/	69.4	91.2	121.0	144.5	122.2	164.1	124.1	173.7	120.3	191.8	114.8
Current account balance											
(percent of GDP, excluding official transfers)	-2.2	-3.0	-3.2	-3.7	-3.4	-4.3	-4.1	-4.3	-4.7	-3.0	-3.4
Import volume growth, goods (percent)	-7.2	7.0	1.9	2.0	0.6	3.9	2.1	3.8	2.5	-0.7	-3.8
Import volume growth, goods (percent; excluding special imports) 6/	-5.2	3.6	2.4	2.0	1.2	3.1	1.5	4.2	1.7	5.0	2.0
Export volume growth, goods (percent)	-5.2	-5.6	4.0	2.4	1.6	4.0	1.8	5.2	1.9	6.0	2.1

Sources: Kenyan authorities; and staff estimates and projections.

1/ This reflects an outcome where the program is brought back on track by 2002:Q2 (foreign program financing is received).

2/ This reflects an outcome where the program is not brought back on track.

3/ Includes unrecorded tourism earnings.

4/ In months of projected imports of goods and services.

5/ Short term debt is based on information from the Bank for International Settlements (BIS) as well as the Kenyan authorities.

6/ Includes defense-related imports, imports of maize, sugar, and airplanes, and, beginning in 1998, imports related to rehabilitation of the energy sector.

Table 8. Kenya: External Debt Indicators, 1999-2005 1/  
(In millions of U.S. dollars, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005
<b>Debt-stock indicators</b>							
Total stock of external debt (including arrears)	5,586	5,327	5,257	5,191	5,328	5,398	5,500
Stock of external debt by creditor 2/ 3/	5,473	5,268	5,154	5,191	5,328	5,398	5,500
Multilateral creditors	3,005	3,001	3,022	3,173	3,362	3,480	3,617
IMF	131	128	100	163	236	225	219
World Bank	2,310	2,356	2,407	2,489	2,592	2,702	2,822
African Development Bank/African Development Fund	384	355	369	390	417	449	484
Other	180	162	145	131	116	104	92
Bilateral creditors	2,057	1,889	1,754	1,703	1,681	1,666	1,663
Paris Club	1,994	1,845	1,704	1,635	1,594	1,563	1,543
Non-Paris Club	63	44	50	67	87	103	120
Other creditors 4/	411	378	378	316	285	252	220
Stock of external debt by debtor 2/ 3/	5,473	5,268	5,154	5,191	5,328	5,398	5,500
Central government	4,853	4,629	4,563	4,551	4,613	4,674	4,776
Government guaranteed	489	511	490	478	479	499	505
Central bank	131	128	100	163	236	225	219
Net present value (NPV) of debt 3/ 5/							
In million of U.S. dollars	4,056	3,933	3,792	3,638	3,667	3,664	3,682
In percent of exports of goods and services 6/	143	143	139	132	129	123	115
In percent of exports of government revenue 7/	140	162	151	137	130	122	114
In percent of GDP	39	38	36	33	31	29	27
Stock of arrears 8/	113	60	103	0	0	0	0
<b>Debt-service indicators</b>							
Principal payments by creditor 3/ 9/	570	412	380	328	272	239	225
Multilateral creditors	174	156	118	100	95	83	76
IMF	60	42	24	18	18	12	6
World Bank	74	70	63	55	52	50	51
AfDB/AfDF	22	26	15	13	11	9	7
Other	18	18	17	14	15	12	12
Bilateral creditors	226	130	184	166	145	123	117
Paris Club	205	126	180	160	140	118	111
Non-Paris Club	21	4	4	6	5	5	6
Other creditors 4/	170	126	77	62	31	33	32
Interest payments by creditor 3/ 9/	164	99	102	117	111	108	110
Multilateral creditors	55	38	52	44	41	41	42
IMF	1	1	1	1	1	1	1
World Bank	35	25	34	29	29	29	31
AfDB/AfDF	13	8	12	9	6	6	5
Other	7	5	5	5	6	5	6
Bilateral creditors	77	40	35	58	58	57	58
Paris Club	75	40	34	57	57	56	57
Non-Paris Club	2	1	1	1	1	1	1
Other creditors 4/	32	21	15	14	12	9	9
Debt-service ratio (in percent of current year exports)	27	19	18	16	13	11	10

Sources: Kenyan authorities; and staff estimates and projections.

1/ This reflects an outcome where the program is brought back on track by 2002:Q2 (foreign program financing is received).

2/ Does not include arrears.

3/ After Paris Club rescheduling in November 2000, and assuming comparable treatment by non-Paris Club and commercial creditors.

4/ Includes commercial banks' and suppliers' credit; includes stock and repayment of arrears according to the terms agreed with commercial banks.

5/ Refers to the present value of debt service calculated by using the currency-specific commercial interest reference rate (CIRR) as the discount rate.

6/ Three-year backward-looking average.

7/ Central government revenue, excluding grants.

8/ The stock of arrears at end-2000 and estimated at end-2001 is largely composed of arrears to commercial creditors that are assumed to be cleared when Kenya reaches a rescheduling agreement with these creditors.

9/ The figures for debt service in this table differ from those presented in the balance of payments table, as the balance of payments table presents debt service before rescheduling (and rescheduling is presented as financing below the line).

Table 9. Kenya: Financial and Structural Performance Criteria and Benchmarks Under the First-Year Program, July 2000-June 2001 1/

(In millions of Kenya shillings, unless otherwise indicated)

	2000									2001			
	Sep. 30			Dec. 31			Mar. 31			Jun. 30			
	Prog.	Adj. Prog.	Outturn	Prog.	Adj. Prog.	Outturn	Prog.	Adj. Prog.	Outturn	Prog.	Adj. Prog.	Outturn	
<b>Performance criteria</b>													
Net domestic assets of the Central Bank of Kenya (CBK) 2/ 3/	25,900	26,374	17,494 M	20,600	22,379	18,211 M	18,900	21,787	10,062	15,200	17,323	4,732 M	
Net foreign assets of the CBK 3/ 4/	44,925	45,543	50,132 M	49,225	48,324	50,049 M	50,225	48,016	56,706	55,825	52,695	60,656 M	
Overall fiscal deficit 2/ 3/	12,543	9,485	7,268 M	29,829	16,507	18,574 NM	46,195	29,806	23,438 /9	47,135	31,966	40,409 5/ NM	
Stock of external payments arrears (in millions of U.S. dollars) 2/ 6/	242	242	208 M	0	0	10 NM	0	0	1	0	0	31 NM	
Contracting or guaranteeing of nonconcessional external debt 2/ 7/ 8/	0	0	0 M	0	0	0 M	0	0	0	0	0	0 M 10/	
Short-term external debt 2/ 7/ 8/	0	0	0 M	0	0	0 M	0	0	0	0	0	0 M	
<b>Benchmarks</b>													
Stock of pending bills 2/ 9/	1,722	1,722	6,500	0	0	8630	0		...	0			
<b>Memorandum items:</b>													
Programmed external budgetary support (cumulative)	11,582		9,142	33,447		19,224	39,491		20,892	48,023		29,723	
Of which: nonproject support	5,002		3,644	14,448		5,358	19,345		5,358	21,991		10,000	
Nonbank net holdings of government debt	82,048		72,948	84,238		75,457	89,712		82,941	83,026		93,103	
Food relief expenditures (cumulative)	3,593		2,296	9,012		5,368	14,681		9,897	17,002		14,137	
Privatization receipts	0		0	0		0	7,572		0	7,572		0	
Program exchange rate (Kenya shillings per U.S. dollar)	74.8		74.8	74.8		74.8	74.8		74.8	74.8		74.8	

Note:

M = Performance criteria met. NM = Performance criteria not met.

1/ Performance criteria apply to end-September 2000, end-December 2000, and end-June 2001; for end-March 2001, these are benchmarks.

2/ Ceiling.

3/ Net foreign assets defined to exclude encumbered reserves. To the extent that any drought-related resources remain unspent, the ceilings for the overall fiscal deficit and the net domestic assets of the CBK will be adjusted downward by the same amount, and the floors on net foreign assets of the CBK will be adjusted correspondingly upward.

4/ Floor.

5/ Preliminary outturn that is likely to be substantially revised, based on the outcome of an ongoing auditing of pending bills.

6/ In addition, there is a continuous performance criterion on the nonaccumulation of new external arrears on payments on debts that are not expected to be considered for rescheduling by Paris Club creditors.

7/ Continuous.

8/ This performance criterion applies to external debt as defined in the amendments to the technical memorandum of understanding attached to the letter of intent.

9/ Excludes about K Sh 5,500 million in pending bills disputed by the government.

10/ The staff are discussing the details of some lease agreements contracted in 2001.

Table 10. Kenya: Structural Performance Criteria and Benchmarks Under  
the First-Year Program, July 2000-June 2001

	Status
<b>Performance criteria</b>	
1. Issue a treasury circular to shift by December 31, 2000 the supervision of district treasury officers from the Office of the President to the Ministry of Finance.	Done.
2. Issue a treasury circular to bring by December 31, 2000 all financial management units in the line ministries under the control and supervision of the finance officer and provide all finance officers with sufficient independence by requiring that their annual performance review be finalized by the Ministry of Finance.	Partially implemented.
3. Develop by December 31, 2000 terms of service that would allow competitive remuneration of the Controller and Auditor General's staff, on terms comparable to those applicable to the pay structure of the KRA and KACA.	Partially addressed.
4. Complete the development of a tariff reform program by March 31, 2001, with a view to implementing it under the 2001/02 (July-June) budget.	Done. (with a delay).
<b>Structural benchmarks</b>	
1. Amend by October 2000 the draft bill containing the code of ethics for public officials, inter alia, to strengthen the independence of the Public Service Committee examining alleged infractions of the code, to extend the requirement to declare assets and liabilities to include immediate families of the officials, and to broaden the definition of the types of assets and liabilities to be declared.	Bill to be discussed in this session of parliament.
2. Publish in the official gazette an Anti-Corruption and Economic Crimes bill that is essentially similar to the one annexed to the report of the Select Committee of Parliament on Anti-Corruption not later than 30 days after the determination by parliament on the report.	Bill to be discussed in this session of parliament.
3. Offer for sale to a strategic investor (to be identified through a bidding process) by September 30, 2000 at least 26 percent of the Kenya Commercial (KCB) with an announcement that the remaining shares of the KCB will be offered for sale to the market by March 31, 2001.	Not done.
4. Submit by September 30, 2000 an amendment to the Banking Act to clearly define "reckless lending" and related activities, as well as any other necessary amendment to relevant legislation, applicable to, inter alia, financial fraud, with a view to enabling the courts to deal more effectively with fraud and realisation of security.	Done.
5. The CBK will by September 30, 2000 issue prudential regulations and policies, including on the amount of risk that banks may incur in lending operations, with a view to clarifying and expanding on prohibited activities.	Done.
6. Set up by December 31, 2000 a system by which the CBK will share debtor information with licensed banking institutions, as provided in the amendment to legislation.	Done.
7. Complete by December 31, 2000 a review of operating procedures and methods of the Deposit Protection Fund (DPF) and produce recommendations, with a view to ensuring efficiency and maximizing asset recoveries. Implement these recommendations by June 30, 2001.	Done Implementing recommendations of March 2001 IMF mission.
8. Submit by March 31, 2001 amendments to the Building Society Act and the Banking Act that will explicitly specify that the CBK is authorized and responsible for supervising and regulating all institutions involved in "banking activities"; require appropriate and specific responses in case a bank is insolvent and formally prohibit directors of restructured problem banks from borrowing from the reopened institution.	Done.
9. Revise by December 31, 2000 the format of the "vote book" and expenditure returns to incorporate information on expenditure commitments and pending bills.	Done.
10. Develop by December 31, 2000, with technical assistance from the Fund, a system to strengthen expenditure control in the districts.	Done.
11. Complete and submit to parliament by June 30, 2001 audited public accounts for fiscal years 1998/99 and 1999/2000.	1998/99 done; 1999/2000 expected shortly.
12. Issue treasury instructions requiring by July 1, 2000 the Debt-Management Division, the External Resources Department, and the Accountant General's Office to prepare quarterly reconciliations of their external debt data.	Done.
13. Issue a treasury circular requiring that all noncentral government public institutions develop by December 31, 2000 and subsequently implement a strategy to prevent any further accumulation of pending bills, and to eliminate the outstanding pending bills after appropriate verification.	Not done.
14. Prepare by March 31, 2001 a plan for the elimination of major import exemptions awarded to the public sector, with a view to implementing the plan under the 2001/02 budget.	Done.
15. Develop a plan to reform the internal audit system by December 2000. Implement the reform plan of the internal audit system by March 31, 2001.	Done.

**Kenya: Relations with the Fund**

(As of December 31, 2001)

**I. Membership Status:** Joined February 3, 1964; Article VIII.

<b>II. General Resources Account:</b>	<b>SDR million</b>	<b>Percent of quota</b>
Quota	271.40	100.0
Fund holdings of currency	258.88	95.4
Reserve position in Fund	12.54	4.6

<b>III. SDR Department:</b>	<b>SDR million</b>	<b>Percent of allocation</b>
Net cumulative allocation	36.99	100.0
Holdings	0.78	2.1

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR million</b>	<b>Percent of quota</b>
Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF) arrangements	78.65	29.0

**V. Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>
PRGF	8/04/00	8/03/03	190.00	33.60
ESAF	4/26/96	4/25/99	149.55	24.93
ESAF	2/22/93	12/21/94	45.23	45.23
ESAF	5/15/89	3/31/93	261.40	216.17

**VI. Projected Obligations to Fund:** (SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Overdue</u> <u>12/31/01</u>	<u>Forthcoming</u>			
		<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Principal	0.0	14.0	14.0	9.5	5.0
Charges/interest	0.0	1.2	1.1	1.0	1.0
Total	0.0	15.2	15.1	10.5	6.0

## VII. Exchange Rate Arrangement

Managed float. The exchange rate on December 31, 2001 was K Sh 78.6 = US\$1.

## VIII. Article IV Consultations

Kenya is on the 12-month cycle for Article IV consultations. The 1999 Article IV consultation was concluded on December 17, 1999 (SM/99/281, 11/24/99).

## IX. Technical Assistance

Department	Purpose	Time of Delivery
LEG	Advice on foreign exchange legislation	February 1994
FAD	Advice on government expenditure management through short-term visit and by a panel expert	February 1994 July 1994
MAE/LEG	Mission on banking legislation	April 1994
MAE	Mission on foreign exchange management	July 1994
FAD	Technical expert to follow up on advice on government expenditure management	July-December 1995
MAE	Mission on improving financial markets and instruments	February and December 1996
STA	Mission to review data standards	March 1996
MAE/LEG	Advice on amending the Central Bank of Kenya (CBK) Act to make the CBK more independent	May-July 1996
FAD	Resident advisor at the Kenya Revenue Authority, financed by the World Bank and under Fund supervision, to provide assistance on strengthening tax administration	September 1996-99
FAD	Mission on strengthening expenditure management and control	April 1997
MAE	Mission on improving management of market liquidity	May 1997
STA	Multisector statistics mission	January-February 1998
MAE	Mission on banking supervision	November 1999
MAE	Mission on banking supervision and bank restructuring	February 1999
STA	Resident expert on balance of payments statistics	May-August 1999
MAE	Mission on banking supervision	July 1999
STA	Mission on government finance statistics	November-December 1999
FAD	Mission on improving expenditure management and control	February 2000
MAE	Mission on banking supervision	May 2000

STA	Mission on balance of payments statistics	May-July 2000
FAD	Mission on internal audit.	November 2000
FAD	Mission on tax and customs administration	January 2001
MAE	Mission on bank sector and deposit insurance	March 2001
STA	Mission on balance of payments statistics	September–October 2001
MAE	Mission on banking conditions and systemic Vulnerability	October 2001
FAD	Resident treasury advisor	December 2000-January 2002

## **X. Safeguards Assessment**

Under the Fund's safeguards assessment policy, the Central Bank of Kenya (CBK) is subject to a full Stage One safeguards assessment with respect to the PRGF Fund arrangement approved on August 4, 2000, which is scheduled to expire on August 3, 2003. A Stage One safeguards assessment of the CBK was completed on September 14, 2000. The assessment concluded that high risks may exist in financial reporting and in the system of internal controls and recommended a Stage Two (on-site) assessment. The Stage Two assessment was completed on January 29, 2001. The staff's findings and recommendations will be reported to the Executive Board at the time of the first review of the PRGF arrangement.

## **XI. Resident Representative**

The Fund has had a resident representative in Kenya since December 1993. Mr. Samuel Itam is the current Senior Resident Representative.

## **Kenya: Relations with the World Bank Group**

(As of December 31, 2001)

1. The World Bank has committed to Kenya about US\$3.9 billion (net of cancellations), of which US\$3.6 billion has been fully disbursed. As of October 31, 2001, IFC's portfolio included loan/equity positions in 34 projects amounting to about US\$112 million, plus an additional \$24 million in participations.

### **Agriculture**

2. The World Bank's activities in the sector support the government's development strategy, which aims at realigning the policy framework and the incentive structure, redefining the role and core functions of the government in the sector, and encouraging a more competitive marketing system with increased participation by the private sector. The government's development strategy also envisages support for the core programs of research and extension. The World Bank currently has three ongoing projects in the agriculture and environmental areas, including a Second National Agricultural Research Project, which would set the stage for developing a sustainable agricultural research program.

3. On environmental/natural resource management, the World Bank financed the preparation of the National Environmental Action Plan. The World Bank also approved in December 1995 an Arid Lands Resource Management Project, which seeks to ameliorate economic and environmental conditions in the more fragile arid areas. In addition, the World Bank approved in July 1996 a Lake Victoria Environmental Management Project, which will support efforts by the Kenyan, Ugandan, and Tanzanian governments to improve management of the lake's ecosystem.

### **Infrastructure development**

4. A major impediment to private sector development is inadequately maintained and inefficiently operated physical infrastructure. Public enterprise inefficiency is at the heart of many of these problems. Addressing these deficiencies requires an appropriate role for the private sector. World Bank activity in this sector has aimed at financing critical infrastructure needs while putting in place policy and budgetary reforms to increase long-term sustainability through greater private sector participation.

5. The World Bank has three ongoing infrastructure projects. In January 1996, the World Bank approved two infrastructure projects: an Urban Transport Project, which finances new and expanded road links, intersections, and public transport facilities in urban areas, and a Nairobi-Mombasa Road Rehabilitation Project, which supports rehabilitation of Kenya's chief transport corridor. The World Bank also approved an Energy Sector Reform and Power Development Project in June 1997, which is expected to increase generation capacity, reform energy pricing, and encourage private sector participation in the sector. An Emergency Infrastructure Rehabilitation Project to assist the country in coping with the damage done by the "El Niño" floods was approved by the Board in July 1998, providing US\$40 million of new support and



redirecting US\$37 million of existing commitments toward rehabilitation. In addition, an Emergency Power Supply Credit for US\$72 million was approved in October 2000 to assist the government in implementing emergency measures to address the ongoing power supply crisis. Both emergency credits closed at the end of December 2001.

### **Education and health**

6. In these two sectors, the World Bank's emphasis has been on enhancing financing and management capacity to increase the effectiveness and sustainability of public sector expenditures. In education, the emphasis is on (a) improving the quality of primary and secondary education through curriculum reform; (b) restructuring key sectoral institutions and policies to enhance the efficiency of services delivery; and (c) shifting public expenditure to improve access to quality basic education, especially in rural areas. In health, the emphasis is on (a) the development of prevention programs for sexually transmitted diseases, including AIDS; (b) a shift in resources from curative to efficient primary care, including reproductive services; and (c) a clarification of the respective roles of the private and public sectors.

7. The World Bank has three ongoing human resource operations. In April 1997, it approved an Early Child Development Project, which aims at reinforcing existing institutions and improving the quality of services offered to children of preschool age. In September 2000, the World Bank approved a US\$50 million HIV/AIDS Disaster Response Project to reduce the spread of HIV/AIDS, to mitigate the socioeconomic impact of the disease, and to increase the access to care and support for people infected or affected by the HIV/AIDS pandemic in Kenya. In December 2000, the World Bank approved a US\$50 million Decentralized Reproductive Health and HIV/AIDS Project aimed at improving mother and child health by promoting delivery of comprehensive reproductive health services. Moreover, the World Bank is discussing with the government a project aimed at strengthening primary and secondary education.

### **Public sector management**

8. A Public Sector Management Technical Assistance Credit for US\$15 million was approved in July 2001 with the principal objective of improving governance by putting in place systems and human resource capacity that are necessary conditions for achieving greater fiduciary responsibility and reducing corruption in the public service.

### **Private sector development**

9. In addition to the objectives of macroeconomic stability, infrastructure development, privatization, and institutional and public sector reforms conducive to private sector development, the World Bank is supporting the development of the informal sector. The Micro and Small Enterprise Training and Technology Project aims to enhance entrepreneurial development by reducing administrative constraints and increasing human capital in the informal sector. In April 2001, the World Bank approved a Regional Trade Facilitation Project (US\$25 million) aimed at poverty alleviation through private sector led growth in participating countries by improving access to financing for productive transactions and cross-border trade. The World Bank is also discussing with the government a technical assistance project to support Kenya's privatization program.

### **Adjustment lending**

10. In June 1996, IDA approved a Structural Adjustment Credit (SAC) of US\$126.8 million, including US\$36.8 million in IDA reflows. The first tranche of US\$79.8 million was released in June 1996. The second tranche of about US\$47 million, together with about US\$26.6 million in fiscal-year (FY) 1997 IDA reflows and US\$17.5 million additional reflows approved in December 1997, was not released because of the government's failure to meet fully all second-tranche release conditions. The SAC was closed in June 1998, and US\$87 million was cancelled.

11. In September 1998, the World Bank's Board endorsed a new Country Assistance Strategy (CAS) for Kenya that put the World Bank's lending program for Kenya in the "low case," with a projected lending program of up to US\$150 million over the next three years. Subsequently, the government undertook a series of governance and public sector reforms, paving the way for the resumption of a base case lending program in August 2000.

12. With a major initiative of public sector reform under way in Kenya, on August 1, 2000, the World Bank approved an Economic and Public Sector Reform Credit of US\$150 million, which will be disbursed in three tranches: an effectiveness tranche, and two floating tranches. The first tranche was released in late August 2000. In November 2000, the World Bank approved a supplemental credit of US\$3.4 million in IDA reflows, which has been fully disbursed. An additional supplemental credit of SDR 1.15 million from the FY2002 Fifth Dimension Allocation was approved in October 2001 to supplement the second tranche of the Economic and Public Sector Reform Credit when released. Conditions for the release of the second and third tranches of the World Bank's adjustment operation remain unfulfilled. The full PRSP has yet to be completed, and the new CAS has been delayed as a result.

### **Kenya: Statistical Issues**

1. Weaknesses in key macroeconomic statistics hamper economic analysis and surveillance. Kenya's macroeconomic statistics have deteriorated significantly over the past decade, reflecting primarily managerial and organizational weaknesses, and inadequate resources at the Central Bureau of Statistics (CBS). During the 2001 Article IV consultation discussions, the staff emphasized the need to improve the timeliness and quality of these statistics, and encouraged the authorities to promptly implement the recommendations of past technical assistance missions from the STA. A multisector STA mission to Kenya in 1998 undertook a comprehensive review of the major statistical areas and prepared a work program providing a broad time frame for implementing the principal recommendations, which address most of the statistical problems discussed below. A peripatetic STA advisor has over the past couple of years assisted the authorities in improving the balance of payments statistics, and a peripatetic STA advisor is scheduled to start assist the authorities in improving the national accounts statistics in early 2002.

2. Monetary, exchange rate, and some external data are published on a monthly and biannual basis by the Central Bank of Kenya (CBK) in its *Monthly Economic Review*. Core financial data are also made available to the Fund on a regular basis. A detailed account of various sectoral activities and the corresponding statistical data are published annually by the CBS in its *Economic Survey*.

#### **National accounts**

3. Data quality, which was previously reported as good, has deteriorated significantly because of budgetary and staff constraints at the CBS. GDP is believed to be underestimated by as much as 50 percent, as important and increasing parts of the economy, such as the informal sector, nonagriculture subsistence, horticulture, and self-employed professionals are not properly covered. Moreover, the constant-price base year is seriously outdated (1982). The authorities urgently need to revise their annual national accounts statistics and strengthen their institutional capacity to improve the quality of data. The latest available official national accounts data are for 2000.

#### **Prices and production**

4. The CBS compiles and publishes on a timely basis a monthly consumer price index (CPI) for Nairobi with 1986=100. The quality of the index, however, is weak. The index is not representative of the whole country, the basket is outdated (based on the 1982 household budget survey (HBS)), and data for rent have not been collected for years (rent represents almost 30 percent of the basket). The CBS intends to commence publication in early 2002 of a new national CPI (12 urban areas), with 1997=100 and weights based on the 1992-93 HBS. There is no producer price index, or any short-term export and import price indices.

### **Government finance statistics**

5. The 1998 multisector statistics mission found several statistical problems with the cumulative year-to-date monthly and quarterly fiscal data that the Ministry of Finance (MoF) compile and report to the AFR for budget-monitoring purposes. These data, which do not conform to the Fund's government finance statistics (GFS) methodology, do not adequately facilitate economic analysis, mainly because of inappropriate classification of expenditure data. The MoF has not developed a system to adequately monitor expenditure commitments, or domestic arrears, and relies mainly on monitoring cash movements in government accounts at the CBK. The recording of external financing and expenditure directly financed from abroad also remains an area for improvement. The 1998 mission made several recommendations for improving the data, most of which have not been implemented.

6. The CBS compiles and reports to the STA aggregate annual GFS revenue and expenditure data for budgetary central government based on detailed data in the reports of the Controller and Auditor General, using a methodology established by a 1999 STA GFS mission. Lack of proper computerization prevents the CBS from compiling more detailed GFS data. Considerable differences exist between these data and the data compiled by the MoF and reported to the AFR for monitoring purposes.

### **Monetary statistics**

7. Monetary statistics are compiled from a bank reporting system and are broadly adequate for policy, analytical, and supervisory purposes. A STA technical assistance mission in January 2000 observed that the authorities had implemented virtually all recommendations of the previous STA missions, which had led to a number of improvements in Kenya's monetary statistics. However, the mission identified and made recommendations to address further problems in monetary data, in particular (a) asymmetrical interbank positions, (b) the statistical implications on the data of numerous bank closures, and (c) the coverage of international reserves. Since then, the authorities have initiated revisions to monetary statistics in line with the recommendations of the mission.

### **Balance of payments statistics**

8. The CBS compiles and reports balance of payments data in Kenya shillings annually on a regular basis to the STA, although with a considerable lag. The CBK, in addition, compiles a complete set of annual balance of payments statistics in U.S. dollars, which are reported to the AFR and used for programming and surveillance purposes. The two sets of balance of payments data are not entirely consistent. Recently, the CBK also started to compile and publish discrete quarterly balance of payments estimates.

9. The quality of the data has deteriorated. Although the overall quality of trade data may be reasonably good, data for other current account and many financial account transactions are rather weak. Following the liberalization of the exchange system in 1993-94, gaps have emerged in the coverage of balance of payments source statistics. The compilation system (other than that used for compiling customs statistics), used since 1994, relies on reports from domestic banks and may result in a substantial underrecording of current earnings, including tourism receipts, as well as a failure to capture transactions that are settled via accounts held abroad. Present estimates of direct and portfolio investment are believed to be substantially understated. The large positive errors and omissions that have emerged in the balance of payments since 1994 raise concerns as to the potential size of external obligations.

10. The MoF compiles data covering Kenya's public and publicly guaranteed external obligations to official and commercial creditors. This database does not take account of nonresident purchases of the government's domestic currency-denominated debt securities. The mission of September-October 2001 notes that, once the results of the benchmark foreign investment survey become available, the CBS can start compiling and disseminating more comprehensive annual external debt data for Kenya.

Kenya: Survey of Reporting of Main Statistical Indicators  
(As of January 11, 2002)

	Exchange Rates	Central Bank Balance Sheet	International Reserves	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Central Government Balance	Exports/ Imports	Current Account Balance	External Debt	GDP/ GNP
Date of latest observation	1/11/2002	1/10/2002	1/9/2002	1/10/2002	10/2001	1/10/2002	12/2001	11/2001	7/2001	2000	12/2000	2000
Date received	1/11/2002	1/11/2002	1/11/2002	1/11/2002	11/30/2001	1/10/2002	1/7/2002	12/2001	12/2001	5/2001	3/2001	5/2001
Frequency of data <sup>1</sup>	D	D	D	D	M	W	M	M	M	A	A	A
Frequency of reporting <sup>1</sup>	D/W	D/W	D/W	D/W	M	W/M	M	M	M	A	A	A
Frequency of publication <sup>1</sup>	D	M	M	M	M	D	M	Q	M	M	A	A
Source of data <sup>2</sup>	DR	DR	DR	DR	DR	DR	DR	DR	DR	DR	DR	OP
Mode of reporting <sup>3</sup>	F	F	F	F	F	F	F	F	F/P	P/SV	P/SV	P/SV
Confidentiality <sup>4</sup>	E	R	R	R	E	E	E	R	E	E	E	E

<sup>1</sup>D = daily; W = weekly; M = Monthly, Q = quarterly; A = annually.

<sup>2</sup>DR = direct reporting from the Central Bank of Kenya or Ministry of Finance; OP = official publication.

<sup>3</sup>F = facsimile; P = mail; SV = staff visit.

<sup>4</sup>R = restricted use; E = embargoed for a specified period and then unrestricted use.

Table 11. Kenya: Social Indicators

	Kenya, Latest Single Year			Sub-Saharan Africa	Low-Income Countries 1/
	1970-75	1980-85	1993-99		
<b>Population</b>					
Total population, midyear (millions)	13.7	19.9	29.4	642.8	2,417.1
Growth rate (percent annual average for period)	3.6	3.6	2.3	2.6	1.9
Urban population (percent of population)	12.9	19.8	32.2	33.8	31.4
Total fertility rate (births per woman)	8.0	6.9	4.5	5.3	3.7
<b>Poverty (percent of population) 2/</b>					
National	...	...	52	...	...
Urban	...	...	49	...	...
Rural	...	...	53	...	...
<b>Income 3/</b>					
GNI per capita ( <i>World Bank Atlas</i> method; U.S. dollars)	250	310	360	490	420
GNI per capita (constant 1995 prices; U.S. dollars)	289	310	332	538	449
<b>Income/consumption distribution (share of income or consumption)</b>					
Gini index	...	...	44.5	...	...
Lowest quintile (percent of income or consumption)	2.6	...	5.0	...	...
Highest quintile (percent of income or consumption)	60.4	...	50.2	...	...
<b>Public expenditure</b>					
Health (percent of GDP)	...	...	2.4	1.7	1.2
Education (percent of GNI)	6.3	6.4	6.5	4.1	3.3
<b>Net primary school enrollment rate (percent of age group)</b>					
Total	88	88	...	...	...
Male	93	89	...	...	...
Female	83	86	...	...	...
<b>Access to improved water source (percent of population)</b>					
Total	...	27	49	55	76
Urban	...	61	87	82	88
Rural	...	21	31	41	70
<b>Immunization rate (percent under 12 months)</b>					
Measles	...	63	79	57	64
DPT	...	70	79	59	70
<b>Child malnutrition (percent under 5 years)</b>					
...	...	...	22	...	...
<b>Life expectancy at birth (years)</b>					
Total	52	57	48	47	59
Male	51	55	47	46	58
Female	55	59	48	48	60
<b>Mortality</b>					
Infant (per 1,000 live births)	92	64	76	92	77
Under 5 (per 1,000 live births)	156	90	118	161	116
Adult (15-59)					
Male (per 1,000 population)	467	417	591	499	288
Female (per 1,000 population)	379	339	546	453	258
Maternal (per 100,000 live births)	...	...	590	...	...
<b>Births attended by skilled health staff (percent)</b>					
...	...	...	44	...	...

Source: World Bank, *World Development Indicators*, 2001; and draft Kenya poverty reduction strategy paper, June 2001.

1/ Low-income countries are those that had a GNI per capita of 755 U.S. dollars or less in 2000.

2/ These data are for 1997. Poverty rates for 1994 are 43.7 percent at the national level, and 29.0 percent and 46.3 percent in urban and ru

3/ Gross national income (GNI) data for Kenya are from 1975, 1985, and 1999; income data for sub-Saharan Africa and low-income coun



REPUBLIC OF KENYA

**NATIONAL GOVERNANCE  
PROGRAMMES AND INITIATIVES**

*DECEMBER, 2001*



## A. INTRODUCTION

Realizing that poor governance, weak economic management of public resources and corruption has systematically undermined Kenya's economic performance and increased levels of poverty, the Government of Kenya, in the past two decades, has undertaken various initiatives to improve governance in the country. These initiatives have been important components of Kenya's structural adjustment programs and Public Sector Reform programs supported by the IMF and World Bank.

### 1. Reforms Underpinning Government Efforts to Improve Governance

Current efforts of the Government to improve governance and eliminate corruption are supported by comprehensive and integrated reforms. These reforms include:-

- (i) Constitutional reforms to guarantee democratic institutions, democratic rights and freedoms, and the rule of law.
- (ii) Parliamentary reforms to ensure participation, representation and community empowerment and true checks and balances, through effective oversight by Parliament.
- (iii) Public Service reforms to achieve a lean and highly motivated professional public service with the right incentives to deliver public service with the highest integrity.
- (iv) Local Government reforms to streamline and establish sound and efficient government at all levels up to the communities.
- (v) Budget reforms to ensure efficient planning and budgeting of public resources to obtain value for money and highest impact from public expenditures targeted at the highest priority needs.
- (vi) Parastatal Sector Reforms and Privatization to bring good commercial practices to state enterprises and to allow the private sector to introduce higher productivity through efficient investment, management systems and state of the art technology.
- (vii) Legal Sector reforms to create an enabling legal environment with laws and institutions which will enhance the rule of law and guide efficient economic and commercial activity.
- (viii) Judiciary reforms to guarantee administration of prompt, fair and equitable justice, human rights and property rights.

The initiatives to improve governance have been both comprehensive and specific. In the most recent and current IMF-supported reform program, these initiatives include specific measures aimed at:-

- a) Enhancing Accountability and Transparency,
- b) Strengthening oversight and control institutions,
- c) Improving public expenditure management by strengthening Budget Planning and execution,
- d) Changing incentive structures in the Public Sector,
- e) Removing opportunities for corruption, fraud and other abuses,
- f) Liberating the private sector to invest and drive economic growth, and
- g) Strengthening the Kenya Anti-Corruption Agency (KACA).

## **2. Accountability and Transparency**

The Government of Kenya has enhanced and continues to improve Accountability and Transparency through many concrete measures, including:-

- (i) Annual presentation to Parliament of a clear agenda for implementing specific actions to improve governance,
- (ii) Implementation of new and improved procurement regulations and establishment of a Public Sector Procurement Directorate to monitor and audit procurement transactions of all Government and Public Sector Institutions,
- (iii) Strengthening capacity of accounting and audit professionals to ensure timely preparation of audited reports to Parliament to be reviewed promptly by the relevant Parliamentary Oversight Committees which have been empowered and strengthened,
- (iv) Disaggregating budgets and accounts to the district level to allow more scrutiny by the beneficiaries, and
- (v) Tightening management and implementation of projects to guarantee prompt completion or termination of projects to avoid cost overruns and diversion of resources.

### **3. Strengthening Oversight and Control Institutions**

The Government of Kenya has implemented important measures to establish, strengthen and empower institutions responsible for providing oversight and control over public resources and public expenditures. These include provision of larger budget resources and legal authority to the Controller and Auditor General, Office of the Attorney-General, the Judiciary, Parliamentary Oversight Committees, and the Anti-Corruption agencies. These measures have also involved pushing legal reforms and facilitating reforms in the Judiciary as recommended in the “Kwach Report”. The Government introduced “Finance Officers” in every ministry to assist to prepare realistic budgets and to monitor budget ceilings.

### **4. Improving Public Expenditure Management**

The Government has implemented the Medium Term Expenditure Framework, which has improved budget planning, implementation, monitoring and expenditure control. These improvements have been supported by strengthening the Internal Audit Department which is better able to audit ministries more regularly. In addition, the Government has mandated more frequent and timely submission of reports by ministries on their expenditure commitments and pending bills. The Government has revamped the Debt Management division to achieve better management of debt payments.

### **5. Changing Incentive Structures**

The Government has initiated gradual improvement in the compensation packages for the civil service, particularly in the Judiciary and the Police. It hopes to realize its objective of attaining a smaller highly motivated professional civil service. It has also prepared a revised Code of Ethics and Code of Conduct, which will be enshrined in a new law.

### **6. Application of Sanctions**

The Government has embarked on strict enforcement of existing and new codes, especially application of sanctions against public officials under investigation and officers found to have acted corruptly.

The Government also has implemented a system of “blacklisting” contractors and suppliers found to have breached the new procurement regulations or to have been engaged in corrupt practices.

## **7. Removing Opportunities for Corruption**

The Government has been systematically and gradually eliminating discretionary decisions, including waivers and exemptions from payment of import duties and other taxes. In addition, the continuing process of liberalization and deregulation has further reduced the opportunities for corrupt practices. The suspension of all transactions in public land until a new land policy and land law is established has reduced corrupt and fraudulent transfer of public land to corrupt individuals.

## **8. Liberating the Private Sector to Drive the Economy**

To attract and encourage the private sector to invest and drive economic activity, the Government continues to reduce administrative and bureaucratic requirements and regulations. The removal of excessive licencing requirements has reduced the disincentives to do business in Kenya and also reduced the opportunities for corruption. The Government is pursuing a policy of further liberalization and deregulation to create a competitive corruption-free business environment to enable Kenya to attract higher levels of investment.

## **9. Strengthening the Kenya Anti-Corruption Agency (KACA)**

Corruption has cost the Government billions of shillings directly and indirectly, leading to reduced economic growth, unemployment and increased poverty levels. In an effort to eliminate corruption and reduce its harmful effects on the economy, the Government of Kenya established Kenya Anti-Corruption Authority (KACA) in 1997 under Section 11B (1) of the Prevention of Corruption Act (Cap 65) Laws of Kenya. KACA was established as a body corporate with perpetual succession and a common seal, with power, in its corporate name to sue and be sued, take, purchase or otherwise acquire, hold, charge or dispose both movable and immovable property, borrow or lend money, enter into contracts; and do or perform all such things or acts necessary for the proper performance of its functions under this Act which may be lawfully done by a body corporate.

On 22<sup>nd</sup> December, 2000, the High Court ruled that the provisions of establishing KACA were in conflict and inconsistent with the Constitution. Sections 10 and 11B of Cap 65 were singled out as being in direct conflict with Section 26 of the Constitution. Section 3 of the Constitution provides that if any other law is inconsistent with the Constitution, the Constitution shall prevail and the other law shall, to the extent of the inconsistency, be void. Following the High Court ruling, the Government introduced the Constitution of Kenya(Amendment) Bill No.2, 2001 to legalise existence of KACA. The constitutional amendment, however, failed to pass through the second reading in Parliament as it required two thirds of members of Parliament to support it.

In view of the above, the Government directed that in order to ensure that there was no vacuum in fighting corruption in Kenya, an Anti-Corruption Police Unit be established. The terms of reference, the objectives, the operations plan of this new unit are discussed in detail in the body of this paper.

## **B. THE ANTI-CORRUPTION POLICE UNIT**

### **1. BACKGROUND**

- a) Following the decision of a Constitutional Court that declared the establishment of the Kenya Anti-Corruption Authority (K.A.C.A.) unconstitutional, the Government published the Constitution of Kenya (Amendment) Bill to establish and entrench K.A.C.A. as a Constitutional Authority. Although the Bill received 130 votes for and 82 votes against, it did not pass because an amendment to the Constitution requires 65% affirmative votes of all members (222 members) of the National Assembly.
- b) When the Constitution of Kenya (Amendment) Bill was rejected by the National Assembly, the Anti-Corruption and Economic Crimes Bill (2001) and the Public Service (Code of Conduct and Ethics) Bill (2001) which had been published could not be debated by Parliament. These bills are now being revised with the assistance of two highly experienced legislative drafters from Canada and Australia with funding from DFID to give the new Anti-Corruption Police Unit an independent legal framework.

It is anticipated that these Bills will be discussed, finalised published and debated by Parliament in its next session due to start in mid March, 2002.

- c) After the rejection of the Constitutional Amendment Bill to re-establish K.A.C.A. the Government initiated consultation with stakeholders (Government Members of Parliament, Opposition Members of Parliament, religious leaders, civil society, business leaders and the media) which have led to the formation of an anti-corruption coalition. The coalition has created a forum for participatory debate involving all sectors of our society on The Anti-Corruption and Economic Crimes Bill (2001) and The Public Service (Code of Conduct and Ethics) Bill (2001).
- d) Commission appointed under the Constitution of Kenya Review Act (Chapter 3A of the Laws of Kenya) is currently undertaking a Constitutional Review exercise and is expected to recommend a new Constitution for Kenya before the next General Elections which must be held before the end of December 2002. The Constitutional Review exercise is people-centred and people-driven. One of the objects and purposes of the constitutional review is to ensure that there are provisions in the Constitution which **“ensure accountability of Government and its officers to the people of Kenya”** – [s.3 (a)(c) of the Act] and to **“examine and recommend improvement to the existing constitutional commissions, institutions and offices and the**

**establishment of additional ones to facilitate constitutional governance ....”** – [s17 (d)(iii) of the Act]. It is therefore considered prudent that the idea of establishing K.A.C.A. as a constitutional Authority is channelled through the Constitutional Review process.

- e) In order to ensure high quality and speed in the drafting of bills to be tabled in Parliament, the Attorney-General has taken steps to strengthen his legislative drafting department. With the support of DFID, he secured the services of two highly experienced legislative drafters from Canada and Australia on a two-year contract effective from October, 2001.

## **2. FORMATION AND OPERATIONS**

Following a decision of a Constitutional Court to declare the establishment of the Kenya Anti-Corruption Authority (KACA unconstitutional, the Government published the Constitution of Kenya (Amendment) Bill (2001) to establish and entrench KACA as a Constitutional Authority. However, the National Assembly rejected the Bill. Consequently, H.E. the President of the Republic of Kenya in the exercise of his constitutional executive power, immediately ordered the formation of an Anti-Corruption Unit within the Police Force. Mr. Swaleh Slim Khalil, an Assistant Director of the former Kenya Anti-Corruption Authority (KACA), was appointed Head of the Unit. Mr. Khalil is a Deputy Commissioner of Police and a career detective who had been on secondment to the former KACA. In addition, 95 of the 171 members of staff of KACA were recruited into ACPU. An additional 72 staff members have been recruited from the Police Force and other public service Departments. The Anti-Corruption Police Unit has now been legally constituted, appropriately staffed, fully-funded, operational and is already producing results.

### **(i) Legal Framework**

The Anti-Corruption Unit was created to ensure continued implementation of its policy of achieving zero tolerance for corruption within existing legal provisions.

Under Section 4 of The Police Act, the Commissioner of Police has the mandate to delegate the powers vested in him, for the control of the force in a province, district or unit, to any police officer appointed by him. Various police formations and units have been formed under this provision. For example, the CID, the GSU and the anti-stock theft Unit were set up under the same arrangements. This mandate was applied in the formation of ACPU on 13<sup>th</sup> September, 2001 and the subsequent appointment of personnel into the Unit.

The Police Force is vested with powers under Section 14 of the Police Act for the prevention and detection of crime, the apprehension of offenders and the enforcement of all laws and regulations. ACPU’s mandate of prevention and detection of corruption offences is derived from that provision.

The aforesaid legal provisions give the ACPU the latitude to investigate and handle corruption matters under the following Acts:-

- The Penal Code
- The Prevention of Corruption Act
- The Criminal Procedure Code
- The Evidence Act, and
- Other statutes and regulations.

(ii) **Structure and Composition**

- The Unit has three distinct core business areas, namely: Investigation, Research & Public Education, and Preventive Services.
- The Unit currently has a multi-disciplinary staff force of 152\* comprising the following professionals:-

➤	Engineers	➤	Journalists/Commun
		experts	
➤	Quantity	➤	Auditors/Accountant
Surveyors			
➤	Valuers	➤	Police
➤	Tax experts	➤	Lawyers
➤	Customs	➤	Educationists
experts			
➤	Management	➤	Finance experts
experts			
➤	Documentation	➤	MIS/IT experts
experts			

- The Unit has a Finance & Administration Section, which provides logistical support to the professional sections.
- ACPU has an Advisory Board under the chairmanship of Mr. Tom Owuor who held a similar position in KACA. Mr. Owuor is the Chairman of the Federation of Kenya Employers. The role of the Advisory Board is to:
  - Advise and guide the Anti-Corruption Police Unit;
  - Advise the Government and other stakeholders on anti-corruption policies; and
  - Advise the Government and other stakeholders on the implementation of the National Anti-Corruption Plan.

---

\* There will be growth of activities over time, which will require additional staff.

(iii) **Core Values**

In implementing its strategic plan, ACPU shall set and maintain high professional standards and will:-

- Ensure that all investigations started by former KACA are completed and forwarded for prosecution;
- Conduct swift, in-depth investigations of all new corruption cases and expeditiously forward them for prosecution;
- Continue to conduct sensitisation and intervention programmes in the fight against corruption;
- Conduct its activities with integrity and with due respect for the rights of the individual; and
- Seek to optimise its objectives by working closely with other stakeholders.

(iv) **The purpose**

- The Government's commitment to achieving zero tolerance for corruption is fully implemented in all its aspects; and
- The work began by KACA in investigations and prosecutions continues in a manner that respects the Constitutional Court ruling that investigations must be carried out by the Police and prosecutions by the Attorney-General.

(v) **The Objectives**

- To ensure that corruption complaints are properly handled; investigations are thoroughly and swiftly carried out, and preparations for prosecution are expeditious.
- To take over all the 132 matters that were being investigated by KACA;
- To spearhead and co-ordinate the preparation and implementation of a national strategy against corruption;
- To create public awareness of the causes and effects of corruption and the role of the public in its prevention;
- To enlist the support of various stakeholders in the fight against and prevention of corruption;
- To encourage and empower the public by equipping and encouraging them to play an active role in the reporting and prevention of corruption;
- To promote good governance and management practices in public organisations in order to prevent corruption; and
- To advise private sector organizations on good corporate governance.



(vi) **The Functions**

- to investigate corruption and other related cases, and take any other necessary steps as prescribed by law.
- to take necessary measures for prevention of corruption in the public and private sectors;
- to advise the Government, parastatal organizations and other public bodies on ways and means of preventing corruption; and
- to enlist members of the public in fighting corruption by use of education and outreach programmes.

(vii) **Relationship Between Investigation and Prosecution**

A.C.P.U. will, in its operations, be independent of the administrative structures of the Police Department.

Although there exists a chain of command within the Police Force, the Head of A.C.P.U will not forward the case files through the Director of Criminal Investigation or the Commissioner of Police. After the investigations are completed, the files will be forwarded directly to the Attorney-General for consent and for prosecution by his officers in the Anti-Corruption Prosecution Unit attached to A.C.P.U. This will ensure the continuation of the operational rhythm that existed between K.A.C.A and the Attorney-General.

This operational rhythm is already operating. As the ACPU was being constituted, the Criminal Investigations Department finalised investigations of two important cases one against the Permanent Secretary, Ministry of Works, Eng. Erastus Mwongera and the other against the Managing Director of Kenya Veterinary Vaccines Production Institute for abuse of office. Consents by the Attorney-General were promptly given and the cases are being heard by the Court. In addition, the Attorney-General has expeditiously given consent to the 10 cases whose investigation has been finalised by ACPU and which are now before the Court. Details of the cases are attached hereto. (See f (ii)).

(viii) **Performance Indicators**

ACPU is committed to conducting its functions and activities in a transparent and accountable manner, which can be assessed as shown against each program and activity in the attached matrices.

(ix) **Accountability to the Public**

The ACPU will update the public on progress on its activities through quarterly press releases. Within the first month of its operations, ACPU made the following progress in its investigations.

- 132 matters taken over by ACPU from KACA 10 of which have been forwarded to the Attorney-General for prosecution
- 74 complaints received of which 26 have been referred to other investigative agencies
- 2 have been taken over by ACPU for investigation and the remaining 46 complaints have been referred to the complainants for civil litigation.

(x) **Programmes and Activities**

ACPU's Strategic envisages programmes and activities as outline in the following matrices:

- Matrix A                      Investigations
- Matrix B                      Public Education and Research
- Matrix C                      Preventive Services

### **C. PROSECUTION**

All prosecution of corruption and other related offences will be done by the Attorney-General who under the Constitution is independent and is the sole ultimate authority in criminal prosecution. Section 26 (8) of the Constitution specifically provides that in the exercise of his criminal prosecution powers, "the Attorney-General shall not be subject to the direction or control of any other person or authority."

Based on this sole authority to prosecute criminal cases, the Attorney-General has constituted an Anti-Corruption Prosecution Unit attached to the Anti-Corruption Police Unit for efficiency and speed in making decisions on prosecution. The Unit already has seven officers most of whom were officers of the Prosecution Directorate of K.A.C.A. The target is to hire up to 20 officers. The Anti-Corruption Prosecution Unit will be based at Integrity Centre, which was the Headquarters of K.A.C.A., and which is now the Headquarters of A.C.P.U.

The Anti-Corruption Prosecution Unit will ensure that:-

- cases received from investigations are expeditiously prosecuted;
- High professional standards are set, applied and maintained; and
- Observance of high levels of integrity and respect for the rights of individuals.

The Attorney-General will update the public on progress through quarterly press releases.

## **D. COURTS**

The Hon. Chief Justice is in the process of setting up special Courts, which will concentrate on hearing corruption cases. These courts should be in operation in February, 2002. Corruption cases will belong to that category of cases put on a fast track so that they are heard and determined expeditiously.

The Courts will be at Chief Magistrate level. In Kenya all criminal cases are initially heard at Magistrate level and the high court is mainly an appellate court. However, consideration shall be given to amend the law through Anti-Corruption and Economic Crime Bill and other legislation, such as Criminal Procedure Code to enable the High Court to have original jurisdiction in serious corruption and economic crime related cases.

## **E. ADVICE ON ANTI-CORRUPTION INITIATIVES BY EXTERNAL CONSULTANTS**

In December 2001, the Kenya Government hired British Consultants – The Risk Advisory Group Ltd - to advise the Government Anti-Corruption Initiatives. The Consultants started their work on January, 14<sup>th</sup> 2002. The exercise took four weeks and was undertaken by well known experts who have undertaken similar work in the UK, Hong Kong, and Botswana. The team included:-

1. Mr. Bill Waite
2. Mr. Arish Turle
3. Mr. Graham Stockwell OBE QPM
4. Mr. Stephen Krammer QC
5. Mr. Peter Connor
6. Mr. Anthony Milford

The Terms of References for these experts were:-

- (i) To confer with the Government of Kenya, Political Parties, Domestic Interest Groups, Local and International Business on mechanisms for combating corruption and recommend improvements on these mechanisms with a view of strengthening the machinery and strategic plan to combat corruption.
- (ii) To advise the appropriateness of existing and planned approaches, programmes and activities for enforcement, public awareness/sensitisation and prevention.
- (iii) To study, comment and advise on:-
  - The Draft Anti-Corruption and Economic Crimes Bill
  - The Public Service (Code of Conduct and Ethics Bill)
  - Public Sector Integrity Programme
  - The Draft National Anti-Corruption Plan
  - The Draft Strategic Plan of the Anti-Corruption Police Unit

(iv) To confer extensively with many leaders and officials as they may consider necessary, including:-

1. Politicians
2. Legal and Public Service
3. Business and Finance
4. Civil Societies

The Government is keenly awaiting the consultants advise.

## F. PROGRESS TO-DATE

### (i) Investigation

(a) Cases Received and Analysed from October to December 2001

Complaints No. 1-173

➤ Cases referred to ACPU for investigation	-	9
➤ Referred to other investigative agencies	-	84
➤ Referred to Public Service Organisations for Administrative Action	-	39
➤ Complainants advised to seek civil remedy	-	19
➤ Referred to complainants for more details	-	2
➤ Referred to Advocates Complaints Commission for action	-	1
➤ No further Action as Cases were only for Notification	-	19
<b>TOTAL</b>	-	<b>173</b>

(b) Cases Received and Analysed from 1st January to 24th January 2002

Complaints No.1-189

➤ Cases referred to ACPU for investigation	-	16
➤ Referred to other investigative Agencies	-	65
➤ Referred to Public Service Organisations for administrative action	-	41
➤ Referred to Advocates Complaints Commission for action	-	1
➤ Complainants advised to seek civil remedy	-	33
➤ No Further Action as cases were only for notification	-	33
<b>Total</b>		<b><u>189</u></b>

(c) KACA cases being investigated by ACPU 114

➤ New KACA cases being investigated by ACPU	-	3
<b>Total</b>		<b><u>117</u></b>

**F (ii) Cases Investigated by ACPU and taken to court**

<b>Offences</b>	<b>Number of cases</b>	<b>Number of persons involved</b>	<b>Agency/Department /Institution</b>	<b>Remarks</b>
Corruption	1	3	Harambee Sacco	Including the Director and General Manager
Abuse of Office	3	7	Narok County Council	Including District Commissioner
Abuse of Office	1	1	National Museums	Ex-Permanent Secretary
Corruption	1	1	Kenya Police	Staff
Extortion/ Misappropriation	2	8	Kakamega Provincial Hospital	Accounts and Supplies Personnel
Corruption	1	4	Nairobi City Council	Inspectorate Staff
Corruption	1	4	Ministry of Roads and Public Works	Staff

- iii) Public Education Section
  - (a) Completed
    - (i) Identification of Steering Committee members for National Anti-Corruption Plan.
  - (b) In Progress
    - (i) Preparations for launching Public Service Integrity Programme (PSIP) in March 2002.
    - (ii) Preparations for training PSIP facilitators.
  
- (iv) Preventive Services
  - (a) Completed
    - (i) Three (3) Good Governance Briefs.
  - (b) In Progress
    - (i) Examination Assignment:-
      - Operations and Management of Traffic Police Department
  
      - Policies, Procedures and Management of Registries of Lands Offices, Ministry of Lands and Settlement
  
      - Operations and management of Central Medical Stores, Provincial Hospitals, District Hospitals and Health Centres.
  
- (v) Finance and Administration
  - (a) Completed

All the 152 officers of the Anti-Corruption Police Unit have gone through an induction course which took place from 5<sup>th</sup> – 8<sup>th</sup> February, 2002.

### **G. PROCUREMENT APPEALS BOARD**

This board has been established and is operational. During the month of January 2002 it nullified several tenders, which did not comply with the procurement rules and regulations.

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

MATRIX A

### INVESTIGATION SECTION

OBJECTIVE	PROGRAMME / ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
<b>1. To enhance the capacity of the Investigations Section</b>	a) Granting of police powers to staff as per Police Act (Cap 84)	End by Nov 2001	<ul style="list-style-type: none"> <li>▪ Powers granted.</li> </ul>	Applies to non-police staff.
	b) Establishment of Data Centre equipped with a management information system (MIS)	In place	<ul style="list-style-type: none"> <li>▪ Data centre operational.</li> </ul>	Requires enhancement.
	c) Establishment of Surveillance and Technical Services Section with communications and security equipment	In place	<ul style="list-style-type: none"> <li>▪ Technical services section operational.</li> </ul>	Personnel identified. Additional equipment required.
<b>2. To receive and determine cases to be investigated by ACPU</b>	a) Take over all 132 matters that were being investigated by the defunct Kenya Anti-Corruption Authority	End by 30 <sup>th</sup> Oct 2001	<ul style="list-style-type: none"> <li>▪ All matters already taken over.</li> </ul>	Investigations in progress. One case before court.
	b) Formation of a Report Assessment & Classification Committee (RACC) within ACPU to deliberate on all reports received.	In place	<ul style="list-style-type: none"> <li>▪ Committee in place and operational</li> </ul>	

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

OBJECTIVE	PROGRAMME / ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
<b>3. To establish an agreed overall mechanism / approach with other relevant investigative agencies for ensuring proper investigation of all corruption cases</b>	a) Identify additional relevant investigative agencies	In progress End by Jan 2002	<ul style="list-style-type: none"> <li>▪ Number of agencies identified.</li> </ul>	
	b) Enlist the support of additional investigative agencies through the formation of an Inter-Agency Investigation Committee	Start Jan 2002 Continuous	Committee in place	The fight against corruption is a concerted effort involving all enforcement agencies country-wide
	c) Establish modalities of investigating corruption cases reported country-wide	In progress End by Jan 2002	<ul style="list-style-type: none"> <li>▪ Modalities in place.</li> </ul>	Intended to: i) Reduce duplication of effort. ii) Share tasks
	d) Establish field offices	Start Oct 2002 End by Dec 2004	<ul style="list-style-type: none"> <li>▪ Number of field offices operational.</li> </ul>	Additional funding required.
<b>4. To ensure high standards of investigating corruption cases.</b>	a) Conduct swift in-depth investigation on corruption cases.	In progress Continuous	<ul style="list-style-type: none"> <li>▪ Number of cases completed.</li> <li>▪ Time taken to complete investigations.</li> </ul>	Some complex cases may take longer than average.
	b) Expeditiously determine and prepare cases for prosecution.	In progress Continuous	<ul style="list-style-type: none"> <li>▪ Number of cases forwarded for prosecution.</li> </ul>	



## ACPU PLANNED PROGRAMMES AND ACTIVITIES

	b) Expeditiously determine and prepare cases for prosecution.	In progress Continuous	▪ Number of cases forwarded for prosecution.	
--	---	---------------------------	--	--

MATRIX B

### PUBLIC EDUCATION SECTION

OBJECTIVE	PROGRAMME / ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
<b>1. To spearhead and coordinate the preparation and implementation of a National Anti-Corruption Plan.</b>	a) Preparation of the Plan document for printing	End by Dec 2001	▪ Printed Plan document	
	b) Establish steering committee and coordinating secretariat	End by Jan 2002	▪ Steering committee and coordinating secretariat operational	
	c) Hold a stakeholders symposium and launch the National Anti-Corruption Plan	Apr 2002	▪ Symposium held and Plan launched. ▪ Number of participants.	Dates subject to consensus by stakeholders.
	d) Form consultancy teams of experts	In progress End Feb 2002	▪ Teams in place	
	e) Assist sectoral stakeholders to develop own programs	Start May 2002 Continuous	▪ Number of organizations assisted. ▪ Number of programs developed.	

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

	f) Monitoring and evaluation of programs	Start August 2002	<ul style="list-style-type: none"> <li>▪ Monitoring and evaluation reports to steering committee</li> </ul>	To be conducted annually
	g) Hold an annual Anti-Corruption Forum	Apr 2003	<ul style="list-style-type: none"> <li>▪ Number of participating organizations</li> </ul>	To be held annually

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

OBJECTIVE	PROGRAMME / ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
<b>2. To prepare annual assessments of corruption perception and performance of anti-corruption programmes.</b>	a) Report findings of the corruption perception survey concluded in July 2001.	Analysis in progress End Dec 2001	▪ Publication of report	
	b) Annual corruption perception survey	Start Feb 2002 End Apr 2002	▪ Survey report ready	
	c) Conduct other relevant research and surveys	Start May 2002 Continuous	▪ Survey reports	Based on emerging issues and referrals / requests from other sectors/sections
	d) To assess the impact of ACPU programs and those of other agencies.	Start Feb 2003 Continuous annual activity	▪ Impact assessment reports	Joint undertaking with other Sections.
	e) Provide pre-implementation situation assessment for all programmes and projects including referral cases and recommendations from other Sections of ACPU.	Continuous	▪ Completed assessment reports	Determined by implementation dates of programmes.

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

OBJECTIVE	PROGRAMME / ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
<b>3. To spearhead and coordinate Public Sector Integrity Programme.</b>	a) Printing of Sourcebook	Jan 2002	<ul style="list-style-type: none"> <li>▪ Printed sourcebook</li> </ul>	Subject to approval of manuscript by Government
	b) Establishment of a coordinating secretariat.	Jan 2002	<ul style="list-style-type: none"> <li>▪ Coordinating secretariat established and operational.</li> </ul>	Joint programme with DPM
	c) Regrouping and retraining a core team of facilitators.	Feb 2002	<ul style="list-style-type: none"> <li>▪ Facilitators trained and ready.</li> </ul>	
	d) Launch of programme	Mar 2002	<ul style="list-style-type: none"> <li>▪ Programme launched</li> </ul>	Programme aims at the entire public sector.
	e) Training of resident facilitators in organizations.	Start Apr 2002 Continuous	<ul style="list-style-type: none"> <li>▪ Number of trained resident facilitators.</li> <li>▪ Number of organizations involved.</li> </ul>	
	f) Establishment of Integrity Promotion Committees and Anti-Corruption Liaison Officers.	Start May 2002 Continuous	<ul style="list-style-type: none"> <li>▪ Number of committees established.</li> <li>▪ Number of liaison officers appointed.</li> </ul>	

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

	g) Provide technical support.	Start May 2002 Continuous	▪ Technical support provided	
	h) Monitor and evaluate impact of the programme	Start Jul 2003	▪ Impact assessment report	Annual

OBJECTIVE	PROGRAMME / ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
<b>4. To spearhead and coordinate integrity programmes for the Education / Training Institutions Sector.</b>	a) Development of programme together with stakeholders	Start Jan 2002 End Dec 2002	▪ Programme document produced.	This activity will involve participation of various Sectoral stakeholders.
	b) Establishment of Secretariat and Technical Committees	Feb 2002	▪ Secretariat and committees established and operational.	
	c) Launch of programme	Dec 2002	▪ Programme launched	
	d) Coordinate the formation of overseer committees.	Start Jan 2003	▪ Committees in place and operational	
	e) Provide technical support for the formulation of training modules/elements.	Start Mar 2003 Continuous	▪ Technical support provided.	

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

	f) Incorporate anti-corruption training modules/elements into syllabi.	Start Mar 2003 Continuous	<ul style="list-style-type: none"> <li>▪ Number of syllabi with anti-corruption elements/modules incorporated.</li> </ul>	
	g) Monitor and evaluate impact of the programme	Jan 2004 Continuous annual	<ul style="list-style-type: none"> <li>▪ Impact assessment report</li> </ul>	Annual assessments

OBJECTIVE	PROGRAMME / ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
<b>5. To spearhead and coordinate integrity programmes for the Private and other Sectors</b>	a) Establishment of an operational coordinating secretariat,	Start Jan 2002 End by Dec 2002	<ul style="list-style-type: none"> <li>▪ Coordinating secretariat in place and operational</li> </ul>	Manuscript subject to approval / adoption by stakeholders.
	b) Development of programme and printing of sourcebook.	Start Jan 2002 End by Dec 2002	<ul style="list-style-type: none"> <li>▪ Sourcebook printed and disseminated</li> </ul>	
	c) Identify and train a core team of facilitators.	Start Jan 2002 End by Dec 2002	<ul style="list-style-type: none"> <li>▪ Facilitators trained</li> </ul>	
	d) Launching of programme	Feb 2003	<ul style="list-style-type: none"> <li>▪ Programme launched</li> </ul>	

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

	e) Train resident facilitators in organisations.	Start Mar 2003 Continuous	<ul style="list-style-type: none"> <li>▪ Resident facilitators trained</li> <li>▪ Organizations participating</li> </ul>	
	f) Establishment of Integrity Promotion Committees and appointment of Anti-Corruption Liaison Officers	Apr 2003 Continuous	<ul style="list-style-type: none"> <li>▪ Number of Integrity Promotion Committees in place</li> <li>▪ Number of Anti-Corruption Liaison Officers appointed</li> </ul>	
	g) Technical Support programme	Apr 2003	<ul style="list-style-type: none"> <li>▪ Technical support provided</li> </ul>	
	h) Monitor and evaluate impact of programme	Mar 2004 Monitoring continuous	<ul style="list-style-type: none"> <li>▪ Impact assessment report</li> </ul>	Annual assessments

OBJECTIVE	PROGRAMME / ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
<b>6. To spearhead and coordinate the establishment and operations of an Ethics Development Centre.</b>	a) Establish a steering committee and secretariat	Jan 2002	<ul style="list-style-type: none"> <li>▪ Steering committee and secretariat in place and operational</li> </ul>	This project is a joint undertaking by all stakeholders.
	b) Development of proposal	Start Jan 2002 End Dec 2002	<ul style="list-style-type: none"> <li>▪ Ethics Centre proposal ready for adoption.</li> </ul>	Proposal subject to adoption by stakeholders.

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

	c) Coordinate implementation activities	Start Jan 2003 Continuous	<ul style="list-style-type: none"> <li>▪ Management board in place.</li> <li>▪ Facilities in place.</li> </ul>	Board may plan to bring forward the implementation and commissioning.
	d) Commission of Ethics Centre	Jan 2004	<ul style="list-style-type: none"> <li>▪ Centre commissioned</li> </ul>	
	e) Inaugurate Centre activities	Jan 2004	<ul style="list-style-type: none"> <li>▪ Number of participant organizations supporting the programme</li> </ul>	
	f) Monitor and evaluate impact of Centre resources, programmes and activities.	Jan 2005 Monitoring continuous Assessment annual	<ul style="list-style-type: none"> <li>▪ Impact assessment report.</li> </ul>	



## ACPU PLANNED PROGRAMMES AND ACTIVITIES

MATRIX C

### PREVENTIVE SERVICES SECTION

OBJECTIVE	PROGRAMME/ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
<b>1. To identify and profile corruption prone functional areas in public sector organizations.</b>	Review relevant documents and compile an index of most prone functional areas.	In progress Continuous	<ul style="list-style-type: none"> <li>▪ Index in place</li> </ul>	The Section will continually update the index.
<b>2. To identify weaknesses, loopholes, avenues, and opportunities for corruption in public sector organisations.</b>	a) Carry out examinations on systems, policies, procedures and practices in corruption prone functional areas of public sector ministries, departments and parastatals.	In progress Continuous	<ul style="list-style-type: none"> <li>▪ Examination report.</li> <li>▪ Extent of functional coverage.</li> <li>▪ Extent of Sectoral coverage.</li> <li>▪ Extent of geographical coverage.</li> </ul>	
	b) Present examination findings and recommendations to the management and governing bodies.	Start Dec 2001 Continuous	<ul style="list-style-type: none"> <li>▪ Reports presented</li> </ul>	
	c) Provide technical support to examined ministries, departments or organizations on how to implement recommendations and advice.	Start Dec 2001 Continuous	<ul style="list-style-type: none"> <li>▪ Technical support reports.</li> </ul>	

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

OBJECTIVE	PROGRAMME/ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
	d) Monitor and evaluate implementation of recommendations by examined ministries, departments or organizations.	Start Dec 2001 Continuous	<ul style="list-style-type: none"> <li>▪ Monitoring and evaluation reports.</li> </ul>	To commence 3 to 6 months after presentation of findings and recommendations.
3. To intervene and pre-empt on-going and potential corruption practices / activities.	a) Carry out corruption risk assessments (CRA) on most corruption prone functional areas of public sector ministries, departments or organizations.	Start Dec 2001 Continuous	<ul style="list-style-type: none"> <li>▪ CRA reports.</li> <li>▪ Extent of functional coverage</li> <li>▪ Extent of Sectoral coverage.</li> <li>▪ Extent of geographical coverage.</li> </ul>	
	b) Provide technical support to assessed ministries, departments or organizations on how to implement the recommendations and advice.	Start Dec 2001 Continuous	<ul style="list-style-type: none"> <li>▪ Technical support reports</li> </ul>	
	c) Monitor and evaluate implementation of recommendations by assessed ministries, departments or organizations.	Start Dec 2001 Continuous	<ul style="list-style-type: none"> <li>▪ Implementation monitoring and evaluation reports.</li> </ul>	To commence 3 to 6 months after presentation of findings and recommendations.

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

OBJECTIVE	PROGRAMME/ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
<b>4. To ensure that public sector organizations promote, practise and maintain transparency and accountability.</b>	a) Carry out compliance surprise checks/audits on critical impact areas	Start Nov 2001 Continuous	<ul style="list-style-type: none"> <li>▪ Compliance checks / audit reports.</li> <li>▪ Extent of Sectoral coverage.</li> <li>▪ Extent of geographical coverage.</li> </ul>	
	b) Provide technical support to checked/audited ministries, departments or organizations on how to promote, practise and maintain transparency and accountability.	Start Jan 2002 Continuous	<ul style="list-style-type: none"> <li>▪ Technical support reports.</li> </ul>	
	c) Monitor and evaluate implementation of recommendations.	Start Mar 2002 Continuous	<ul style="list-style-type: none"> <li>▪ Implementation monitoring and evaluation reports.</li> </ul>	To commence 3 months after presentation of findings and recommendations.

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

OBJECTIVE	PROGRAMME/ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
<b>5. To enhance good governance and management practices in public sector organizations.</b>	a) Prepare and print best practices guidelines.	Start Jul 2002 Continuous	<ul style="list-style-type: none"> <li>▪ Guidelines printed.</li> <li>▪ Extent of functional coverage</li> <li>▪ Extent of sectoral coverage</li> </ul>	
	b) Disseminate best practices materials	Start Jul 2003	<ul style="list-style-type: none"> <li>▪ Materials disseminated</li> <li>▪ Extent of sectoral coverage.</li> <li>▪ Extent of geographical coverage.</li> </ul>	
	c) Provide good governance advisory briefs/talks to ministries, departments and organizations.	In progress Continuous	<ul style="list-style-type: none"> <li>▪ Briefs / talks provided</li> <li>▪ Extent of functional coverage</li> <li>▪ Extent of sectoral coverage</li> <li>▪ Extent of geographical coverage.</li> </ul>	Briefs / talks based on: i.) request by client organization ii.) initiatives by ACPU.
	d) Monitor and evaluate adoption/implementation of advisory briefs/talks.	Start Jan 2002 Continuous	<ul style="list-style-type: none"> <li>▪ Monitoring and evaluation reports.</li> </ul>	

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

OBJECTIVE	PROGRAMME/ACTIVITY	TIME FRAME	PERFORMANCE INDICATORS	REMARKS
	c) Monitor and evaluate adoption/implementation of best practices guidelines.	Start Oct 2003 Continuous	<ul style="list-style-type: none"> <li>▪ Monitoring and evaluation reports.</li> </ul>	
6. To promote integrity in public and private sector organizations.	a) Participate in integrity promotion initiatives of various organizations.	In progress Continuous	<ul style="list-style-type: none"> <li>▪ Extent of ACPU representation.</li> <li>▪ Status reports</li> </ul>	
	b) Provide technical support in integrity promotion programmes.	In progress Continuous	<ul style="list-style-type: none"> <li>▪ Technical support reports.</li> <li>▪ Status reports.</li> </ul>	

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

### APPENDIX

#### PRIORITY ACTION PROGRAMMES AND ACTIVITIES (JAN - APR 2002)

#### INVESTIGATION

PROGRAMMES AND ACTIVITIES	TIME FRAME	INDICATORS	REMARKS
1. Identify relevant investigative agencies for collaborative networking	In progress End by Jan 2002	List of names of agencies  Number of agencies identified	
2. Enlist the support of additional investigative agencies through the formation of an Inter-Agency Investigation Committee	Start Jan 2002  Continuous	Committee in place	The fight against corruption is a concerted effort involving all enforcement agencies country-wide
3. Establish modalities of investigating corruption cases reported country-wide	In progress  End by Jan 2002	Modalities in place.	Intended to: i.)  educe duplication of effort.  ii.)

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

			hare tasks
4. Conduct swift in-depth investigation on corruption cases.	In progress Continuous	Number of cases completed. Time taken to complete investigations.	Some complex cases may take longer than average.
5. Expeditiously determine and prepare cases for prosecution.	In progress Continuous	Number of cases forwarded for prosecution.	

### PUBLIC EDUCATION

PROGRAMMES AND ACTIVITIES	TIME FRAME	INDICATORS	REMARKS
1. Establish steering committee and coordinating secretariat for the National Anti-Corruption Plan	End by Jan 2002	Steering committee and coordinating secretariat operational	
2. Form consultancy teams of experts to provide technical support to stakeholders.	In progress End Feb 2002	Teams in place	
3. Hold a stakeholders symposium and launch the National Anti-Corruption Plan	Apr 2002	Symposium held and Plan launched. Number of participants.	Dates subject to consensus by stakeholders.
4. Carry out the annual	Start Feb 2002	Survey report ready	

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

corruption perception survey	End Apr 2002		
5. Print Public Sector Integrity Programme Sourcebook	Jan 2002	Printed sourcebook	Subject to approval of manuscript by Government
6. Establish a coordinating secretariat for the Public Sector Integrity Programme	Jan 2002	Coordinating secretariat established and operational.	Joint programme with DPM
7. Regroup and retrain a core team of facilitators for the implementation of Public Sector Integrity Programme	Feb 2002	Facilitators trained and ready.	
8. Launch the Public Sector Integrity Programme	Mar 2002	Programme launched	Date subject to confirmation by Government
9. Train resident programme facilitators in organizations.	Start Apr 2002 Continuous	Number of trained resident facilitators. Number of organizations involved.	Programme aims at the entire public sector.
10. Establish Secretariat and Technical Committees for the programme	Start Jan 2002	Secretariat and committees established and operational.	
<b>PROGRAMMES AND ACTIVITIES</b>	<b>TIME FRAME</b>	<b>INDICATORS</b>	<b>REMARKS</b>
11. Develop Education and	Start Jan 2002	Programme document	This activity will



## ACPU PLANNED PROGRAMMES AND ACTIVITIES

Training Sector Integrity Programme		produced.	involve participation of various Sectoral stakeholders.
12. Establish a coordinating secretariat and steering committee for Private Sector Integrity Programme.	Jan 2002	Steering Committee and Coordinating secretariat in place and operational	Manuscript subject to approval/adoption by stakeholders.
13. Develop programme and print sourcebook.	Start Jan 2002	Sourcebook printed and disseminated	
14. Identify and train a core team of facilitators.	Start Jan 2002	Facilitators trained	
15. Establish a steering committee and secretariat for establishment and operations of an Ethics Development Centre.	Jan 2002	Steering committee and secretariat in place and operational	This project is a joint undertaking by public and private sector stakeholders.
16. Develop a proposal for the programme	Start Jan 2002	Ethics Centre proposal ready for adoption.	Proposal subject to adoption by stakeholders.

### PREVENTIVE SERVICES

PROGRAMMES AND ACTIVITIES	TIME FRAME	INDICATORS	REMARKS
---------------------------	------------	------------	---------

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

1. Review relevant documents and compile an index of most corruption prone functional areas.	In progress	Index in place	The Section will continually update the index.
2. Carry out examinations on systems, policies, procedures and practices in corruption prone functional areas of public sector ministries, departments and parastatals.	In progress	Examination report. Extent of functional coverage. Extent of Sectoral coverage. Extent of geographical coverage.	
3. Present examination findings and recommendations to the management and governing bodies.	Start Dec 2001 Continuous	Reports presented	
4. Provide technical support to examined ministries, departments or organizations on how to implement recommendations.	Start Dec 2001 Continuous	Technical support reports.	
5. Monitor and evaluate implementation of recommendations by examined ministries, departments or organizations.	Start Dec 2001 Continuous	Monitoring and evaluation reports.	To commence 3 to 6 months after presentation of findings and recommendations.
6. Carry out corruption risk assessments (CRA) on most corruption prone functional areas	Start Dec 2001 Continuous	CRA reports. Extent of functional coverage	

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

of public sector ministries, departments or organizations.		Extent of Sectoral coverage. Extent of geographical coverage.	
7. Provide technical support to assessed ministries, departments or organizations on how to implement the recommendations.	In progress Continuous	Technical support reports	

PROGRAMMES AND ACTIVITIES	TIME FRAME	INDICATORS	REMARKS
8. Monitor and evaluate implementation of recommendations by assessed ministries, departments or organizations.	Start Dec 2001 Continuous	Implementation monitoring and evaluation reports.	To commence 3 to 6 months after presentation of findings and recommendations.
9. Carry out compliance surprise checks/audits on critical impact areas	Start Nov 2001 Continuous	Compliance checks / audit reports. Extent of Sectoral coverage. Extent of geographical coverage.	
10. Provide technical support to checked/audited ministries, departments or organizations on how to promote, practise and maintain transparency and	Start Jan 2002 Continuous	Technical support reports.	

## ACPU PLANNED PROGRAMMES AND ACTIVITIES

accountability.			
11. Monitor and evaluate implementation of recommendations.	Start Mar 2002 Continuous	Implementation monitoring and evaluation reports.	To commence 3 months after presentation of findings and recommendations
12. Provide good governance advisory briefs/talks to ministries, departments and organizations.	In progress Continuous	Briefs / talks provided Extent of functional coverage Extent of sectoral coverage Extent of geographical coverage.	
13. Monitor and evaluate adoption/implementation of advisory briefs/talks.	Start Jan 2002 Continuous	Monitoring and evaluation reports.	
14. Participate in integrity promotion initiatives of various organizations.	In progress Continuous	Extent of ACPU representation. Status reports	
<b>PROGRAMMES AND ACTIVITIES</b>	<b>TIME FRAME</b>	<b>INDICATORS</b>	<b>REMARKS</b>
15. Provide technical support in integrity promotion programmes.	In progress Continuous	Technical support reports. Status reports.	



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 02/43  
FOR IMMEDIATE RELEASE  
April 19, 2002

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Concludes 2001 Article IV Consultation with Kenya**

On March 15, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Kenya.<sup>1</sup>

### **Background**

Kenya's economic performance during the past decade has been well below its potential. This reflects the failure to sustain prudent macroeconomic policies, the slow pace of structural reform. Consequently, Kenya's real per capita GDP is now lower than it was in 1990 and poverty is much more prevalent. In recent years, the HIV/AIDS pandemic has been incapacitating and killing an increasing number of the population and imposing a rising social and economic burden.

### **Executive Board Assessment**

Directors noted that Kenya's economic performance during the past decade has been well below its potential, reforms have been slow, and there have been pervasive governance problems. Moreover, the country has suffered from the impact of a drought in 2000 and the HIV/AIDS pandemic. As a result, Kenya's real per capita GDP is now lower than it was in 1990, and poverty is much more prevalent.

---

<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Directors commended the authorities for achieving a measure of macroeconomic stability during recent years, in difficult circumstances. Nonetheless, they were concerned that Kenya's macroeconomic and financial situation remains fragile, and that investor confidence is very low. Risks in the period ahead are considerable, and include the continuation of mixed performance, which would further undermine investor confidence; the high level of non-performing loans in the banking system, especially in the public sector banks, which represent a serious risk to financial stability; and uncertainties associated with the presidential and parliamentary elections scheduled for late 2002. An inability to maintain financial discipline in the period ahead—which will be difficult without a resumption of external financing—could also jeopardize Kenya's budgetary and external positions well into the future.

To help obtain tangible results, Directors stressed the importance of departing from the “stop-go” policies of the 1990s. The authorities should implement a comprehensive medium-term economic and structural reform program, and demonstrate commitment to reform by undertaking measures to address the governance problems that have stalled progress to date. Directors observed that the Poverty Reduction and Growth Facility (PRGF)-supported program had sought to break with this negative record through an ambitious program of governance actions, the reinforcement of macroeconomic stabilization, and meaningful and sustained structural reforms. They were concerned, however, that the program had suffered major setbacks, particularly in the governance area, and that efforts to bring the program back on track have not yet been successful. Directors stressed that it is important that Kenya implement the needed prior actions to allow resumption of the PRGF program, which would help to restore investor confidence.

Directors suggested that medium-term financial policies should aim at adjusting the policy mix by tightening fiscal policy to reduce government domestic borrowing, while maintaining a prudent monetary policy. They considered that the budget needs to allow for a decrease in domestic debt relative to GDP. On the revenue side, Directors welcomed the good performance of the Kenya Revenue Authority and suggested that the authorities should continue to keep the revenue-to-GDP ratio at the level of recent years.

Directors welcomed the comprehensive consultation process which has been carried out in Kenya in the context of the preparation of the full Poverty Reduction Strategy Paper (PRSP), and hoped that the government's action plan for implementing the PRSP will be finalized soon. They noted, however, that to maintain the credibility of the PRSP process and reduce poverty in Kenya, budget execution should reflect the priorities identified in the PRSP, including the need to reduce the government wage bill as a share of GDP. Directors considered that, with further retrenchment, there should be room for civil service wage rates to rise in the medium term. They also stressed the urgency of dealing with the problem of stalled projects and pending bills.

Directors considered that monetary policy should continue to aim at keeping inflation low, while providing a stable environment for financial markets. They stressed the need to preserve the Central Bank of Kenya's independence in conducting monetary policy and to allow bank interest rates to be market determined. Directors welcomed the High Court's decision to

declare the Central Bank of Kenya (Amendment) Act—the “Donde Act”—null and void, as this has removed the potential for serious distortions and allowed commercial banks to resume normal banking operations.

Directors expressed concern about the very high risks associated with the level of non-performing loans in the Kenyan banking system, and stressed the need to establish a clear plan to address them urgently, including, in particular, plans to deal with publicly owned banks. They recommended that the government move decisively to sell the remaining shares of the Kenya Commercial Bank to a strategic investor. Irredeemably weak financial institutions should be allowed to close, and concrete steps should be taken for the full privatization of the government's interests in the remaining banks. Directors urged the authorities to undertake a Financial Stability Assessment Program as a matter of priority.

Directors considered that Kenya's flexible exchange rate regime continues to be appropriate. They noted that recent exchange rate stability may have helped to reduce currency risk premia and interest rates over the period. Directors considered that Kenya's lack of external competitiveness reflects the relatively high costs of doing business and prevalent structural bottlenecks, rather than the level of the exchange rate. They therefore encouraged the authorities to take actions to reduce the cost of doing business in Kenya and to remove those bottlenecks; in this context, steady progress in the structural and institutional reforms supported by the World Bank will be important.

Directors welcomed the recently formulated tariff reform that aims to simplify the tariff structure, with a view to ultimately adopting the common external tariff of COMESA and the EAC. It will be important to continue to liberalize the trade regime, pursue the tariff reform strategy, and increase policy coordination with other members of COMESA and the EAC.

Directors considered that implementing a vigorous anti-corruption strategy, as part of a wider program of governance reforms, is necessary to generate the conditions for stronger per capita income growth in Kenya. They welcomed the authorities' publication of their *National Governance Programmes and Initiatives*, and the government's intention to strengthen the office of the Attorney General and the investigatory capabilities of other branches of law enforcement. Directors stressed the importance of passing key governance legislation during the current session of parliament, which will establish a code of ethics for civil servants, legislators, and the judiciary, as well as strengthening and better protecting the legal status of the Anti-Corruption Police Unit. They underscored the importance of demonstrating clear results from this strategy.

Directors suggested that these actions would have to be reinforced through a multifaceted approach involving the strengthening of all other institutions whose operations have a bearing on combating corruption, such as the Controller and the Auditor General's office. They emphasized the importance of fully implementing recently agreed reforms of procurement regulations, and noted that the judiciary needs a major strengthening.

Directors saw the strengthening of the management at the Central Bureau of Statistics as a

positive step toward improving Kenya's data collection. They underscored that this should be supplemented with more resources to improve poverty analysis and to help monitor the poverty reduction programs. At the same time, increased efforts are needed to improve the core macroeconomic statistics, both in terms of quality and of timeliness.

It is expected that the next Article IV consultation with Kenya will be held on the standard 12-month cycle.

**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2001 Article IV Consultation with Kenya is also available.



**Kenya: Selected Economic Indicators, 1996-2001**

	1996	1997	1998	1999	2000	2001
	(Annual percentage change, unless otherwise indicated)					
<b>National accounts and prices</b>						
GDP volume	4.6	2.4	1.8	1.4	-0.3	1.1
GDP volume per capita	2.3	0.1	-0.4	-0.7	-2.5	-0.9
Consumer prices (annual average)	8.9	11.4	6.6	3.5	6.2	0.8
Terms of trade, goods (- deterioration)	2.6	2.0	-5.0	-1.3	0.1	1.2
Exchange rate (Kenya Shillings per U.S. dollar, period average)	57.1	58.0	61.8	70.4	76.3	78.6
Real effective exchange rate (- depreciation; end of period)	8.0	-0.1	-7.3	-1.1	7.8	-4.4/
	(In percent of GDP, unless otherwise indicated)					
<b>Investment and saving</b>						
Investment	20.3	18.5	17.4	16.2	15.6	15.5
Central government	4.9	4.5	4.3	3.1	3.2	3.8
Other	15.5	14.0	13.1	13.1	12.4	11.7
Gross national saving	18.2	14.3	12.5	14.0	13.4	13.8
Central government	3.9	2.8	4.3	4.1	2.6	1.9
Other	14.3	11.5	8.2	9.9	10.8	11.9
<b>Macroeconomic policy variables</b>						
Total central government revenue 2/	25.7	27.2	26.9	23.3	23.7	24.3
Total central government expenditure and net lending 2/	29.1	29.5	27.6	23.1	28.7	28.0
Overall central government balance (commitment basis) excluding grants 2/	-3.5	-2.3	-0.7	0.2	-5.0	-3.8
Overall central government balance (commitment basis) including grants 2/	-2.5	-1.5	0.0	0.7	-2.0	-2.6
Government domestic debt, net (end of period) 2/	21.4	20.7	20.5	21.4	19.9	21.5
Money and quasi money (M3. End year, percent change)	15.9	9.8	3.3	2.8	0.8	2.4
Interest rate (90-day treasury bill; end of period)	21.5	26.4	12.6	20.0	12.9	10.9
	(In million of U.S. dollars, unless otherwise indicated)					
<b>External sector</b>						
Current external balance, excluding official transfers (in percent of GDP)	-469	-549	-233	-311	-352	-402
Overall balance of payments	447	-37	66	-20	-8	25
Net present value of external public debt (in percent of exports of goods and services) 3/ 4/	187	156	145	143	143	139
Scheduled external debt service, including the Fund 4/ (in percent of export of goods and services)	24.3	22.4	23.6	27.3	18.6	17.6
Gross international reserves (end of year) (in months of next year imports)	855	788	783	791	897	1,064
	2.7	2.5	2.8	2.6	3.0	3.6

Sources: Kenyan authorities; and IMF staff estimates.

1/ 12-month period ending November 2001.

2/ Data are on July-June fiscal-year basis.

3/ Three year backward looking average of exports.

4/ After 2000 Paris Club rescheduling and assumed rescheduling by commercial and non-Paris Club creditors.