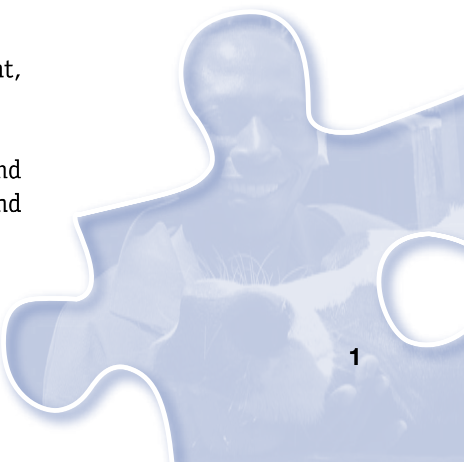
1. Introduction

The Kenya Joint Assistance Strategy (KJAS) presents a core strategy of 17 development partners for 2007–12. It provides the basis for the partners' support for the implementation of the government's development strategy, including the evolving 2030 Vision. It has been prepared collaboratively by the KJAS partners: Canada, Denmark, the European Commission (EC), Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, the United Kingdom, the United States, the African Development Bank, the United Nations, and the World Bank Group. The KJAS presents a shared development vision and intention between the Government of Kenya and KJAS partners, but it is not a legally binding document. Individual development partners will discuss and, if necessary, formalize their bilateral programs and agreements with the government. KJAS partners have committed to formally adopting the KJAS as part of their agency business plans by the end of 2008. Some KJAS partners require the approval of the cabinet and of parliament to formally join the KJAS, and will inform the government and the other partners once this has been granted.

The objective of the KJAS is to support the government's efforts to achieve the Millennium Development Goals (MDGs) and the targets that the government has set for itself in its national and sector development strategies. The KJAS focuses partners' efforts on the greatest challenges facing Kenya today:

- Significantly reducing corruption, improving public financial management, and reforming the public administration.
- Enhancing security and access to justice.
- Creating infrastructure, including information, communications, and technological networks, to serve as a platform for growth in Kenya and throughout the East African region.

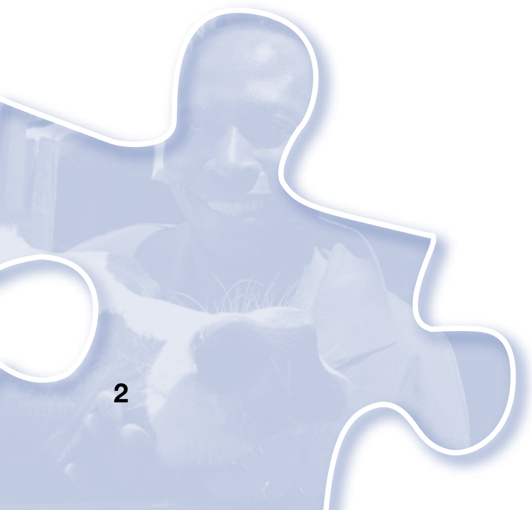


- Upgrading informal settlements.
- Substantially improving the delivery of basic services to the poor, especially health, education, water and sanitation, and social protection.
- Greatly narrowing the income gap between Kenya's richest and poorest citizens
- Improving the investment climate.
- Raising the productivity of agriculture.
- Promoting sound management of land, soils, forests, pastures, wildlife, water resources, and fisheries.

Major characteristics of the strategy are its emphasis on results, gender equality, and good governance in all aspects of development.

This KJAS was developed collaboratively with the government. Nonstate actors have also contributed to its formulation. The government has actively participated in all the processes and products that form the basis of this KJAS. The government formally endorsed the KJAS at a Kenya Coordination Group meeting held on August 17, 2007. Civil society, the private sector, the parliament, political parties, research institutes, and other stakeholders have also contributed to the formulation of the KJAS through consultations.

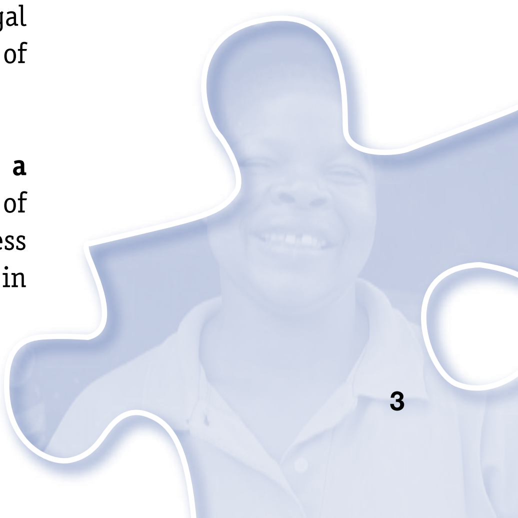
The KJAS reflects a broad consensus across political lines on the key elements of Kenya's development strategy. The government has prepared its draft Vision 2030 document, which sets out goals and priorities for Kenya's development over the longer term. It has also developed its draft Kenya External Resources Policy, which lays out its intent for its relationship with development partners. The KJAS provides a coordinated and timely response to both policy initiatives. The government is expected to prepare in late 2007 or early 2008 the next medium term economic and development strategy for 2008–2012 as a successor to Kenya's Investment Programme for the Economic Recovery Strategy for Wealth and Employment Creation 2003–2007 (IP-ERS). The KJAS partners will review and, if necessary, revise the KJAS to ensure that it is aligned with the government's new development strategy and program.



2. Kenya Country Context

After experiencing two decades of poor economic performance, during which per capita income stagnated, Kenyans elected a government that campaigned for fundamental reform of governance. The government pursued policies during 2003–07 that have stimulated private sector investment, promoted growth, and improved the well being of citizens. The government is managing its macroeconomy soundly. It is reorienting its budget to allocate a much larger share of expenditure to priority areas: infrastructure, health and education, agriculture, and rural development. It has also sharply increased the allocation for investment, from 1.9 percent of GDP in financial year 2002/03 to 8.1 percent of GDP in financial year 2007/08 (Government of Kenya, 2007d). The government is attempting to address corruption and poor governance and has enacted several pieces of anti-corruption legislation. It has improved public sector management, including its public procurement and financial management practices, so that funds are now being used more effectively to provide drugs and medical services to primary health care facilities, textbooks to schools, water to communities, and other services to citizens. It has pursued cautious, but meaningful, restructuring of parastatals that has led to declines in the costs of some key services, such as telecommunications, and avoided social protest against reforms. In fact, its management of the process might well have generated further public support for even more ambitious reforms. And it appears to have largely stopped the illegal grabbing of public land, while taking important steps to improve management of forests, watersheds, and other natural resources.

These measures have resulted in improved economic growth, despite a devastating drought, floods, and high import prices of oil. By the end of 2006 the economy had experienced three consecutive years of growth in excess of 5 percent, in spite of the hardships posed by a severe drought and floods in

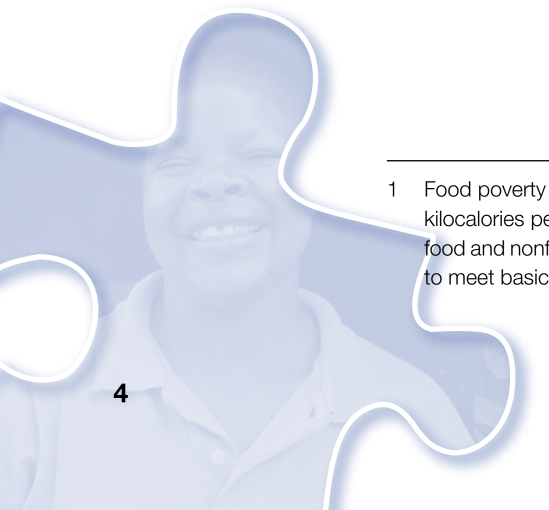


2005/06 and the high import price of oil. Some social indicators are improving. Relationships with development partners, although strained at times, have generally been more positive than under the previous regime, and have improved further in 2007. Major challenges remain, however, which Kenya will have to address if it is to accelerate pro-poor economic growth, reduce glaring inequities in access to assets and opportunities, and make progress toward the Millennium Development Goals (MDGs).

Kenya now must build on the recent momentum for reform and accelerate implementation of reforms to prevent their erosion or reversal. Kenya has the potential to enlarge its economy and resume the position it held in the 1970s as an economic leader in Africa. To do so, it will have to meet several challenges. To accelerate growth, Kenya needs to improve governance and reduce corruption, strengthen public safety and the rule of law, complete the restructuring of key parastatals, invest in infrastructure, and reduce administrative barriers to doing business. To sustain growth, Kenya must strengthen management of its vital natural resources and ensure that current levels of resource utilization do not compromise the ability of ecosystems to serve society well into the future. And to ensure that growth is widely shared, Kenya needs to improve access of the poor to quality education, health, and water services, reform agricultural policies and services, update land policy and administration, improve access to justice by the poor, strengthen local government and empower communities to play an active role in development, and take direct action to reduce income poverty and chronic hunger by developing an effective national social protection system. Kenya also needs to protect and deepen its fledgling democratic institutions, withstanding pressure from those who seek to undermine them. Maintaining the momentum on the reform agenda will be especially difficult during politically sensitive times, such as in the run-up to Kenya's 2007 elections. A renewed democratic mandate from the voters can provide new impetus for reform.

POVERTY AND INEQUALITY CONTEXT

Poverty declined in Kenya during 1997–2006. The proportion of Kenyans living below the poverty line declined from 52.6 percent in 1997 to 46.6 percent in 2005/06, according to data from the 2006 Kenya integrated household budget survey (see table 1). The fall in poverty was greater in urban than in rural areas. The proportion of urban dwellers living in absolute poverty dropped from 50.1 percent in 1997 to 34.4 percent in 2005/06, while the percentage of rural inhabitants who are poor fell from 53.1 percent to 49.7 percent.[1]



1 Food poverty is defined as having access to less food than required to meet the daily energy requirement of 2,250 kilocalories per day. Absolute poverty is defined as having levels of consumption that are insufficient to meet basic food and nonfood needs. Hardcore poverty is defined as having consumption expenditure levels that are inadequate to meet basic food needs alone, even if the individual were able to forego all nonfood consumption.

Table 1: Trends in poverty, 1997–2005/06
(percent of Kenyans, individuals)

		1997	2005/06
National	Food	48.6	45.8
	Absolute	52.6	46.6
	Hardcore	30.5	19.5
Urban	Food	38.4	40.4
	Absolute	50.1	34.4
	Hardcore	7.7	8.3
Rural	Food	50.6	47.2
	Absolute	53.1	49.7
	Hardcore	34.9	22.3

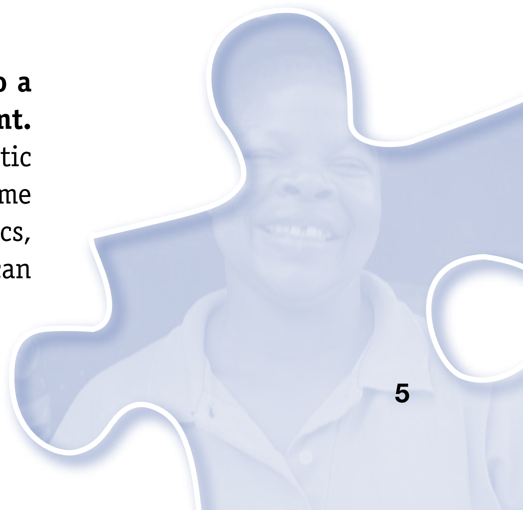
Source: Government of Kenya, 2007a.

Kenya remains a highly unequal society by income, by gender, and by geographical location. The richest 10 percent of households in Kenya control about 36 percent of national wealth, while the poorest 10 percent control less than 2 percent. Regional disparities are also vast. About 74 percent of people living in North Eastern province are poor, while only 30 percent of those in Central province are. The high poverty rate of people of North Eastern province makes them exceptionally susceptible to weather and price shocks. Women are much less likely than men to have completed secondary school education and to be employed in the formal sector. However, female-headed households are only slightly more likely to be poor than male-headed households (50.0 percent compared with 49.1 percent).

The disparities are reflected in indicators of social well-being. A person born in Nyanza province can expect to live 16 years less than a person born in Central province. While 93 percent of adult women in North Eastern province have no education at all, only 3 percent of adult women in Central province have never been to school. These disparities, while narrowing, continue today; only 19 percent of eligible girls in North Eastern province were enrolled in primary school in 2005/06, while 87 percent in Central province were (Government of Kenya, 2007c). Differences between urban and rural conditions are similarly striking, with urban households much more likely to have access to health care, schools, and piped water than those in rural areas. Inequality has increasingly become a source of political and social conflict. It also blunts the government's efforts to promote human rights and to realize the MDGs.

POLITICAL AND GOVERNANCE CONTEXT

Kenya follows a multiparty democratic system, but still needs to move to a more issues-based system, as envisaged in the draft Vision 2030 document. Throughout the 1990s Kenyans fought for the right to a multiparty democratic system. This effort culminated in free and fair elections and a peaceful regime change in 2002. However, ethnicity is still an important factor in party politics, as recognized by the New Partnership for Africa's Development (NEPAD) African



Peer Review Mechanism (APRM) 2006 Country Review Report of Kenya. Most political parties have a distinct ethnic base and much political debate is focusing on the relative status of various ethnic or regional groupings. Communal clashes over natural resources are serious problems in many areas and tend to dominate local politics. Most power is held by the executive, while the parliament, the judiciary, and local government entities are marginalized in decision-making. However, Kenyans are eager for change. In public opinion polls conducted prior to the 2007 elections, Kenyans expressed a clear preference for candidates who focus on the issues rather than on tribal and regional affiliations.

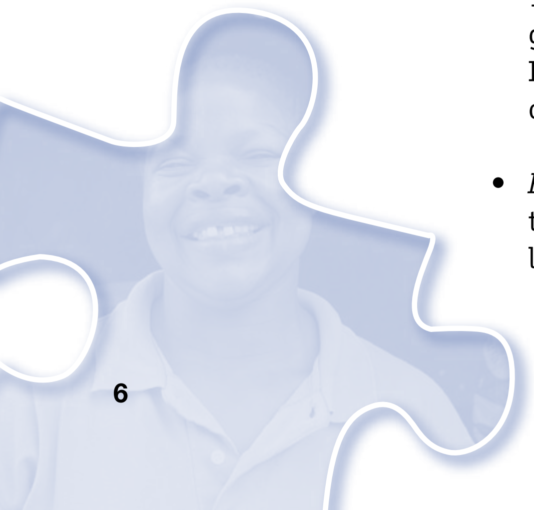
Poor governance undermines all development efforts. The majority of Kenyans believe that poor governance and corruption are the primary causes of Kenya's continued poverty, according to the 2006 APRM country report. Influential government officials publicly admit this as well. Management of natural resources, construction and maintenance of roads, and delivery of health services all suffer due to poor governance. The natural resource base in Kenya is dwindling. The underlying cause of this problem is lack of control mechanisms over those at both the central and local levels who exploit the resources or grab land for short-term personal gain. Roads are dilapidated, not because of lack of plans, tarmac, sand, manpower or knowledge, but because of large and small-scale corruption in the sector. Tendering procedures have been skewed, contracts have not been adhered to, and substandard qualities or lesser quantities of materials have been used than agreed. Health services have not been delivered at affordable prices, because drugs and supplies have too often been stolen to be sold on the open market rather than delivered to government health facilities.

The current shortcomings reflect long-term historical processes and practices. Kenya's current political economy is the result, in part, of its colonial history of state formation. It is also the result of the current inequality in income and power across countries, creating an environment in which richer countries and their firms provide the sources of rents for the political elites in poor countries. Kenya is by no means the only country to suffer from governance weaknesses. Still, many other countries that have shared a similar history have been able to create strong institutions of governance that promote growth and poverty reduction.

Tangible improvement will take time. But, recent developments suggest that Kenyans are demanding change and that the government is responding to these demands. For example:

- *Political space is opening and democratic institutions are becoming stronger.* This is shown by the relatively smooth election process that brought change in government in 2002 and the referendum late in 2005 on a draft constitution. In addition, Kenya was an early volunteer for the APRM and conducted an open process of stakeholder consultations and peer review.

- *Reformers in government are showing the will to fight corruption.* Although the process has not been without setbacks, the NARC government passed key legislation aimed at improving governance and delivery of public services. These

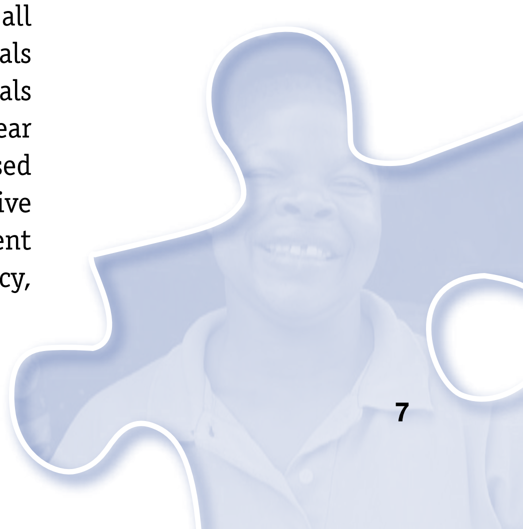


include the government financial management act, the public procurement and disposal act, the public audit office act, and the privatization act. It also set up a new Ministry of Justice and Constitutional Affairs and provided the Kenya Anti-Corruption Commission with the funds for staff to investigate allegations of corruption. It has released to the public damaging reports, including reports on land grabbing, on graft in the assignment of tenders, and on the investigation into grand corruption by parliament's Public Accounts Committee.

- *The government is pursuing a multifaceted approach to improve governance.* The government developed a governance, justice, law and order sector (GJLOS) reform program, which is being implemented with the support of many development partners. Based on the lessons of experience and feedback from stakeholders, the government developed its Governance Action Plan. This sets out the priority actions to be achieved by December 2007, and specifies benchmarks and results indicators covering health, public works, and other key sectors. Much has also been done to improve public financial management, including establishing an autonomous Public Procurement Oversight Agency and publishing information on contracts and contractors' performance on government websites. In June 2007, the government announced the establishment of the Public Complaints Standing Committee (the office of the ombudsman). The functions of the committee include receiving, registering, sorting, classifying, and documenting all complaints against public officers in ministries, parastatals, state corporations, statutory bodies, and other public institutions. The government has also restructured some parastatals to improve their governance and transparency. However, substantial and durable progress will not be attained until there is more aggressive leadership on governance throughout the government, including within the executive and non-executive branches, and at the political and technical levels of the public service.

- *The media is vibrant and dynamic.* The press has been able to report more freely, if irresponsibly at times, on politically sensitive issues such as corruption and to criticize government without facing censure. This is one of Kenya's strengths, according to the 2006 APRM country report. Occasional attempts to coerce the press have largely been unsuccessful, as media resilience has manifested itself through continued in-depth and critical reporting. The media could gain even more strength through a more transparent ownership structure and improved self-governance.

- *The adoption of results-based management and other public sector reforms have improved performance of the public administration.* Since 2005/06, all ministers, assistant ministers, permanent secretaries, and heads of parastatals have been required to sign performance contracts that set out their goals for the financial year. Experts rate their performance at the end of the year based on their success in attaining their targets. This scheme has focused attention of decision-makers on results, and appears to be having a positive effect on the quality of public services. Due to this initiative, the government won the 2007 United Nations public service award for improved transparency,



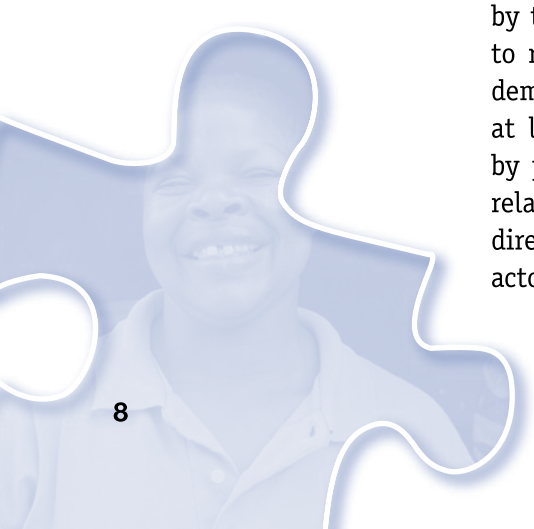
accountability, and responsiveness in the civil service. However, much more needs to be done to improve the public confidence in the efficiency and honesty of public officials.

- *Budget preparation has become more transparent.* During the past few years the government has issued budget strategy papers—one at the beginning of the budget preparation process and a second closer to its end—that present budget priorities of line ministries to stimulate discussion with stakeholders on budget issues prior to finalization of the budget. As a result, the budgets for 2005/06 and for 2006/07 were much more pro-poor and growth-oriented than in the past. Budget execution also improved, with actual spending close to the estimates of the approved budget. Further improvements are expected once implementation of the public financial management reform program accelerates.

The fight against corruption has at times suffered serious setbacks. The new government found itself embroiled in the sort of irregular procurement deals that had characterized the previous administration. In the system of checks and balances, the parliament in general, and the Parliamentary Accounts Committee in particular, have been increasingly assertive. The parliament is moving to tighten the scrutiny of budget proposals and budget execution. The Parliamentary Accounts Committee is following up on corruption allegations and national audit reports. However, the inability of the administration and the judiciary to successfully prosecute high-ranking government officials alleged to be involved and the lack of capacity of the judiciary are contributing to the public's perception that officials can act with impunity (NEPAD, 2006).

Although the comprehensive program led to improved perceptions of governance during the early years of this administration, progress has stalled in some areas. While perceptions of governance in Kenya improved following the 2002 elections, data from a variety of sources suggest that progress has stalled and even reversed in some dimensions of governance, such as rule of law and freedom of the press. Moreover, Kenya ranks well below many other African countries on indicators of governance.

While substantial improvements in governance will take time, much more can be done in the near term, especially by implementing plans already developed by the government. To make further progress, particularly in the fight against corruption, prosecutorial capacity will need to be reinforces and all institutions of justice strengthened both to punish wrong-doers and to signal to all the seriousness of its commitment. The people whose interests are threatened by the fight against corruption will undoubtedly use their access to power and to resources to block reforms, and the process will take time. Encouragingly, demand for improved governance from civil society, the private sector, and public at large is increasing. The government seems to be responding, for example by preparing its Governance Strategy for Building a Prosperous Kenya and the related Governance Action Plan. Overall, a process of change has begun and the direction on balance is positive. But there is still much more to do, and nonstate actors—including the private sector, professional and trade organizations, and



civil society organizations—need to become much more proactive in dealing with governance issues generally, including problems in their own organizations.

SOCIAL CONTEXT

Most Kenyans are under 30, making policies targeting children, youth, and young adults critical to Kenya's development. Youth in Kenya, defined here as those under the age of 30, comprise over 70 percent of the population. The population under age 14 alone amounts to 43 percent. Key issues facing youth in Kenya include a labor market that generates far fewer jobs than entrants to the labor force, traditional practices that include early marriage for girls, and diseases, such as HIV/AIDS, that pose a serious threat to well-being. Orphans and vulnerable children face particular challenges. Kenya will not be able to meet its development objectives without squarely addressing the challenges facing youth, especially by creating jobs and equipping young people with the skills to fill them. The government created in 2005 a Ministry of Youth to focus on the issues facing young people, but initiatives will have to be mainstreamed across all ministries and agencies to make a difference.

Kenya is rapidly urbanizing, posing enormous challenges for planning for economic and social development. At over 4 percent a year, the rate of urbanization in Kenya is among the highest in the world (United Nations, 2005). By 2030, the majority of Kenyans will live in urban areas. About half the residents of cities and towns now live in slums, in insecure, unsanitary, and overcrowded conditions. They live without safe drinking water, without sanitation or solid waste services, and without decent housing. Most lack access to jobs in the formal sector, and instead work as casual laborers in small-scale manufacturing and commercial activities. Kenya's rapid urbanization poses particular challenges to the government, which must find ways to meet people's needs for shelter, basic services, and productive employment opportunities. See box 1 for more on urbanization.

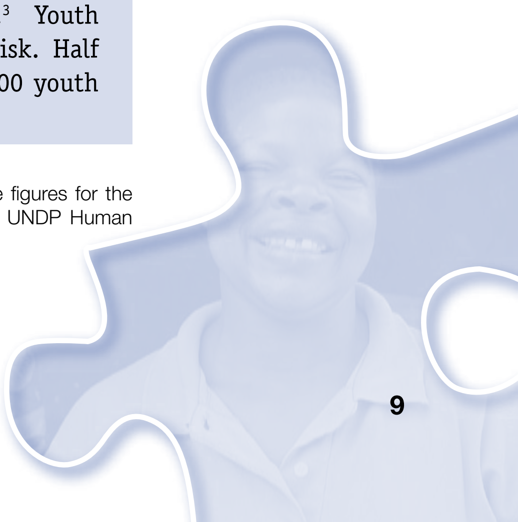
Box 1: Urbanization, youth, and unemployment

Kenya's population is around 34.3 million and growing at a rate of 2.2 percent. One consequence of high population growth is rapid urbanization; in 2004 some 40.5 percent of Kenyans were living in cities, up from only 24 percent in 1990.[2] Nairobi hosts some of the most dense, unsanitary, and insecure slums in the world. They are home to 50 percent of the city's official population on 5 percent of its residential land. These include Kibera, one of the largest informal settlements in Africa, with an estimated 500,000 residents.

Unemployment, especially among the youth, has been high and increasing in the last decade, standing officially at 14.6 percent in 2004. About 1.8 million workers are employed in the formal sector, and another 6 million are working in the informal sector.[3] Youth unemployment and urban discontent loom as potentially Kenya's greatest political risk. Half of primary school leavers are unable to go to secondary school, so around 500,000 youth enter the labor market each year, with many remaining without jobs.

2 Population and urbanization figures are from African Development Indicators, World Bank. However, the figures for the proportion of Kenyans living in urban areas vary greatly depending on source. For example, the 2006 UNDP Human Development Report states that in 2004 only 20.5 percent of Kenyans lived in cities.

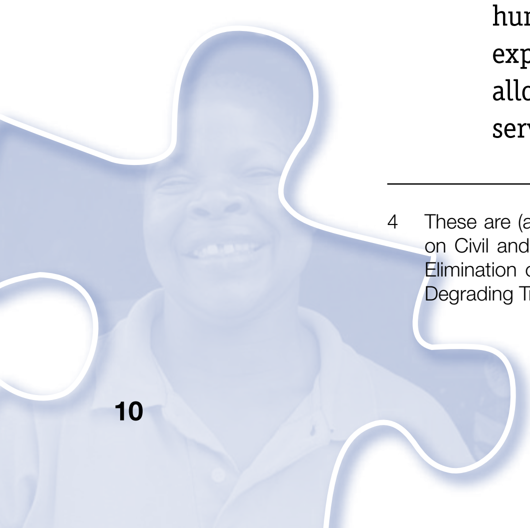
3 Central Bureau Statistics, "Kenya Facts and Figures," 2005.



Progress toward gender equality in Kenya has been slow. Women in Kenya face special problems arising from poverty, forced early marriage, domestic violence, HIV/AIDS, and lack of access to reproductive health services. Kenya ratified in 1984 the UN Convention on the Elimination of All Forms of Discrimination against Women and has enacted legislation to implement its provisions. However, gender disparities remain widespread. Much of the problem lies with traditional practices that favor men in access to education, land, and inheritance, financial services, employment, and access to positions of political power. The low level of female participation in elected and appointed government bodies is noteworthy, with fewer than 10 percent of ministerial posts and parliamentary seats held by women—lower than most countries in the region. The government recognizes that changing such practices will take time and will require efforts in a wide range of areas. To accelerate progress the president issued a directive in 2007 to increase to 50 percent the share of women in the public administration, including in senior positions. It is also promoting increased gender equality through its programs, of which one of the most important is the free primary education program. The government has set up a Ministry of Gender, Sports, Culture, and Social Services and a National Commission on Gender and Development to address issue of gender equity and mainstreaming. While both units have developed strategic plans, they are understaffed and underfunded and suffer from low status within the government structure. Several civil society organizations play a particularly important role in Kenya in promoting women's rights.

Kenya has a reasonably good record on human rights, but could do better. Kenya has ratified six of the nine fundamental United Nations treaties on human rights.[4] Kenya is also party to the 1986 African Charter on Human and Peoples' Rights, to the African Charter on the Rights and Welfare of the Child in 2000 and has submitted itself to the jurisdiction of the African Court for Human Rights. Kenya has not yet ratified the Maputo Protocol to the African Charter on Human and Peoples' Rights on the Rights of Women in Africa. As a ratifying party, the government of Kenya has committed itself to implement those rights guaranteed by the treaties and to regularly report on progress to the UN treaty bodies. The government in 2003 appointed to high office several well-known rights activists and established an independent National Commission on Human Rights, with a strong mandate to ensure that Kenya complies with its obligations under international treaties and conventions on human rights. It has independent power to investigate abuse and to educate the public on their rights. It is also responsible for assessing annually government's performance with respect to human rights. It has played a strong role in holding government to account. In addition, the government has begun a major reform of the judiciary, police, and prison services. With strong calls for accountability for past abuses, it has undertaken initiatives to address human rights abuses, economic crimes (corruption), and the widespread illegal expropriation of public lands. The government has also increased budgetary allocations to meet people's rights to food, water, health care, and other basic services. Despite reasonable progress, challenges remain. Action is needed to

4 These are (a) International Convention on the Elimination of All Forms of Racial Discrimination; (b) International Covenant on Civil and Political Rights; (c) International Covenant on Economic, Social and Cultural Rights; (d) Convention on the Elimination of All Forms of Discrimination against Women; (e) Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; (f) Convention on the Rights of the Child.



improve justice in all its dimensions: from a lack of professionalism and disturbing rates of fatal encounters in the police services to the cumbersome administration and slow processing of the judiciary to lack of access to justice by the poor. Much stronger efforts to stop violence against women are required. More is required to combat trafficking in people and production and transit of drugs. Much more also remains to be done to end corruption, which limits access of the poor to basic services and opportunities to participate in decision-making, important human rights.

Box 2: Kenya: Core labor standards

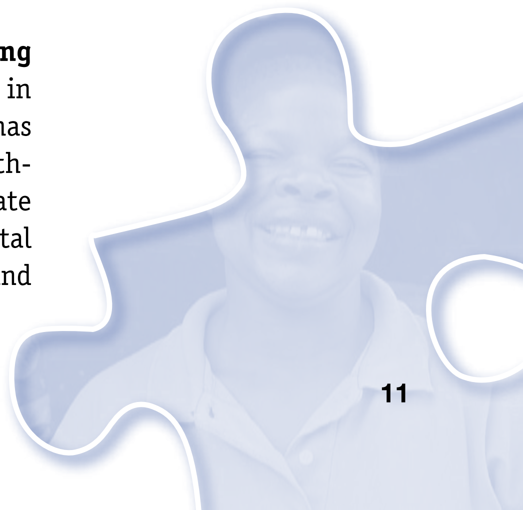
Kenya has ratified seven of the eight fundamental conventions of the International Labor Organization related to core labor standards including: (a) Right to Organize and Collective Bargaining Convention (ratified in 1964); (b) Forced Labor Convention (ratified in 1964); (c) Abolition of Forced Labor Convention (ratified in 1964); (d) Equal Remuneration Convention (ratified in 2001); (e) Discrimination (Employment and Occupation) Convention (ratified in 2001); (f) Minimum Age Convention (ratified in 1979); and (g) Worst Forms of Child Labor Convention (ratified in 2001). Kenya has not yet ratified the Freedom of Association and Protection of the Right to Organize Convention.

Child labor. Although the proportion of children (10–14 years of age) who work has declined from 41.3 percent in 1995 to 39.2 percent in 2000 and to 38.3 percent in 2002, child labor is common, especially in the informal sector. About 1.9 million children 5–17 years are in the labor force, including children working without pay (1998/99 child labor survey, Central Bureau of Statistics, 2001). To address this issue, the government (a) enacted in 2002 the Children's Act, which provides the framework for universal primary education; (b) introduced the school feeding program targeting poor regions; (c) established the textbooks fund, which helps poor students purchase learning materials; and (d) created the bursary fund, which helps poor students meet some of the costs related to secondary school attendance.

Gender discrimination. The constitution of Kenya prohibits discrimination on the basis of gender. However, its provisions are not effectively enforced. Women experience a wide range of both legal and actual discriminatory practices. The government has committed itself to eliminating discrimination in its legislation, policies, and programs. It has approved the national gender and development policy, which aims to provide equal opportunities to men and women.

Forced Labor. While there is no indication of forced labor in Kenya, the International Labor Organization has criticized certain legal provisions which provide chiefs in rural areas with the possibility of using forced labor. The government has repealed the laws concerned. In its latest report, the government indicates that comprehensive revision of the labor law will be undertaken in consultation with partners and with the technical assistance of the International Labor Organization.

A vibrant and diverse civil society has played an important role in advocating for change, but can do more. Civil society plays an important role in Kenya in promoting good governance and socioeconomic development. The country has many well-functioning civil society organizations, including the media and faith-based organizations, that provide leadership, mobilize resources, and coordinate support. They are especially active in promoting the rule of law in environmental management, delivering health, education, HIV/AIDS, and water services, and



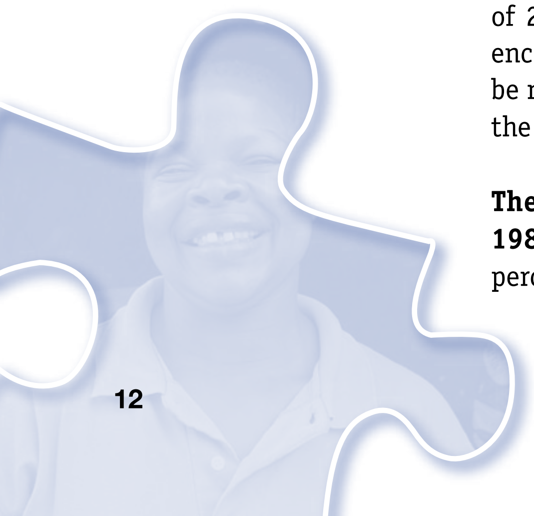
advocating for the rights of women, children, and vulnerable groups. NEPAD's APRM Kenya report considers Kenya's vibrant civil society as one of Kenya's strengths (NEPAD, 2006). However, civil society organizations must do more to ensure their own accountability, commitment, capacity, and focus on impact, results, and sustainability.

ECONOMIC CONTEXT

Fiscal and monetary management are sound. Kenya's fiscal position remains strong. Following rescheduling of bilateral debt, total public debt has dropped from 54 percent of GDP in June 2003 to 47 percent in June 2006, in line with the government's objectives of achieving debt sustainability (Government of Kenya, 2007b). The central bank succeeded in building foreign reserves to about 3.3 months of imports. Overall inflation averaged 14.5 percent in 2006, up from 9.8 percent in 2003, reflecting the impact of a drought and somewhat higher than targeted growth of the money supply. Inflation excluding food, beverages, and energy has remained much more subdued, at about 5.5 percent in 2006. Nominal interest rates have fallen in line with the drop in inflation, with the three-month treasury bill rate declining from about 8–8.5 percent throughout 2005 to 6.6 percent by April 2007. Moreover, the spread between lending interest rates and deposit rates has fallen as the proportion of nonperforming loans in the banking system has diminished (from about 30 percent of gross loans at the end of July 2002 to about 15 percent at the end of December 2006). Recent fiscal performance has been encouraging. The overall fiscal deficit (including grants) has decreased from 3.7 percent in 2002/03 to 3.3 percent in 2005/06.

The government has improved its public financial management. The government has reoriented expenditure toward priority areas of its strategy during each of the past two financial years. For example, the proportion of the budget spent on health and education rose from 31 percent in 2002/03 to 37 percent in 2005/06, and the proportion devoted to roads and water doubled from 4 percent to 8 percent over the same period. In addition, the budget for development expenditure has jumped from 12 percent of total expenditures in financial year 2002/03 to 29 percent in financial year 2007/08 (Government of Kenya, 2007d). Strong effort is needed, however, to ensure that the development budget is fully used—which has not been the case in recent years. Despite that underspending, execution of the overall budget has improved during the past few years, with the deviation between the printed budget and actual outturns declining (World Bank, 2007). Public financial management has also advanced; Kenya met six of 16 benchmarks of the Public Expenditure Management Assessment and Action Plan by October 2006, up from three in fiscal 2003. The 2006 public expenditure and financial accountability (PEFA) assessment rated Kenya's performance on 11 of 28 indicators as B or better (good/medium) on a scale of A to D. While an encouraging start, sustained effort to reform public financial management will be needed to ensure sound fiscal management, improve governance, and enhance the delivery of public services.

These measures fostered the strongest economic growth in Kenya since the 1980s. Average gross domestic product grew by 5.1 percent in 2004, by 5.7 percent in 2005, and by 6.1 percent in 2006 (Government of Kenya, 2007b). After

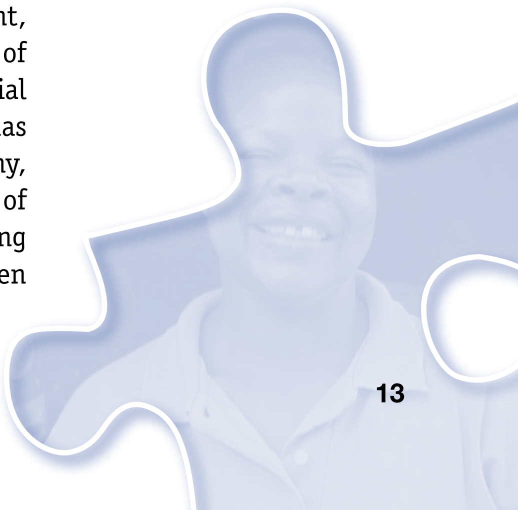


years of stagnation, per capita income is growing at an average rate of 3.9 percent per year. Growth has resulted primarily from strong increases in tourism (visitor arrivals rose by 40 percent between 2003 and 2006, three-quarters of whom come to view wildlife), building and construction, electricity, telecommunications (the number of mobile phone subscribers grew by 30 percent in 2005 and by another 36.5 percent in 2006), financial services, and transportation. Agriculture contributed to growth, with value added up by 7.0 percent in 2005 and by 5.4 percent in 2006. This is its best performance since 2001. Especially notable were the surplus production of maize in 2005 and 2006, and increased livestock, coffee, sugar, horticultural, and dairy output. Manufacturing also spurred growth, with output up by 5 percent in 2005 and by 6.9 percent in 2006. Assuming normal rainfall and no significant external shocks, growth is expected to remain above 6 percent for the next few years. To make certain that growth leads to steady declines in poverty, the government will need to pursue pro-poor expenditure, tax, and employment policies.

The IMF completed its second review of Kenya's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement in April 2007. In completing the review, the IMF noted Kenya's sound macroeconomic management since 2004, which has helped contain domestic debt, increase international reserves, and strengthen the financial sector. The IMF also stressed the importance of continued progress with public sector reform, public financial management and governance to sustain growth and reduce poverty. The IMF plans to conduct a third, and final, review of the PRGF in late 2007.

PRIVATE SECTOR DEVELOPMENT CONTEXT

The government has made progress in improving the climate for private sector investment. The private sector plays an important role in Kenya, accounting for over 80 percent of GDP and most government revenues. Still, although starting to pick up, private sector investment remains dampened owing to Kenya's unattractive business environment. The government is trying to change this. It has initiated financial sector reforms aimed at implementing the recommendations of the 2005 World Bank and IMF supported Financial Sector Assessment Program. The government has eliminated or simplified 110 business licenses and plans to scrap or simplify 205 others. Planned streamlining of local authority licenses is expected to result in the elimination of another 600 licenses. The government is establishing an electronic registry to provide easy access to all valid business licenses and to prevent reintroduction of abolished licenses. The government has also restructured or is restructuring key utilities, which is lowering the costs of doing business. With Uganda it has signed an agreement with a private firm to operate the Kenya-Uganda railway system. A much more efficient and safe railway is expected to emerge with new investment and professional management, promoting growth in both countries. The government has sold 30 percent of Kenya Electricity Generating Company shares to the public through an initial public offering, which is expected to strengthen corporate governance. It has also finalized the management contract for the Kenya Power and Light Company, a long mismanaged state enterprise. The government is also in the process of finalizing the public private partnerships policy framework, aimed at enhancing the role of private sector in development. Public private partnerships have been



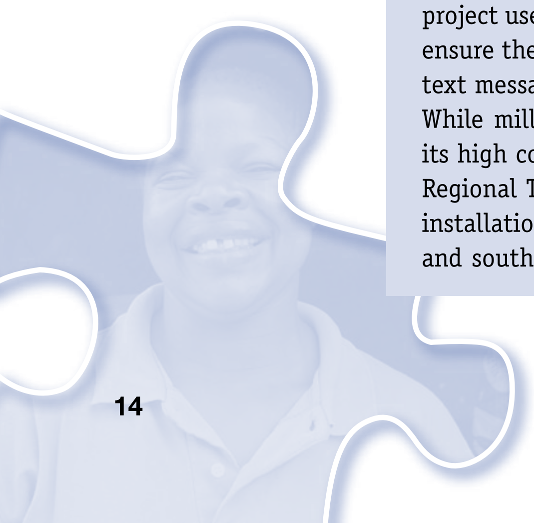
established to supply power and to increase access to information technology (see box 3). The government is also implementing measures aimed at improving access of micro, small, and medium-size enterprises to finance, business services, and markets. Kenya has many vibrant social enterprises, which aim to find new solutions to social problems and then use entrepreneurial principles to organize, create, and manage a venture to bring about social change. Kenya received its first investment rating from Standard and Poor's in September 2006 as investment grade (B+) with a stable outlook.

Box 3: Information technology is transforming the lives of millions of Kenyans

Use of mobile phones is growing meteorically in Kenya. In June 1999, Kenya had 15,000 mobile phone subscribers. By the end of 2006 the country had 7.3 million subscribers. Kenyans use mobile phones for a wide variety of tasks that have the potential of both reducing poverty and promoting economic growth. For example, Kenyans are using their mobile phones to make person-to-person transfers using a new service called M-PESA. Users deposit cash with a registered M-PESA agent, who verifies a customer's identity through his or her telephone number. The customer then transfers the money to another mobile phone user through a text message. The recipient collects the cash at the offices of another M-PESA agent anywhere in the country. M-PESA monitors all the money; the float is held in a single account at the Commercial Bank of Africa in Nairobi. The service is aimed at the nearly 80 percent of Kenyans who do not have a bank account. Most of these people have had no choice up until now but to physically move cash using buses or other vehicles. While users pay a fee to transfer funds through M-PESA, the cost is much lower than that of the bus and is more convenient and secure. Within three months of its full roll-out in March 2007, M-PESA already had around 500 agents and 150,000 customers. It may be only a matter of time before Kenyans are able to use their phones for other financial services, such as making payments directly to merchants and obtaining loans.

Kenyans are also using their mobile phones to improve their profits from farming and fishing. Farmers can learn the prices of maize, beans, and other crops in markets throughout the country through daily text messages from the Kenya Agricultural Commodity Exchange. Fishermen are now benefiting from a similar service. Studies undertaken in other countries demonstrate that access to such market information benefits both producers who sell their goods at the best possible price and consumers who enjoy lower prices and more reliable supplies. Indeed, some studies show that the more efficient markets made possible through use of mobile phones make an important contribution to a country's rate of economic growth.

Mobile phones also offer the potential of transforming the effectiveness of health and education services in Kenya. The African Medical and Research Foundation is using phones to enable doctors in headquarters to diagnose diseases of patients in remote areas. Another project uses mobile phones to enable doctors in AIDS clinics to monitor patients far away and ensure they are taking their drugs. A pilot program is experimenting with the use of mobile text messaging to support in-service training of teachers in districts across the country.
While millions of Kenyans use mobile phones, far fewer regularly use the internet due to its high cost and limited availability. This is expected to change with the assistance of the Regional Transparency and Communications Infrastructure Program, which is financing the installation of a high-speed broadband undersea cable that will serve all the cities of eastern and southern Africa. In addition, in partnership with the private sector, the program will



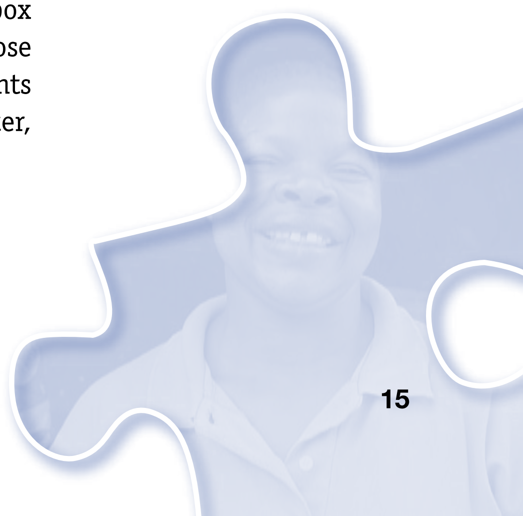
support the creation of digital villages in remote areas, and facilitate access to e-government services, such as land titling. Access to cheaper and better quality internet services will enable Kenyans to enjoy the same services as people in other regions of the world.

Most of the funds for all these initiatives are coming from private investors or through public-private partnerships. KJAS partners are helping primarily with the start-up costs, such as developing software.

But much remains to be done. Chief among the issues to be addressed include improving governance; upgrading Kenya's infrastructure; reducing the involvement of the state in commercial activities, thereby creating new opportunities for the private sector (including through public-private partnerships); streamlining regulations and licenses, ensuring that people's skills, including in science and technology, better match labor market demands; and enhancing public safety, law, and order. The government has recently adopted a private sector development strategy to address all problems of private sector development, discussed further below.

ENVIRONMENTAL CONTEXT

Kenya's future sustained economic growth depends on better environmental management. Highland forest ecosystems, wetlands, and semiarid and arid lands contain Kenya's key biodiversity habitats and many of its cultural sites, supply much of Kenya's domestic energy, and provide crucial environmental services, such as controlling erosion, maintaining water quality, and absorbing carbon. Despite the importance of sound environmental management to both agriculture and tourism (together accounting for over one-third of GDP), widespread degradation of the environment and overexploitation of natural resources remain serious problems in Kenya. Deforestation and forest degradation is resulting in severe erosion and siltation of lakes, hydropower dams, rivers and streams, loss of habitat for wildlife and declines in biodiversity. Soil nutrient levels are declining and yields are falling due to poor farming practices and low use of fertilizers. In part, this drives agricultural expansion into marginal areas and into indigenous forests, putting further pressure on biodiversity. A major environmental issue for Kenya is water resource management. Kenya is a water-scarce country, arising in part from poor soil surface and water catchment management, deteriorating water management infrastructure, and inadequate regulation and policing of water abstraction from streams and rivers. Pressure on existing water resources for agriculture, manufacturing, and urban uses is increasingly becoming a constraint to development. Climate change will exacerbate major problems, such as desertification, declining biodiversity, and deterioration of wetlands (see box 4). Urban environmental issues are also serious. Air and water pollution pose threats to the health of all urban dwellers. Inhabitants of squatter settlements face additional health threats from the lack of access to safe drinking water, sanitation services, and solid waste services.



Box 4: Climate change—a threat to economic growth and poverty reduction

Kenya is highly vulnerable to extreme weather events. The 1997–98 floods followed by the 1998-2000 drought cost the Kenyan economy US$4.8 billion or 14 percent of GDP. Weather shocks of this magnitude severely challenge the capacity of the government and of the private sector to maintain economic growth. And at the household level, weather shocks are equally devastating. In 2006 nearly 3.5 million Kenyans required food aid and other humanitarian assistance following poor rains. Livestock losses of up to 70 percent were reported in the arid and semiarid lands. Climate change is therefore not just an environment issue but one affecting the foundations of human and economic development.

Kenyans cope with climatic variability each year. There is a risk, however, that climate change will worsen the situation. The UN Intergovernmental Panel on Climate Change suggests that there could be a 2 degree celsius temperature rise by 2035. The implications for Kenya would be devastating: more and worse droughts, floods and rising sea levels.

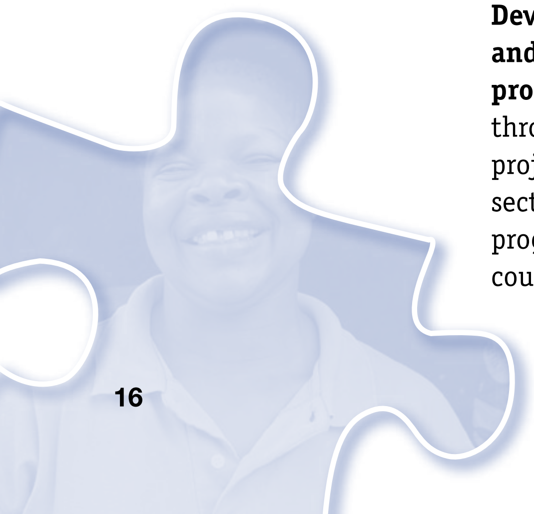
The challenge for the government is to ensure that climate change is not seen as just an environmental problem, but as an issue cutting to the very heart of economic and social development with profound impact on the activities for all the key ministries ranging from health and agriculture to energy, water resources and irrigation, transport, and public works. Hazards like flooding cannot be stopped, but they are intensified by insufficient planning, poorly-designed infrastructure, and destruction of natural resources such as riparian forests. Government policies and planning which do not take climate into account are at risk of failing.

KJAS partners will begin to raise the awareness of the effects of global warming through joint analytical work, and actively tackle climate issues in their programs, for example using drought resistant crop varieties, managing water better, designing infrastructure to withstand extreme weather events, and using seasonal forecasting to predict and plan for climate related diseases.

AID EFFECTIVENESS CONTEXT

Donor assistance is less important in Kenya than in many other African countries, although it remains significant in some sectors. Government mobilizes 21 percent of GDP in revenue, a much higher proportion of GDP than in most developing countries. Donor funds have amounted to only about 5.0 percent of the government budget in recent years. Still, development partners fund a significant proportion of resources for some activities, such as HIV/AIDS, education, and water supply.

Development partners' lack of confidence in the transparency, accountability, and effectiveness of government institutions and systems hampered progress on aid coordination during the 1990s. Rather than channel funds through government systems, many development partners supported individual projects through international and local civil society organizations, the private sector, or directly with community groups. The strong shift towards sector program approaches and budget support, which took place in many other African countries, took place to only a limited extent in Kenya.

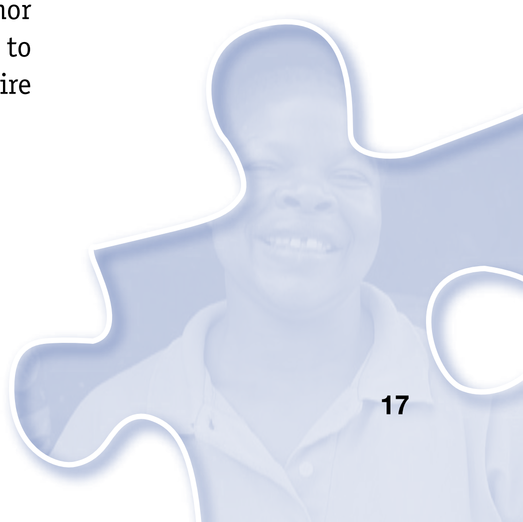


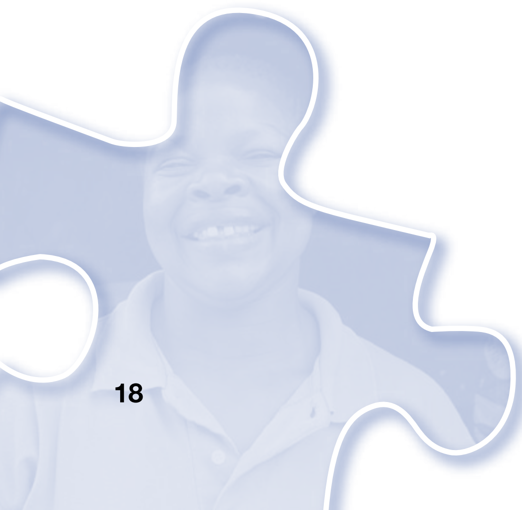
Donor coordination has been improving since 2003. The Kenya Coordination Group meetings, chaired by the Minister of Finance, have since 2004 provided regular opportunities for the government and development partners to discuss matters of mutual concern. Development partners meet among themselves each month in the Development Coordination Group, chaired by the World Bank. The Harmonization, Alignment, and Coordination Group, which includes the Ministry of Finance and the Ministry of Planning and National Development, actively promotes the aid effectiveness agenda. All 17 of its members, providing some 90 percent of total official development assistance to Kenya, have joined together to formulate the Kenya Joint Assistance Strategy. Even with such a large number of partners involved, the process has been exceptionally quick, partly because of the broad consensus that has emerged through intense debate in recent years over a range of development issues in Kenya, including governance. Some 16 sector donor groups coordinate dialogue and program support at the sector level. Three-quarters of these are currently involved in developing sectorwide approaches with government counterparts with the aim of further reducing duplication and waste.

Despite progress, much remains to be done to reach the targets of the Paris Declaration on Aid Effectiveness and the expectations of Kenyan stakeholders. Many development partners in Kenya are still not using government procurement and financial management systems, are fielding missions and conducting analytical work independently of other development partners, and are continuing to rely on independent project implementation units to manage interventions. The 2006 PEFA review confirms the view that much more needs to be done to improve donor practices. It scores donor practices as "D" with respect to predictability of direct budget support, and the proportion of aid that is managed using national systems, and as "C" with respect to financial information provided by development partners for budgeting and reporting on project and program aid.

The government's external resource policy provides an overall framework for donor assistance. The draft policy welcomes the role of development partners in Kenya and specifies how different types of external resources contribute to the realization of Kenya's development aspirations. It contains a set of partnership principles that government and development partners signed in September 2007.

While OECD partners are increasingly working effectively together, a number of new development partners remain outside the harmonization framework. The emerging non-OECD bilateral partners, vertical funds, foundations, and international NGOs are largely working independently of the broader donor community (see box 9 for more on this issue). The next challenge will be to engage these new partners in the harmonization agenda, which will require government leadership.



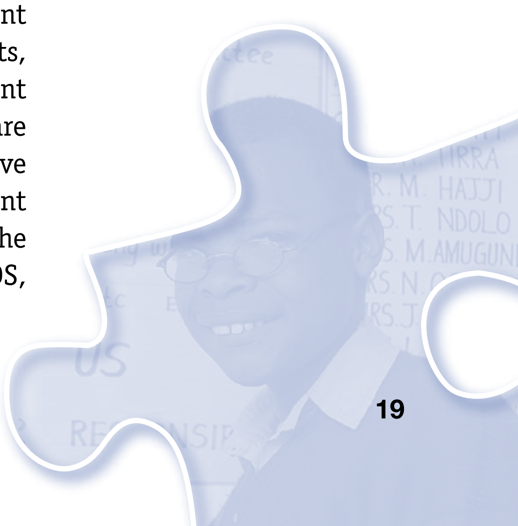


3. Kenya's Development Strategy

COUNTRY PRIORITIES AND DEVELOPMENT AGENDA

Progress with implementing Kenya's Investment Program for the Economic Recovery Strategy has been significant. Kenya's development strategy is laid out in the Investment Program for the Economic Recovery Strategy for Wealth and Employment Creation (IP-ERS) that was launched in March 2004 and is in its final year of implementation. The strategy contains a results-based framework that lays out how the government's priority programs will help reach specific targets, including the MDGs. Annual progress reports indicate that Kenya has advanced towards its objectives. The government prepared in 2007 its draft Vision 2030 document (see box 5). The government It will formulate a successor to the IP-ERS to serve as the medium-term framework to implement the Vision 2030.

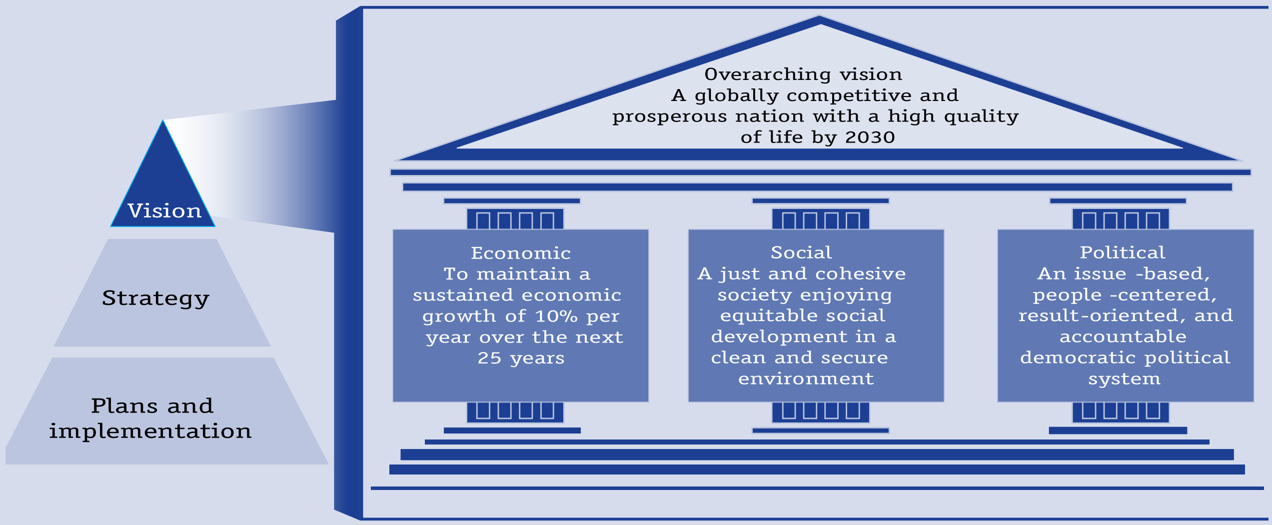
Indicators of social well-being are improving. About 7.63 million children are now attending primary school, compared with 5.9 million in 2000, due to the free primary education policy (Government of Kenya, 2007b). However, around 1.2 million children remain out of school, mostly living in arid and semiarid areas and in the urban slums. The proportion of children fully immunized has risen from 57 percent in 2003 to 61 percent in 2005, and the proportion of pregnant women attending antenatal clinics has increased from 42 percent to 56 percent over the same period. The fight against malaria is also demonstrating results, with in-patients with malaria having declined from 30 percent of total in-patient mortality in 2003 to 18 percent in 2005 (education and health statistics are from Government of Kenya, 2007c). The prevalence of HIV/AIDS appears to have declined, with the proportion of adults 15–49 infected declining from 6.7 percent in 2003 to an estimated 6.1 percent in 2005 (women are more susceptible to the infection, and prevalence among women is nearly twice that of men) (UNAIDS,



2007). Residents of some cities and rural settlements—including in the arid and semiarid regions—are enjoying improved water services.

Box 5: Key elements of Vision 2030

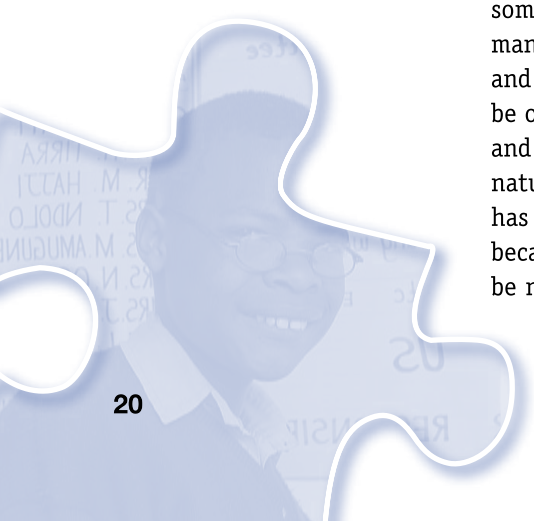
The Kenya Vision 2030 aims to transform Kenya into a middle-income country in 25 years. It specifies its economic, social, and governance goals as follows:



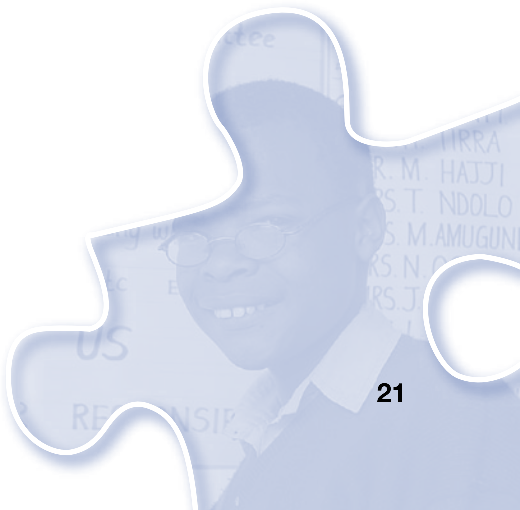
The goals will be achieved through implementation of detailed five-year programs, which specify projects in priority areas. For example, to achieve growth rates of 10 percent by 2012, the government is identifying projects in tourism, agriculture, wholesale and retail trade, manufacturing, business process outsourcing, and financial services. To create a just and cohesive society, it is identifying measures in education, health, water and sanitation, environment, social protection, and other areas. To promote a democratic political system, it is targeting efforts to strengthen the rule of law, the electoral and political processes, democracy, and security. The projects build on those set out in the IP-ERS and in the government sector strategies.

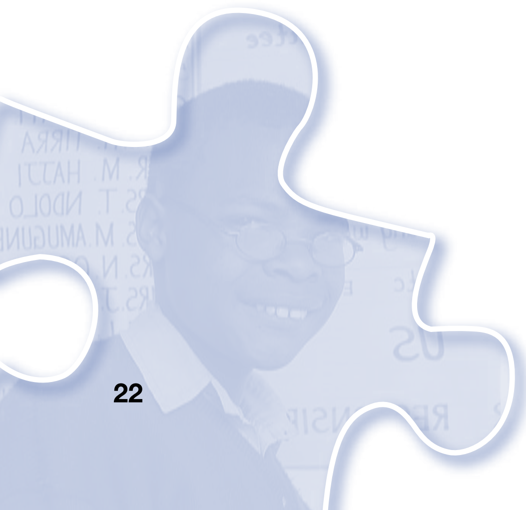
Source: Kenya National Economic and Social Council.

Kenya is on track to achieve some MDGs, but greater effort will have to be made if the country is to achieve all. On the basis of recent trends, Kenya appears likely to achieve MDG 2 (achieve universal primary education) and MDG 6 (combat HIV/AIDS). The launch of the Free Primary Education Program in 2003 has led to substantial increases in primary net enrolment rates, although some regional disparities remain. Kenya has also been able to sharply reduce its adult HIV prevalence rate, due in part to successful awareness-raising efforts that have led to less risky behavior. Kenya is on track to achieve one target of MDG 3 (promote gender equality): eliminate gender disparity in education. With better policies and increases in funding, Kenya may be able to achieve some targets of MDG 7 (ensure environmental sustainability). Reforms of water sector management have led to significant increases in funding available from both domestic and external sources to expand access to water services, although most schemes will not be operational for several more years. Funding for sanitation services has also increased and should over time improve access to these services. However, the management of natural resources—forests, water, soil coastal resources, and wildlife and their habitat—has worsened since 1990, in part because of continued population pressure and in part because of poor policies and inadequate management practices. Much greater effort will be needed to reverse the current negative trends. Even with much greater funding and



improved policies, Kenya is not likely to achieve MDG 1 (eradicate extreme poverty and hunger), MDG 4 (reduce child mortality), or MDG 5 (improve maternal health). Per capita GDP growth rates have been too low until recently to significantly reduce the proportion of people living in poverty. Poor policies and weak governance led to a worsening of both the under-5 mortality and maternal mortality rates between 1990 and 2005. However, the planned increase in expenditures on health services is expected to help. The government is now starting to tackle some of the issues that led to the poor outcomes. See annex 3 for Kenya's status in relation to the MDGs.





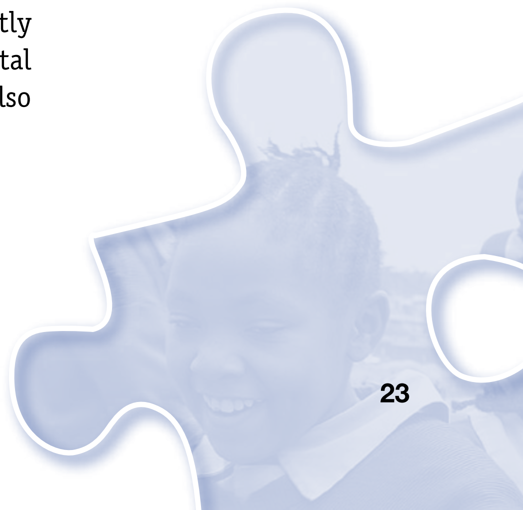
4. Kenya Joint Assistance Strategy Program

PROGRAM FOCUS

The KJAS is organized around three pillars in support of the government's strategy. These are (1) encouraging economic growth, (2) investing in people and reducing poverty and vulnerability, and (3) strengthening institutions and improving governance—the pillars of the Vision 2030 document. General or sector budget support will help achieve the objectives of all three pillars when the governance, fiduciary, and monitoring and evaluation systems can offer sufficient assurance that funds are used for their intended purpose. Individual projects and programs will support specific pillars, and that support will often contribute to outcomes other pillars. For example, KJAS assistance in strengthening institutions and promoting good governance (pillar 3) should help improve delivery of services and reduce poverty (pillar 2).

Pillar 1: Encouraging economic growth

Encouraging economic growth will require action in a range of areas. Improving the quality and reliability of infrastructural services, reducing the costs of establishing and running businesses, and lowering barriers to trade and regional integration will promote the private sector investment required for growth. Enhancing the productivity of agriculture will contribute directly to growth and have a big impact on poverty. Better managing environmental resources will not only foster growth in the short and medium terms, but will also help ensure that growth is sustainable over the long term.



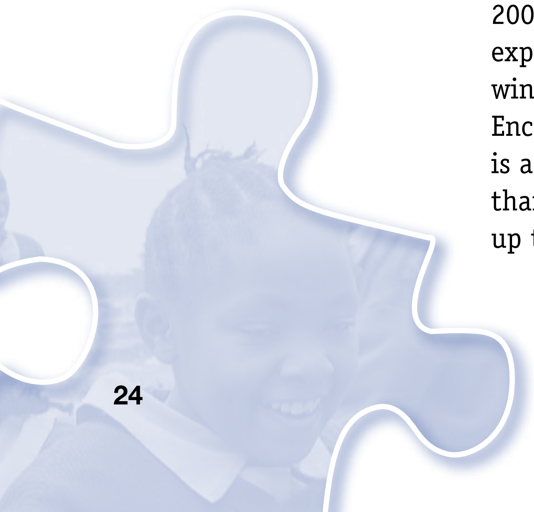
Improving infrastructure

Roads and Transportation

The KJAS partners will help create transport infrastructure to reduce the cost of doing business, link isolated areas of the country to the broader economy, and promote regional integration. Support for rehabilitation of the Northern Corridor that links Uganda and western Kenya to the regional and international markets will help to stimulate growth in one of Kenya's poorest regions and throughout the East Africa region. Support for the concessioning to the private sector of Uganda Railways jointly with Kenyan Railways will help to connect Ugandan markets with the port of Mombasa in Kenya. Assistance to improve access to southern Sudan will be important to foster trade between the countries. Support to upgrade other transportation corridors, the port of Mombasa, airports and cross-border infrastructure will also promote growth and regional integration. The government in 2007 established three autonomous roads authorities to manage the transportation network transparently and efficiently. An important objective of the authorities is to reform the policy and institutional framework governing the management, accountability, and financing of road construction and maintenance. Once the reforms are put into place, some KJAS partners will consider scaling-up financing for transport infrastructure. KJAS partners will also facilitate private sector participation in the financing, construction, and management of Kenya's road network and ports, including a toll-road concession of 77 kilometers in and around Nairobi. Private participation is expected to both mobilize additional financing and to improve the management of the network. Finally, in line with the Roads 2000 Strategy, KJAS partners will help improve and maintain the rural road network using approaches that encourage development of the local private sector and maximize employment opportunities. Recognizing that road accidents are a leading cause of death and injury in Kenya, KJAS partners will assist the government with measures to improve road safety. Because poor governance and corruption have led to the waste and misuse of resources for transportation infrastructure, special attention will be paid to procurement and financial management practices and to contractor performance in all partner-supported activities. In addition, Kenya will be encouraged to participate in a pilot Construction Sector Transparency Initiative that is based on experience with the Extractive Industries Transparency Initiative.

Energy

Energy sector reforms and large investments should improve access to modern energy services. The parliament enacted a new energy policy in 2006, aimed at reducing Kenya's high cost of power, increasing its reliability, expanding the network in rural areas, promoting renewable energy sources (solar, wind, geothermal, biogas), and improving efficiency in energy refining and use. Encouraging private sector participation in generating and distributing energy is an important element of the policy. The government expects to develop more than 500 megawatts of additional generation capacity by 2011, and to connect up to 1,500,000 customers by 2011, many in rural areas.

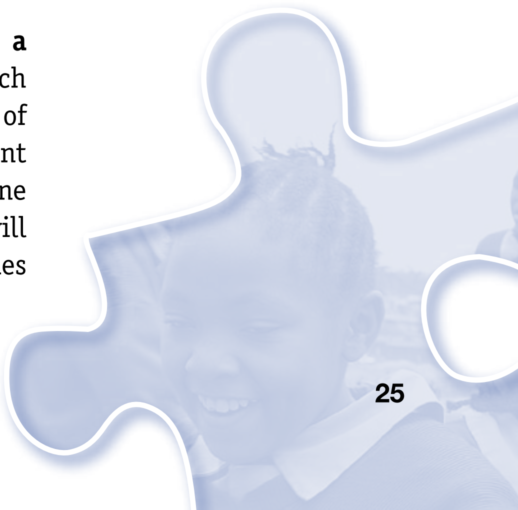


The KJAS partners will aid the government program in several ways. They will continue to support implementation of substantial changes in the organization and structure of the electricity market (including agreement on a management contract for the Kenya Power and Lighting Corporation), and institutional reforms of the rural electrification program. They will finance investments to expand generation capacity (including through geothermal and hydro); improve efficiency of power production, transmission, and distribution; and increase access to modern energy services in rural areas. They will support cross-boarder projects, including the Kenya–Ethiopia, and the Kenya–Tanzania–Zambia power interconnection projects. They will also help to develop the capacity of the regulatory bodies and of the Ministry of Energy, improve energy management and governance, and promote cross-border cooperation in the energy sector. They will facilitate access to environmentally-friendly technology, including solar and wind power. Finally, they will support Kenya's efforts to regularize, improve efficiencies, and reduce the environmental impact of the charcoal industry, on which 75 percent of Kenyans depend for domestic energy.

Water Supply and Sanitation Services and Water Resources Management

Expanding access to water and sanitation services has long been a priority for Kenya. To expand access the 2002 Water Act puts the provision of water services on a commercial basis, separating the roles of service provider, regulator, and oversight body. The new arrangements are working much better than the previous ones. Revenues from users have doubled in cities, and instead of being used for whatever purpose a city council sees fit, are now targeted to improve services and expand and upgrade the network. The priorities for the government now are to consolidate reforms, expand the network in urban and periurban areas, develop rural water supplies, and create capacity for managing and maintaining the services once the infrastructure is established. Expanding access to the poor is particularly urgent. To this end, the government has established the water services trust fund under the water act 2002 to channel funding for provision of water and sanitation services to communities without adequate water, with priority given to poor and disadvantaged groups. Its resources come from the government budget allocations, development partners, and donations from institutions and individuals. Once proper accounting procedures are in place, the trust fund is expected to play an important role in coordinating assistance to the sector. The government has adopted the national water resources management strategy and is at advanced stages of completing its national water services strategy, which will provide the basis for KJAS partner support to the sector. The Ministry of Health has recently approved a national environmental and hygiene sanitation policy, which is important for the future development of the sector.

The KJAS partners will assist government's efforts primarily through a sectorwide approach program. The KJAS partners through a sectorwide approach program (SWAp) will assist with the completion of the reforms, expansion of infrastructure, development of urban and rural water supplies, and management of water resources. Annual joint partner-government sector reviews will examine the effectiveness of expenditures in meeting targets, while specific studies will investigate constraints and propose solutions for overcoming them. All activities



will be guided by the partnership principles jointly decided between the government and its major development partners supporting the water sector.

Urban Slum Upgrading

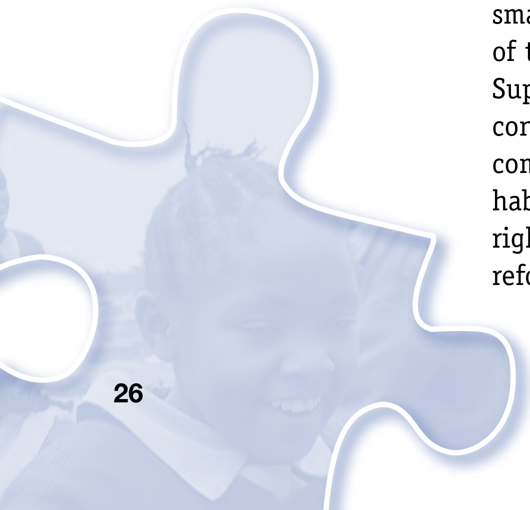
The government recognizes the enormous challenges presented by Kenya's rapid urbanization. Through the Ministry of Housing, it has initiated the Kenya slum upgrading program. Taking a holistic approach, this is bringing about improvements in slum areas by upgrading housing at the same time as providing water, sanitation, transportation, and other basic infrastructure services. An important feature of the program is to provide secure tenure to residents, who then have an incentive to invest in their homes and neighborhoods. While the program is initially targeting slums in Nairobi, Mombasa, Kisumu, and Mavoko, it will assist slums in other cities once lessons from the early experiences can be drawn.

KJAS partners are assisting the government to improve the quality of life in urban slums. Several KJAS partners are supporting the efforts already underway to improve housing, infrastructure, security, and delivery of services in informal settlements—although still on a modest scale. Drawing on lessons learned in Kenya and elsewhere, especially on the importance of combining policy reforms with investment, KJAS partners are planning to significantly raise their support for slum upgrading during the KJAS period.

Promoting private sector development

The government aims to promote growth and competitiveness of the private sector, as laid out in its private sector development strategy for 2006–10. The strategy focuses on five main goals: (a) improving the business environment, (b) accelerating transformation of public sector institutions, (c) promoting expansion of trade, (d) raising productivity of enterprises, and (e) supporting entrepreneurship and development of indigenous enterprises. Overall responsibility for coordinating implementation of the strategy rests with the Ministry of Trade and Industry, but many government ministries and agencies are involved with its various aspects.

KJAS partners are promoting private sector development in many ways. Support for streamlining and eliminating unnecessary business licenses will reduce the cost and time required to open and run a business. Assistance for strengthening of commercial courts and improvements in infrastructure will also improve the climate for doing business. Support for a transparency and communications infrastructure project, which is part of a regional initiative, will improve access to government information and bring down the costs of information and communications. Firm-level technical assistance for micro, small, and medium enterprise development will promote growth and development of the most dynamic sector of the economy, where most of the jobs are created. Support for partnerships between rural communities that have created wildlife conservancies and private investors to establish and operate eco-lodges are helping communities to access new sources of income, while protecting wildlife and their habitat. Help with land policy and land registration will assist to clarify property rights and promote a market for land. Assistance for policy and institutional reform of financial services, strengthening of financial sector regulators, and



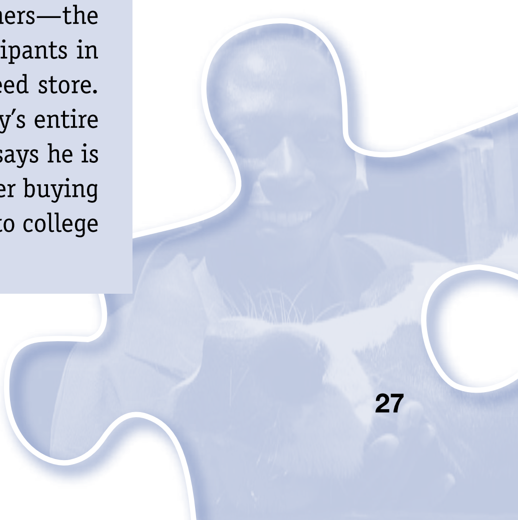
measures to combat money laundering are expected to increase access, soundness, and efficiency of financial services. Facilitation of public-private partnerships is aimed at both mobilizing investment resources and improving the management of public enterprises. Engaging with social enterprises—which harness business skills to address social problems—as partners in development can help to accelerate poverty reduction and promote equity (see box 6). The Grassroots Business Initiative, a trust fund managed by the International Finance Corporation, is already working with several social enterprises that target disadvantaged youth and poor rural and urban entrepreneurs.

Looking forward, the KJAS partners intend to support private sector development in increasingly harmonized ways. The government's preference is to receive support through much more harmonized arrangements than is currently the case. KJAS partners are therefore exploring creative ways to collectively channel resources for private sector development, building on lessons learned from other donor groups on experience with joint programming and pooled funding. Because private sector development involves a range of actors, KJAS partners will provide assistance to the government for policy reform and institutional capacity building, and to trade associations and to other nongovernmental organizations that provide finance, training, and other services in support of private sector development. KJAS partners intend to work within a common framework to support implementation of the private sector development strategy.

Box 6: KickStart and MoneyMaker pumps: A successful social enterprise

Tremendous wealth is being created in the world today, thanks to globalization and the power of technology and markets, yet millions of people still reside in extreme poverty. Traditional charity often meets immediate needs but is not designed to enable people to solve their own problems over the long term. This problem has catalyzed a new set of social entrepreneurs, essentially local changemakers, who are developing market-based approaches that have the potential to expand when charitable dollars run out. These entrepreneurs are spearheading innovative business models that reach consumers in new ways with products or services designed for low-income people in Kenya.

The farmer is John Wangai, and he is poised atop his MoneyMaker Plus, a manual irrigation pump made by a Nairobi-based nonprofit company formerly called Appropriate Technologies for Enterprise Creation (Approtec) and now called KickStart. As Wangai shifts his weight back and forth on the small blue steel contraption, water courses up from a hand-dug well. The pump pressurizes the water, sending it spraying through a crude sprinkler over neat rows of green spinach, kale, cabbage, sweet potatoes, and onions. Just two months ago, his half-acre garden had been dry and sparse, providing enough to feed his family but no extra to sell at market. He had' been watering plants with the standard tool of subsistence farmers—the bucket—and considered irrigation something for wealthy farmers and lucky participants in foreign-aid programs. Then Wangai saw a MoneyMaker demonstration at a local seed store. At US$38, the pump would cost more than one month's wages and use up his family's entire savings, but it was a price within his reach. And one well worth paying. Wangai says he is already making US$5–12 per week on his newly commercial farm, enough to consider buying this rented land and getting some chickens. He is thinking about sending the kids to college or at least making sure they do not drop out of school as he did.



The MoneyMaker Plus is small enough to be carried on a bicycle, simple enough that it can be installed by the farmer and repaired without any tools, and powerful enough that it can irrigate 1½ acres a day. It is a low-tech tool that gives hope to people used to facing many problems and few solutions. The average farmer's productive acreage has increased sevenfold and yields at least two crop cycles per year instead of one. One study estimates that the pumps generate a collective total of US$50 million a year for their owners—more than half a percent of Kenya's GDP—and have created as many as 25,000 jobs. The MoneyMaker could have a powerful impact in Sub-Saharan Africa, where less than 10 percent of the land is irrigated.

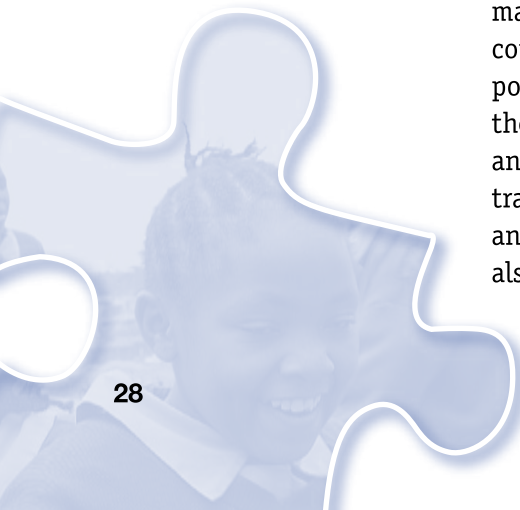
Importantly, farmers pay the full costs of every pump, ensuring that private sector manufacturers and dealers will produce and distribute the technology, creating businesses and jobs long after KickStart's interventions have ceased. With support from donors, KickStart designs and develops the technology, trains manufacturers and dealers, helps to promote the technology, and monitors the cost-effectiveness and impact of its programs. KJAS partners are assisting with the start-up costs of this and other promising social enterprises in Kenya.

Source: KickStart.

Reducing barriers to trade and promoting regional integration

The government will continue to reform trade and exploit the opportunities offered by globalization. Kenya, Uganda, and Tanzania launched a customs union in 2004. The East African Customs Protocol came into effect in January 2005, and the member states have fully implemented the three-tiered East African Community common external tariff. Results from the customs union are impressive: interregional trade has risen by 20 percent since the protocol took effect. Rwanda and Burundi joined the customs union in June 2007. The final component of the integration process will be political federation, although this is not expected to be finalized during the KJAS period. Kenya plans to join in 2008 the Common Market for Eastern and Southern Africa. The country also hopes to soon conclude an economic partnership agreement with the European Union, as provided for in the Cotonou partnership agreement. Kenya expects to continue to play a leadership role in the negotiations of the Doha round of the World Trade Organization, a role that has already resulted in agreement on several key issues of importance to African and other developing countries. Kenya is finalizing a trade and industrial policy to enable domestic producers to take advantage of opportunities offered by globalization.

KJAS partners will help government to build capacity for trade. KJAS partners will continue to assist Kenya strengthen its capacity for negotiation in trade matters and to comply with sanitary and phytosanitary standards of importing countries. They will continue to support improvements of roads, airports, the port of Mombasa, and the railway. This is consistent with the conclusions of the 2006 diagnostic trade integration study that bottlenecks in infrastructure and weak governance are more important obstacles to trade in Kenya than trade policy. KJAS partners will assist the government to improve the value and competitiveness of major exports, such as agricultural products. They will also support regional programs aimed at facilitating Kenya's integration into the



regional economy, such as that of the Regional Transparency and Communications Infrastructure Program (see box 3 above). Representatives of donor countries will also alert their governments to the effect of subsidies and trade barriers that reduce the competitiveness of Kenya's products in their home country markets.

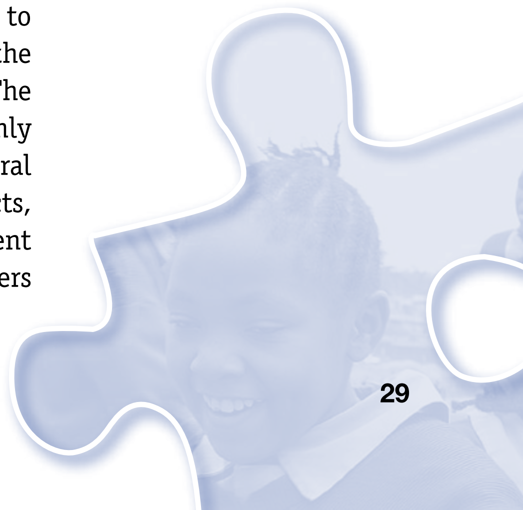
Strengthening land policy and administration

Clarifying land policy and strengthening its administration are essential to promote Kenya's growth and development. Like many African countries, land in Kenya is governed by a patchwork of colonial-era policy and traditional systems of administration. This has led to inequity in access to this key resource. The government of Kenya recognizes that land policy must be clarified to provide the foundation for equitable growth and improved governance. It has initiated the formulation of a land policy, the first since Kenya gained independence. Reaching agreement on land policy will require extensive consultation among stakeholders to build the consensus for reform.

KJAS partners will assist in formulating policy and in strengthening land administration. KJAS partners will support the formulation of the national land policy through technical and financial assistance (basket fund) to the Ministry of Lands, particularly the national land policy secretariat. They plan to support implementation of the land policy, once finalized, through this arrangement. KJAS partners will also support the development of a land information system that is needed to improve land administration and management immediately and in the future. This includes activities related to the national spatial data infrastructure and the urban strategy. The partners will in addition continue to build the capacity of local control boards and land disputes tribunals. This has been instrumental in strengthening the access to justice of Kenyans involved in land disputes.

Enhancing agricultural productivity and rural development

To increase productivity and diversity of agriculture the government is implementing the Strategy for Revitalizing Agriculture 2004–2014. With nearly 60 percent of Kenyans living in rural areas, nearly 50 percent of whom are living in poverty, improving the productivity and profitability of agriculture is crucial to reduce poverty and inequality in Kenya. The Strategy for Revitalizing Agriculture aims to transform Kenya's agricultural sector into a profitable area capable of attracting private investment and providing employment. The transformation will be brought about through institutional, legal, and regulatory reforms to encourage individual farmers to move to market-oriented production, reducing government's role to policymaker, regulator, and provider of public goods. To this end, it commits the government to privatizing agricultural services that can be provided more efficiently by others, restructuring public services to improve their efficiency and effectiveness, and rationalizing and updating the policy, legal, and regulatory framework to facilitate investment and growth. The strategy is based on several realities of Kenya's agricultural sector. First, with only about 16 percent of Kenya's land mass being arable, it recognizes that agricultural growth must be led by intensification and adoption of high-value products, rather than by area expansion. Second, as smallholders account for 75 percent of agricultural output and 70 percent of marketed produce, it sees smallholders



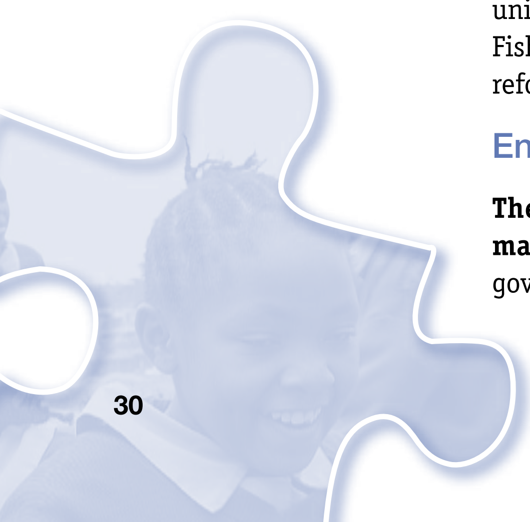
as the core target group. Third, in tune with the environmental fragility of the arid and semiarid areas, it promotes the use of measures that simultaneously encourage growth and reduce vulnerability to droughts and floods.

KJAS partners are supporting interventions in the six priority areas of the Strategy for Revitalizing Agriculture. These are (a) reform of the legal and regulatory framework, (b) improving research and extension services, (c) restructuring and privatizing noncore functions of government, (d) increasing access to inputs and financial services, (e) enhancing food security, and (f) strengthening access to markets. KJAS partners will support policy and institutional reforms aimed at making Kenya's products more competitive on regional and international markets and increasing the share of market prices reaching small farmers. This will involve restructuring and privatizing agricultural parastatals that draw public resources for services that could be provided commercially. Partners will also support reform of Kenya's research and extension services to strengthen the link between farmers' demands and supply of improved technology and advice. Emphasis will be placed on promoting environmentally-sound technologies that enhance soil quality and improve the management of water resources. Partners' assistance for improving access to markets will include strengthening agricultural information systems, promoting agribusiness (including agroprocessing), and capacity building to enable producers to meet the environmental and social standards of both domestic and export markets. Assisting with trade policy, upgrading rural transportation systems, and improving financial services, including microfinance, will also help to enhance farmers' access to inputs and markets. Support for the government's drought management initiative and then for the proposed drought contingency fund will promote a move from relief to drought preparedness aimed at reducing the impact of drought on food security. Recognizing the key role that communities play in their own development, the KJAS partners will support community-driven projects focusing on promoting rural enterprises, creating basic infrastructure, and providing health, education, water services. They will support elements of the strategy's investment plan through basket funding and specific projects and programs. The partners will work toward developing a SWAp to further enhance coordination in the sector.

In addition to program support, KJAS partners will support analytical work and assistance for program coordination. Partners are supporting an agricultural policy review and poverty and social impact analyses of potential changes in policies covering key commodities to provide the basis for programs aimed at lessening the negative impact of reforms on particular groups. They are also providing technical and financial assistance to an agricultural sector coordination unit—owned and staffed by the Ministry of Agriculture, Ministry of Livestock and Fisheries Development, and Ministry of Cooperatives and Marketing—to guide the reform process and to coordinate activities across agencies.

Encouraging sound environmental management

The government is taking action in a range of areas to improve environmental management. The authorities have adopted the forest law enforcement and governance accord, by which it has committed to combat the threats posed to



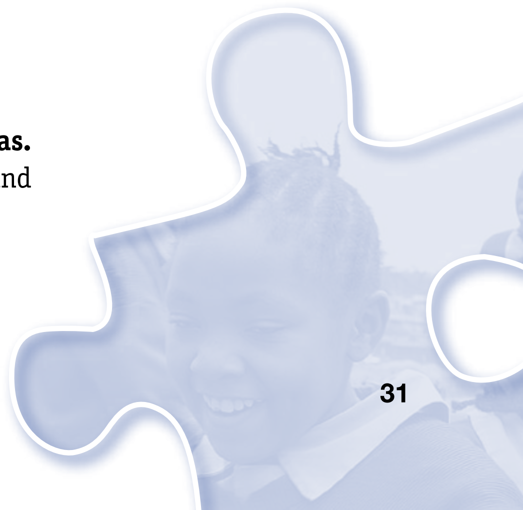
forests by illegal logging, trade, poaching, and corruption.[5] It also enacted in 2005 a new forests act and is revising its forest policy; the aim is to ensure that forests are managed to play their important role in stabilizing soils, protecting water catchments, providing habitat for wildlife, and supplying timber, fuelwood, and nontimber forest products for communities over the long term. The government is revising the wildlife policy and law and developing a comprehensive environment policy. It is also fortifying technical capacity in the Ministry of Environment and Natural Resources and in its associated agencies, the Kenya Forest Service and the National Environment Management Authority. These steps, along with significant progress in strengthening implementation of Kenya's 1999 environmental management and coordination act (such as gazetting of regulations for water quality and solid waste management and training environmental inspectors), provide a foundation for improved environmental governance and for mainstreaming environmental considerations in national and sectoral development processes.

KJAS partners are helping to improve environmental management. They are supporting the government's ongoing initiatives to review and update environmental policies and laws and prepare subsidiary legislation, regulations and guidelines for wildlife, forestry and environmental quality. KJAS partners will also strengthen the coordinating and oversight roles of the Ministry of Environment and Natural Resources and of the National Environmental Management Authority. They will provide technical and financial assistance to implement the 1994 Kenya forest master plan and the 2005 forests act. This includes assistance to establish the Kenya Forest Service and support for partnership arrangements in forest management, such as community forest management agreements and timber harvest licenses and concessions with the private sector. KJAS partners are promoting improved water resources management, through assistance for development of policies, for strengthening of institutions, and for investment in small dams and other water infrastructure. Several projects supported by the Global Environmental Facility (GEF) are encouraging improved management of soil, land, water resources, and conservation of wildlife resources, including through innovative approaches, such as paying landowners for provision of environmental services. In addition, a number of multicountry GEF-supported projects aim to improve management of shared environmental resources of Lake Victoria and the East African marine environment. Several development partners are supporting actions to monitor and control air, water, and solid waste pollution in Kenya's rapidly growing urban centers. Finally, KJAS partners are paying special attention to improving environmental management in arid and semiarid lands, through support for programs such as the Arid and Semiarid Lands Resource Management Project.

Pillar 2: Investing in people and reducing poverty and vulnerability

Investing in people effectively will require improvement in many areas. These include promoting equal access for all Kenyans to quality education and

5 Kenya is a signatory of a ministerial declaration issued in Yaoundé, Cameroon, on October 16, 2003.



health services and bolstering services to reduce the spread of HIV/AIDS and to mitigate its impact on people and communities affected.

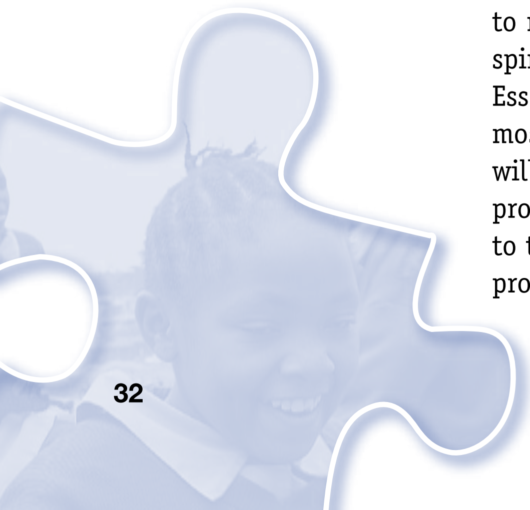
Increasing access to high-quality education

The Kenya Education Sector Support Program 2005–10 focuses on enhancing access, equity, and quality at all levels of education and training. The government's implementation of the free primary education program has been one of its major successes. However, total primary school enrolment will need to increase by a further 1.25 million to approach universal primary education by 2010. Special attention will be needed to ensure that girls, orphans, children with disabilities, and other vulnerable children are able to attend and complete school. More also needs to be done to raise internal efficiencies and explore ways of expanding access to secondary, technical, and university level education. To meet the challenges, the government has prepared its Kenya Education Sector Support Program, which outlines strategies and plans for 23 investment programs across the sector with a pro-poor focus. Major investment areas include primary school instruction materials and infrastructure; water and sanitation; school health, nutrition, hygiene and feeding; HIV/AIDS awareness; and the provision of opportunities for further education and training.

KJAS partners will work together to support implementation of the government's program through a SWAp. Many have signed up to partnership principles with the government aimed at increasing the predictability of aid and reducing the transactions costs to the government in dealing with the multiple development partners supporting education. Some KJAS partners are pooling funds in support of basic education (16 of the 23 investment program areas), while others are supporting specific programs laid out in the government's sector program. They will support secondary, vocational, and university level education through a similar arrangement, once the government finalizes its plans for these subsectors. They will continue to support the government in developing national policies and strategies focusing on gender, orphans, disabled and vulnerable children; training in results-based management; developing a simplified and cheaper curriculum; establishing a decentralized system of textbook procurement for all 19,000 primary schools; and providing an innovative national in-service training program for teachers. They will in addition continue support for a successful large-scale HIV/AIDS prevention program in schools.

Promoting better health

The government's strategy for promoting better health is laid out in the Second National Health Sector Strategic Plan for 2005–2011. Launched in April 2006, the goal of the strategic plan is to expand access of service to the poor, to reduce inequalities in access to health services, and to reverse the downward spiral of health status. To meet this objective, the plan introduces the Kenya Essential Package for Health, which includes interventions to address Kenya's most prevalent health issues. The package will be available to all Kenyans and will be provided through both the public and the private sectors. Services are provided at six different levels of the health systems, from the community level to the national level. Given constrained resources, the strategic plan focuses on providing a minimum package at the lower levels of the health system. Health



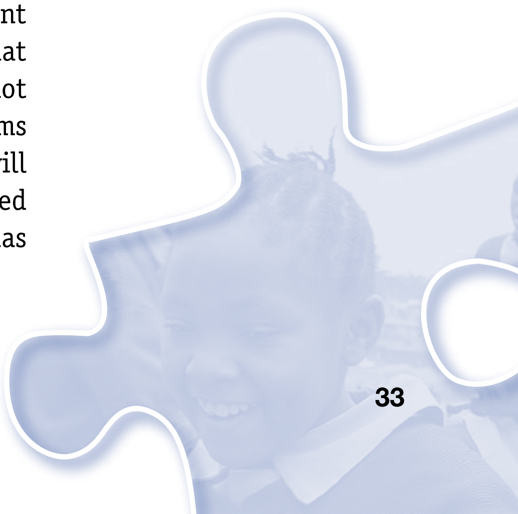
services implementation will be done through a decentralized management system. Even a basic essential package will require support systems for goods (especially drugs), human resources, and infrastructure, which will have to be synchronized and planned together. Further, national regulatory and national financing principles and systems to govern the sector will have to be developed and adapted to a decentralized system with multiple health care providers. Aiming to improve the efficiency of resource use, the strategic plan emphasizes the need for common financing and management arrangements and introduces principles for harmonizing and aligning development partner support of the government's program.

KJAS partners will support the government's strategy primarily through a SWAp. KJAS partners and the Ministry of Health, through the Joint Interagency Coordination Committee, have endorsed the key elements of the Second National Health Sector Strategic Plan and have been working together to implement it. They are planning to harmonize support through a Joint Program of Work and Funding. Progress will be assessed together with the government through a common monitoring and evaluation framework. Joint planning and review missions based on the national planning process will provide the interface at the national level while the district planning process will coordinate efforts at local levels.

Addressing HIV/AIDS

Government action is proving effective in the fight against HIV/AIDS. The government has developed the Kenya National HIV/AIDS Strategic Plan 2005–10 to build on the successes and ensure progress is not reversed. A priority is to prevent new infections among vulnerable groups (youth, women, and the poor) and the general population. Another challenge is to improve the quality of life of people infected and affected by HIV/AIDS. This will require improvements in treatment and care, protection of rights, and increasing access to services for infected and affected people. Mitigating the socioeconomic impact of HIV/AIDS is another priority. Adapting existing programs and developing innovative responses to reduce the impact of the epidemic on communities, social services, and economic productivity will help in this regard.

In its battle against the disease, Kenya and its partners are committed to the three-ones strategy. Coordinating the support of multiple initiatives of multiple actors to address HIV/AIDS is a major challenge. The KJAS partners have decided to align their support behind the three-ones strategy: one jointly decided HIV/AIDS action framework, one national AIDS coordinating authority, and one jointly decided country-level monitoring and evaluation system. The focus on prevention will continue, while new initiatives will be developed to reach vulnerable groups and to increase access to comprehensive care and treatment by those already infected. Support will continue for programs to ensure that orphans receive the care and schooling that they need. Because HIV/AIDS is not just a health issue, KJAS partners will incorporate activities in all their programs to raise awareness of the disease and of ways to prevent its spread. They will also continue to partner with civil society organizations and community based organizations to deliver services at the community level, an approach that has proven to be especially effective in reaching the poor.



Protecting Kenya's poorest and most vulnerable people

Recognizing that the poorest, most marginalized people will not directly benefit from growth, the government has introduced new policy instruments to directly tackle poverty and vulnerability. These include a cash transfer program for orphans and vulnerable children and a national social insurance pension scheme. However, these programs are not likely to provide sufficient protection for all people in need. The government is also considering introducing new instruments, such as the national drought contingency fund and a predictable cash transfer program for the chronically food insecure in the arid and semiarid regions. Such programs have demonstrably reduced chronic poverty in countries with similar conditions by cost-effectively managing risk and allowing more people to access basic services and to participate in economic activity. The Ministry of Gender, Culture, Sports and Social Services will lead the development of a national social protection strategy and implementation framework, with the guidance of the national social protection council. This is expected to provide an umbrella to coordinate a range of existing and proposed initiatives targeting the poorest and most vulnerable groups and geographical areas. See box 7 and box 8 for more on social protection and humanitarian assistance.

Box 7: What is social protection?

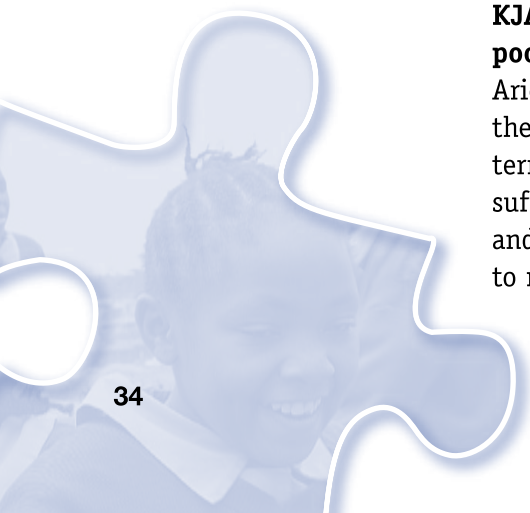
Social protection is not new, especially in Kenya where traditions of family and community support in times of hardship are well known. However, the deep, persistent poverty and hunger facing more than half of Kenyans indicates that these traditional systems are not enough.

Social protection aims to provide formal mechanisms of state-financed support. National governments and the international community are increasingly recognizing the value of social transfers, including pensions and child grants, in achieving the MDGs.

Social transfers provide income support to directly tackle poverty and are an effective tool to achieve broader developmental outcomes. International experience, including Kenya shows that households spend their social transfer income on food and improving nutrition, school uniforms, and other costs of educating children, and on accessing basic health care, water and sanitation. Where transfers are guaranteed and predictable, recipients also begin to invest in productive assets such as livestock, and engage in petty trade diversifying and building more resilient livelihoods.

Social transfers have been used for more than half a century by industrialized countries and offer low and middle-income countries a vital policy tool to reduce poverty, hunger and vulnerability.

KJAS partners are supporting the government to address the needs of the poorest and most vulnerable citizens. Community-driven programs, such as the Arid and Semiarid Lands Resource Management Program, help poor people restart their livelihoods in the event of a disaster while providing support for longer-term development initiatives. Humanitarian assistance saves lives and reduces suffering by meeting a range of immediate needs, including food, water, sanitation, and health care. A proposed Economic and Social Empowerment Program aims to reduce levels of vulnerability and inequality through use of mechanisms such



as a cash transfer program for orphans and vulnerable children, a secondary school bursary scheme, and enhanced microfinance services. Analytical work on social protection and social entrepreneurship will identify measures to reduce vulnerability that are specific to the context of Kenya. Finally, development of a comprehensive and equitable national system of social protection will help in coordinating KJAS partners' assistance for social protection.

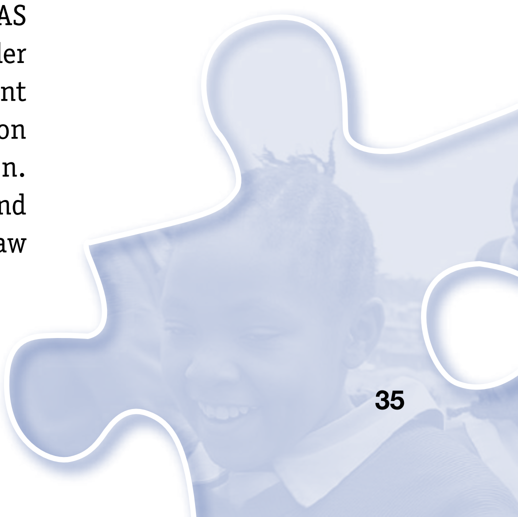
Box 8: Responses to humanitarian emergencies in Kenya

Chronic poverty and food insecurity characterized by high levels of malnutrition ("complex emergencies") create conditions of social crisis similar to that of disasters. The primary response to this chronic poverty in Kenya has been food aid financed through international appeals. Between 1999 and 2006, the government and the World Food Program have jointly undertaken emergency programs every year except one. In 2005/06 free food distribution for up to 3.5 million people cost more than KSh. 14.2 billion, with 70 percent of funding coming from development partners. Social protection instruments can provide a more cost-effective and developmental approach to reducing poverty, social risk and building resilience, and lessen (but not necessarily eliminate) long-term need for humanitarian aid in the most vulnerable communities.

An obvious example is the predictable caseload of about 1.5 million chronically food insecure people who live mainly in the arid and semiarid lands. They require assistance every year to meet their basic food and non-food needs. Food aid has been the primary response. A combined intervention to manage risk and reduce vulnerability through the national drought contingency fund to finance emergencies and a cash transfer program targeting extremely poor, relief dependent households can complement development efforts and significantly reduce Kenya's emergency relief caseload and humanitarian expenditure.

Reducing inequities between men and women

KJAS partners intend to promote gender equality through all their interventions. KJAS partners will support the government and civil society organizations which are working to ensure that women enjoy equal rights and equal access to public services, including reproductive health services. They will also support initiatives that promote women's equal access to employment and to economic resources, such as land and microfinance, which are critical for women and household survival, progress and well-being, and for increased national output and development. For example, they are planning to support an innovative investment fund for social and economic empowerment that will help women, youth, and vulnerable groups to start and grow businesses. They will support programs that improve access of women to justice, which is essential to enable women to benefit from laws guaranteeing their rights. To ensure that the government and nonstate actors pay adequate attention to these issues, KJAS partners will support the establishment of a basket fund to hire advisers on gender and to support analytical work. They will in addition support the development and use of monitoring and evaluation systems that provide information on outcomes based on gender, and analytical work that draws on the information. Finally, in their policy dialogue, they will encourage the government to enact and enforce policies and legislation that treat men and women equally under the law and will advocate strongly for women's rights.



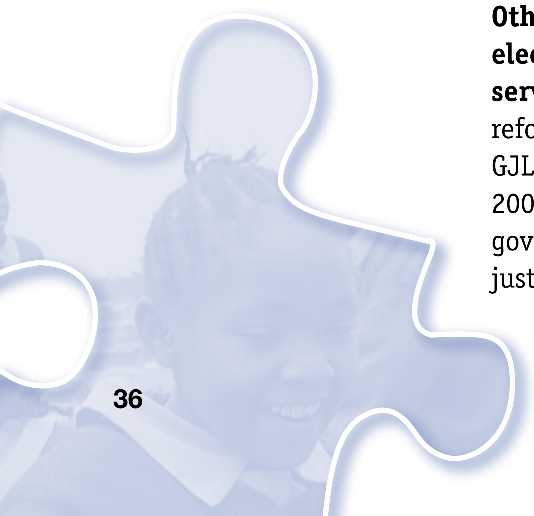
Pillar 3: Improving governance

Governance is a broad pillar, which encompasses rights-based issues and broad participation as well as effective delivery of crucial government services and development results. It includes respect for human rights and fundamental freedoms, support for democratization processes and the involvement of citizens in choosing and overseeing those who govern them, respect for the rule of law and access for all to an independent justice system. It also involves access to information, a government that governs transparently and is accountable to the relevant institutions and the electorate, and a government with effective checks and balances both in terms of an effective legislature and decentralization. Improving governance involves crucially reducing corruption at all levels of government.

The government adopted its public service reform program in 2004 with the aim of creating a more effective, efficient, and ethical public administration. The program is institutionalizing results-based management throughout the public service using tools such as performance contracting, transformative leadership training, and rapid results initiatives. The government has established a public service reform and development secretariat to coordinate the reforms. The secretariat is now preparing strategies for long-term public sector reform and human resources development. To improve information needed to track the outcome of development initiatives, the government has established a national statistical system that includes an autonomous and strengthened statistics bureau to produce data and an integrated monitoring and evaluation system that brings together information from different sources to produce monitoring reports.

The government is acting in many ways to improve public financial management. The government launched in July 2006 its Strategy to Revitalize Public Financial Management Program for 2006–2011. This important program being implemented by the Ministry of Finance aims to bring about systemwide improvement in all aspects of fiduciary management. The comprehensive aspect of the strategy distinguishes it from earlier efforts, and is expected to result in significant improvements in the quality of public expenditure management. By addressing interlinkages between reform activities, it aims to ensure that all activities along a critical path are sequenced and timed correctly. This avoids the problem of past efforts where reform in one area rendered aspects of the existing system ineffective because they were not linked. Special areas of focus include procurement reform, risk-based auditing, and transparency initiatives, such as the roll-out of the integrated financial management and information system and of e-government systems.

Other programs will seek to strengthen the rule of law, the judiciary, electoral processes, local governance, legislative development, and public service reform. GJLOS emerged from a shared commitment to governance reforms by government and development partners. A medium term strategy for GJLOS reform, covering 2005–2009, was launched by the government in June 2005. It is a good example of development partners committing themselves to a government-led reform program. It focuses on strengthening the governance and justice institutions for efficient, accountable and transparent administration of



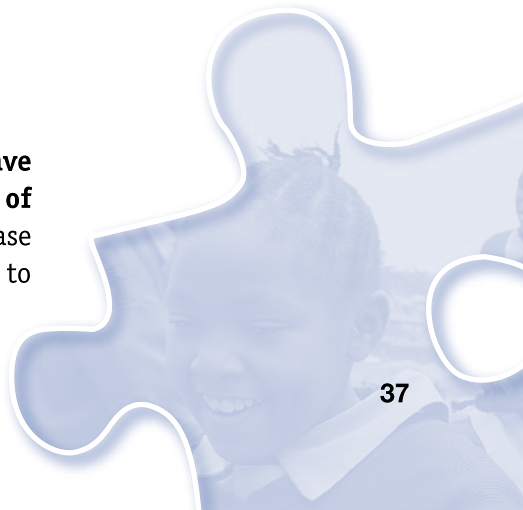
justice and has a special focus on access to justice for the poor and marginalized groups. GJLOS promotes enhanced cooperation, coordination, and communication between the functionally interrelated, but institutionally separate, institutions involved in improving governance and justice. The reform program encourages participation of both civil society and the private sector in policy formulation and implementation of the program. KJAS partners will align behind the GJLOS medium term strategies and work toward alignment with government structures.

KJAS partners are supporting all these government-led efforts through a range of initiatives. Many partners are supporting reforms of the public sector, of public financial management, and of governance, justice, law and order through a basket fund. Others are assisting specific activities of the overall programs. Joint review by the government, development partners, and other stakeholders of implementation of the Governance Action Plan provides common understanding of progress made and support required. Joint analytical work, such as public expenditure tracking surveys, country fiduciary assessments, and GJLOS surveys allow stakeholders to assess the impact of the initiatives. An important aspect of partner support is help for nonstate actors to play their important roles in the system. And they are helping strengthen citizens' voices through support for the parliament, media, judiciary, civil society organizations, and the private sector.

KJAS partners will continue to work closely with civil society organizations as important partners in development. The IP-ERS recognizes the important role played by civil society in fostering widely-shared growth and poverty reduction. The KJAS similarly recognizes the importance of strengthening citizens' ability to hold government to account. KJAS partners will continue to work closely with civil society organizations—including faith-based organizations, the media, and trade and professional bodies—both to implement activities and to encourage their oversight of governance performance. The Gender and Governance Program, managed by Unifem, is supporting women in political and civic endeavors. An election basket fund, coordinated by the UNDP, will support nonstate actors including domestic observers of the 2007 elections. The National Civic Education Program will recommence its program through nongovernmental organizations after the 2007 elections. KJAS partners also support individual nongovernmental organizations bilaterally or have independent funding programs of support, coordinated by the Democratic Governance Donor Group. KJAS partners will work to ensure that the programs they implement through civil society organizations are complementary with each other and support implementation of the government's strategy. They will also encourage the nonstate actors to coordinate their work with that of others in line with the goals of the Paris declaration and to operate in a fully transparent and accountable manner.

COMMON PERFORMANCE ASSESSMENT AND FINANCING SCENARIOS

To enhance transparency and predictability, the KJAS partners have developed three financing scenarios which would guide their choice of instruments or the level of financial support, or both. These are the base case, high case, and low case scenarios. Although KJAS partners will strive to



be more predictable and will consult widely prior to shifting between cases, each KJAS partner will continue to decide individually on the level and composition of its assistance program. KJAS partners will cooperate in assessing performance as part of the processes of monitoring and evaluating implementation of the KJAS (see chapter 7 for details).

Base case scenario

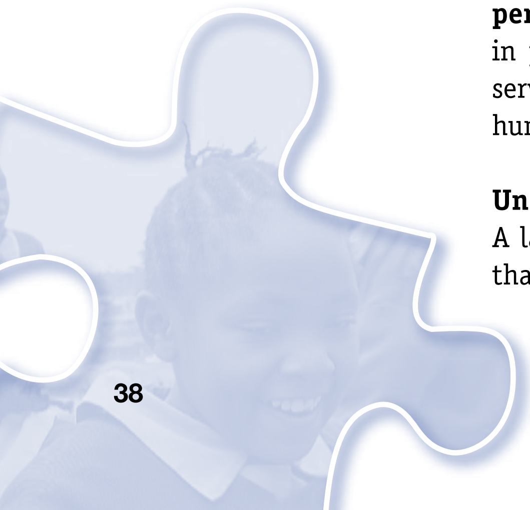
Under this scenario, the recent positive trends in economic and social outcomes will continue. Nearly universal primary education will be achieved, the ratio of girls to boys attending school will approach parity, the proportion of students entering secondary school will increase, and a large proportion of these will graduate. Health outcomes will begin to improve and HIV/AIDS rates will remain at current levels or will even fall further. A larger proportion of citizens will have access to clean water and improved sanitation. The government that assumes office following the 2007 elections will demonstrate its commitment to good governance, democracy, transparency, better public sector management, improved delivery of public services, and the rule of law.

Under the base case scenario KJAS partners will provide funds to address the full range of Kenya's development priorities. These include infrastructure investment, human development, and reduction of poverty among vulnerable groups. Support for capacity building will be available to strengthen public financial management, to enhance the effectiveness of subnational governments, and to strengthen nonstate actors to effectively act as institutions of accountability, strengthening the checks and balances in society. SWAps will be adopted in an increasing number of sectors and existing joint sector programs will be deepened. Although, many partners will continue to take a ring-fenced approach to project management and use dedicated project management units to implement projects, the proportion of total development assistance that is channeled through country systems will increase gradually as public financial management improves. A few partners will provide general or sector budget support. KJAS partners will continue to channel funds through civil society organizations, academic institutes, and the private sector for research, analysis, dialogue, advocacy, and delivery of services. Analytical work will continue, and nearly all will be carried out jointly with the government and nongovernmental entities. Policy advice will emphasize measures to improve governance, including those that enable citizens to access and use information on policies, spending priorities, and service provision.

High case scenario

The high case scenario will be characterized by improving government performance. The high case scenario will be marked by significant improvements in public financial management, in the investment climate, in access to basic services for all, and in governance (including transparency, democracy, and human rights).

Under the high case, higher and more flexible support may become available. A larger proportion of funds could be available for investment in infrastructure than in the base case scenario. Increased funds will be available to support



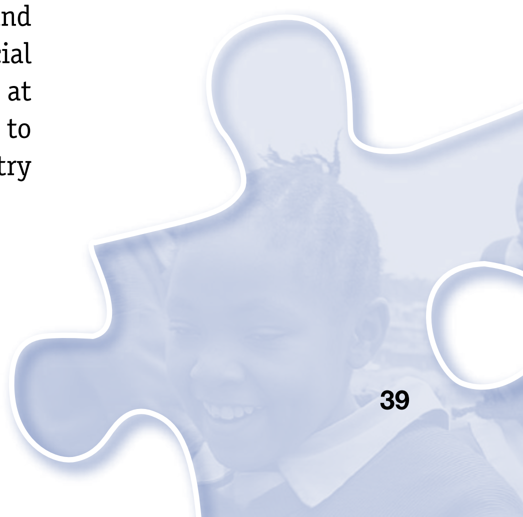
human development, reduction of poverty among vulnerable groups, institutional capacity building, and other priorities of the government. More KJAS partners will join SWAps in most sectors and these programs will be deepened as a higher proportion of development assistance will make use of government systems for procurement, financial reporting, and auditing, and most project implementation units will be phased out. Several development partners have indicated that they would be likely to consider general or sector budget support. Development partners will continue to channel funds through civil society organizations, academic institutes, and the private sector as they become stronger, more transparent, more accountable, and more dependable partners in the government's development effort. Others have indicated that Kenya that they would consider providing additional resources for infrastructure on concessional terms.

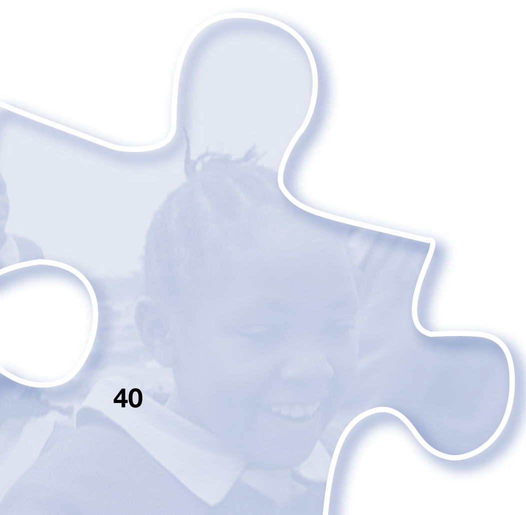
Analytical work and policy advice will continue, with all being carried out jointly with the government. KJAS partners are likely to increase the amount of finance to Kenya, since well-performing countries are known to use aid more effectively than those with less favorable policy environments.

Low case scenario

A low case scenario will be characterized by the reversal of recent gains in economic and social outcomes. Growth rates will fall, as potential investors are put off by economic instability, insecurity, poor infrastructure, excessive bureaucracy, and corruption. The poor will become increasingly marginalized and even subject to increasing human rights abuses. Commitment to good governance, democracy, the rule of law and human rights weaken.

KJAS partners may lower assistance if government performance in key areas deteriorates. Under the low case scenario, the KJAS partners that provide direct budget support or sector budget support will reconsider this approach. A larger proportion of project finance will go for human development, reduction of poverty among vulnerable groups, and capacity building, using channels that offer the required fiduciary assurance and have a demonstrated track record. Funds will be available for basic infrastructure—such as water supply, health facilities, schools, rural roads and electrification—some of which will be delivered through community driven development approaches that also help to develop capacity and accountability of local government. A significant proportion of development assistance will be delivered through project implementation units to ensure that donor funds are used as intended. Policy advice and capacity building support will focus on strengthening public financial management and other aspects of governance. A larger proportion of funds will be channeled through civil society organizations, academic institutes, and the private sector for delivery of services. Support will also help Kenyan institutions and groups that are demanding and working towards governance reform. Analytical work will focus on public financial management, poverty and social impact analyses, and other topics aimed at creating the foundation for a future scale up of assistance, once commitment to good governance improves. The overall level of funds available to the country will likely be lower than in the base case scenario.





5. Harmonizing and Aligning Processes of KJAS Partners

The KJAS is centered on three principles, which are consistent with those articulated in the Paris Declaration on Aid Effectiveness. These are:

- Supporting the country-led strategy to improve social well-being and achieve the MDGs.
- Collaborating more effectively, both among development partners and with the government.
- Focusing on outcomes (including managing resources and improving decision-making for results, and strengthening monitoring and evaluation systems).

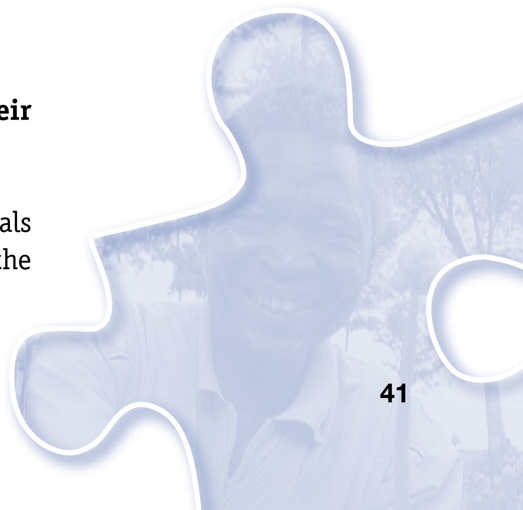
The KJAS partners are prepared to sign partnership principles based on the government's draft external resources policy and the Paris Declaration on Aid Effectiveness.

A fundamental goal of the KJAS is to improve the development impact of available resources. The KJAS sets out the measures taken so far and planned for the future to establish a more effective division of labor among development partners, to better align assistance with government programs, and to coordinate assistance more effectively among themselves.

PROGRESS IN HARMONIZATION

Development partners have made real progress in harmonizing their activities during the past few years. Key achievements include:

- Increasingly coordinating and sharing analytical and advisory work, appraisals and reviews, fiduciary assessments, and accountability rules (for example, the



GJLOS review and the reviews of the government's proposed public financial management program).

- Increasingly coordinating sector support through SWAps, and aligning development partner-funded projects with sector strategies. Partners are providing assistance through SWAps or coordinated programs for public financial management reform, GJLOS reform, and education. In addition, partners have adopted joint financing arrangements for public financial management, for GJLOS reform, and to support government institutions, such as the National Environmental Management Authority and the Agriculture Sector Coordination Unit. Finally, partnership principles guiding the relationship between the development partners and the government have been signed in the education, public financial management, GJLOS, water, health, and other sectors. More are underway.

- Some development partners adopting delegated cooperation, in which one development partner formally represents another in policy and sector dialogue, a practice that has significantly reduced transactions costs for both development partners and the government.

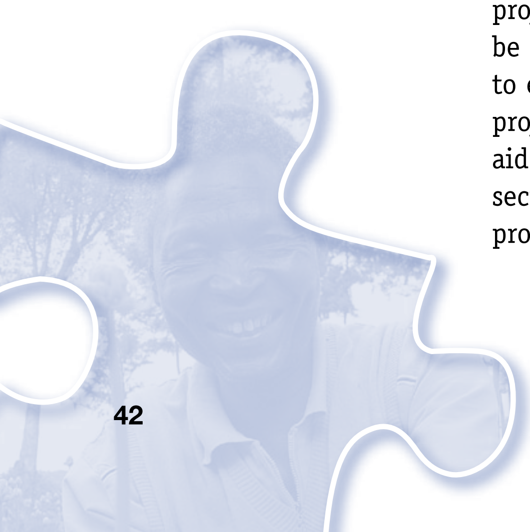
- Participating in a comparative advantage questionnaire through which agencies assess their own comparative advantage and name areas which they could lead, areas which they could foresee delegating management, and areas from which they may disengage. This provides the basis for rationalizing KJAS partners' assistance to the government.

- Adopting a road map and on an analytical framework for a Kenya joint assistance strategy and preparing the draft strategy.

FUTURE DIRECTIONS IN HARMONIZATION

Government and KJAS partners will sign a statement of partnership principles. These will provide a framework for engagement with the government. Specific guidelines are being developed for cooperation at the sector level.

The KJAS seeks to fully align its partners' activities with the government's strategy. Partners will support the implementation of the KJAS through a variety of complementary aid modalities, guided by Kenya's external resources policy. Where possible, partners will channel a greater proportion of their assistance through budget support, sector budget support, and basket funding arrangements, assuming that the policy framework is favorable. The number of stand-alone projects that are outside sector programs will be minimized. Project aid will still be used to support activities that are specified in national or sector strategies, to eliminate duplication and maximize its effectiveness. To the extent feasible, project aid will be integrated into the medium-term expenditure framework. Some aid channeled through civil society organizations, U.N. agencies, and the private sector will remain outside the government's budget. However, KJAS partners will provide full information about this support to the authorities.

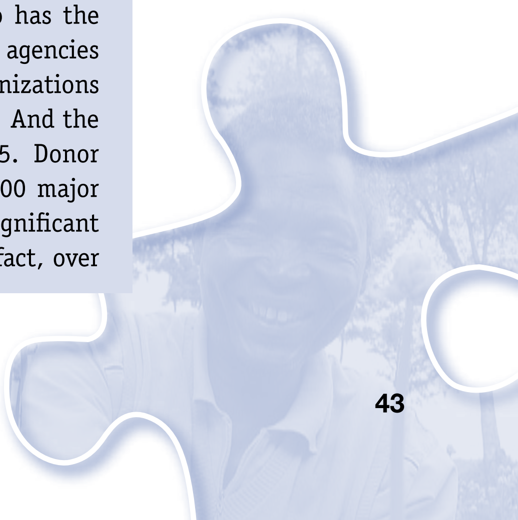


KJAS partners will increasingly support joint technical assistance, joint analytical work, and joint dialogue with the government. They will increasingly pursue these activities in collaboration with other KJAS partners working through the donor sector groups, avoiding uncoordinated interventions. They will endeavor to work within appropriate Kenyan frameworks, and not establish parallel project implementation units. In addition, KJAS partners will to the extent possible prepare analytical work jointly with the government. To this end, they will jointly decide with the government on a program of analytical work they will jointly undertake during the KJAS period. To ensure that technical assistance is effective at building government capacity, KJAS partners jointly with the government will review all ongoing and planned technical assistance for measures to transfer skills, for criteria for assessing effectiveness, and for exit strategy. They will recommend measures to improve the effective of technical assistance. Appointing a lead donor for a period of at least a year to manage the dialogue with the government will help with the coordination. Jointly undertaking project appraisals and reviews on the basis of government's own plans and reporting will further help. Specific preparations or discussions on bilateral contributions that may still be required will be organized to the extent possible in connection with joint missions.

As they are strengthened, KJAS partners will increasingly use government systems for management of their development programs. KJAS partners will report the funds they directly control (appropriations-in-aid) to the government to ensure that they are reflected in the public budget. To the extent possible, they will move from disbursing funds through appropriations-in-aid to disbursing funds to the treasury through special accounts at the central bank for the government to use for approved expenditures. As public financial management systems are strengthened, KJAS partners will increasingly rely on government's procurement, accounting, and auditing procedures for management of their funds, removing unnecessary constraints and rigid procedures that prevent them from doing so. Most partners, however, will retain the option to request that their own government auditors review Kenya's accounting and audit reports. If Kenya sufficiently strengthens governance and fiduciary management, several KJAS partners will consider providing budget support, as described above under common performance assessment and financing scenarios.

Box 9: Meeting the challenges of an increasingly complex aid architecture

Recent trends in aid flows and aid architecture. Funding for official development assistance (ODA) has been growing steadily over the past decade, reaching US$105 billion (at constant 2004 prices) in 2005, up from US$58 billion in 1997. While ODA has grown, so has the complexity of the global aid architecture. The number of bilateral and multilateral agencies that provide assistance has proliferated in recent years. Over 230 international organizations (including many non-OECD agencies), funds, and programs now provide assistance. And the average number of donors per country rose from about 12 in the 1960s to 33 in 2005. Donor proliferation is especially pronounced in the health sector, where more than 1,000 major organizations are involved. The expansion of programs has been accompanied by significant earmarking of aid resources for specific purposes, such as individual diseases. In fact, over



half of ODA channeled through multilateral channels in 2005 was earmarked by sector or theme.

Resulting challenges for effectiveness of aid. The complexity of the aid architecture increases the transactions costs for donors and recipients alike, reducing the effectiveness of aid. As ODA continues to rise to help countries achieve the MDGs, implementation challenges will need to be addressed. The most important of these are integrating global and broad-based country programs into coherent development strategies, and strengthening recipient countries' ability to effectively use potentially fast-disbursing ODA, such as budget support.

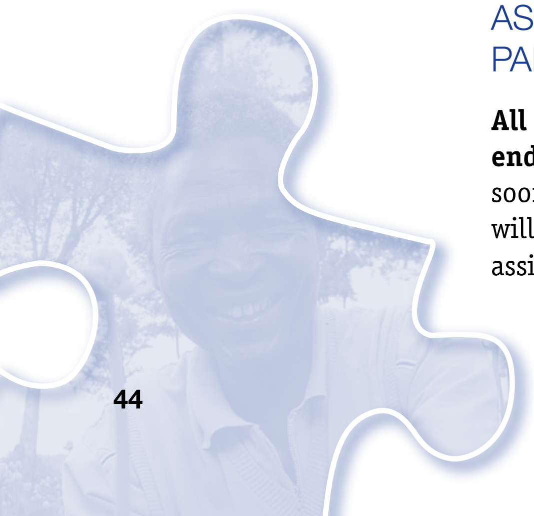
Lessons from experience. A recent study of the OECD/DAC found that the ability of global programs to align with country strategies varies greatly. For example the Education for All Fast Track Initiative is a well-aligned global program, while the major global health programs, despite progress, are still struggling to align and to improve harmonization and coordination at country level. The outcome depends on the characteristics of the individual program as well as country conditions. Alignment appears to be easier when the global program addresses a national priority rather than a global priority. Alignment is also simpler when the program offers predictability of finance. The OECD/DAC has now developed a set of recommendations for donors to global programs, for the global partnership programs themselves, and for the recipient countries to help improve the alignment of global programs with country-level strategies (OECD/DAC, 2006).

Source: International Development Association (2007) and OECD/DAC (2006).

The KJAS partners will agree on a more effective division of labor. To reduce the burden on government of dealing with multiple donors, KJAS partners will strive to increase their selectivity in the program and policy areas in which they are engaged, while ensuring that the level of financing by donor and by sector is maintained. They will also work to achieve greater harmonization at the sector level. Most sector coordination groups have identified a maximum of three agencies to lead the dialogue and increasingly take responsibility for the daily management of KJAS partners' sector interventions. To facilitate this move, many development partners, including the members of the European Union, have agreed to focus their active involvement in a partner country on a maximum of three sectors according to their comparative advantage as recognized by the government and by other development partners. This is expected to strengthen the dialogue between partners and government counterparts, who will be able to engage with a small number of knowledgeable partners. Work will continue to refine the mandate of the sector groups and to align them more closely with government structures. SWAps will be prepared for the water, health, and other sectors during the KJAS period, similar to those already adopted. By the end of the KJAS period some six to eight SWAps are expected to be in place.

ASSESSING THE OPERATIONAL EFFECTIVENESS OF KJAS PARTNERS

All KJAS partners are planning to fully adopt the KJAS framework by the end of 2008. Each KJAS partner will operate in accordance with the KJAS as soon as its ongoing individual country assistance strategy expires. The majority will prepare a business plan that contains the details of the nature and level of assistance to Kenya to supplement the KJAS.



KJAS partners will assess their own progress toward becoming more effective partners. Before the end of 2007, KJAS partners and the government will establish a firm baseline of current practices, which will form the basis for setting targets of aid effectiveness as set out in the Paris Declaration on Aid Effectiveness, and reproduced in table 2. They will assess progress towards the targets every two years, based on the responses to the OECD/DAC survey on aid effectiveness.

Sector coordination groups will play an important role in ensuring that operations of individual KJAS partners fit within the framework. They will establish mechanisms for review of each others' project proposals and for coordination of technical assistance. They will provide input into key recruitment decisions of individual agencies and for evaluations of staff performance. And they will seek feedback from the relevant government agencies on their performance in key areas. The role of the lead donor will be clearly defined to ensure that he or she provides effective leadership and representation of the development partners with the government. The mechanisms by which the sector groups and the lead donors will interact with the government will be enhanced by a critical review and updating of terms of reference and in sector-specific partnership principles.

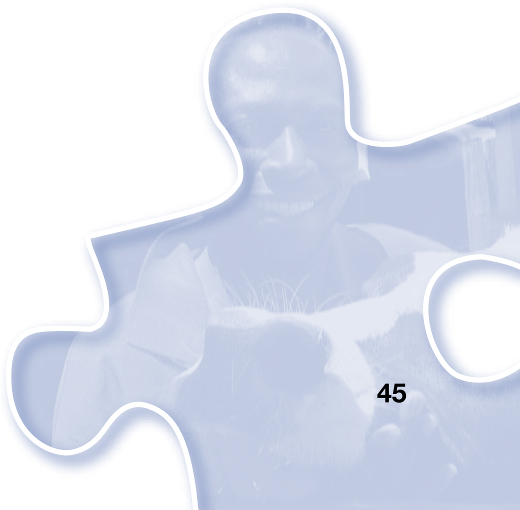
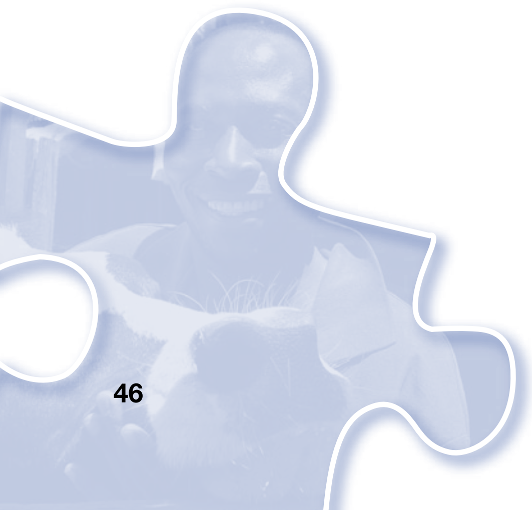


Table 2: Baseline and targets for aid effectiveness in Kenya

Areas of Harmonization		2005 Baseline1	Targets 2012
1.	Ownership–Operational poverty reduction strategy	D	B or A
2.a.	Quality of public financial systems	3.5	4.0
2.b.	Quality Procurement systems	Not available	Not applicable
3.	Aid reported on budget.	91%	95%
4.	Coordinated capacity development	60%	50%
5.a.i.	Use of country public financial management systems (aid flows)	47%	65%
5.a.ii.	Use of country public financial management systems (donors)	72% of donors	90% of donors
5.b.i.	Use of country procurement systems (aid flows)	47%	Not applicable
5.b.ii.	Use of country procurement systems (donors)	72% of donors	Not applicable
6.	Parallel project implementation units	17	6
7.	In-year predictability	44%	72%
8.	Untied aid	77%	More than 77%
9.	Use of program-based approaches	45%	66%
10.a.	Coordinated missions	9%	40%
10.b.	Coordinated country analytic work	32%	60%
11.	Sound performance assessment framework	C	B or A
12.	Reviews of mutual accountability	No	Yes
For reference: alternative measures for indicators3 and 7 (based on gap rather than ratio)			
3.	Aid reported on budget	63%	32%
7.	In-year predictability	59%	30%

1. Baseline data are provisional and will be updated by the end of 2007 when more accurate information is expected to be available. Targets will also be updated to reflect the new baseline data and in-country assessment of the likelihood of achieving specific targets.

Source: OECD/DAC Kenya Baseline Report, 2007.



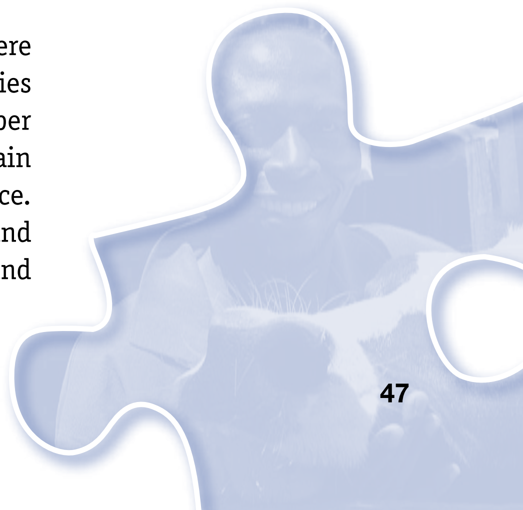
6. Managing The Risks

Implementation of the KJAS faces several major risks. KJAS partners are developing specific measures to guard against these. Specific risks and mitigation measures include:

- *Vested interests prevent reform.* A particular concern is that the required consensus to move forward with politically difficult reforms will be difficult to reach. Another potential risk is of "capture" of key policy areas by interest and pressure groups. Critical reforms of government and parastatal institutions can be delayed or entirely derailed by those with a stake in the status quo. Trade policy reforms could be blocked by protectionist interests.

  KJAS partners will address these risks by working with organizations and institutions that highlight the costs of continuing with the economic status quo and the long-term benefits of reforms. They will help strengthen accountability institutions to effectively play their oversight roles. In addition, they will support a range of measures to better communicate the advantages of reform to those who are most likely to benefit from and therefore demand change. They will make special efforts to work with reformers in the parliament, the private sector, civil society, academics, and of course the media.

- *Reforms are too ambitious with respect to capacity for implementation.* There is an urgent need to rebuild Kenya's institutional capacity to develop policies and implement programs. Kenya is a paradox in that it has a large number of highly trained and experienced civil servants, yet its institutions remain weak following years of mismanagement and poor incentives for performance. In addition, the fragmentation of decision making, lack of delegation, and weak communication and coordination between government ministries and



departments can lead to considerable delays in policy formulation and program implementation.

The KJAS partners will help to build capacity throughout the government for policy analysis, program planning, public financial management, and procurement. They will also assist the government to develop the skills it needs for effective coordination of development partners.

- *Poor governance prevents effective use of resources and discourages private sector investment.* Any failure to change past patterns of corruption would derail the development process and diminish Kenya's external credibility.

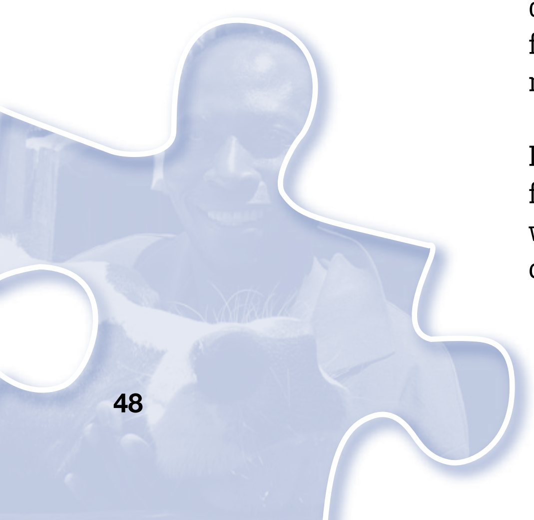
  To counter this risk, the KJAS partners are maintaining an active dialogue with the government, strengthening anti-corruption institutions, and building capacity for improved public sector management at all levels of government. They are also supporting efforts to restructure inefficient parastatals, with the aim of improving their transparency. And they are supporting creation of capacity for statistics and for monitoring and evaluation. Some KJAS partners are supporting the development of nonstate actors to play a role as watchdogs.

- *Political uncertainty discourages investment.* Kenyan politics are highly competitive, with no single party able to command the support of a majority of voters. In the past, politicians have been willing to use extraordinary means to win elections, which has led to large extra-budgetary spending, offers of land and other benefits for favored groups, and election-related violence that damaged confidence of tourists and investors and led to a decline in government revenues.

  KJAS partners will mitigate this risk by continuing an active dialogue with the government on the electoral process, highlighting the risks to Kenya's external reputation of an electoral process judged less than free and fair. They will collaborate closely to strengthen the electoral process, providing funding and advice where needed. They will contribute to monitoring the election itself and reporting on the process. They will also help create a stronger system of checks and balances over time, through support to develop the capacity of the parliament and the judiciary.

- *Unpredictability of donor funding disturbs macro and fiscal management.* Development partners in Kenya have in the past changed the level and nature of assistance with little or no consultation with the government, with other development partners, or with other stakeholders. This has made it difficult for the government to execute its budget as planned, affecting its ability to meet its development objectives.

  KJAS partners will mitigate this risk by working within a more harmonized framework in making decisions about assistance. To the extent possible, they will make long-term commitments (minimum of three years), which they will change only through consultation and reference to the common performance



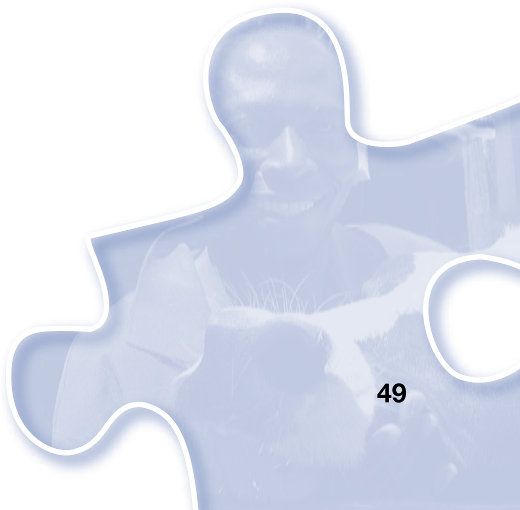
assessment framework. They will also regularly submit expenditure returns to the government regarding appropriations-in-aid.

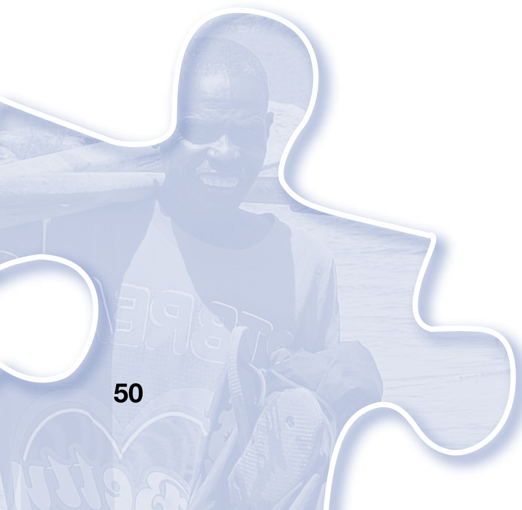
- *Unwillingness of development partners to adhere to the KJAS and its principles reduces the general effectiveness of aid.* Failure of development partners to coordinate efforts with each other or with the government could lead to duplication and waste—a problem that has diminished the usefulness of external assistance in the past.

  KJAS partners will mitigate this risk through the measures laid out above. They will in addition encourage development partners who are not yet members to join the Harmonization, Alignment, and Coordination Group and the KJAS.

- *External factors bring unknown risks.* Terms of trade shifts, particularly coffee and tea, continue to affect rural incomes and Kenya's balance of trade. Instability in neighboring countries threatens to spill across Kenya's borders and has the potential to disrupt the growth of tourism and discourage private investment. The weather, particularly the alternating cycles of floods and droughts, result in large variations in agricultural and livestock production. Market integration poses fiscal risks and puts additional pressure on firms in previously protected industries. Avian flu could severely damage livelihoods and result in a public health emergency. Continued high oil prices will pose challenges to sound macroeconomic management and could impede growth. A major discovery of oil would present challenges to macroeconomic management and to governance.

  KJAS partners will counter these risks through a variety of measures, both to ameliorate short-term stresses and to build institutions that are more resilient to shocks.



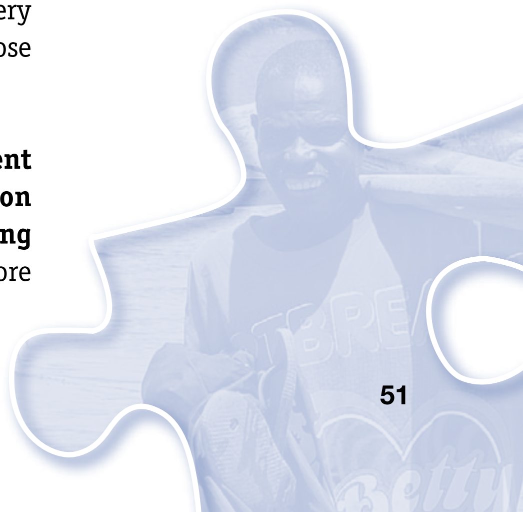


7. Results-based Implementation, and Monitoring and Evaluation Framework

Progress toward the government strategy results will be assessed through the information generated as part of the government's overall monitoring and evaluation effort, including through the new e-government platform that the government is putting into place. The government is establishing an annual government strategy review mechanism, which will draw on existing reporting and review arrangements for sector-specific support, for the government strategy as a whole, and for the budget process. The government strategy results matrix will be the reference document for these annual government strategy reviews.

KJAS partners recognize that their support is only one factor influencing government strategy outcomes. They will also assess the contributions of their specific interventions to outcomes, using the KJAS results matrix as the framework (annex 1). Annual reviews linked to the government strategy reviews will provide early feedback on both implementation progress and impact. An independent midterm review will provide detailed information on what is working well and what needs to be strengthened or modified to better achieve expected outcomes. A final self-evaluation of the strategy and its implementation and impact will be carried out at the end of the KJAS period. Kenya Coordination Group meetings will discuss the findings of the various reviews. Development partners' forums to be held every 18–24 months or so will more deeply investigate implementation issues and propose measures to overcome obstacles.

In the spirit of harmonizing and aligning behind the government development program, KJAS partners will to the extent possible draw on the government's own monitoring of the results of its strategy in judging the development effectiveness of the KJAS. KJAS partners will therefore



support the establishment of a robust national monitoring and evaluation system that allows for regular reporting of government strategy implementation and results. Recognizing that the government is ultimately accountable to Kenyans, KJAS partners are also encouraging the government to engage civil society in its monitoring and evaluation efforts. They will also promote the creation of a culture of evidence-based management across the government.