

Department for International Development

The Department for International Development (DFID) is the UK Government department responsible for promoting sustainable development and reducing poverty. The central focus of the Government's policy, based on the 1997 and 2000 White Papers on International Development, is a commitment to the internationally agreed Millennium Development Goals, to be achieved by 2015. These seek to:

- * Eradicate extreme poverty and hunger
- * Achieve universal primary education
- * Promote gender equality and empower women
- * Reduce child mortality
- * Improve maternal health
- * Combat HIV/AIDS, malaria and other diseases
- * Ensure environmental sustainability
- * Develop a global partnership for development

DFID's assistance is concentrated in the poorest countries of sub-Saharan Africa and Asia, but also contributes to poverty reduction and sustainable development in middle-income countries, including those in Latin America and Eastern Europe.

DFID works in partnership with governments committed to the Millennium Development Goals, with civil society, the private sector and the research community. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID has headquarters in London and East Kilbride, offices in many developing countries, and staff based in British embassies and high commissions around the world.

WHAT ARE COUNTRY ASSISTANCE PLANS?

Country Assistance Plans set out how we aim to contribute to the achievement of the Millennium Development Goals in various countries. Country Assistance Plans start from the basis of our partner country's poverty reduction strategy and set out in detail how we will work as part of the international development effort to support a country's strategy for reducing poverty. They include a framework for annual assessment of our performance in implementing the plan. Major reviews of Country Assistance Plans are expected to be undertaken every three to four years.

Kenya : Country Assistance Plan 2004 – 2007

Contents	Page
Summary	2
Part 1: Context	3
A. Summary	2
B. The challenge	3
C. The Government's response	
D. What we have learnt	
Part 2: UK assistance plans over the poverty strategy period	
E. UK development partnership	
F. Programme resources	
Part 3: Annual plan *	
G. Monitoring the impact of DFID activities	
H. Implementing the Country Assistance Plan	
Annexes	
Annex 1: Progress against the Millennium Development Goals	
Annex 2: Summary of consultation process	
Annex 3: Development partners active in Kenya	
*Annex 4: Input required from other DFID departments to support plan delivery	

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Part 1 – Context

A. Summary

A1. Over the last decade the Kenyan economy has stagnated, service provision has deteriorated, per capita income has declined in real terms, and the proportion of people below the national poverty line has risen from 48% in 1990 to 56% in 2001. Key social indicators have also worsened:

- illiteracy rates have increased as school enrolment rates have dropped;
- life expectancy has fallen;
- child and maternal mortality rates have risen; and
- Kenya has remained one of the most unequal societies in the world.

A2. At the root of much of this decline lie deep-rooted structures of political and economic patronage. These have led to an environment in which corruption has flourished, there has been widespread misuse and theft of public resources, public institutions have been chronically weakened and the private sector has been unable to operate effectively to create prosperity.

A3. Despite the decline of recent years, Kenya still has the potential to make rapid progress in reducing poverty both at home and in the East African region. It has a relatively well-educated and trained workforce, and a strong industrial and manufacturing base. It is at peace with its neighbours and is free from major internal conflict. And its geographical position and potential in areas such as tourism and the export of high-value agricultural crops and products combine to make Kenya the natural driver of economic growth – and hence poverty reduction – in the region.

A4. The new Government elected in December 2002 has made a promising start to tackling some of the challenges, and enabling Kenya to realise its potential. It has published an ambitious Economic Recovery Strategy for Wealth and Employment Creation (ERS), and has made a good start to implementing campaign pledges to introduce free primary education and tackle corruption. Key challenges include:

- strengthening the focus of the ERS on poverty reduction;
- ensuring that the implementation of the ERS drives decision-making (including the setting of budgetary allocations);
- maintaining momentum in the war against corruption; and
- putting in place an effective multi-sectoral response to the HIV/AIDS epidemic.

A5. DFID will support the Government of Kenya as it seeks to address these challenges, and will encourage other development partners to do likewise. Our programme will focus on improving accountability and poor peoples' access to high-quality services (such as schools and health care), and to promoting sustainable economic growth that benefits poor people. We will place particular emphasis on supporting a comprehensive and effective response to HIV/AIDS, which represents the single largest threat to sustainable development in Kenya. We have made provision to increase the size of our bilateral programme from around £30 million in 2003/04 to £50 million in 2005/06. Final decisions on the level of resources, and on whether or not we will provide direct support for the implementation of the ERS through the Government's budget, will be based on the Government's progress in implementing the ERS – and especially in tackling corruption, preparing and implementing budgets that prioritise spending which will benefit poor people, and strengthening public financial management.

A6. DFID's experience in Kenya has shown the importance of strengthening citizens' ability to call Government to account for its actions, and of supporting Government's ability to respond to the legitimate demands citizens place on it. We will therefore continue to maintain substantial programmes of support to non-state actors, including civil society and private sector groups. And we will base our work on a better understanding of the pressures and incentives that drive decision-making in Kenya.

- A7. Throughout our work in Kenya we will seek to draw on the wider international system to support the ERS, and to support Kenya's own efforts to participate in and benefit from regional and global initiatives.
- A8. To deliver this programme, we will re-shape the DFID-Kenya team, work closely with other partners and stakeholders in DFID, the UK Government and the wider international community, and be rigorous in maintaining our focus on the issues and activities identified in this Country Plan. But we will retain sufficient flexibility to respond to developments in the ERS and its implementation.

B. The challenge

- B1. Kenya has the potential to be the regional engine of **economic growth and prosperity**. It has a relatively skilled workforce, the most developed financial sector, the largest international transport hubs, the greatest manufacturing capacity, and the most extensive road network in East Africa. But over the last decade most Kenyans have become poorer. Accurate and detailed information on **poverty** in Kenya is in very short supply. But available data suggests that the number of people living below the national poverty line has risen from around 11 million (48% of the population) in 1990 to around 17 million (56% of the population) in 2001. Households that are large, headed by women or by adults with low educational attainment, or deriving most income from agriculture (especially subsistence farming or pastoralism) are more likely to be poor than others. On current trends, Kenya will fail to meet the majority of the Millennium Development Goals.¹
- B2. This national picture hides marked **regional disparities**: poverty rates on the coast, in western Kenya, and in arid and semi-arid (ASAL) areas, are twice those in Central province, although poverty hotspots where more than 70% of the population live below the national poverty line can be found in all Kenya's provinces. There are also significant **gender inequalities**. Although Kenya is on course to achieve the Millennium Development Goal (MDG) of gender parity in primary education by 2005, on average women receive fewer years of schooling and are more likely to work as subsistence farmers than men. Women also lack ownership and control over productive assets (for example, women make up 75% of the agricultural labour force but only own 1% of the land). Gender inequalities are further worsened by the impact of HIV/AIDS: infection rates among women are double those among men (four times higher in the 15-24 age bracket), and women also bear the main burden of caring for those who are ill. In addition, there are large inequalities both between **urban and rural areas**, and within urban areas themselves. Despite rapid urbanisation, almost 70% of the population, and 80% of poor Kenyans, still live in rural areas. But the provision of most essential services is biased towards towns (e.g. in staffing numbers and financial allocations). Even so, these services fail to reach the majority of the urban poor who live in informal settlements that are characterised by a lack of infrastructure and secure tenure, over-crowding, and chronic insecurity.
- B3. Kenya's achievements in **education** have been impressive, and adult illiteracy is among the lowest of any country in Sub-Saharan Africa. But despite spending of over 6% of Gross Domestic Product (GDP) on education (more than twice the average for low-income countries), primary school enrolment and completion rates declined during the 1990s. This was abruptly reversed in January 2003, when the National Rainbow Coalition (NARC) Government's declaration of free universal primary education and abolition of charges brought over a million children into school. But significant challenges still remain to ensure that these children complete their education, as well as to provide education for the million or so still not in school. Primary gross enrolment rates are almost six times lower in North-Eastern than in Western Province. Particularly in urban slums and the ASAL areas, poor children everywhere, including AIDS orphans, are still vulnerable to exclusion and dropping-out. Allocations of financial and human resources within the education sector do not yet reflect stated policy priorities. And unit costs remain extremely high and overwhelmingly related to salary expenditures: redeployment of teachers according to need is urgently required in order to increase efficiency and address inequalities.
- B4. Although Kenya's **health** indicators remain better than those of many other sub-Saharan African countries, they are getting worse and there is little chance of reaching any of the Millennium Development Goals. Infant and under-five mortality rates are worsening due largely to malaria, acute respiratory infections, diarrhoea, malnutrition, and HIV/AIDS. Maternal mortality is also getting worse. Health systems to deliver essential services are weak: key barriers to access include cost and the user charge system, the unavailability of drugs, and long distances to health facilities. In addition, public expenditure on health remains extremely low at \$5 per capita – well below the \$20 normally considered the bare minimum required to deliver essential services – and only a small proportion of this is spent on

¹ See Annex 1 for more information on progress against the MDGs

preventive services in rural areas where it would have most impact.

- B5. Access to safe **water** and **sanitation**, which will contribute to reducing child mortality, is low and declining. The quality of services is poor and unresponsive to consumer needs, and a failure to invest in maintenance has led to the collapse of much of the infrastructure. Less than half of rural Kenyans have access to clean water or sanitation facilities: fetching water can take up to three hours each day and is usually the responsibility of women. In addition, Kenya is classified by the UN as a chronically water-scarce country, and lake levels and river flow rates across the country are declining due to poor management, illegal abstraction, increased demand, and soil erosion.
- B6. Life expectancy has declined from 57 years in 1986 to 47 years in 2000 – largely because of the impact of **HIV/AIDS**. Recent data from the sentinel surveillance of pregnant women suggests that prevalence rates are now falling, and are around 9.7% nationally. But this figure masks a wide range across the country, with the highest rates in Nairobi and Nyanza Province. Approximately 1-1.2 million Kenyans are living with HIV (of whom less than 10% know they have the virus), around 300 die from HIV/AIDS-related illness every day, and there are 1.2 million AIDS orphans.
- B7. The effect of HIV/AIDS on the economy and society is complex and further analysis is urgently needed, especially as most of those infected have not yet fallen sick so the full impact has yet to be felt. But the World Bank estimates that the recent increase in mortality, largely the result of the HIV/AIDS epidemic and the persistent burden of malaria, has reduced Kenya's annual economic growth potential by 0.7%. HIV/AIDS is also increasing food insecurity, through reduced labour inputs to livelihoods, loss of knowledge within the population, and increased vulnerability to the effects of shocks such as poor rainfall or floods. This in turn is lowering household incomes so that children are less likely to stay in school, increasing pressure on Government resources due to the need to treat people already infected, and undermining the development of a skilled workforce. In addition, current rates of training

of teachers, health workers, and other key service providers are unlikely to keep up with attrition.

- B8. Rising poverty over the last decade has been driven by the decline in Kenya's economic performance. Kenya's infrastructure – roads, railways, telecommunications, Mombasa port, power, water and sanitation – has deteriorated rapidly, and billions of dollars will be needed for its rehabilitation. The financial sector has been severely weakened by imprudent and corrupt lending particularly by publicly-owned banks (which account for only 29% of total assets but for 73% of all non-performing loans), and weak systems of commercial justice and financial sector regulation. With one or two notable exceptions (especially in the textile industry, which has taken advantage of greater access to the US market under African Growth and Opportunity Act), domestic and foreign investment has declined sharply in recent years, and the Kenyan economy has become increasingly uncompetitive. The costs of doing business in Kenya are pushed up by high user fees for essential services, inefficiencies in the regulatory environment, a lack of confidence in the judicial system, and by widespread corruption.

THE NEED FOR PARASTATAL REFORM

- *The Telkom monopoly charges \$2.50 for a one-minute international call (compared with 19 cents from South Africa). Telkom employs 65 staff per 1,000 lines, compared with four staff per 1,000 lines internationally.*
- *Container productivity at Mombasa port is probably between a third and a half of accepted international norms.*
- *Electrical power in Kenya costs around 6.8 cents per kilowatt/hour, compared with 3 cents in Zambia and 2.3 cents in South Africa.*

Source: World Bank Country Economic Memorandum, 2003

- B9. Kenya is not at risk of major internal armed conflict, and is neither a threat to nor threatened by its neighbours: indeed, it has been active in promoting peace and stability in the region. But a general **lack of security**

reduces livelihood options and people's ability to access essential services, and deters tourists, and local and foreign investors alike. There is little evidence to suggest that the level of security is improving; indeed it may be getting worse. The Kenya Private Sector Alliance estimates that Kenyan firms spend 4% of their operating income on security measures, while recent **terrorist activity** has had a further negative impact on perceptions of Kenya as a safe place to visit and do business.

- B10. Growth in the **agriculture and natural resources** sectors will be critical if economic recovery is to benefit the majority of Kenyans. Although more than half of rural income now comes from the non-farm sector, agriculture still accounts for 25% of Kenya's GDP, 60% of total employment, and 75% of merchandise exports. But agricultural growth stagnated during the 1990s, and despite strong performance in some sectors where there is strong private sector involvement, such as tea, horticulture and cut flowers, several other sectors are close to collapse. Key constraints include poor governance; inadequate access to markets, technologies and credit; insecure access to land and fragmentation of holdings; the impact of HIV/AIDS; degradation of land productivity and available water resources; and the impact of international tariff and non-tariff barriers. In addition, Kenya remains vulnerable to extreme climatic events (particularly droughts and floods), largely due to an institutional failure to prepare or respond appropriately, and to poor land and natural resource management.
- B11. Observance of **human rights** has been improving gradually in recent years in Kenya, although police behaviour remains variable and the treatment of suspects is cavalier. There are no political prisoners, the media is vocal and criticises the Government freely although repressive legislation remains in force, and politicians from all parties are able to operate without harassment. But **corruption and economic mismanagement** have played a crucial role in contributing to Kenya's poor economic performance. In 2002 Transparency International's perceptions of corruption survey saw Kenya ranked by businessmen 96th out of 102 countries. In a separate survey conducted a year into the new

Government's term of office, Kenyan citizens reported bribes being demanded (or offered) in two out of every five encounters with public officials – a substantial improvement from two out of every three encounters the previous year.

- B12. Underlying these trends, analysis commissioned by DFID-Kenya as part of the preparation of this Country Plan points to a framework of social and political institutions which are highly personalised, and revolve around **patronage and political mobilisation based on ethnicity**. A deep-rooted network of personal ties and informal structures spans public institutions and much of the private sector. The expectations that people (including poor people) have of government and elected officials relate more to getting access to short-term, tangible, ad hoc benefits on a personal basis, rather than the provision of public services on the basis of need and universal rights. In addition, the capacity of Kenya's public institutions, including the civil service, parastatal organisations, public sector banks, the police and the judiciary, has been seriously and systematically undermined over many years. They have become progressively less able to provide the checks and balances necessary to limit the spread of corrupt practice – or indeed to carry out their own basic functions effectively – and have instead been used to fuel patronage or as sources of private gain. Ethnicity, corruption and factious politics continue to be a key feature of Kenya's governance.

GOVERNANCE IN THE AGRICULTURE SECTOR

- *About 75% of public spending in agriculture is absorbed by parastatals, in many cases to perform functions which have been designated by the Government as "non-core".*
- *Sugar prices are double those on the world market, costing Kenyans an extra \$6 each year – more than Government health spending.*
- *Only 30% of coffee sales proceeds go to the farmer (compared with 70% for tea).*

Source: World Bank Country Economic Memorandum, 2003

C. The Government's response

- C1. The National Rainbow Coalition Government was elected in December 2002, in elections that were widely recognised as free and fair and a shining example to the region and, indeed, the world. The new Government sees its primary challenge as restoring economic growth for the benefit of all Kenyans. Its strategy for achieving this is set out in the ERS and its accompanying Investment Programme, which is designed to promote economic growth, equity and poverty reduction, and improved governance.
- C2. The ERS recognises that economic recovery will come primarily from improvements in the productive sectors of the economy, especially agriculture, manufacturing, tourism, trade and industry. It commits the Government to maintaining a stable macroeconomic framework, creating 500,000 jobs per year, and to redefining the role of the state as a facilitator for private sector-driven growth and investment. It sets an ambitious timetable for achieving economic growth of 4.5% (base case) and 5.5% (high case) by 2006/07, and for a reduction in the proportion of the population below the national poverty line from 56% to 51%. International development partners support the ERS and the open and consultative process through which it has been developed, but caution that its targets are very stretching, and achievable only if the Government moves swiftly to implement key – and politically sensitive – commitments to reform.
- C3. During 2003 the Government has made good progress in implementing free primary education, and has taken a number of steps to tackle corruption and patronage. These have resulted in the resignation of many judges and public officials, the setting up of a public enquiry to investigate the notorious Goldenberg scandal of the early-1990s, the passing of key anti-corruption legislation, the appointment of a top official reporting directly to the President to co-ordinate work on anti-corruption, and the declaration of wealth by all politicians and public servants (although this information has not been published). But as the Government moves ahead with implementing the ERS, there remain a number of key challenges that will need to be addressed. These include:
- Strengthening the poverty focus of the ERS;
 - Ensuring that implementation of the ERS drives policy-making, including the setting of budget allocations;
 - Ensuring an effective response to the HIV/AIDS epidemic; and
 - Addressing patronage, and increasing domestic accountability for delivery of the ERS.
- C4. In addition, there are a number of shocks and external factors that may impact on the implementation of the ERS, although the extent to which they do so will depend largely on Government's capacity to prepare and respond appropriately. These include natural hazards such as droughts and floods, external economic factors, and terrorist activity within Kenya. A summary of the risks to the implementation of the ERS is given in table 1. We will reassess these risks regularly as part of the annual review of the implementation of this Country Plan.
- ### 1 Strengthening the poverty focus of the ERS
- C5. Without sustainable economic growth, poverty in Kenya will not be reduced. Many of the measures set out in the ERS, such as addressing corruption, reforming parastatals, and reducing the wage bill, will be necessary to generate economic recovery. But to maximise the impact on poverty it will also be necessary for the Government explicitly to identify policies that will have a greater impact on poverty, rather than assuming that the benefits of economic growth will simply 'trickle-down' to ordinary Kenyans.
- C6. A key issue will be restoring growth to the agricultural sector, on which the majority of poor Kenyans depend for their livelihoods. A successful policy in this area will need to look at the range of agricultural and natural resource-based activities on which poor people depend, and to include measures to increase the economic participation of women. Reforming and strengthening the security sector would also address key constraints on the livelihoods of poor Kenyans, on investment, and on Kenya's ability to deal with the current terrorist

threat. The regional dimensions of trade and economic growth, and the impact on poverty of trade reforms including the introduction of a Common External Tariff within the East African Community (EAC), will also be important. Questions of environmental sustainability also require further development within the ERS. Finally, given the depth of inequality in Kenya, there is a strong need to ensure that the poorest and most vulnerable are served by affordable and effective mechanisms for social protection.

2 Ensuring that implementation of the ERS drives policy-making, including the setting of budget allocations

- C7. Close links between policy (as set out in the ERS and in individual sector strategies) and budgetary allocations are essential if policy priorities are to be translated into action through the budget. At present these links are weak, and the Government has committed itself to strengthening them through the Medium-Term Expenditure Framework (MTEF) process and, within it, annual public expenditure reviews (PERs). Government revenue collection as a proportion of GDP is relatively healthy, although the Government is keen to widen the tax base and remove special interest exemptions. But approximately Ksh65 of every Ksh100 collected from Kenyans in taxes is spent paying public servants and servicing Government debt.² This is very high compared with other countries in sub-Saharan Africa, and leaves little for the development expenditure required if the public investments envisaged under the ERS are to be financed. To ensure the latter is given priority in future, the Government is committed to reducing the public sector wage bill and controlling domestic debt, including by proceeding with public service reform and the privatisation of key parastatals.
- C8. In addition, the quality of public financial management systems is poor, limiting the proportion of public spending that reaches its intended target, and creating scope for corruption and waste. The Government recognises this and has begun to draw up an Action Plan to improve financial management. The Government has also committed itself to develop a comprehensive monitoring and evaluation framework for the ERS,

to establish benchmarks and assess progress in its implementation, and provide a greater evidence base for planning and policy formulation. Strengthening these essential systems, and integrating them into a single, comprehensive, annual cycle will be vital if the ERS is to drive Government action.

- C9. Placing the ERS at the centre of Government policy implementation will require clear leadership from the President, and strong and effective collaboration between the Ministries for Finance and Planning and line ministries. It will also require unity of purpose in the governing coalition around the ERS priorities. But unity of purpose has been called into question by the political acrimony brought about by attempts to scuttle the people-driven constitutional review process. This is delaying a rapid and successful outcome (to which the new government is committed) and has deflected political energy away from vigorous pursuit of ERS implementation. In addition, although Kenya as a whole has a relatively strong human resource base, the capacity of the public sector to implement the ERS has been severely reduced over the past few years. Many of the large parastatals are heavily over-manned and inefficient, local Government is very weak, and HIV/AIDS will erode capacity still further. Increasing public sector capacity will therefore be key.
- C10. Finally, development partners themselves need to rally behind the ERS. At present, although there have been recent improvements in some sectors, donor harmonisation at the national level in Kenya is not advanced. This results in the inefficient use of resources and increased transaction costs, especially for Government. The Government has committed itself to developing an aid policy setting out its vision of how development partners can best support the ERS and, for their part, development partners have promised to harness their efforts behind the ERS and improve donor harmonisation.

3 Ensuring an effective response to the HIV/AIDS epidemic

- C11. HIV/AIDS represents the most significant threat to Kenya's medium- and long-term development. This

² The wage bill (excluding the armed services) totals around 41% of Government expenditure, and debt servicing around 24%.

is recognised by the Government, and President Kibaki is giving a strong personal lead on this issue. An effective response will require clear Government leadership and the building of capacity to implement a genuinely multi-sectoral strategy that comprehensively addresses prevention, care, mitigation and treatment, and that looks beyond the health sector to include all aspects of social and economic life. A continuing focus on prevention will be essential, as will ensuring that anti-retroviral drugs (ARVs) are distributed efficiently and equitably, rather than on the basis of patronage. It will also be important to ensure that the response to HIV/AIDS, including that supported by global initiatives, does not weaken health systems by distorting priorities in the health sector and reducing the resources required for other important communicable diseases.

4 Addressing patronage, and increasing domestic accountability for delivery of the ERS

C12. Over recent years, a number of excellent Government policy documents have been developed, but their implementation has generally been poor and the incentives for political elites to deliver on their promises to their citizens have been weak. The election of the new Government, on a platform of change, represents a historic opportunity to begin to reduce the roles that patronage and ethnicity play in Kenya politics, and to address the issues of most concern to all Kenyans. The new Government has built its ERS upon the principles of democracy and empowerment: significant steps towards this goal will include increasing citizens' awareness of their rights, increasing the evidence base on which policy-makers can base their decisions, strengthening formal decision-making processes, and ensuring that good information on the Government's performance against its targets is publicly available. Ensuring that Kenyans' taxes are collected transparently and fairly, and spent efficiently on the basis of need and the provision of universal rights and services, will also be important. Democratic checks and balances will also need to be reinforced, including through strengthening the judiciary, and the greater involvement of Parliament, civil society and the private sector in policy formulation,

implementation and monitoring. Achieving sustainable change in the relationship between Government and citizens will take time, but will be essential to long term poverty reduction.

C13. The key risks that will affect the prospects for poverty reduction are assessed in Table 1.

Table 1: Risks to poverty reduction in Kenya

(H=High; M=Medium; L=Low)

Risk	Probability	Impact	DFID ability to influence, and proposed DFID activities to mitigate
Patronage continues to be the basis of politics and business	H	H	L – Increase understanding of incentives and informal patronage structures; work to change basis of accountability between Government and its citizens
Impact of HIV/AIDS exacerbated by ineffective response	H	H	M – Key objective for this Country Plan to help build a more effective response, working closely with other development partners
Governing coalition dissolves or fails to show unity of purpose necessary to implement ERS effectively	H	M	L – Work to strengthen linkages between ERS, sector strategies and the budget process; liaise closely with British High Commission (BHC) on the political process
Corruption not successfully addressed	M	H	M – Support efforts to strengthen legal sector and reduce systemic opportunities for corruption
Implementation of ERS is insufficiently bold to generate broad-based growth	M	M	M – Support strengthening of the ERS, and promote overall enabling environment for broad-based growth
Inequality not sufficiently addressed	H	M	M – Understand incentives to address inequality; promote policy options which do so
Macro-economic management fails	L	H	L – Work closely with Ministry of Finance and IMF
Weak capacity to respond to natural hazards (drought, floods etc)	L	H	M – Support disaster management planning process and ensure appropriate early response to crises
Crime and insecurity not reduced	M	M	L – Support police reform through sectoral work and consider case for greater involvement if Government so requests
Government lacks human and systemic capacity to implement ERS	M	M	L – Support staffing and financial reforms in key ministries, and mainstreaming of response to HIV/AIDS throughout Government
Ongoing terrorist activity has lasting impact	L	M	L – BHC assisting Government in response to terrorist threat; EC are working with Government to reduce impact on tourism sector
Donors uncoordinated and do not support ERS	M	L	H – Key objective for this Country Plan
External economic factors; lack of progress on trade	M	L	L – Support progress in WTO talks and build capacity to engage on trade policy issues; diversification of the Kenyan economy will reduce vulnerability to external factors

D. What we have learnt

Policy and its Implementation: the role of development partners

- D1. The central challenge facing DFID-Kenya's programme over recent years has been how to reduce poverty in a poor governance environment, as Kenya's decline has its roots in domestic economic and political processes. Our experience has shown that we need a much better understanding of what drives positive change, and what holds it back, including the role of incentives impacting on the governing elite. We have therefore commissioned analysis of Kenya's political economy: the interim results have informed the development of this Country Plan, and we will deepen this understanding and integrate it much more closely into our work as we implement it.
- D2. Despite the weak governance environment, DFID maintained a substantial programme in Kenya and worked with the previous Government where it was possible to deliver benefits directly to poor Kenyans without simply releasing resources to be misused elsewhere. This work laid the basis for systems for service delivery that could quickly be scaled up once the policy environment improved. DFID's work setting up a transparent and effective textbook procurement system in the education sector is a good example. It enabled the new Government and other partners to channel resources quickly and effectively to help implement free primary education.
- D3. Our work with Government has also shown that increasing its accountability to its citizens is crucial to improving the quality and accessibility of essential services. Accountability will therefore be a key theme running through our programme, and we will seek to build longer-term partnerships with non-state actors in civil society and the private sector to promote this. To promote change effectively, we will need to finance a balanced portfolio of activities that supports the demand for change by strengthening the institutions and processes through which these demands are expressed, and addresses the incentives and capacity of Government to hear and to respond effectively.
- D4. A further lesson from our experience in Kenya and elsewhere suggests that Governments respond primarily to domestic political and economic pressures, and that development partners have rather limited direct influence. Kenya is less dependent on external aid than most neighbouring countries and, under the previous Government, externally-imposed policy conditions proved largely ineffective in promoting change. The provision of external funding may actually have slowed down necessary reforms by providing the resources to sustain a *status quo* of poor resource allocation and inefficient public services. We also know from experience elsewhere that institution-building is a long-term and difficult task. Given the systematic weakening of Kenya's institutions in recent years, it will be essential for both the new Government and its development partners to show realism about the speed and sustainability with which reforms can be implemented.
- D5. DFID's view is that international partners cannot and should not try to drive change themselves. Instead they should support domestic drivers of change, provide technical advice and ideas to support reform, and back reforms that are genuinely owned in-country. Also, the additional financial resources which international partners can provide, while small in comparison with the size of the Government's budget, can help cushion the impact of politically difficult decisions and deliver poverty reduction faster and more sustainably than would be possible without them.

Part 2 – UK assistance plans

E. UK development partnership

- E1. DFID's primary aim will be to support the further development and implementation of the Economic Recovery Strategy, so that it is at the centre of Government policy and of the partnership with the international community. The ERS is new, and we will need to retain a high degree of flexibility to respond appropriately as it is refined and implemented – and also to review our work in the light of Kenya's new Constitution and the institutional changes which will flow from it. Within this framework, we will focus on the four key objectives listed below. The selection of these objectives has been informed by DFID's comparative advantage, and the programmes of other development partners (see Annex 3).
- E2. We have based our assessment of DFID's comparative advantage in Kenya on several factors. These include our track record of involvement in specific areas, the human resources we expect to be able to deploy, the strategies and capacity of other development partners including the skills and other resources they have available, and, crucially, the Government of Kenya's views on where it would most value our support. In determining our assessment we asked a wide range of our partners in Kenya where they judged our comparative advantage to lie.
- E3. There are a number of cross-cutting themes which we will push forward across our programme. A key objective is to increase the accountability of Government to its citizens in all areas of our work, through increasing the quantity and quality of public information on the Government's performance, supporting greater use of participatory planning and monitoring mechanisms, and strengthening the institutions crucial to public accountability (such as the judiciary and Parliament). We will also seek to ensure that the interests of the poorest Kenyans are fully taken into account in our policy dialogue with Government, and in Government's strategies to deliver essential services and promote economic growth. An early priority here will be improving the quality of information about poverty in Kenya, through support to the Central Bureau of Statistics (CBS) and other organisations, so that

resources can be targeted where they are most needed.

- E4. Economic growth and poverty reduction in Kenya will have substantial benefits for the whole East African region (e.g. Mombasa is the main port for the land-locked countries of Uganda, Rwanda and Burundi, as well as serving other neighbouring countries). Kenya also hosts the regional Secretariat for the New Partnership for African Development (Nepad) and has volunteered to be one of the first African countries to undergo peer review. We will therefore support Kenya's efforts to participate in and benefit from regional and global initiatives such as the East African Community and Nepad, and will use the UK's influence in key international bodies accordingly. The UK will also support Kenya's role in regional peace-making, and help strengthen its peace-keeping capacity through the work of the British Peace Support Team.

1. Key Objective: To strengthen accountability and poor Kenyans access to high-quality services

- E5. We will support key central processes within Government to ensure that strong policy, planning and budget allocation processes are in place and are well-coordinated, that public financial resources are used effectively to sustain growth and alleviate poverty, that corruption is tackled, and that the public sector has the appropriate capacity and incentives to ensure implementation. We will also support the development and implementation of a monitoring and evaluation framework for the ERS, and will consider the provision of further capacity-building support to the central Ministries of Finance and Planning. In consultation with the Government and other development partners, we will also consider the case for a new programme of work in the area of revenue and taxation.
- E6. Within the ERS framework, we will continue to work in a limited number of sectors that provide key services to poor people, including education, health, local government, and agriculture and natural resources. We will continue our support to the Government's programme in the governance, justice, law and order sector (GJLOS), and believe that reform of the police will be especially important if security in Kenya is to

be improved. We will consider in-depth engagement on police reform if the Government asks us to become involved and confirms its commitment to implementing the difficult decisions that will be necessary for lasting improvements in performance.

- E7. In all our sectors of engagement we will support the development of comprehensive Government strategies that clarify the role of public, private, and civil society service providers. We will work within this framework to strengthen the accountability of all service providers to their users, and to ensure that policy makers are informed by the lessons learned on the ground. Because of the importance we place on reinforcing a relationship between Government and its citizens based on universal rights to essential services, we will only support service providers outside this framework in exceptional circumstances (such as humanitarian emergencies) or where there is a clear strategy for the transfer of responsibilities so that they can be provided without external support in future.
- E8. Access to water and sanitation is consistently highlighted as a priority by Kenya's poor. Improvements in water and sanitation are important not only for the direct benefits they bring, but because they impact upon many other aspects of poverty such as health and education. Our engagement in water and sanitation will enter a new phase as our remaining stand-alone projects draw to a close, and we work increasingly through the other development partners active in this sector – notably the Swedish International Development Agency (SIDA). In our discussions with the Government of Kenya, we will continue to press for greater allocations for water and sanitation from the Government's budget and for them to press ahead with new approaches to stimulate private sector involvement. We will also work on water management issues through our environmental governance programme, and we will support the provision of community-led water, sanitation and infrastructure services through our partnerships with local civil society groups. Our work on improving security of land tenure should also address one of the underlying constraints to water and sanitation provision, and our education programme will include support for improvement of school sanitation. We will

keep the nature of our involvement in this area under review.

2. Key Objective: To promote sustainable economic growth that benefits poor people

- E9. The immediate priority facing the Government is to reverse the current economic decline. But in a country with such large differentials between rich and poor, issues of poverty and inequality need to be tackled from the outset. Unless poor people can participate in growth, these inequalities will continue to increase. We will therefore continue to support measures to improve investor confidence and reduce the costs of doing business, while at the same time seeking to address the issues of poverty and inequality set out in section B above by improving the opportunities poor people have to obtain sustainable incomes. We will work to ensure that poor people have better and more sustainable access to markets, assets and services, and that they are less vulnerable to shocks and socio-economic changes. Ensuring progress in agriculture and rural development will be particularly important as 80% of poor Kenyans live in rural areas: we will provide technical assistance to support the implementation of the Government's Strategy for the Revitalisation of Agriculture.
- E10. The ERS recognises the primary role of the private sector in generating growth. We will support the Government's efforts to facilitate this through improving the regulatory and institutional framework, and developing a robust strategy for private sector development. We will look for ways to continue building Kenyan capacity on trade issues, and will explore the potential for further work on non-tariff barriers. We will also work with Government, the private sector, and civil society groups in a limited number of areas which have a high potential to impact on poverty, including land and natural resources, the financial sector, and micro and small enterprises (MSEs).
- E11. We will support the development of a more coherent approach to addressing the vulnerability of poor Kenyans to shocks and external economic factors. Working closely with BHC and other UK Government Departments, we will develop and implement a comprehensive UK strategy to address insecurity, including support to

effective conflict prevention measures, and will support the development of a stronger Government framework to prepare for and respond to food insecurity and natural disasters. We will also consider the possibility of more in-depth engagement in the area of social protection mechanisms with a broader focus than just health and social insurance funds.

3. Key Objective: Effective multi-sectoral Response to HIV/AIDS

E12. DFID has provided substantial resources towards the fight against HIV/AIDS in Kenya, and will continue to do so in line with the UK's all for Action on HIV/AIDS , and the joint UK/US Taskforce on AIDS - under which Kenya is one of five African countries for enhanced co-operation between the UK, the United States and other partners. We will give top priority to supporting an effective multi-sectoral approach to HIV/AIDS, and to mainstreaming the response to HIV/AIDS across all sectors. And we will seek to promote the coherence and effectiveness of the entire international development effort, including global initiatives, so that it is better aligned with Government own priorities and delivered through Government systems where possible.

E13. DFID's strong preference is to channel our support mainly through Government systems – notably the National Aids Control Council (NACC) and the National AIDS and STD Control Programme (NAS COP) – in support of its National Strategy on HIV/AIDS. This will be dependent on the Government working effectively with partners to ensure that the appropriate institutional arrangements are put in place to deliver the Strategy and that these structures are properly staffed and managed. We will continue to support the strengthening of the Government's policy framework including through the work of Aids Co-ordination Units (ACUs) in Ministries, and through the development of strategies focusing on prevention, care and the effective, equitable and affordable distribution of anti-retrovirals. We will also intensify our efforts to elicit an appropriate response to HIV/AIDS from the private sector. A large increase in resources for HIV/AIDS is expected from the Global Fund and the US Government. We will ensure that our support complements these resources by filling gaps

and helping to ensure that the entire effort to fight HIV/AIDS if well coordinated and nationally-led, and thus is as effective as possible.

4. Key Objective: Increased harmonisation and alignment of donor resources behind ERS priorities.

E14. We will work towards a vision under which Government, donors and other stakeholders share a single strategy for the implementation of the ERS. We will therefore focus our efforts on improving donor alignment behind the ERS and supporting the Government as it develops and implements its Aid Strategy.

Aid instruments: how will we deliver our assistance?

E15. We will use a mix of aid instruments, including sectoral support and project aid. Over the course of this Country Plan, we expect to increase substantially the amount of resources we channel through the Government, provided it makes good progress in implementing the ERS. Because of the importance we place on increasing the accountability of Government to its citizens, over the course of this Country Plan we will also protect and maintain the level of resources we provide to civil society and private sector organisations.

E16. The Government of Kenya has made clear that direct support to the implementation of the ERS through its budget (direct budget support) is its preferred instrument. We respect this preference, and believe it has several advantages. Providing direct budget support would be consistent with our objective of putting the ERS at the centre of our work, and would help focus attention on the key challenges facing the Government – i.e. strengthening the budgetary process so that resources are allocated according to policy priorities, improving the delivery of essential services, strengthening domestic accountability, and improving all aspects of public financial management. Providing support through the budget systems would also help to reduce the demands on Government from development partners for separate reporting and monitoring, and contribute, in a predictable way, towards the additional resources required to achieve the MDGs.

- E17. We therefore hope that sooner rather than later during the period covered by this Country Plan a large and increasing proportion of our resources will be transferred as direct budget support. But before taking any decisions on this, we will carefully assess: (a) the extent to which the budget process prioritises spending that will benefit poor people; (b) the Government's progress in maintaining macro-economic stability; and (c) progress in strengthening public financial management systems so that all funds are demonstrably used for the purposes they were voted for. We will closely monitor progress on these issues together with the Government and other development partners.
- E18. Within the sectors in which we work, we will promote greater donor harmonisation through increased use of pooled funding mechanisms and sector-wide approaches (SWAPs), which will incorporate work with all stakeholders active in a sector – including Government, Parliament, and non-state actors. Over time this should lead to our making increasing use of Government systems including those for procurement, accounting and auditing. We will seek to link our engagement at a sectoral level more closely with central processes, including through public expenditure reviews, greater involvement in the budgeting process, and support to staffing and expenditure reforms within key sectors. The speed with which we are able to do this will depend both on the pace of reform within specific sectors, and on overall progress in implementing the ERS and on strengthening public financial management and hence reducing the risk of corruption and waste.

F. Programme resources

F1. If good progress is made in the areas set out in paragraphs E15 to E17 above, we plan to increase the size of our bilateral programme from its current level of around £30 million per year to £50 million in 2005/06. An approximate anticipated allocation of resources between our four key objectives is set out in Table 2 below.

Table 2: Approximate allocation of resources to key objectives (£million)

	2004/05	2005/06
<i>Strengthen accountability and services</i>	22	18
- Accountability and governance	7	4
- Education	6	5
- Health (excluding HIV/AIDS)	7	7
- Agriculture and Rural Development	2	2
<i>Sustainable economic growth</i>	8	6
<i>HIV/AIDS</i>	7	8
<i>Donor harmonisation (main input will be staff time)</i>	minimal	minimal
<i>Currently unallocated</i>	-	18
Total	37	50

ANNEX 1: Progress against the Millennium Development Goals

Kenya	Region					
	1990	1995	2000	2001	2002	Sub-Saharan Africa
1 Eradicate extreme poverty and hunger	<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>					
Population below \$1 a day (%)	See Note 1	..	..	..	..	49.0 ²⁰⁰⁰
2 Achieve universal primary education	<i>2015 target = net enrolment to 100</i>					
Net primary enrolment ratio (% of relevant age group)	See Note 2 80	..	73.7	..	..	..
3 Promote gender equality	<i>2005 target = education ratio to 100</i>					
Ratio of girls to boys in primary and secondary education (%)	..	..	..	97.2	..	81.7 ²⁰⁰⁰
4 Reduce child mortality	<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>					
Under 5 mortality rate (per 1,000)	See Note 3 96	112	..	..	114	164.2 ²⁰⁰²
5 Improve maternal health						
Births attended by skilled health staff (% of total)	See Note 3 50	45	44	..	42	..
6 Combat HIV/AIDS, malaria and other diseases	<i>2015 target = halt, and begin to reverse, AIDS, etc</i>					
Prevalence of HIV, pregnant female (% ages 15–24)	See Note 4 ..	..	..	..	9.7	9.3 ²⁰⁰¹
Percentage of children under 5 who slept under a bed net the night preceding the survey	See Note 3				4.5	
Percentage of pregnant women who slept under a bed net the night preceding the survey	See Note 4		0.5			
7 Ensure environmental sustainability	<i>2015 target = various (see notes)</i>					
Access to an improved water source (% of population)	45	..	..	57		58.1 ²⁰⁰¹
Aid Need and Resources						
UK bilateral aid (£m)				38.3		
UK share of total bilateral aid (%)				12.3		
Total aid from all sources (£m)				310.5		
Total aid per poor person (£)				44		
Number of DFID staff directly involved				..		
Poor people per DFID staff member (thousands)				..		
General Indicators						
Population (millions)	23.4	26.7	30.1	30.7	31.3	673.9 ²⁰⁰¹
GDP growth (annual %)	4.2	4.4	-0.2	1.1	1.8	3.2
GNI (current US\$)	8.8 bn	7.0 ^{bn}	10.6 ^{bn}	10.7 ^{bn}	11.3 ^{bn}	311.2 ^{bn}
GNI per capita (\$)	380	260	350	350	360	460.0 ²⁰⁰¹
Inflation, consumer prices (annual %)	17.8	1.6	10.0	5.7	2.0	
Life expectancy at birth (years)	57.1	52.6	47.0	46.3	45.5	46.2 ²⁰⁰¹
Source: World Development Indicators Database, April 2002, Statistics on International Development						

Notes:

1. There is currently no time series data available on \$1/day poverty in Kenya
2. Source: MICS 2000, CBS 2001
3. Source: KDHS 2003: Preliminary Report
4. Sentinel surveillance, Kenya 1990–2003
5. Goal 7 targets: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources. Halve, by 2015, the number of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers

MILLENNIUM DEVELOPMENT GOALS IN KENYA: AT A GLANCE

GOAL	TARGET + INDICATORS	PROGRESS	SUPPORTIVE ENVIRONMENT
Eradicate extreme poverty and hunger	Halve the proportion of people living on less than \$1/day, 1990-2015		
	Halve the proportion of people suffering from hunger, 1990-2015		
Achieve universal primary education	Net enrolment in primary education		
	Proportion of pupils starting grade 1 who complete grade 5		
	Literacy rates of 15-24 year-olds		
Promote gender equality and empower women	Ratio of girls to boys in primary, secondary and tertiary education		Primary potentially; others unlikely
	Ratio of literate females to males among 15-24 year-olds		
	Share of women in wage employment in the non-agricultural sector		
	Proportion of seats held by women in national parliament		
Reduce child mortality	Reduce the under-five mortality rate by two-thirds, 1990-2015		
	Infant mortality rate		
	Proportion of one-year old children immunised against measles		
Improve maternal health	Reduce the maternal mortality ratio by three-quarters, 1990-2015		
	Proportion of births attended by skilled health personnel		
Combat HIV/AIDS, malaria and other diseases	Have halted by 2015 and begun to reverse the spread of HIV/AIDS		
	Have halted by 2015 and begun to reverse the spread of malaria and other major diseases		Malaria fair; tuberculosis strong
Ensure environmental sustainability	Halve by 2015 the proportion of people without sustainable access to safe drinking water		
	Have achieved by 2020 significant improvement in the lives of at least 100 million slum dwellers		

Key:

	Goal probably achieved: strong supportive environment
	Goal potentially achieved; fair supportive environment
	Goal unlikely to be achieved; weak supportive environment

Source: Millennium Development Goals: 2003 Progress Report for Kenya, published by Government of Kenya, UN Kenya, 2003

Annex 2: Summary of consultation process

Following the election of the new NARC Government in December 2002, DFID carried out an internal review of its programme in Kenya during the previous two years. The lessons learned from this review, together with the views of DFID's contacts in government, civil society, the private sector, academia, the media, development partners, and other UK Government departments helped inform DFID's initial response to the new Government's policies.

During the second half of 2003, further analysis was carried out of the political and socio-economic situation in Kenya. Two key studies were carried out: an in-depth examination of the incentives for pro-poor change in Kenya was conducted by a team of national and international consultants; and a new approach to working with partners in civil society and the private sector was developed, following wide consultation within Kenya.

Building on this analysis, a draft Country Plan was issued for consultation in January 2004. Comments were received from a wide range of stakeholders, and consultations were held with key Government officials and development partners. The draft was also discussed at a lively public meeting hosted by a Kenyan civil society organisation. DFID also benefited from the views of the International Development Committee of the UK House of Commons. The committee visited Kenya in January 2004 and held a subsequent inquiry into the Country Plan and Kenya's progress towards the Millennium Development Goals. The Secretary of State for International Development appeared before the Committee on 24th March 2004. Evidence submitted to the Committee as part of their inquiry was also taken into account when producing this final version of the Country Plan.

Annex 3: Development partners active in Kenya

Technical Coordination Group	Active Development Partners
Agriculture and Rural Development	US, EC, Germany, UN, Belgium, Denmark, Japan, Sweden, World Bank, DFID
Air Transport	Netherlands, US, World Bank, BHC
Decentralisation	World Bank, EC, Sweden, DFID
Education	DFID, Japan, UN, Canada, Italy, World Bank
Environment	UN, Belgium, Netherlands, Japan, World Bank, DFID
Health and Population	World Bank, Germany, US, UN, EC, Belgium, Denmark, Japan, Sweden, DFID
HIV/AIDS	UN, World Bank, US, France, EC, Canada, Japan, Sweden, DFID
Legal Sector Reform	DFID, EC, US, UN, Canada, Netherlands, Sweden, World Bank
Private Sector	DFID, Germany, US, UN, France, EC, Canada, Denmark, Netherlands, Japan, World Bank
PRSP Monitoring	UN, World Bank, Germany, Sweden, DFID
Public Expenditure Review	World Bank, Germany, US, UN, EC, Sweden, DFID
Public Service Reform	World Bank, US, UN, EC, Italy, Netherlands, Sweden, DFID
Roads	EC, Germany, France, Denmark, Netherlands, Japan, World Bank
Water and sanitation	France, Germany, UN, Denmark, Italy, Japan, Sweden (also representing DFID), World Bank

Note: First-named agency is current lead (sometimes shared with second-named)

