KENYA
Interim Poverty Reduction Strategy Paper 2000 - 2003
Prepared by the Government of Kenya

I. INTRODUCTION

1.1 The primary development goal for Kenya is to achieve a broad-based, sustainable improvement in the standards of welfare of all Kenyans. This will require a concerted effort to tackle the intolerably high incidence of poverty that now afflicts about half our population. While Government has a particular responsibility for spearheading action and creating a positive framework, the private sector, non-governmental and community based organisations all have a vital role to play in meeting the challenge of poverty reduction. Kenya must mobilise all available resources and use them efficiently and effectively in the fight against poverty.

1.2 Our most precious resource is the people and their potential to work for the collective betterment of our nation. Poverty wastes this resource and its potential. Poverty has numerous manifestations including low and unreliable income, poor health, low levels of education and literacy, insecurity and uncertain access to justice, disempowerment, and isolation from the mainstream of socio-economic development. It is, therefore, necessary to devise multi-dimensional policies and interventions that will provide a permanent solution. The poor must be provided with the means to help themselves through income earning opportunities, ready access to means of production, the provision of affordable, basic services and the protection of the law. This will not be achieved through temporary relief programmes but only through a deliberate and long term policy to increase equity of opportunity and to ensure that all members of our society can participate fully in the socio-economic development of Kenya.

1.3 A fundamental prerequisite for poverty reduction is economic growth that considerably outpaces population growth. Over the past few years Kenya's economy has declined in per capita terms. As a result, the standard of living for the vast majority of the population has suffered and the level of poverty has risen alarmingly. Therefore, the Governments immediate priority is to restore and sustain rapid economic growth in order to generate the wealth and economic expansion necessary to reduce the incidence of poverty. Over the next three years, the foundations for a broad, sustained attack on poverty and the creation of a more equitable society must be strengthened. At the same time, Government, working together with civil society and development partners, will take a number of targeted short term measures to directly address some critical causes and manifestations of poverty.

1.4 Kenya's Interim Poverty Reduction Strategy (IPRSP) has five basic components and policy objectives:

- to facilitate sustained and rapid economic growth;
- to improve governance and security;
- to increase the ability of the poor to raise their incomes;

- to improve the quality of life of the poor; and
- to improve equity and participation.

The Strategy outlined in this paper will be used by Government as a national planning framework upon which detailed sectoral priorities, programmes and allocations will be developed within hard budget constraints determined by projections of economic performance. It will also outline the policies, reforms and programmes that the Government will instigate over the coming three years to realise the objectives described above. It is the first phase of implementing the National Poverty Eradication Plan (NPEP).

1.5 **IPRSP Consultation Process:** This IPRSP was developed with broad consultation with various stakeholders within and outside the Government.

1.5.1 **Within the Government:** An MTEF Secretariat, six Sector Working Groups and a Macroeconomic Working Group were established. These Groups comprised of several sub-sectors in the Government. The sub-sectors provided inputs/priorities arrived at with consultation with various stakeholders in these sub-sectors.

1.5.2 **National Poverty Eradication Plan:** The Kenya NPEP was formulated through extensive participation of civil society, private sector, NGOs and Government agencies. This information was particularly useful in poverty analysis for this IPRSP.

1.5.3 **IPRSP Consultative Forum:** The climax of this process was the National Stakeholders Consultative Forum which was organized by the Government to discuss the draft IPRSP. This Forum brought together over 300 Kenyans from Private sector, Government, Media, NGOs, Civil Society, Women leaders, Research Institutions and Think tanks. At the end of this forum several cross cutting issues emerged, namely: the need to build and enhance partnerships and participation of Kenyans in decision making; gender mainstreaming; need for affirmative action for the vulnerable groups; need to improve education and health; HIV/AIDS as an issue affecting all; security and good governance as a priority action; need to improve infrastructure; and weaknesses in monitoring and evaluation of policies and development programs that needs addressing B these issues are given due consideration in this IPRSP.

Very importantly, forum participants acknowledged that the voices of the poor were missing in the forum and therefore the need to decentralize the consultation process to districts and communities. The Government assured the stakeholders of commitment to facilitate a decentralized dialogue. See the Participation Plan - Annex 1.

II. POVERTY IN KENYA TODAY

2.1 The poor constitute slightly more than half the population of Kenya. Women constitute the majority of the poor and also the absolute majority of Kenyans. Three-quarters of the poor live in rural areas. The bulk of them are located within the highly populated belt stretching South to South-East from Lake Victoria to the Coast which straddles the rail and road corridors.

2.2 Preliminary results of the 1997 Welfare Monitoring Survey (WMS), summarised in Table 1 of Annex 2, show that the incidence of rural food poverty was 51%, while overall poverty reached 53% of the rural population. In urban areas, food poverty afflicted 38% and overall poverty 49% of the population. The overall national incidence of poverty stood at 52%. According to available estimates, over the past 25 years food poverty has increased more than absolute poverty. The number of poor increased from 3.7 million in 1972-3 to 11.5 million in 1994. Thereafter, numbers increased to 12.5 million in 1997 and is now estimated to have reached some 15 million.

2.3 The geographic distribution of poverty is illustrated in Table 3 of Annex 2. According to the WMS 1994 and the Participatory Poverty Assessment (PPA) 1996, the prevalence of overall poverty in 1994 was highest in North Eastern Province (58% of population), Eastern (57%), and Coast (55%) while the lowest were Nyanza (42%) and Central (32%). However, by 1997 indications are that not only had poverty increased rapidly but that its distribution had changed with Nyanza (63%) recording the highest level followed by Coast (62%) although Central still recorded the lowest incidence (31%).

2.4 Major characteristics of the poor include landlessness and lack of education. The poor are clustered in certain socio-economic categories that include small farmers, pastoralists in ASAL areas, agricultural labourers, casual labourers, unskilled and semi-skilled workers, female-headed households, the physically handicapped, HIV/AIDS orphans and street children. The poor have larger families (6.4 members compared to 4.6 for non-poor) while in general rural households are larger than urban. Geographically. North Eastern and Coast Provinces have the largest poor households. Nationally, poor women have a higher total fertility rate (rural 7.0 and urban 4.8) than non-poor women (rural 6.7 and urban 4.1). Studies in Kenya show that fertility rates decline with education while the use of family planning is higher among the non-poor.

2.5 According to evidence on health status, the prevalence and incidence of sickness are similar for both the poor and non-poor. However, the response to sickness is markedly different. An overwhelming majority of the poor cannot afford private health care (76% rural and 81% urban)

The poor are defined as those who cannot afford basic food and non-food items. In 1997 the minimum cost to satisfy a daily 2250 calories requirement was estimated to be Ksh927 per person per month in rural areas and Ksh1,254 in urban areas. These define the food poverty line. When non-food necessities were added, the overall poverty line in rural areas was taken as Ksh1,239 per person per month and for urban areas as Ksh2,648. Over the past decade, data on the incidence of poverty arise from three Welfare Monitoring Surveys (1992, 1994 and 1997) and two Participatory Poverty Assessments (1994 and 1996). Earlier estimates were derived from a Rural Household Budget Survey (1981-82), an Urban Household Budget Survey (1982-83) and the Integrated Rural Survey (1974-75).

and rely on public health facilities. However, 20% of the urban poor and 8% rural poor found even public health charges unaffordable. Furthermore, 58% urban and 56% rural poor reported that they do not seek public health care because of the unavailability of drugs. A further indicator of disparity is that only 37% of poor mothers gave birth in hospital compared to 58% of the non-poor mothers.

2.6 Empirical evidence shows that 13% of the urban poor have never attended school at all while the comparative rural figure is 29%. Of the poor, only 12% of those in rural areas have reached secondary education while for the urban poor the figure rises to 28%. Dropout rates have risen, as have disparities in access, due to geographic location, gender and income. The main reason for not attending school is the high cost of education. Children are also required to help at home, while for girls socio-cultural factors and early marriage are significant factors.

2.7 Regardless of poverty, over 50% of Kenya's households do not have access to safe drinking water, although the proportion is higher for the poor. In urban areas, large populations living in informal settlements within the towns and cities have no access to safe water. In rural areas there are large disparities between geographic areas where in North Eastern and Eastern Provinces less than 30% of the poor have access to safe water compared to some 60% in Western Province.

2.8 Certain occupations, such as subsistence farmers (46% poor) and pastoralists (60% poor), have a higher than average incidence of poverty. Subsistence farmers account for over 50% of the total poor in Kenya. While the poor cultivate, on average, more land and have more livestock than the non-poor, the non-poor earn more than two and one half times the income from cash crops and more than one and one half times the income from livestock sales. This pattern can be partly attributed by differences in the fertility of land and the affordability of inputs to improve productivity. For livestock, cultural factors and the lack of high-grade stock and poor access to markets could account for low sales among the poor.

2.9 Studies in Kenya indicate that women are more vulnerable to poverty than men. For instance, 69% of the active female population work as subsistence farmers compared to 43% of men. Given that subsistence farmers are among the very poor, this relative dependence of women upon subsistence farming explains the extreme vulnerability of women. These problems are most severe in arid and semi-arid areas where women spend a great portion of their time searching for water and fuel. The release of women's productive potential is pivotal to breaking the cycle of poverty so that they can share fully in the benefits of development and in the products of their own labour. In the urban areas, the proportion of poor female-headed households was higher than male-headed households in 1997. Both rural and urban women in 1997 were severely affected by poverty. This means that women are affected more by development process and the area of residence plays a major role in poverty status of women. However, poverty is still pre-dominant in the rural areas for both men and women, meaning targeting needs to be intensified in the rural areas.

2.10 Inequitable access to the means of production (land and capital), the distribution of wealth, reduced access to economic goods and services and remunerative employment are all causes of poverty. Poverty adversely affects participation in social and political processes and denies life choices while the poor are particularly vulnerable to natural disasters. In terms of income distribution, Kenya ranks highly as inequitable. Estimates indicate that a high proportion of wealth is concentrated in a very small proportion of the total population. This income concentration is the highest amongst the 22 poorest countries and is exceeded only by Guatemala (per capita income US$1340), South Africa (US$3,160) and Brazil (US$3,640).

2.11 The indicators demonstrate the depth and breadth of poverty in Kenya today and the magnitude of the challenge. The fight against poverty, ignorance and disease has been a major goal of Government since independence. However, it is evident that efforts to-date have been inadequate and the growth of poverty has not been reversed. In response, Government is mounting a new effort which will incorporate wider consultation and broader participation of various stakeholders. This is designed as an ongoing long term poverty strategy for policy and programme development.

III. RESTORING ECONOMIC GROWTH WHILE MAINTAINING MACROECONOMIC STABILITY

The Medium-Term Macroeconomic Framework

3.1 Kenya's economic performance weakened in the course of the 1990s to the point that in several years real per capita income fell, while unemployment continuously increased and poverty became ever more pervasive. Among the causes of this unsatisfactory performance were stop-go macroeconomic policies, the slow pace of structural reform, and governance problems. The often lax fiscal policy led to the accumulation of short-term government debt which, in combination with declines in the saving rate, translated into very high lending rates in real terms in recent years. This, together with other high costs of doing business in Kenya on account of corruption, increasing insecurity, deteriorating infrastructure and public utilities, inefficient parastatal sector, inappropriate regulatory framework and other market distortions depressed investment and its effectiveness, and as a consequence employment and economic growth. Finally, in the 1990s, the AIDS pandemic has been incapacitating and killing an increasing number of people and imposing a rising social and economic burden.

3.2 In the period since 1998, the Government began to vigorously address the causes of financial instability and low growth. It has reduced fiscal deficits, and thus Government borrowing, and pursued generally tight monetary policies, which together resulted in declines in inflation and real interest rates. Some modest progress has been made in structural reforms, and more recently, significant steps have been taken to improve governance. These policies have started to pay dividends reflected in an average annual inflation of about 5 percent in May 2000, gross reserves covering about 2.6 months of imports, and a relatively stable market determined value for the shilling. Real GDP growth, however, is estimated to have continued to decline, from 1.8 percent in 1998 to 1.4 percent in 1999, reflecting the constraints mentioned above as well as the embedded weak investor confidence. The external current account deficit (excluding official transfers) narrowed by 1.5 percent of GDP to 3.2 percent in 1999 as the slowdown in economic activity weakened imports, more than offsetting a decline in exports, while the terms of trade remained broadly unchanged relative to 1998.

3.3 Kenya's macroeconomic strategy for the next three years is aiming at progressively increasing real per capita GDP growth to at least 3 percent a year on a sustainable basis, keeping inflation below 5 percent, gradually increasing foreign exchange reserves to provide 4 months of import cover, and maintaining the current account deficit at sustainable levels. This will require a considerable rise in the efficiency and level of investment, which is likely to come about only if:

(i) there is visible progress in the area of governance, so that an enabling environment for the private sector is put in place and public resources (at the central Government and local authority levels) are effectively allocated toward improving infrastructure and security, while decisively addressing health and education priorities of the population;

(ii) stabilization gains achieved since early 1998 are further consolidated and the domestic debt burden is reduced, so that real interest rates are reduced while the national savings rate increases;

(iii) the allocation of resources is improved through an acceleration and broadening of the scope of structural reform, including improving the regulatory environment affecting the priority area of agriculture which has direct implications for poverty alleviation; and

(iv) the Governments pro-active role in facilitating the expansion of the private sector and assisting the private sector gain access to export markets and attract foreign investment is enhanced.

3.4 Following these reform measures, real GDP growth is expected to rise from an estimated 1.4 percent in 1999 to about 6 percent in 2003. A pickup in agriculture (mainly food production and coffee) and tourism is expected to be the main source of recovery of economic growth early on. A strong upturn in manufacturing, export-oriented agricultural (mainly horticulture) and the services sectors is projected to add to and sustain economic growth over the medium term. To this end, gross investment as a proportion of GDP would need to rise steadily from an estimated 16 percent in 1999 to about 25 percent over the medium term, with the bulk of investment coming from the private sector, as investor confidence recovers, key privatizations take place, and infrastructure priorities are addressed. Government investment focused on restoring the delapidated physical infrastructure is projected to increase from 4 percent of GDP to about 5 percent, but a marked improvement in its efficiency is expected as governance improves. Increased donor support for the economic programme would help in the planned reduction of the domestic debt (burden), which together with the confidence-building effect of sustained fiscal prudence, would help reduce the high domestic real interest rates and encourage the projected private sector investment. To finance the needed investment and avoid large increases in the external current account deficit, gross national savings would need to rise over the coming years, from an estimated 13 percent of GDP in 1999 to about 20 percent over the medium term. This would come about from increased per capita income growth, enhanced prospects of macroeconomic stability, and improvements in Government savings.

3.5 While higher growth is a necessary condition for increasing employment opportunities and reducing poverty, specific policies, such as reprioritizing and enhancing the efficiency of public expenditure, particularly in the social areas, security, and infrastructure, as well as gradually building a well-targeted social safety net, are needed to ensure inter alia that the benefits of growth will reach all parts of society, and especially the weaker ones. In this regard, the Government, in the context of the consultative PRSP process and the Medium Term Expenditure Framework (MTEF) exercise, has established the concrete priorities and policies for growth enhancement and poverty reduction that, after costing, are to be incorporated in the budget for 2000/2001 and in MTEF for the coming three-year period. The Government has sought to ensure that the policy prioritization mentioned above is consistent with high growth and macroeconomic stability, by adopting prudent overall fiscal and monetary targets and actively reallocating expenditure away from lower priority areas. (See annex 5: Tables 2&3)

3.6 The medium-term fiscal objectives that are enshrined in the first MTEF, covering fiscal years 2000/2001 to 2002/2003, are to aggressively reduce the domestic debt to GDP ratio with a view to lowering domestic real interest rates and allowing resources to shift to the private sector (as well as to priority expenditures in the budget as the Government interest bill is reduced), and contain the tax burden at about 25 percent of GDP in order to stimulate domestic and foreign private sector investment. Moreover, while expenditure is being reallocated according to poverty reduction and growth enhancement priorities, overall Government expenditure would remain at about 26 percent of GDP over the MTEF period. This scenario would imply a budget deficit (commitment basis and before grants) of 1.5 percent of GDP in 2000/2001, and a gradual reduction of that deficit over the medium term, compared to a projected deficit of about 0.6 percent of GDP in 1999/2000. This fiscal strategy would be consistent with containing the external current account deficit to sustainable levels even in the face of projected significant increases in private investment. Most importantly, this strategy would crucially rely on significant privatization proceeds on account of an ambitious privatization schedule over the coming three years and a substantial increase in foreign financing which will have to be identified.

3.7 The Government will continue its ongoing efforts to reform the tax and fee system in order to improve the investment environment, reduce where possible the tax burden on the economy, and improve the fairness of the system, including widening the tax net to bring in those evading taxes and by shifting the tax burden in various ways away from the poor. This will require continuation of the ongoing efforts to modernize tax administration and the formulation and implementation of a well-thought out tax policy. For example, under the income tax, personal reliefs and brackets will be expanded to ensure that the poor are left out of the tax net and that the burden on the lower income groups does not suffer inflationary bracket creep. The Government will also consider effective investment incentives and further rationalization of licenses and fees which could accelerate investment, and reinforce the effect of the improvements in the macroeconomic environment, governance, infrastructure, and security.

3.8 The Government is embarking on the rationalization of the trade regime, aiming to render it less distortive as well as more predictable and transparent. In the area of customs tariffs, domestic production will be supported through marked reductions in the duty rates on raw materials and other inputs into manufacturing to bring them in line with the equivalent tariffs of major regional partners. Tighter supervision will also be applied to COMESA trade to ensure that the rules are being followed and that Kenyan exports are getting fair access to the markets of COMESA members, while anti-dumping legislation will be enforced to ensure fair competition for Kenyan products. Over the medium-term, efforts will be made to harmonize, rationalize, and reduce tariff structures within the region. In the meantime, duty exemptions will be minimized and areas of discretion reduced to address bureaucratic delays, avoid revenue loss, and reduce opportunities for corruption.

3.9 The role of monetary policy over the MTEF period would be to maintain an inflation rate below 5 percent by adhering strictly to the quantitative targets of the Central Banks monetary program (see annex 6), as this would best serve the goal of sustainable growth resumption. In this context, the Central Bank will continue to let markets determine interest rates and the exchange rate. To help reduce the country's vulnerability to extreme shocks, the Central Bank will strive to maintain its international reserves to cover about 4 months of imports of goods and nonfactor services, through a predetermined schedule of monthly net purchases. There will be continued efforts to develop further the use of indirect monetary policy instruments and increase the depth and breadth of financial markets. Great emphasis will continue to be placed on safeguarding the health of the financial system, and the Central Bank will continue to build the supervisory capacity and support initiatives of its Bank Supervision Department. Moreover, restructuring plans under way for certain banks will continue to be pursued with rigor and the Government will aim for its divestiture from the banking system, with a view to improving efficiency and governance.

IV IMPROVING GOVERNANCE

4.1 Good governance is a fundamental building block of a just and economically prosperous society and, therefore, is an essential component of action to reduce poverty. Since mid-1999, the Kenyan Government has identified and implemented an extensive set of measures in the area of governance as part of a systematic approach to address the problem. The approach has focused on: (i) enhancing accountability and transparency; (ii) strengthening oversight bodies; (iii) strengthening budget planning and execution; (iv) changing the incentive mechanisms faced by potential participants in corruption; and (v) removing rent-seeking opportunities. Furthermore, in March 2000, cabinet adopted a significant list of measures (Annex 3), covering all the areas mentioned above and a concrete timetable of implementation. A significant number of the measures in the list are to be implemented over the next few months and most others will be completed by the end of fiscal year 2000/2001. It is envisaged that the list would be updated and extended on the basis of the conclusions that will arise from the consultative process for the PRSP. The measures in the list will reinforce the existing financial rules and regulations and the governance measures adopted since mid-1999. Some of the main elements of the governance improvement program are highlighted below.

4.2 A sustained drive against corruption in all parts and at all levels of the public sector will be carried out by Government, the Kenyan Anti-Corruption Authority (KACA) and the police. A policy of zero tolerance of any corruption has been adopted. To facilitate the direct fight against corruption, the Parliamentary Select Committee on corruption has, in consultation with KACA drafted a comprehensive Anti-Corruption and Economic Crimes Bill which will be presented to Parliament for debate and enactment. The independence of KACA will be protected and the resources provided to enable it to undertake active investigations and timely prosecution. As well as pursuing cases of past corruption, KACA will develop and promote a prevention-orientated strategy to deter future occurrence. KACA will be strengthened and enlarged to extend its effective coverage to all parts of the country. Other measures will include: introducing a system of monitoring performance of public servants, strengthening the Efficiency Monitoring Unit, and, establishing a permanent complaints office for members of the public to report any excessive abuse of power by public officials.

4.3 The Government is preparing legislation on a Code of Ethics for all public office holders and working out the modalities and a form of a wealth disclosure system for senior officers. Although in the immediate future, civil servants cannot be denied the opportunity to engage in business, all public office holders will be required to disclose any conflict of interest between their public duties and private business and will be barred from any Government affairs which touch on such conflict of interest.

4.4 Government has already taken steps to overhaul and introduce greater transparency in public procurement and contracting procedures. The practices adopted for the Central Tender Board will be extended to cover tender boards throughout the public service. The public must be assured that Government obtains value-for-money when letting contracts. Responsible Ministries and other agencies will be required to ensure exacting standards are demanded in contracts and that implementation strictly adheres to the quality and quantity specified, within the price and on time. Contractors and consultants who fail to meet their obligations will be barred from tendering for future contracts.

4.5 Government finance, accounting and internal audit systems and procedures are being strengthened to ensure more efficient delivery of public service, and improve transparency and accountability in the use of public funds. Activities include the recently concluded recruitment for the newly established Finance Officers. An Integrated Financial Management System is to be introduced in all ministries and districts over the next 18 months. The system will provide timely and accurate information on disbursements, payments and commitments, and will control over-expenditures, unauthorised payments and pending bills. Transparent financial accountability will also be enhanced through revision and modernisation of relevant legislation with a view to facilitate effective and transparent flow of public funds to intended purposes and to reflect financial management changes being introduced under the MTEF.

4.6 Throughout Government, financial regulations and procedures will be enforced to ensure that allocations and actual disbursements are used efficiently for the purpose for which they are intended. Wherever found to be necessary, independent control agencies will be established to oversee the management of public resources. One example is the Roads Board recently established to oversee expenditure on roads. The increasing efficiency of expenditures will quickly benefit the poor in terms of the more effective provision of services. Another example is

Governments move to de-politicise emergency aid delivery by involving civil society and therefore improve food aid targeting for the very poor.

4.7 Local Authorities will be the target of focussed intervention to improve local economic governance, transparency and accountability. Through the Local Authorities Transfer Fund (LATF) mechanism, local authorities will be improving their local service delivery and financial management through submitting improved budgets, financial accounts, debt resolution plans, local revenue enhancement plans, and local authority service delivery plans in order to annually receive the LATF monies. In addition, local authorities will be introducing a local-level Integrated Financial Management System (IFMS) to assist in the efficient and transparent management of all local expenditure and revenues. Furthermore, a special LATF monitoring system is being established to monitor the use of all LATF monies as well as other local Government expenditures.

Immediate Priorities

4.8 The following are considered the most immediate priorities for Government action to improve governance:

- Strengthening the operational capacities of KACA and other necessary steps to combat corruption;
- Increasing the transparency of procurement procedures in all parts and all levels of the public service;
- Increasing the effectiveness of accounting and audit procedures through the introduction of the Integrated Financial Management System;
- Implementation of a code of ethics for all public servants;
- Implement policies to combat discrimination within the public service and introduce necessary legislation to support the rights of women and the disabled;

V. RAISING INCOME OPPORTUNITIES OF THE POOR

5.1 The goal to raise GDP growth to 5% per annum by the end of this strategy period and thereafter to a sustained level of 6-7% per annum will result in significant increases in national wealth. However, national growth will not necessarily be spread evenly across all sectors of the economy and between all members of society. Historically, the service sector has grown at much higher rates than either manufacturing or agriculture while rural agricultural smallholders have, in general, not benefited to the extent of those employed in urban enterprises. The poor in all circumstances will be ill-placed to take advantage of economic growth unless deliberate interventions are put in place to increase their opportunities and access to the resources, skills and services required for them to rise out of the poverty trap.

5.2 With 80% of the population and the majority of the poor living in rural areas and reliant upon small-holder agriculture and livestock production, often at subsistence levels, it is evident that poverty reduction calls for higher agricultural growth rates. But with increasing population pressure on the land, it is equally important to expand non-farm employment in the rural areas. For the poor in urban centres, increased access to employment and self-employment in both the formal and informal sectors will be vital. As female-headed households constitute a significant proportion of the poor, any intervention must be gender-sensitive. All these will require very substantial improvements in infrastructure services and a conducive legal and regulatory environment.

Immediate Priorities

5.3 Detailed policies to increase the ability of the poor to raise their incomes are contained in the sector chapters, specifically Agriculture and Rural Development, Trade Tourism and Industry and Physical Infrastructure. Briefly, the following are considered the most immediate priorities for Government action:

- Dismantling intrusive, restrictive and outmoded laws and regulations in all the productive sectors while maintaining adequate protection for workers, society and the environment;
- Creating an effective agricultural advisory service that provides practical, cost-effective extension to the smallholder;
- Establishing an effective and efficient private marketing system for agricultural produce that enables producers to maximise their returns;
- The promotion of rural non-farm employment;
- The rehabilitation and subsequent adequate maintenance of all physical infrastructure, particularly feeder roads, ports, etc.;
- Implementing widespread labour-intensive roads schemes;
- Overcoming the existing shortfall in electricity supply and reduce its cost.

VI. IMPROVING THE QUALITY OF LIFE

6.1 The Government will focus resources on improving the provision of and access to basic social services that are most needed by the poor. They are education, particularly primary education, health, and water supply. In all of these activities, Government will seek a closer working relationship with development NGOs, religious organisations, and other private providers to increase the range and quality of provision.

Immediate Priorities

6.2 Detailed policies to improve the quality of life are contained in the sector chapters, specifically, Human Resource Development and Physical Infrastructure. The following are considered the most immediate priorities in this area for Government action:

- Increasing primary school enrolment and completion;
- Enabling more poor children to attend secondary school;

- Providing all public primary healthcare facilities with an appropriate and adequate supply of drugs;
- Making essential primary health care drugs and treatment affordable to the poor;
- Increasing the provision of portable water in poor areas and working with all communities to enable them to assume responsibility for managing and maintaining water supplies;
- Prepare enabling legislation for the privatisation of urban water supplies.

VII. IMPROVING EQUITY AND PARTICIPATION

7.1 A fundamental theme of this IPRSP will be the equality of all members of the Kenyan family. It is important that the policies which are formulated for the country's development should aim at ensuring that there is an equitable distribution of income among the citizens and equitable distribution of economic activity among the regions. This is the only way for Government to address emerging threats of social unrest and crime, thereby ensuring continuance of order and social justice. The potential contribution of policies and strategies which would increase the number of jobs and income generating opportunities cannot be over emphasized. Kenya's resources of water and land must be exploited in ways which ensure the participation of smallholders, since involving more people in the production process reduces the inequities which arise from very skewed income distribution patterns and enhances the objective of equity and participation.

7.2 In order to ensure that all Kenyan citizens participate in the development of the economy, it is necessary to identify appropriate spatial strategies. These must contribute to balanced development which will reduce inequalities of access and opportunity, whether based on location, sex or occupation. Equity and participation are cross cutting issues. Therefore throughout this Paper improving equity and participation will be of highest priority. Sector policies and priorities will attempt to address positively the crucial issue of equity and participation.

SECTOR POLICIES AND PRIORITIES

VIII. PHYSICAL INFRASTRUCTURE SECTOR

8.1 The provision of well maintained physical infrastructure is key to economic growth, employment generation and poverty reduction. Production costs, competitiveness and access to markets depend upon the quality of infrastructure. The current poor state of all infrastructure acts as a major constraint on economic performance and is a major factor in rising levels of poverty.

8.2 **Roads:** The Government is taking appropriate measures to restore transparency, accountability and professionalism in the roads sector. The measures include: strict and transparent contracting procedures; quality inspection; prompt auditing and accounting for road maintenance funds; improved payment and disbursement systems; strict adherence to specified standards; strengthening the capacity of implementing agents; and blacklisting defaulters and non-performing contractors.

8.3 The Roads department will implement the roads strategic plan and give priority to routine maintenance of the classified network, focus on periodic maintenance of the main trunk roads and provide basic access by spot improvement of unpaved feeder roads. In areas where labour intensive techniques are appropriate, especially in rural and minor feeder roads, the Government will sub-contract maintenance to communities which will use labour-intensive methods. The use of local labour will provide employment to local communities, boost the rural economies, and contribute significantly towards poverty reduction. In addition, the Government will place attention on improving the unclassified road networks, improving local infrastructure to promote further investment, growth and access to markets and local services. These strategies will be implemented through the Kenya Roads Board, which will use central and local road agencies to deliver the construction and maintenance of road services. In addition, the Government will promote intermediate means of transport (bicycles and animal drawn carts) which will increase poor peoples mobility. Emphasis will also be on construction and maintenance of rural tracks and footpaths that will increase rural access to service and market centres.

8.4 In order to attract the large investment and management skills needed to expand and modernize the main road corridors from the port to the neighbouring countries, the Government will design appropriate road concession arrangements to attract the private sector to construct, maintain and manage the major highways as toll roads. The Government will initiate this approach first on the Mombasa-Nairobi-Malaba road.

8.5 **Energy:** Wood fuel, accounting for about 70% of all energy consumed, is by far the largest source of energy in the country, followed by petroleum at about 21% and electricity which accounts for the remaining 9%. The Governments sector development priorities include measures to shift the pattern of energy consumption towards modern forms of energy, in order to protect the environment and to provide energy forms, particularly electricity, necessary for economic growth.

8.6 Current gross power generation capacity is about 1030 MW. The effective capacity is about 946 MW and the system peak demand is 831 MW. With system losses estimated at about 18.5%, the system capacity is inadequate to meet demand even under conditions of normal hydrology, since a breakdown of a major power plant would lead to a supply deficit. This year, because of drought conditions, the supply deficit is expected to range from about 121 GWh to 149 GWh per month corresponding to large economic losses.

8.7 The Governments principal policy objectives are therefore to : (i) implement urgent measures to minimize the impact of the current power crisis on the economy; (ii) ensure adequate supply of energy to the economy, in the medium to long term, in order to support economic growth; (iii) increase the proportion of the population with access to electricity, particularly the urban and rural poor; and (iv) intensify exploration of indigenous energy resources so as to minimize the costs of energy and promote use of environmentally clean technologies.

8.8 **Short-term Measures to Address Power Crisis:** The Government will devise a load shedding program, in consultation with stakeholders, that minimizes the impact on the productive sectors of the economy, taking into account to the extent possible the ability of the large consumers to shift their operations to non-peak demand periods. The program will be publicly announced and adhered to so as to enable businesses to plan their operations accordingly. The Government also plans to expedite and firm up arrangements for imports of power from Uganda. Consideration is also being given to repairing and bringing into operation a retired steam unit at Kipevu. Further consideration is being given to emergency procurement of mobile generation capacity on rental/purchase basis.

8.9 **Medium to Long Term Measures to Ensure Adequate Power Supply**: Committed generation projects for a total capacity of 373 MW are to be expeditiously implemented for commissioning between FY2000/2001 and FY2003/04. About 313 MW of this capacity is thermal, reflecting the Governments deliberate policy of diversifying from a hydro power dominated system to one with balanced thermal complementarity. Private sector companies will develop, own and operate about 249 MW of the committed capacity. The Kenya Power and Lighting Company (KPLC) will implement a system loss reduction program to reduce losses by about 1% annually to 15.5 % by June 2003. This will enable a given level of power generation to meet a higher level of demand than with the current rate of system losses. Further measures to ensure long term reliable and efficient power supply include; reviewing the power market structure to define a vision for a more competitive market and implementing such a market structure; and aggressively exploring options for competitive electricity imports, and particularly connections to the Southern Africa Power Pool.

8.10 **Measures to Increase Access to Modern Forms of Energy:** To increase access to electricity in the rural areas, where poverty is prevalent, the Government will invest about US$13 million annually under its rural electrification program. The program will target market centers, public facilities and social amenities so as to aid business creation and income generation. The Government will also carry out studies to define and implement an institutional and financing framework for accelerated rural electrification on a sustainable basis. This framework should hopefully facilitate the expansion of the program through increased donor funding support and should provide less costly strategies and technologies for expansion of access.

8.11 The Petroleum Act is also being reviewed to broaden the scope for further deregulation of the petroleum market and increase market access to modern forms of energy. Related infrastructure will also be constructed in Nairobi to enable road trucks to load products from the pipeline, thereby increasing competition in the distribution of products.

8.12 Exploration and Development of Indigenous Energy Resources. The Government will implement its programs for geothermal resources, a key resource for producing electricity competitively, and an area in which Kenya is the only country in the region with the technical expertise and competence. Other efforts will be directed at developing efficient energy appliances (stoves, etc) that encourage environmentally sound resource exploitation and promote better health among the population; and continued exploration of fossil fuels.

Information, Transport and Communication

8.13 **Telecommunications:** The Government has enacted the Kenya Communications Act 1998 to allow private sector participation and attract investments, drive down prices and catalyse the rapid expansion of the cellular subscriber base, and improve telephone density. There are plans to reduce tariffs for international services by 18 percent during the next financial year and provide additional payphones in all urban, market and rural centres.

8.14 **Air Transport:** Air Transport remains the major transport mode for tourists, high value exports and perishable goods and for promoting regional integration. Improvement of airport facilities and landing strips through maintenance and equipment provision will enhance the quality of air services. This will include delinking the Directorate of Civil Aviation (DCA) from the central Government into a Civil Aviation Authority.

8.15 **Urban Infrastructure Management**: The current urban transport problems have been compounded by ineffective local Government management of finances, poor planning and service delivery. The strategies will be to improve overall local Government management, focusing on improved financial management and revenue mobilisation systems and infrastructure management service delivery systems. The Government will provide increased attention to strengthen the overall local Government sector, provide increased resources for infrastructure construction and maintenance through mechanisms such as the LATF and Road Maintenance Levy Fund (RMLF), enhance the capacity of local technical and management staff and sub-contracting infrastructure related construction and maintenance.

8.16 **Kenya Ports Authority (KPA):** Poor management, inadequate port facilities, outdated equipment, and high corruption, have adversely affected the delivery of quality services at the port of Mombasa. The present container terminal, which is rated at 250,000 (Technical Equivalent Units) TEUs per annum, has reached capacity saturation while projections to the year 2015 are 630,000 TEUs. The short-term strategy will be to improve the availability and reliability of container handling equipment through refurbishment and replacement of equipment and tug masters. In parallel, the Government will privatise certain aspects, which include the container terminal specifically, of KPAs operations through a strategic partner during the period. The aim is to reduce the unit costs to the economy by 20-30% in the first 2 years.

To further increase the capacity of KPA, proposals for building a new 180,000 TEUs per year terminal at the lighterage Quay on a Build Operate and Transfer basis will be reviewed during the period. This is to cover for future needs in the next 20-25 years.

8.17 **Kenya Railways (KR):** Use of outdated and inefficient locomotives and old railway line have resulted in high maintenance costs and unprofitable operations at KR. Efforts will be made to improve KRs telecommunications system; increase wagon availability by 25% in the next 2 years; complete the rehabilitation of 12 shunting locomotives; overhaul 35 mainline locomotives; and, relay 60 KM of the Nakuru-Kisumu branch line in this financial year with an additional 50Km being re-laid in the next financial year. This will increase capacity to haul more traffic, capture the lucrative traffic for North Western Tanzania, Rwanda and Uganda, improve transit times for the Mombasa-Malaba-Kisumu line to 3 days from 10-15 days within the next financial year. The strategy is to privatise KR through a 20-year unitary concession during the period. Assets not required for rail operations will be managed by a new organization called the Kenya Railway Assets Authority. Kenya Railways Regulatory Authority will be created to ensure the concessionaire observes acceptable safety standards and restrict monopolistic tendencies.

8.18 **Building and Construction:** The priority will be on completion of on-going projects, settlement of pending bills and termination of contracts for non priority projects. The Governments regulatory role in the provision of housing will ensure standards are met. Special attention will be given to rehabilitation of public, historical buildings and monuments. The Government will also enhance resources to improve shelter and living conditions in informal settlements.

8.19 **Water and Sanitation**: Communities have identified a strong link between poverty and lack of access to improved water supply and sanitation (WSS). Various key documents, notably the NPEP and the National Water Policy (NWP) have articulated this link and set ambitious targets aimed at increasing access to the poor. Despite significant investments, access by both rural and urban populations is limited (30% and 70% respectively) and declining due to non-performance of existing schemes. Impact has been more limited on the poor as investments have tended to benefit the better off. In an effort to develop programs that will increase poor peoples access to improved WSS as a means of improving livelihoods, the Government organized extensive consultations that resulted in the formulation of the following specific strategies.

8.20 **Institutional, legal and Policy Reforms:** The Government and stakeholders recognize that the current institutional arrangements are inappropriate and a bottleneck to achieving the set poverty reduction objective. The current legal and institutional framework is also inadequate to support the implementation of the NWP and the NPEP. The Government proposes to streamline the institutional arrangements and to review the Water Act and related legislations to create an environment for efficient use of resources, facilitate sustainable management of WSS services and delivery of benefits to the poor, especially women.

8.21 **Development of Water Supplies in rural, urban and peri-urban areas:** Current Government policy is to withdraw from direct involvement in the implementation and management of water schemes and instead, hand them over to communities, local authorities and other service providers. This will be achieved by developing a rehabilitation program with the stakeholders to enhance ownership, and facilitate choice of technologies that are appropriate for management by communities and the other service providers. Handing over also requires clearly defined mechanisms to guide the process, and a functional legal and institutional framework. To complement efforts to increase access to the poor, the Government has committed itself to promote self-help initiatives which have been in existence in the country for a long time and have had significant impact. With proper training, self-help water supplies are potentially quick winners in poverty reduction.

8.22 The Government recognises that there is inadequate capacity among service providers to take over the management of schemes on a large scale. The Strategy has, therefore, identified the need for a comprehensive capacity building programme which will require funding. There will in addition, be need to carefully plan the redeployment/retraining of Government personnel currently running the schemes through a comprehensive public sector reform programme. The initiative is being coordinated under the Office of the President.

8.23 Government policy for urban water utilities is to involve the private sector in financing and management. Although investments in urban utilities have been substantial, the poor have received little attention in planning and access remains very low. The Strategy proposes a sharp focus on peri-urban areas by developing models for distribution and management of WSS services and expansion of infrastructure.

8.23 **Water Conservation in ASAL areas** The main constraint to development, income generation and food security in the ASAL areas is inadequate water. Since it is not economically viable to plan and implement large piped schemes in these areas, the Government has identified dams, water pans, and boreholes as the most appropriate technologies. The Government proposes rehabilitation and construction of these facilities in partnership with communities and on contract with the private sector. The improvement packages will include user training on appropriate land use and range management to avoid environmental degradation.

8.24 **Water Resources Management** The incidence of violation of water rights, conflicts, and pollution have dramatically increased. In addition to arbitration and legal mechanisms, avenues for resolution to ensure fair play will be created. The Government proposes to develop a community based catchment management strategy to ensure adequate quality and quantity of water to the poor. However, for the strategies to have meaningful impact, the financing and disbursement arrangements need to be more efficient than they currently are. This implies that there is urgent need to examine the disbursing organs with a view to urgently restructure them to make them more responsive to the implementation requirements.

IX. HUMAN RESOURCE DEVELOPMENT SECTOR

9.1 To improve the quality of life, the Government will focus resources on improving the provision of and access to basic social services, particularly education and health, that are most needed by the poor. In all of these, Government will seek a closer working relationship with development partners, NGOs, religious organisations, and other private providers to increase the range and quality of provision.

9.2 **Education:** After the high enrolments of the two post independence decades, there has been a reversal at all levels of education characterized by non-enrolment, high level of drop-outs/low completion rates particularly among girls, and poor transition rates from one level of education to the other. This is attributed to the high cost of education worsened by the burden of cost sharing which has had a negative impact on access, equity and quality of education. The Government's highest priority will be to improve access to basic education and will start pursuing the target of Universal Primary Education (UPE) by lowering costs borne by parents.

9.3 To improve access to basic education, the Government in collaboration with NGOs and other development partners will supplement communities' efforts to increase the provision of textbooks and other learning and teaching materials at primary school level. At the secondary school level, more day schools will be encouraged by providing science equipment and other support materials. Textbooks will be standardized and remain relatively unchanged so that they can be utilized for longer length of time.

9.4 Bursaries will be provided for school children from poor households to cover user charges. Bursaries will also be expanded with improved targeting and special emphasis on girls. At the tertiary level, loans and scholarships will be provided for outstanding students from poor households targeted to specific degree programs in high demand by the economy.

9.5 Further, curriculum will be reviewed and rationalized to ensure quality and relevance. Specifically, taught and examinable subjects will be reduced at both primary and secondary school levels. In addition, optional subjects at the secondary schools will be reduced. This will result in reduction of the number of textbooks and range of equipment required. At the same time, equitable distribution of teachers will be carried out.

9.6 Other policy measures will include improvement in management and utilization of resources. Some of the strategies will include decentralization of teacher and school management to the district/school levels supported by capacity building and more autonomy of district/school boards, parents and teachers associations and school committees. Besides, pupil teacher ratios will be revised upwards at both primary and secondary school levels in order to allow more efficient utilization of teachers. Some of the measures will include multi-grading and double shifts teaching and subsidising the poor households on examinations fees.

9.7 In order to provide educational opportunities for children with special needs and those who are currently out of school, increased resources targeted to AIDS orphans, child workers, nomadic groups, rural poor and slum dwellers will be provided. To supplement this, curriculum will be developed to facilitate transition from non-formal to formal programs. At the tertiary level, the focus will be to shift towards rationalized degree programs which provide skills required for a modern economy. Means testing and targeting of the higher education loans scheme will be improved and affirmative action put in place to increase the number of women receiving assistance.

9.8 **Health:** This Interim Poverty Reduction Strategy Paper (IPRSP) for the Health Sub-Sector represents a major milestone by linking the objectives contained in the Kenya Health Policy Framework Paper (1994) and the National Health Sector Strategic Plan (1999-2004) to the MTEF, budget allocation.

9.9 As reflected on the attached implementation matrix linking four core sub-sector objectives to planned strategies/activities to be implemented and monitored with given outcome indicators over the next three years, there is a definite commitment to enhance equity, quality, accessibility and affordability of basic health resources to the poor both geographically and technically. There is also commitment and budgetary allocation to implement high-priority activities within the essential package of health services with particular emphasis on women and children under 5 and to decentralise control over financial resources for non-wage recurrent items, and to improve accountability and transparency. To improve access to the poor, charges for treatment of certain diseases will be dropped while the waiver system will be enforced for the very poor.

9.10 The most striking feature of the three year implementation plan is the proposed real shifts of financial, human and other resources away from curative services to preventive/promotive/rural health services sub-votes. The aim is to translate stated health policy objectives to tangible and targeted activities supported through the MTEF process to redirect health resources to those areas that provide maximum benefits to the majority of the vulnerable groups who form a big proportion of our society in line with the Poverty Reduction Strategy adopted by the Government.

9.11 The proposed strategy, focus and budget allocation will help to stimulate a reversal of the adverse factors that have stifled economic growth and help the economy to start on a sustainable growth path and achieve increased per capita incomes.

9.12 Control of HIV/AIDS is central to an effective poverty reduction strategy. The Government has declared AIDS a National Disaster. Consistent with this, the MOH proposes to implement HIV/AIDS control activities to achieve the objectives of preventing transmission of HIV among the population with a focus on the vulnerable groups.

9.13 **Population:** The Government will continue its efforts to reduce the high rate of population growth from the current 2.4 to 2 percent in the medium term. This will be done through expanding family planning services and improving information and education.

9.14 **Labour and Employment:** In order to emphasize the promotion of a productive and freely chosen employment as a priority and fundamental base for national economic and social policy, there will be a shift towards jobs creation and improvement in the productivity of labour . This will call for improvement in the provision of skills and knowledge for the workforce, the stimulation of economic growth, and the maximization of the utilization of labour and human resources in income generating opportunities. Basic rights of all segments of society to work irrespective of sex, age and geographic location will be respected.

9.15 Housing and Shelter are important for improving the quality of life and housing construction itself boosts economic growth and job creation. The current housing situation in both rural and urban areas is deplorable, with most housing facilities failing to meet minimum standards of durability, sanitation and habitable space. Demand, particularly in urban areas, outstrips supply. Measures to improve housing and shelter will include: promotion of lower cost housing (technology, materials, best practices), mobilizing lower cost housing finance and development of enabling business conditions for private sector to construct affordable housing.

9.16 **Social security:** The objective will be to create safety nets for the aged, retrenched, unemployed, disabled and displaced persons and victims of other calamities. The National Social Security Fund (NSSF), which caters only for those employed, is inadequate while traditional systems are disappearing due to the break-down of the extended family system, migration, economic hardships and poverty. Government will continue current efforts to restructure and reform the NSSF and take measures to cater for the poor and vulnerable groups with new and innovative approaches for dealing with social safety nets. This will include finding ways to strengthen the traditional safety nets; targeting HIV/AIDS infected and affected persons; cooperating with civil society and NGOs which are more experienced in this area; strengthening the Retirement Benefits Authority and National Hospital Insurance Fund; and facilitating development of more private sector pension schemes and other long-term savings instruments.

X. AGRICULTURE AND RURAL DEVELOPMENT SECTOR

10.1 Agriculture is the lifeline of 80% of Kenya's poor who live in rural areas, including farmers, workers and unemployed. 70% of Kenya's employment is in agriculture, consequently creating jobs and increasing income in that sector is vitally important and, if achieved, will have an important direct effect on poverty. Furthermore, agricultural growth can catalyse growth in other sectors, with an estimated growth multiplier of 1.64, compared to 1.23 in non agriculture, it is likely to have a strong indirect effect. Restoring high and sustainable agricultural growth is therefore critical for alleviating poverty.

10.2 Agricultural growth has been well below potential in recent years due to a number of constraints. Those which result partly from an accumulation of poor past policies and which will take time to remedy include; (i) non availability of quality seeds and inappropriate production technologies especially for small holder farming, (ii) lack of access to credit, by the majority of small holder farmers, particularly women, (iii) high cost of farm inputs, (iv) poor and inadequate rural infrastructure, especially feeder roads, power supply and market facilities. Other constraints, which Government intends to make relatively rapid efforts to ameliorate include (v) inconsistencies in policy/poor institutional and legal framework, (vi) inadequate research, inefficient extension delivery systems as well as inadequate extension services and support, (vii) poor sequencing of the liberalisation process, (viii) lack of effective co-ordination of investment activities among the key stakeholders in agriculture. Lastly, there are constraints which are almost entirely exogenous, including (ix) insecurity in high potential areas and cattle rustling in some ASAL areas, (x) unfavourable weather conditions and high dependence on rain fed production, and (xi) population pressure on the natural resource base. As a result, many indicators of rural livelihood have been worsening, indicating an increase in rural poverty.

10.3 **The Agriculture sub-sector** needs to grow at about 4-6% per annum if it is to contribute to national growth and increasing rural wealth. For this to happen in a way that effectively supports poverty reduction over most of the sector, a number of important elements need to be in place and actions to facilitate them need to be taken. These include: (i) building an effective and efficient participatory extension and technology delivery service; (ii) undertaking affirmative action in agriculture by facilitating participation of women; (iii) establishing efficient rural finance and credit supply system for smallholders and rural primary agroprocessors; (iv) ensuring policies, institutional and legal frameworks are investor friendly; (v) implementing sound land use, water and environmental policies; (vi) facilitating long term investments in farm improvement; (vii) protecting water catchment areas by developing forest plantations; and (viii) improving the governance of the co-operative sector by empowering farmers. To address specific problems of ASAL areas livestock marketing needs to be improved and small scale irrigation investments undertaken in poverty stricken areas.

10.4 The role of Government in encouraging growth in the rural sector would be redirected towards fulfilling those functions which are truly public goods. In particular it would strive to provide better research/extension linkages and which are seen as the main way of supporting effective increases of smallholder maize and traditional crop production which is undertaken mainly by the rural poor. It would also set policies to create an enabling environment which encourages investment and trade, thereby leading to job creation, which would also be of direct benefit to the poor.

10.5 **Specific priority activities**. In the medium term, focus will be on a few strategic interventions that are most likely to have the greatest catalytic effect on poverty reduction.

- **Promotion of food security**. The Government will promote food security through: consumption smoothing and social protection intervention supported by maintenance of a national reserve of three million bags of maize in physical stock and drought contingency funding of US$ 60 million in cash equivalent;
- ensuring that an early warning system is functional in all drought prone districts and continuing to have famine relief distribution and monitoring carried out by NGOs and communities;
- inspection and quality control of farm inputs through improved legislation and empowerment of farmers associations;
- control of crop and livestock pests and diseases;
- improving the technology development and transfer system through participatory group extension, private sector participation and farmer training with increasing focus on women farmers ; and,
- developing specific interventions to monitor and combat the impact of HIV/AIDS on family food security using village level approaches and extension service personnel.

10.6 **Promotion of income and employment generating crops/agricultural products:** The Government will facilitate higher production of coffee, tea, sugar, cotton, pyrethrum, horticultural crops, dairy and fish by undertaking a number of actions. These will include (i) modernising and consolidating laws and regulations particularly with reference to institutional and marketing arrangements, specifically, changing the nature of KTDA to make individual tea factories independent, splitting the regulatory function from the marketing function of the coffee board, introducing a sugar bill to help streamline sugar marketing and lead to privatising sugar factories: in addition, the relevant laws for the pyrethrum and dairy boards would also be reviewed and seed regulations formally updated to reflect the liberalised seeds policy; (ii) constructing feeder roads; (iii) promoting of research and extension particularly for food crops, which are very important for the rural poor, including developing the modalities for involving private agencies (iv) involving producers in seed multiplication and permitting KEPHIS to license private seed inspectors; (v) facilitating marketing and processing, including improvement of fish landing sites; (vi) enforcing anti-dumping measures with respect to sugar; and (vii) providing training via the extension service to help reduce post-harvest losses.

10.7 **Development of ASAL areas:** Rapid development of the ASAL areas is necessary for Kenya's future agricultural development and for poverty reduction. Two key measures in the development of ASAL areas will be the development of improved livestock marketing and improved infrastructure. Facilitation of private investment in meat processing, including restructuring and privatising the Kenya Meat Commission will help improve the purchasing, processing and marketing of livestock. Rehabilitation of existing community water pans, dams and boreholes will be intensified in collaboration with the private sector, NGOs and other development partners. Small stock and camel production will also be facilitated through disease control measures, mainly by strengthening the community based animal health approach.

10.8 **Water Subsector** There are strong links between the lack of access to improved water supply and poverty in rural areas. Specific proposals for improving rural access to clean water for human consumption as well as to increase production and incomes are outlined in the Water and Sanitation section of the Physical Infrastructure chapter. Special attention will be paid to improving the institutional, legal and policy framework for the development and management of water supply. A focus on strengthening community management of rural water for human and livestock use, and the development of new water conservation structures in the ASAL areas is included. As part of the efforts to streamline institutional arrangements, a clear delineation of responsibilities between the Government departments currently mandated to support rural water provision for livestock and smallscale irrigation will be sought.

10.9 **Forestry Subsector** Continued degradation of Kenya's forests ecosystems has considerably undermined long-term economic growth prospects and socio-political stability. Loss of soil fertility and degradation of water resources, directly attributable to this degradation has threatened the sustainability of agricultural development. Forest habitats provide home to wildlife (wildlife tourism being the second largest foreign exchange earner for the country). These habitats contain biological diversity of global importance. Although forests constitute only a small percentage of Kenya's land area they do provide essential watershed functions, industrial round wood and household fuel wood. The resultant negative impacts are seen in agriculture, public health, tourism, energy generation, timber-based industries all of which are vital to peoples livelihoods.

10.10 An improved policy and legal framework is needed to restore the integrity of Kenya's forest ecosystem, to reverse the mismanagement of the forests which has led to excisions and encroachment. Specifically, in order to effectively contribute to poverty reduction the following actions should be undertaken (1) encouraging farmers to increase and maximize production by the provision of technical advice on production, credit, markets and pricing structures for forest products, (2) promotion and development of non-timber forest products, (3) protect and enhance water, soil and biodiversity conservation, (4) create clear incentives for the increased production of forest raw material for forest based industries, (5) provide a framework for the development of working partnerships with NGOs, private sector and other stakeholders. The following strategies will be adopted in order to implement the above priorities:

- Provide a policy and legislative environment through enacting of the pending Forest Policy and Bill.
- Reorganise /restructure forestry institutions.
- Put industrial plantations under commercial management.
- Undertake a full forest resource inventory.
- Improve wood recovery rates from 30% to 50%.
- Review and adopt new forest licensing procedures
- Find a role for stakeholder contribution in local forest management and decision making.
- Draw collaborative agreements with communities, societies and advocacy groups.
- Encourage use of agroforestry practices in private farms.
- Improve Natural Forest for water and Biodiversity values.

10.11 **Land:** The poor often have no access to land and security of tenure and many are landless and squatters. Inequitable access to and rights over land reflect historical factors and weaknesses in land administration as much as failure of the market. The Presidential Commission to examine the Land Law System is underway and is expected to make far reaching recommendations on ways to create an efficient and equitable system for land ownership and administration. The Government will act swiftly to implement the commissions findings for it recognises the past failures have been a major contributory cause of poverty and a constraint on agricultural development.

10.12 In the meantime land adjudication will continue with strict adherence to existing law. A further 30,000 plots will be apportioned under the squatter regularisation programme to provide security of tenure and 22 existing settlement schemes will be surveyed for demarcation and allocation. These actions will be taken using a transparent and participatory process. Over 300,000 titles will be issued to individuals arising from the adjudication/settlement process, the subdivision of company and co-operative farms and other subdivisions of plots. Efforts will be made to clear the backlog of transfer of title deeds to new owners.

10.13 Poor management of land information has contributed to poor provision of services in land registries, rent seeking and inefficient collection of land revenues. The Government will initiate a computerisation programme during the 2000/2001 fiscal year to address the problem.

10.14 Government is aware that women, especially poor women, suffer from discrimination in respect of land rights. The issue will be addressed under the legal sector reform process.

XI. TOURISM, TRADE AND INDUSTRY SECTOR

11.1 **Background:** Declining growth in Kenya is due in part to a dramatic drop of investment from about 15 percent of GDP in the 1980s to about 10 percent of GDP in the 1990s. However, the 70 percent decline in investment efficiency is an even more important contributing factor to declining growth. The private sector at all levels (farmers, traders, processors, large and small-scale manufacturers) consistently cite the following as causes:

- Major infrastructure deficiencies;
- High interest rates;
- An administratively burdensome and costly regulatory environment;
- A legal and judicial system which does not enforce contracts transparently or reliably; and,
- Failures in management of trade and institutional policies

11.2 Taken together these factors have greatly diminished industrial competitiveness, resulted in a hollowing out of Kenya's leading industrial and agro-industrial clusters and contributed greatly to unemployment, and declining real wages. The role of the Ministry of Tourism, Trade, and Industry (MOTTI) has been fundamentally redefined to begin a counterattack on these causes of economic decline. Its mission is to facilitate, promote and champion the private sector and to create a positive enabling environment for business.

11.3 The Ministry carries out its mission in part through participation in the Joint Industrial and Commercial Consultative Committee (JICCC), which is a consultative forum, chaired by the Minister of Finance and including all Permanent Secretaries as well as members of the private sector. The JICCC was revitalized in 1999 to facilitate a dialogue between the public and private sectors and to identify, analyse, and implement policies supportive of private investment.

11.4 In early 2000, the Inter-ministerial Committee for Industrialization (ICI) was established under the Chairmanship of the Permanent Secretary for MOTTI as a working committee of the JICCC with representation from the private sector and all major ministries involved in agriculture, transport and communications, energy, public works and the Central Bank. The ICIs mandate is to remove in a cross-sectoral manner constraints to private sector development.

Actions

11.5 The Governments strategy for increasing private investment and stimulating economic growth is to implement the following short-and medium-term measures, some of which extend beyond the ministries direct operating authority but which it can still achieve indirectly through ICI.

11.6 By December 2000, the Government is committed to substantially reducing regulatory and licensing requirements and further to ensuring a more efficient administration of commercial law by:

(i) *Eliminating all requirements for trade licensing acts which constrain, control, and impose costs on business without adding value.* Thus in January 1998 all licensee fees payable to the MOTTI under the Licensing Act (CAP 497) were cancelled. Notwithstanding this reform, the requirement that enterprises obtain a trade license annually remains in place. The Ministry has undertaken to repeal the Trade Licensing Act in its entirety as well as to complete a review of licensing provisions of twelve other Acts. Its plan is to retain only those requirements relevant to the sale of fire arms, licensing of radio frequencies etc.

(ii) *Raising public awareness about streamlined local authorities licensing.* Recently an enterprise needed to procure as many as 30 licenses annually in order to operate in a single location. Effective January 2000 the Ministry of Local Authorities (MOLA) introduced the single business permit. The Act which is now mandatory requires all local authorities to issue a single business permit using a uniform tariff base selected from a schedule approved by the Ministry. As of September 1999, only 36 out of 168 local authorities had implemented the simplified system. Changes in legislation will not become effective until businesses are made fully aware of regulatory change. The Ministry has organized a forum for June, 2000 for the Jua Kali Association and Local Authorities.

(iii) *Increasing the efficiency of the commercial courts* and improve on the timeliness with which civil cases are disposed. The extended and costly resolution of civil disputes effecting contract enforcement, the confiscation and sale of collateral and the effective recourse of lenders to bankruptcy, raise transaction and credit costs greatly in Kenya. The Ministry is working with the Attorney General to expedite and codify civil proceedings.

(iv) *Eliminating excessive delays at the port which are a major source of inefficiency and excessive costs associated with trading in Kenya.* While port privatization through concessioning is being finalized, strong measures are being undertaken to increase port efficiency including (i) appointment of new management (ii) reducing the number of clearance stamps required from 27 to the bare minimum. (iii) simplifying customs clearance processes, harmonizing documentation and reducing corruption. To this end, a green list of ethical traders will be designated and clearance processes will be further streamlined for them with the expectation that they will maintain complete records for post clearance audit. Specific measures which will be used to measure the effectiveness of these programs include: (i) increase in business start-ups; (ii) a decline in the frequency and the length of civil litigation; (iii) reductions in the wait and turn-around times for importers and exporters at the port.

11.7 The second area for action and policy re-calibration involves the opening of new markets- including in particular new export markets for labour intensive manufacturers, services and agro-products and a renewed marketing effort to promote Kenya as an attractive tourism destination. In all these efforts, special attention will be focused on the opportunities presented by the Africa Growth and Opportunity Act (which opens the United States market to African manufactures) and on changes in the organization of world trade, including renegotiation of the European Community Lome Agreement.

11.8 The following initiatives will be pursued: (i) *marketing strategies undertaken both by private sector associations and by Government promotional agencies will be harmonized and coordinated*. Specifically, the following Government institutions-the Export Promotion Council, Kenya External Trade Authority, External Trade Department, Export Processing Zone Authority, Investment Promotion Centre, Tourism Department and the Kenya Tourist Board-will be subject to private sector oversight to ensure that they pursue united strategies and that they project a coherent message to potential importers and tourists; (ii) *customs duties on raw materials which are not locally available will be reduced significantly* in order to improve the competitiveness of local industries vis-a-vis duty-free imports of finished products from within the COMESA zone; (iii*) the private sector will be invited to consult with and to participate along side Government in global trade negotiations*; (iv) *commercial attaches will be stationed in countries which are major trading partners* in order to identify specific export opportunities. In addition, trade missions will be conducted to emerging markets in the middle east, the rest of Africa, central and east Asia and the cost of export promotion covered by a share of the import declaration processing fee.

11.9 In order to increase Kenya's share of the world tourism market, the Government proposes to act in concert with private sector stakeholders on the following initiatives: (i*) security for tourists will be improved* and joint public/private sector safety operations are being formed in frequented areas. For example, beach harassment is being addressed through the reassignment of beach vendors to designated areas; (ii*) tourism infrastructure-including roads, telecommunications, power, water and airport facilities-are being upgraded*; (iii) *tourism products are being diversified and specific tourist segments targeted with promotions* e.g. adventure, wild life and business conference tourism, eco-tourism, domestic tourism, cruise ship tourism, etc. (iv) *increased funds will be allocated for tourism promotion and in particular to the Destination Kenya program*; (v) *restrictions on inter-country tourist flows have been reduced* and agreements will be reached on further reductions within COMESA; (vi) *regional air services have been improved and regional airports opened to international flights*. Jomo Kenyatta Airport has become a regional hub for air transport; (viii) an increased number of chartered flights to Kenya and pre-packaged tours have been promoted.

11.10 The objective of this effort is to open new markets and new business opportunities for enterprises that employ large numbers of wage earners and who export Kenyan manufactured and farmed products. The effectiveness of these initiatives should be reflected in increased sales, increased employment, increased wages and increased prices at the farm gate. Specific measures which will be used to measure the effectiveness of these programs include: (i) implementation within one year of recommendations which emerge from the World Bank value chain analyses which are being undertaken under the auspices of the Inter-ministerial Committee on Industrialization; (ii) increased exports of coffee and derived products, processed food, pyrethrum and derivatives, cotton and cotton garments, leather and leather goods; (iii) increase in tourist visitors and in tourism expenditures; (v) increased revenues and employment levels from export oriented sectors.

11.11 The third area involves financial services for enterprises. The Government acknowledges that private institutions are best suited for implementing investment programs and that the role of the Government needs to be limited to establishing prudential rules which protect savers and investors but which allow adequate flexibility for private financial institutions to develop innovative instruments, modes and methods of finance. This said, Kenya's financial markets currently do not provide adequate credit to exporters, small firms (especially growing micro-enterprises), farm producers, or women. In addressing this concern the Government proposes to: (i) *undertake with the World Bank a financial sector study*, which will assess potential alternative institutional arrangements to provide trade and working capital finance especially for exporters, small enterprises and growing micro-enterprises whose credit needs are not provided through existing institutional arrangements; and (ii) *review options to liberalize, reform and/or privatize other institutions in the financial secto*r, including the Kenya Commercial Bank (KCB), Post Bank, National Bank of Kenya (NBK), and the DFIs.

11.12 Specific indicators to measure the effectiveness of this program would include: (i) implementation within one year of recommendations which emerge from the World Bank financial sector analysis; and (ii) increased financing for exports and small businesses.

11.13 Finally, the Government will support special measures targeted on providing adequate infrastructure and development of technical and management capacity for the growing micro and small enterprise sector. With respect to *infrastructure* MOTTI, MOLHR, and the Ministry of Local Governments would undertake to identify and implement an action plan by June 30,2000 to stabilize street venders and hawkers who represent 70% of the MSE sector by (i) the closing of roads at certain times of days and nights, setting aside little used back lanes and utilization of open spaces near markets, and use of car parks from 6 p.m. to mid-night with adequate provision of security to allow vending and hawking activities within urban areas; (ii) in the context of existing legislation identify and earmark land for Jua Kali activities and ensure the registration and titling of that land in the names of the appropriate Jua Kali associations; (iii) regularize Temporary Occupancy Licenses (TOLs) held by MSEs for a longer time if they meet the necessary planning requirements to enable them to develop the plots and prevent harassment by law enforcement agencies. With respect to *developing markets for the provision of training, technology and other business development services* the World Bank financed Micro and Small Enterprises Training and Technology Project would be privatized to allow its efforts to continue as a catalyst for the provision of services to the Jua Kali sector.

Consultative Process with the Private Sector

11.14 The Ministry recognizes that only the private sector can create value for Kenya's economy and that its primary mission is to assure that obstacles and constraints to the process of private sector value creation are minimized. The Ministry is the primary representative of the private sector not only within the domain of its own authorities but throughout Government. To that end, the Ministry will form representative bodies in all major value chains with which it deals and implement regular consultative interactions with these stakeholder groups. In addition, the Ministry is committed to survey the tourism, commercial and industrial sectors annually and on the basis of this survey to determine effectiveness or lack of effectiveness of its response to stakeholder needs. In August 2000, the Ministry will begin to seek feedback systematically from the private sector regarding its effectiveness in advancing the interests of its stakeholders within Government.

11.14 Central to the consultative process, the Government has committed to undertaking with the private sector a process of policy analysis focused on specific value chains or subsectors. These analyses will contribute to the identification jointly with the private sector of affirmative, remedial and facilitating public policies designed to bolster the flagging competitive advantages of key industry clusters. The priority sectors chosen for value chain analysis-coffee, cotton/textiles/garments, tourism, pyrethrum, processed foods, leather and leather products-are those which offer the greatest opportunity for increased employment and household incomes at the farm, community, and small enterprise levels where the majority of the poor are found. Policy reform deliberation will entail a consultative process between the Government and the private sector.

XII. PUBLIC ADMINISTRATION SECTOR

12.1 **Public Service Reform:** The Government recognises that reforming the public service lies at the heart of tackling poverty. Its mandate, structure and operation are to be reshaped while productivity is raised to more effectively facilitate private sector activities and lead the battle against poverty. A leaner public service, implementing well defined core functions and utilizing its resources more productively, will be better placed to play its part in Kenya's social and economic development. As a result, poorer members of society will gain better access to necessary, affordable services, be provided the opportunities to break out of the poverty trap, receive the full protection of the law and promotion of their rights. The business sector will gain enhanced access to resources, a positive policy environment with reduced Government involvement, and efficient infrastructure and services.

12.2 The operational structure of the entire public sector will be rationalized and reduced to reflect perceptions of the functions appropriate to Government. Rationalization across the civil service, defence and security forces, teachers service, local authorities, parastatals and all public institutions will result in cost savings. Concurrently, management must be improved to ensure that retained activities are undertaken more efficiently. In this regard measures will be undertaken to appoint managers and chief executives on contractual appointments to enhance effectiveness. Although increased budget allocations will need to be balanced against demands to reduce Government spending, long term savings from a reduced workforce, lower running costs and more efficient operations will be available to increase personnel emoluments, allocations to operations and maintenance and public capital investment.

12.3 Government has stated its commitment to the implementation of far-reaching reforms to address the severe shortcomings in performance efficiently and effectiveness displayed by the public administration. The reform programme has the following main components:

- A functional rationalisation of ministries, departments and other public agencies against national and sectoral objectives. The ministerial rationalisation exercise has been completed and the exercise must now extend to all other public institutions. The annual MTEF process will lead to the identification of a size and structure for the service appropriate for the core functions of Government that is within affordable budgetary limits.

- Ministerial restructuring and retrenchment can now be introduced. Reorganisation, redeployment and necessary retrenchment will be carefully phased. It is now expected that some 48,606 public servants (42,419 civil servants; 1,095 KRA staff; 300 Catering Training Levy Trust staff; and 4,882 University staff) will be retrenched over the next two financial years. This will require expenditure on retrenchment packages and safety nets but also include an operational complement control mechanisms and the definition of staffing norms within the hard ceilings set by the MTEF. Rationalisation is to be extended to the Teachers Service and all statutory organisations.

- Restoration of transparent merit-based recruitment and promotion with due attention to merit based affirmative action.

- Review of salaries and benefits. It is vital to prepare a coherent and viable pay policy designed to increase real incomes within an affordable wage bill. Although it may be difficult to award substantial pay rises in the short term, public servants need the incentive of assured prospective increases to restore morale. Immediate measures will include putting in place a Permanent Public Service Review Board, formulating a comprehensive Government housing policy, putting in place a comprehensive medicare scheme, and reviewing the current pension scheme.

- Improvement of public service delivery. There is need to benchmark performance and set performance targets which enhance service delivery. For certain sectors, such as health, a formal public service delivery survey may be appropriate. Good and poor performance will be linked to reward and sanction respectively. The MTEF process demands the definition of expenditure outputs and outcomes which will link directly to improved service delivery.

- Capacity building and training. A medium to long term programme will need to be implemented to re-equip the public service with the skills to fulfil its new mandates.

12.4 In order to restore the credibility of the public service the moral of service to the public together with a work ethic based on honesty and endeavour will be re-established. Improved personnel and task management will be introduced together with performance management, to set targets and workplans that are implemented in full. Appointment and promotion will be according only to merit and ability while institutionalising gender affirmative action. The public sector will be required to abide by a strict legal code of conduct to be introduced.

12.5 **Local Government Reform:** If poverty is to be reduced and then contained there is a paramount need to harness all our resources and to recognise that Government cannot (and should not) possibly do everything. Communities must become the vehicle for their own development

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The estimated cost of the retrenchment programme is about Ksh 12 billion spread over two financial years. The abolition of 48,606 posts will generate an average annual wage savings of Ksh 4.2 billion in a full year. Major savings will therefore not accrue until the last year of MTEF period because of the up-front costs of retrenchment.

and increased well-being. Development must be participatory and demand-driven, where accountability is to local people rather than central Government. It requires not just decentralisation but devolution of powers to local levels of Government. An enormous local capacity exists in local Governments and communities but it has been restrained by a lack of local empowerment to use it.

12.6 Local Government will become an increasingly important focal point for poverty reducing activity. There are strong linkages between devolution, accountable local governance and the quality delivery of services at the local level. There will be a deliberate shift to increase the functional responsibilities of local authorities as their revenues are increased and their delivery capacities are strengthened. Under the Kenya Local Government Reform Program, the Government will focus on five related areas: (i) reforming of the legal framework of local authorities to reduce central Governments role; (ii) developing decentralisation policy and the integration of local Government finance into the MTEF; (iii) strengthening of local Government finances through the implementation of revenue sharing programs (particularly the Local Authority Transfer Fund and the Road Maintenance Levy Fund); (iv) strengthening local revenue mobilisation capacity (particularly through rates and user charge reforms and implementation of the single business permit) and strengthening financial management, accounting, control and audit mechanisms; and (v) developing capacity to delivery services, plan and implement infrastructure projects using more community-based participatory planning.

12.7 In order to encourage improved performance of local authorities, the Government established an Interim Oversight Board for Nairobi City Council. This Interim Oversight Board was established based on the findings of the Extraordinary Inspection for Nairobi City Council. The Board is to assist Nairobi overcome its difficult financial situation, improve financial management and improve the delivery the important local services. The Government is committed to enacting legislation to establish a permanent Financial and Management Control Board (FCMB) mechanism to assist in resolving the particular problems of fiscally-distressed LAs.

12.8 **Parastatal Reform:** Government is committed to removing itself from business and commercial activities in the medium term. To this end Cabinet will adopt a new privatization strategy and programme, with an implementation plan that would set out the privatization transactions to be carried out with appropriate milestones. The machinery for implementing privatization will be re-invigorated and the process of privatization made more transparent. The means to enable wider citizen participation in the enterprises being privatized will be introduced. To enhance efficiency of parastatals that would not be immediately privatized, the legal framework that at present allows Government intervention in their operations will be reviewed. The aim would be to ensure that Boards of Directors and management are given autonomy to operate within their mandate and performance requirements while being accountable and responsible for their operations. Responsibility for decision-making on cost controls, pricing and competition will be separated from those concerning the disposal and restructuring of public corporations.

12.9 The immediate major focus will be to divest the large infrastructure and service enterprises with an initial concentration upon Kenya Railways, the Kenya Ports Authority and the Kenya

Pipeline Company. Over the next 18-24 months, a strategy for the privatisation of Kenya Railways through a unitary concession to a private operator of the rail infrastructure, including passenger and cargo operations, will be implemented. Within a similar time frame, at least two concessions will be let for the operation of the container facilities at Mombasa. Necessary regulatory agencies will be established in both cases. A strategic partner will be sought to take over the running of the Kenya Pipeline Company.

12.10 The current restructuring of the power sector will be completed rapidly and attention focused on bringing in a strategic partner to improve the performance of KPLC and the optimum way to increase competition within the sector. Rationalisation of the sugar industry as a prelude to privatisation is a priority. Government control and intervention in the day-to-day running of the sugar factories will be markedly reduced, proposals to rationalise their operations developed, and an industry-wide mechanism for dealing with their debt situation adopted. Once these preconditions have been completed plans for privatisation will be drawn up. Plans to divest Kenya Reinsurance Company and further privatisation of Kenya Commercial Bank will be implemented over the next 18 months. A more detailed account of the medium-term parastatal reform programme is included as Annex 3.

Immediate Priorities

12.11 The following are considered the most immediate priorities for Government action:

- Complete reform of the budget and financial management system in accordance with the MTEF approach;
- Redirect expenditures <u>over</u> the three years towards core functions that focus on poverty reduction;
- Reduce domestic debt by Ksh27 billion while realising a modest increase in the real value of public expenditure;
- Full implementation of the rationalisation of the Government structure to better undertake its core functions together with enhanced management mechanisms;
- Completion of the civil service retrenchment exercise to reduce the service by at least 48000 and produce significant savings;
- Articulation of a Pay Policy for the public service;
- Implementation of integrated payroll and personnel system
- Accelerated implementation of the Parastatal Reform programme to speedily complete the privatisation of strategic enterprises.

XIII. PUBLIC SAFETY, LAW AND ORDER

13.1 The maintenance of law and order is key to any meaningful socio-economic development. Thus the decline in public safety, law and order, as manifested by increased incidences of cattle rustling, drug trafficking, ethnic tension, general crimes, domestic violence and other forms of violence against women and children, corruption and mal-administration of justice, has largely been responsible for the decline in investments and the growth of poverty. Worse still the hardest hit have been the poor, whether in urban or peri-urban slums, or in rural areas. In this regard, the Government will concentrate on implementing the five key priorities in this sector, namely:

- Security/protection of life and property.
- Promote the administration of justice and the rule of law.
- Review, harmonize and enforce laws especially laws relating to commerce and industry, criminal and civil procedures, gender and family protection, vulnerable groups, land, agriculture, water and environment.
- Protect, conserve and provide for sustainable use of natural resources.
- Zero tolerance of corruption by eliminating all systems, rules, and environments that perpetuate and encourage corruption.

13.2 **Administration of Justice:** To make Kenya more attractive to investors, the Government will take a number of reform actions that should lead to increased transparency in and accessibility to dispensing justice and ensure the rule of law is upheld. In this regard, the Government will, over the medium term, finalize the ongoing comprehensive review of the legal sector covering the Office of the Attorney-General, the Judiciary, the Ministry of Lands and Settlement, the Local Authorities, and legal education institutions. The service delivery surveys already completed at the Judiciary will be expanded to other areas such as the Office of the Attorney General and recommendations implemented.

13.3 The Government will continue to implement the recommendations of the Kwach Report which examined the problems confronting the judicial service. One priority is restructuring the High Court by creating specialist divisions. Commercial courts have already been established in Nairobi. As resources allow, the administration of justice will be decentralised to provide greater access and speedier administration of justice. In addition, the Government will create and strengthen arbitration and other alternative dispute settlement mechanisms, including a Regional Commercial Arbitration Centre which will cater for both national, regional and international commercial arbitrations. Legal reforms are underway to modernise the legal code and dismantle outmoded, repressive and inappropriate laws.

13.4 Recourse to the law has become increasingly expensive and inaccessible to the majority and there is a pressing need to establish alternative arrangements for minor dispute resolution. Delays in hearing cases has become a major problem and so Government will finalise its review of the Penal Code and Criminal Procedures Code before the end of 2000 to identify ways to speed-up procedures.

13.5 Possibilities of pre-trial remand and use of other forms of punishments rather than imprisonment have been explored to address the problem of congestion in prisons. Towards this, the Government has already enacted a Community Services Order for a community service punishment regime. Appropriate institutional framework will be put in place by December 2000.

13.6 **Gender**: It is recognized that women in Kenya face discrimination before law and suffer from lack of legal protection, notably in their rights and control over resources. The Government will therefore review and release the National Gender Policy and set in motion necessary steps to implement its recommendations. The objective of this Policy is to guide mainstreaming of gender in all areas of development. In regard to the land rights, the newly appointed Land Law Commission will address this issue.

In addition, the Government has through a Task Force headed by Lady Effie Owour reviewed legislation that pertains to women's standing before the law. This Report is ready. Its recommendations will be made public and implemented starting with tabling of the relevant Bills in Parliament B Affirmative Action, Family Protection and the Equality Bills.

13.7 **Security:** Insecurity deters economic growth. High levels of crime in general and those that threaten property and property rights must be brought under control in order to establish a conducive environment for investment. The poor in both rural and urban areas are particularly vulnerable to crime and least able to recover from it. Until security is improved all efforts to provide the means for the poor to increase their incomes and improve their welfare will be frustrated.

13.8 Government regards the improved performance of the police and other law enforcement agencies and a significant reduction in the rate of crime as a high priority. A review will be undertaken urgently of existing training programmes and the state of equipment and facilities in the police force with a view to recommending necessary improvements. Human rights training will be introduced to encourage the observance of human rights and humane treatment of members of the public and prisoners and the need to be sensitive while dealing with women who are victims of rape and other forms of violence. A code of ethics for law enforcement services will be developed by December 2000.

13.9 **Refugees and Proliferation of Small Arms:** Regional conflicts have had major adverse impact on security and indeed, the economy of Kenya. The number of refugees from the neighbouring states continues to strain available resources and pose a security risk due to proliferation of fire arms. It is, therefore. in the national interest that such conflicts are peacefully solved and refugees returned to their countries. The Government will continue to pursue the peaceful settlements of these conflicts through such regional initiatives such as IGAD.

13.10 **National Security:** The importance of National Security cannot be over emphasized. The military will continue to play its secondary role of giving aid to civil authority as prescribed by law. In the absence of external aggression and internal upheaval, the military will continue undertaking activities like borehole drilling, road improvements to open up remote areas and provision of health services, which target the disadvantaged and poor communities. In the medium term these activities will be intensified especially in ASAL areas

XIV. MONITORING AND EVALUATION STRATEGY

Institutional Arrangements

14.1 Kenya's Poverty Reduction Strategy and Programme will be an on-going process whose implementation will be closely tracked. An effective monitoring and evaluation system will be established to:

- Keep Government policy makers and all stakeholders well informed on a timely basis about progress in implementing the measure, policies and programmes to enable early corrective action to be initiated;
- Build transparency and accountability through the active participation of stakeholders;
- Encourage a two-way flow of information between policy makers, implementors and beneficiaries to ensure continuous adaptations, revisions and improvements to the PRS.

Necessary changes identified that require adjustment to public expenditures will be incorporated into the MTEF cycle. All public sector programmes will include targets, objectively verifiable indicators and annual output definitions to facilitate monitoring. In sum, the poverty monitoring strategy to be designed will essentially monitor progress in order to continually inform key players about the current poverty status.

Poverty monitoring involves a large number of institutions including the Poverty Eradication Commission, Central Bureau of Statistics (CBS) among the many major key players. However, CBS will remain the key player in providing data on these poverty analyses. This will focus on progress in reducing income poverty, improving health, raising educational achievement, reducing income disparities among many social indicators.

14.2 The Poverty Eradication Unit in the Office of the President and the Central Bureau of Statistics (CBS) will be responsible for monitoring social and poverty indicators and assessing the qualitative impact of the Poverty Reduction Programme. The Budget Monitoring Unit of the Ministry of Finance and Planning will hold responsibility for tracking budget allocations and expenditures on poverty and the success of ministries in meeting output targets. Monitoring will take place at the national, provincial and district levels and include stakeholder representation.

14.3 A *Stakeholders Committee* that includes representatives from the public sector, the private sector, NGOs and religious organisations, donors and representatives of the poor will be formed. Meeting at least monthly, the Committee will receive progress reports from all parties on implementation and evaluate changing needs and circumstances and their implications for poverty reduction initiatives. Reports of this Committee will be passed to the

Planning and *Budget Steering Committee* comprising of all Permanent Secretaries and chaired by the PS Finance and Planning. Through this Committee, adaptation, change and corrective action within the public sector can be instigated. The Minister for Finance will be briefed by the Permanent Secretary, Ministry of Finance and Planning on the deliberations of every meeting of the Planning and Budget Steering Committee. In turn Cabinet will be appraised by the Minister for Finance on a quarterly basis on the status of the Poverty Reduction Strategy and will provide policy direction to guide its future composition and implementation.

Central Bureau of Statistics Perspective

CBS will remain the key player in providing data on these poverty analyses. This will focus on progress in reducing income poverty, improving health, raising educational achievement, reducing income disparities among many social indicators. The table below depicts various macro-economic indicators that will be assessed. Most of the key indicators show that the economy performed poorly in the 1990s. The macro-economic setting is critical because sound economic management facilitates growth and employment creation which are key to enhancing poverty reduction.

	1994	1995	1996	1997	1998	1999*
National Income						
GDP growth rate (%)	3.0	4.8	4.6	2.4	1.8	1.4
GDP at factor cost (K£m)	16903	19688	22481	26819	29701	32134
GDP per capita (K£)	632	780	850	991	1066	1120
GDP at market prices (K£m)	20036	23264	26437	31168	34606	37446
GDP per capita 1982 prices (K£)	167	186	186	187	183	180
Inflation rate (% change in CPI)	28.8	1.6	9.0	11.2	6.6	3.5
External Sector						
Exports f.o.b (K£m)	4282	4867	5910	6022	6059	6106
Imports c.i.f. (K£m)	5754	7758	8424	9534	9889	9750
Trade Balance (K£m)	-1472	-2891	-2514	-3511	-3830	-3644
Overall Balance of Payments (K£m)	265	-369	1155	336	229	212
Total Domestic Credit (K£m)	6,971	12437	13599	16370	17540	18568
Money and Credit						
Money Supply (M3)	10291	11554	13391	14703	15187	15606
Average exchange rate (Ksh per US$)	44.84	55.94	55.02	62.68	61.90	72.93
Public debt + (K£m)						
Funded	1402	229	229	198	186	171
Unfunded	12958	13606	13144	12078	12729	16273
Growth rate of various sectors						
Agricultural growth rate (%)	2.8	4.8	4.4	1.0	1.5	1.0
Manufacturing growth rate (%)	1.9	3.9	3.7	1.9	1.4	1.2

Ownership of dwellings growth rate (%)	1.5	5.2	5.7	3.5	2.0	1.6
Sectors as % of GDP at market prices						
Overall deficit as % of GDP++	0.8	-0.9	-0.7	1.2	0.6	-1.4
Current revenue as % of GDP++	28.2	28.8	23.2	28.8	26.0	25.0
Government expenditure as % of GDP++	38.2	37.0	33.2	49.9	35.0	38.0
Domestic savings as % of GDP	18.1	13.6	15.3	10.5	10	11.8
Other indicators						
Total wage employment ('000)	1505	1557	1619	1647	1665	1674
Wage employment ('000) in the public sector	688	690	701	701	698	683
Population growth rate (%)	2.8	2.7	2.6	2.5	2.4	2.4

source : various economic surveys
* provisional
+central government
++ fiscal years

Sources of data

Information for poverty reduction strategy will be drawn from household surveys, Participatory Poverty Assessment surveys and establishment surveys. Household surveys are the single most important source data for making poverty comparisons in that data gives the distribution of living standards in a society. The coverage of goods and income sources should also be comprehensive. Consumption expenditure should cover all monetary expenditures on goods and services consumed plus the monetary value of all consumption from income in-kind.

The actual incidence and distribution of poverty in Kenya at present cannot be determined but a valid insight can only be derived if research studies and/or regular based surveys are undertaken to advance our understanding of how the economic conditions and the structural adjustment processes affect the living conditions of the Kenyan people. However, a comprehensive study could be a panel survey study which will differentiate the temporary poor from the permanently poor.

Ongoing projects

(a) At the moment, CBS is preparing to release a detailed report on the population aspects such as age-group distribution, population distribution at the location, division levels among other indicators. This will be followed by analytical reports which will include population dynamics and projections, labour and employment and mortality aspects. The detailed report is expected in July 2000 while the analytical reports are expected by July 2001.

(b) Development and creation of the National Sample Survey and Evaluation Programme (NASSEP) IV frame which will use the 1999 census results to create Enumeration Areas. This will be utilised for all future household surveys.

(c) An agricultural survey was undertaken in 1997. However, due to lack of adequate support, data capture and analysis has stalled. CBS needs support in terms of equipment such as computers and spare parts for the scanners as well as technical support to finalise data capture and data analysis. This survey will provide major input in the agriculture sector, particularly in the rebasing of the agricultural indices.

(c) Finalisation of the poverty report showing poverty aspects as per 1997.

Implementation Matrix

The implementation matrix for Central Bureau of Statistics shows the surveys to be undertaken. All the surveys to be undertaken provide benchmark statistics for various indicators. With the development of NASSEP IV, sample survey design will be improved as some surveys will be household based while others will be population-specific.

Priority List of Surveys

The following is the priority ranking the surveys (poverty related) Central Bureau of Statistics intends to undertake:

- Census Basic report and analytical reports.
- NASSEP IV frame development for household surveys.
- Multiple Indicator Cluster Survey.
- Welfare Monitoring Survey.
- Nutrition study.
- Participatory Poverty Assessment.
- Agricultural and Livestock census.
- Survey of establishments in the horticultural sector.
- Crop forecast survey.
- Rural Market prices.

It is necessary to re-establish the CBS/donor committee and agree on statistical priorities. Improvement of national accounts is vital. Building a continuous household survey capacity (using a sample frame derived from the 1999 Census) is imperative and this could be used to collect a range of household data, obviating the need for various ad hoc surveys (such as WMS, nutrition and demography).

XV. CONCLUSIONS

15.1 This *Interim* Strategy represents an initial articulation of Governments response to the urgent need to reduce the incidence of poverty in Kenya. Summary details of objectives, targets, and timing of individual programmes and projects to implement the Strategy are given in the attached implementation matrix. The MTEF and Annual Estimates for 2000/01 will include these projects and programmes and provide details of currently proposed financial allocations to them over the next three years.

15.2 Over the coming months, the Government will undertake the preparation of the full Poverty Reduction Strategy Paper. This will be the result of an intensive, wide ranging consultation process. The consultation to elicit views and ideas will be thorough and involve all sectors of our society but particularly the poor themselves together with civic organisations long experienced in addressing poverty. The resultant Strategy will be comprehensive in its treatment of all issues surrounding the battle against poverty and mobilising all available resources. The timetable proposed for undertaking the exercise is given in Annex 1. As a result of this exercise, it is expected that the policies, priorities, programmes and mechanisms for combating poverty will move forward from those set out in this document. Implications for public expenditure will be incorporated into the next and subsequent annual MTEF cycles.

15.3 Both the Poverty Reduction Strategy and the process of its articulation represent Governments commitment to change. Change in the focus for our national development to a concerted effort to reduce poverty and change that brings together all our resources to devise better policies and programmes and to mobilise all available resources. It is the Governments hope that all sectors of our society and our development partners will accept the challenges and opportunities and work with a unity of purpose towards the goal of eradicating poverty in Kenya.

Annex 1 :

POVERTY REDUCTION STRATEGY PAPER (PRSP) - PARTICIPATION PLAN
ESTIMATED TOTAL COST - KSH. 70 MILLION

Objectives/Values	**Activities**	**Stakeholders**	**Monitoring Indicators**	**Time Frame**
*To promote participation of the poor and vulnerable. *To increase transparency and accountability to the public from the planning to delivery stages. *To reach consensus/agreement with various stakeholders on policies and priorities for poverty reduction. *To develop a gender responsive poverty reduction strategy. *To enhance ownership of PSRP. To reach agreement of monitoring and evaluation plan for the PSRP. *To develop an action plan on poverty reduction. *To seek support from development partners on the implementation of PSRP. To ensure transparent resolution of implementation difficulties.	**1. Set up a National Consultative Structure:** *Set up a consultative committee. *Stakeholder mapping. *Capacity building for all stakeholders on the PRSP process.	Government Sector groups Civil society Private sector Poor community Media Women groups NGOs Others	*Functioning small working group (6-10 persons). *Develop participatory map - and agree on principles, select districts and stratify by livelihood patterns. *Information dissemination (on the process) through variety of channels, i.e. public forums, districts, and civil society organisations, media etc. *Organise capacity building workshops for all stakeholders.	July - August 2000
	2. Conduct Local Level Consultation: *Transparent participatory poverty diagnosis inclusive of the perspectives of the poor, women and other vulnerable groups. *Poverty information is analysed. *IPRSP re-examined.	Communities Sector groups Local level institutions Women groups and women opinion leaders NGOs	*Participatory monitoring and evaluation plan that articulates: -identification of the poor - location of the poor - identification of their needs for goods and services - opportunities for engaging the productive poor - prioritisation of needs - agreed monitoring and evaluation indicators - confirmation or proposed changes to IPRSP.	September 2000

	<u>Conduct</u> <u>District</u> <u>Level</u> <u>Consultation:</u> *Participatory monitoring and evaluation plan endorsed. Compiling information from local level consultations.	Local communities Research institution Sector groups Private sector Civil society Women Districts officials Development partners Media, NGOs MPS	*Agreed list of monitoring and evaluation indicators. *Consensus on priorities and strategies for poverty and growth. *Ranked priorities and strategies by sector.	November 2000
	<u>4.</u> <u>Provincial Workshops:</u> *Harmonise sector needs by province and livelihood patterns	Government officials Private sector Civil society Sector groups Women representatives	* Articulate reports on needs per sector and livelihood patterns.	November / December 2000
	<u>5.</u> <u>National</u> <u>Level:</u> *Emerging priorities and proposed policy responses. *Agree and endorse the proposed monitoring and evaluation plan *National Seminar	Sector groups Private sector NGOs Development partners Civil society National level committee Women representatives	*Draft PRSP Well articulated Participatory Monitoring and Evaluation Plan endorsed *Feedback to stakeholders	January 2001
	<u>6.</u> <u>Parliamentary Consultations</u>: *Workshop to disseminate information and discuss draft PRSP	Parliamentary Committees Cabinet	*Articulated political support and commitment to implementation	March 2001
	<u>7.</u> <u>Consultative Group</u> <u>Meetings</u> * Feedback * Dissemination	Development partners Civil society Women Public media Private sector NGOs	*Achieve agreement on strategies *Agree on support to PRSP implementation * Publication	May 2001
	Monitoring and Evaluation: *Set up implementation oversight committees.	Mps, Communities, Private Sector, Women Representatives, Other	*Operational Committee *Feedback to communities. *Ongoing improved implementation.	Ongoing

Annex 2

Table 1: A Summary of Poverty Results 1997

	Rural Poverty		
Poverty Measures	**Pα = 0 Adult Eq.**	**Pα = 0 Households**	**Pα = 0 Individuals**
Food Poverty	51	43	50
Absolute Poverty	53	46	53
Hard core Poverty	35	30	35
	Urban Poverty		
Food Poverty	38	32	38
Absolute Poverty	49	43	50
Hard core Poverty	7	6	8

Source: Welfare Monitoring Survey 1997

Table 2 : Poverty Measures by Gender in 1997

	Headcount	**Poverty gap**	**% of population**	**Contribution to national poverty**
Overall Rural	52	19	100	100
Sex of Household Head				
Males	52	19	75	74
Females	54	20	25	25
Overall Urban	49	16	100	100
Sex of Household Head				
Males	46	15	81	75
Females	63	18	19	24

Source : WMS III

Table 3: Regional differentials in the incidence of poverty

	% of food poor			% of overall poverty		
Rural Areas	**1992**	**1994**	**1997**	**1992**	**1994**	**1997**
Central	68	33	30	36	32	31
Coast	63	51	59	43	56	62
Eastern	62	59	56	42	58	58
Nyanza	71	41	58	47	42	63
Rift Valley	81	46	48	51	43	50
Western	78	52	58	55	54	59
North Eastern	-	56	-	-	58	-
Total Rural	72	47	51	48	47	53
Urban Areas						
Nairobi	42	27	38	26	26	50
Mombasa	45	33	38	39	33	38
Kisumu	-	44	53	-	48	64
Nakuru	-	37	27	-	30	40
Other towns	-	27	38	-	29	43
Total Urban	42	29	38	29	29	49
Total Kenya				45	40	52

Source: WMS series 1992, 1994 and 1997

Table 4: Income poverty in Some African Countries

Country and period	Area of Residence	Percentage of Population living below the poverty line[1]	
		Year 1	**Year 2**
Kenya 1992 1994	Rural Urban Total	47.00 27.00	46.75 29.00 43.00
Ethiopia 1989-95 1994-97	Rural Urban	61.3 40.9	45.9 38.7
Uganda 1992-97	Rural Urban Total	59.4 29.4 55.6	48.2 16.3 44.0
Zambia 1991-96	Rural Urban Total	79.6 31.0 57.0	74.9 34.0 60.0
Ghana 1989-92	Rural Urban Total	37.5 19.0 31.9	30.2 20.6 27.4
Zimbabwe 1991-96	Rural Urban Total	51.5 6.2 37.5	62.8 14.9 47.2
Nigeria 1991-96	Rural Urban Total	45.1 29.6 42.8	67.8 57.5 65.6

Source: Demery 1999

[1] Based on national (nutritionally based) poverty line: Source: Demery 1999.

Annex 3: Governance Measures

Measures Aimed at Enhancing Accountability and Transparency	Timetable for Implementation
Submit annually to parliament the government's governance agenda, including actions taken to date and timetable for implementations for remaining actions.	June 2000 (implemented)
Adopt international standards and practices in government procurement on the basis of the recommendations of the consultants' completed report on procurement practices and the conclusions of the central tender board (CTB) seminar.	July 2000
Put in place an auditing mechanism to ensure compliance with the strengthened government procurement regulations adopted by the CTB for all ministries, local authorities, and public institutions:	
• Issue new procurement regulations.	July 2000
• Put in place auditing mechanisms.	December 2000
Create an internet site where summary reports on all public procurement (CTB, ministerial and departmental tender boards, local authorities tender boards, tender boards of public institutions, and other modes of procurement) activities are publicly available.	December 2000
Require the Debt Management Division to produce a detailed quarterly report, to be tabled by the Minister of Finance in parliament, on all government and government-guaranteed outstanding liabilities, including any new liabilities incurred in the quarter, as well as the debt service on existing liabilities.	July 2000
Submit to parliament an amendment to the Exchequer and Audit Act that would require that the fiscal accounts (including the implementation of the public investment program) be prepared on a quarterly basis for submission to the Controller and Auditor General (C&AG), and as required by any other auditing deemed necessary by the Auditor General. Consider steps to reduce the time needed to produce and submit such accounts to the Auditor General.	June 2001
Ensure that the Auditor General produces annually audit reports of budgetary performance in the period July-December and submits them to parliament on a timely basis. In this connection, the authorities should:	
• propose amendments to the Exchequer and Audit Act to allow for production and audit of the budgetary performance and submission to Parliament biannually;	September 2000
• Attorney General to prepare a bill on the same (above) and present to parliament;	December 2000
• train the recently recruited 25 graduates with various CPA qualifications and 117 audit examiners; and	December 2000
• produce and submit to Parliament the first audit report of budgetary performance.	March 2001

Measures Aimed at Enhancing Accountability and Transparency (continued)	Timetable for Implementation
Strengthen financial reporting by public enterprises to the Auditor General's (Corporations) Office by	
• putting in place a system to ensure that enterprises transmit their completed accounts on a timely basis, with enhanced supervision of parastatals by the revamped Investments Department of the Kenyan Treasury;	December 2000
• ensuring that all public enterprises are audited by the Auditor General (corporations) or by reputable auditing firms on an annual basis, and the results of the audits made available to parliament no later than three months after the submission of the accounts to the Auditor General (corporations); and	June 2001
• submitting any needed amendments to the Exchequer and Audit Act so as to implement these measures.	December 2000
Submit to parliament an amendment to the State Corporations Act to remove the possibility of exemption from submitting a corporation's accounts to the Auditor General (corporations).	June 2000 (implemented)
Clear the backlog of all public audits by end-2000/2001 (July-June):	
• Complete audit reports for 1997/98.	July 2000
• Complete audit reports for 1998/99.	March 2001
• Complete audit reports for 1999/2000.	June 2001
Put in place a reporting system of budget implementation at the district Development Committee and local levels to help ensure that the C&AG and the Ministry of Finance can assess whether funds committed by ministries have been used to carry out the intended activities:	
• Prepare a circular directing all accounting officers to disaggregate the budget by districts.	June 2000 (implemented)
• Carry out the disaggregation to reflect allocations by districts under the respective ministries.	September 2000
• Finalize the computerization program for the ledger management system to provide the necessary reports for use by the C&AG and Treasury.	July 2001
Ensure that the C&AG's report is disaggregated to the district level and distributed widely at the local level.	December 2001
Take stock of and report conclusively on **all** extrabudgetary funds, projects, and transactions.	June 2000 (implemented)

Incorporate extrabudgetary projects and transactions into the budget or legally terminate **all** projects and transactions that do not meet criteria for continuation, so that no actual or contingent government liabilities remain:	
• Decide which projects are to be terminated and which are to be completed in collaboration with line ministries.	December 2000
• Decide on modalities for legally terminating all those projects to be terminated.	December 2000
• Incorporate the cost of termination, completion, and pending bills into the budget.	May 2001
• Incorporate all extrabudgetary funds into the budget.	June 2001
Require the Ministry of Local Government to produce annually and disseminate widely a report on the operations of the Local Authority Transfer Fund, including the record of each municipality in meeting conditionalities.	December 2000

Measures Aimed at Strengthening Oversight/Control Bodies, Including Their Independence and Resources	**Timetable for Implementation**
Provide adequate budgetary support to the office of the C&AG, C&AG (corporations), the KACA, the office of the Attorney General, the Judiciary, and the KRA.	June 2000 (implemented)
Submit to parliament amendments of the Anti-Corruption Act (Cap. 65) to (i) broaden the definition of corruption to include economic crimes such as fraud, malfeasance, and other misuses of public funds; (ii) provide the KACA full independence from other government offices—including by having its own vote in the budget—and require it to submit annually a report on its operations directly to parliament, including complaints received, cases investigated, and cases prosecuted; (iii) allow the KACA to prosecute cases without reference to (consent of) the Attorney General or other authority; and (iv) facilitate investigation, at the request of the Attorney General or the KACA, of financial records of individuals or companies that are suspected of being involved in corruption and other economic crimes. (Ensure that amendments to any other relevant piece of legislation are submitted to parliament to make such an investigation possible.)	Incorporated in the draft Anti-Corruption and Economic Crimes Bill
Require the treasury to refer cases of alleged misuse of public resources to the KACA immediately after deliberation of the report prepared by the parliament's Public Accounts and Public Investment Committees.	Ongoing
Continue to strengthen the KACA with additional staff so that it can operate effectively throughout Kenya.	Ongoing
Strengthen the ability of parliamentary committees (public accounts, public investments, and anticorruption) to prosecute either through the Attorney General or the KACA individuals, firms, and institutions named as being culpable in the reports of the Auditor General.	Ongoing
Remove corrupt officials.	Ongoing

Implement the Kwach Report's recommendations on reforming the judiciary.	Ongoing
Ensure that the Legal Sector Reform Committee develops additional plans needed to reform the judiciary, including the strengthening of its independence, the system of levying of and dealing with complaints against judges and other personnel in the judiciary, the system of selection, appointment, and removal of judges and other personnel, and the logistical capabilities of the legal system.	Ongoing
Implement quickly steps to improve the functioning of the judiciary in the short term while more comprehensive reforms are being prepared, including issuing instructions to reduce the liberal granting of expert injunctions for court cases and taking measures to start addressing the disappearance of court files. Increase court capacity in the areas of loan recovery, taxation issues, and anticorruption.	Ongoing
Strengthen further the capacity and independence of the C&AG office:	
• Increase appropriately skilled staff of the office.	Ongoing
• Propose a constitutional amendment transferring staffing authority for the office of the C&AG from the Civil Service Commission to the office of the C&AG.	September 2000
• Develop independent terms of service that would allow the remuneration of the C&AG staff not to be bound by the civil service pay scale.	December 2000
Adopt international best practices in determining the oversight of the work of the C&AG.	December 2000
Submit to parliament legislation to merge the C&AG office with the office of the C&AG (corporations).	December 2000
Require that the KRA annually submit to the treasury a plan outlining improvements to be made in tax administration. The plan should incorporate specific benchmarks and timetable for implementation.	March 2000 (implemented)
Measures Aimed at Strengthening Budget Planning and Execution:	**Timetable for Implementation**
Strengthen reporting of transactions by line ministries by having them regularly audited by the Office of the Internal Auditor.	Ongoing
Issue new instructions by the treasury so as to ensure that the Debt Management Division captures all (government or government- guaranteed) foreign liabilities. Prohibit approval of new external debt obligations without prior confirmation from the Debt Management Division that the new procedures have been adhered to.	June 2000 (implemented)
Prepare, with the help of the IMF's Fiscal Affairs Department, a comprehensive plan for addressing weaknesses in budget planning, implementation, monitoring, and control. Initiate implementation of the plan.	September 2000

Review the entire internal audit system and develop a plan to strengthen the system.	December 2000
Implement the necessary reforms to strengthen the internal audit system, including the allocation of adequate staffing for the effective operation of the system.	March 2001
Ensure that all ministries report their expenditure commitments to the Treasury two weeks after the end of each month.	Ongoing
Complete the verification of **all** pending bills. Submit the cases where fraud is discovered (including all accompanying documentation) to the KACA for follow up.	December 2000
Settle all legitimate and verified pending bills of the central government.	December 2000

	Timetable for Implementation
Require that all noncentral government public institutions develop a strategy to prevent any further accumulation of pending bills, and to eliminate the outstanding pending bills after appropriate verification.	December 2000
Conduct an external audit of all government and government-guaranteed external liabilities.	Ongoing
Establish the necessary regulations to implement the new expenditure commitment approval procedures in ministries, including the requirement that finance officers countersign all valid expenditure commitments.	February 2000 (implemented)
Formulate and implement a three-year rolling medium-term expenditure framework.	March 2000 (implemented)

Measures Aimed at Changing Incentive Mechanisms:	**Timetable for Implementation**
Specify adequate penalties against line ministries that fail to submit in a timely fashion their monthly expenditure reports to the treasury and the Auditor General.	July 2000 (implemented)
Increase remuneration for public employees over the medium term, with resources made available by the planned reduction in the number of public employees.	2000-03
Improve remuneration for judges, police, and other judicial system employees, but eliminate or avoid all in-kind benefits.	2000-03
Establish and enforce a code of ethics for judicial officers and their support staff.	December 2000
Rotate finance officers in line ministries every three years to ensure that they adhere to the "arm's-length principle."	December 2000
Ensure that performance assessment of Finance Officers is made by line ministries and finalized by the Ministry of Finance.	Ongoing

Publish a bill revising the existing code of regulations (Code of conduct) to provide clearly for sanctions against actions contrary to the code, and establishing strong actions against such actions. The new code should clearly prevent conflicts of interest. Require that all public officials and members of government (including their immediate family members) declare their assets upon appointment and every three years thereafter or upon leaving service, whichever comes first. Current public officials and members of government (including their immediate family members) should meet this requirement within three months of enactment of the bill.	July 2000 (partially implemented)
Enshrine in legislation the banning of any contractors (companies and, if possible, their owners) found to have acted corruptly in their dealings with the government from continuing to do business with the government.	July 2000
Publish every six months an updated “blacklist” of such contractors. Specify that no contractors can be removed from the list unless a court decision subsequently exonerates them.	July 2000
Establish widely publicized and legally effective rules that exonerate the government from paying for expenditure committed outside the existing financial regulations.	July 2000

Measures Aimed at Removing Rent-Seeking Opportunities:	**Timetable for Implementation**
Complete a review of all waivers and exemptions from import duties and taxes, and produce a plan with a view to eventually eliminating them, with the exception of those established under international agreements. Where needed, submit to parliament proposals to amend legislation in the context of approving the 2001/02 Finance Bill.	March 2001
Update the privatization policy of 1992 to strengthen the process and the institutional framework of privatization, with a view to enhancing transparency and widening participation. The updated framework paper to be approved by the cabinet should include monitorable mechanisms that have been useful in other countries in helping achieve transparency and fairness in the privatization process.	June 2000 (implemented)
Continue the ban on all transactions in public land until there is an amended law in place that would effectively address governance concerns in this area.	Ongoing

Measures Aimed at Removing Rent-Seeking Opportunities:	**Timetable for Implementation**
Ensure that the KACA periodically writes a report to the government on the areas where rent-seeking opportunities exist, with recommendations for their effective removal.	Ongoing
Eliminate all suspended duties, except on oil products.	July 2000 (implemented)

Annex 4

Parastatals and Services for Privatisation

- Completion of the privatization of Telkom Kenya and the commercialization of Postal Services;
- Concessioning of Kenya Railways;
- Concessioning of the Container Terminal and other non core services of the Port to convert Kenya Ports Authority into a land lord port;
- Privatization of electricity distribution through Kenya Power and Lighting Company;
- Privatization of Kenya Electricity Generating Company (KENGEN) through an IPO;
- Privatization of Kenya Pipeline;
- Privatization of Kenya Commercial Bank;
- Privatization of Kenya Reinsurance Company;
- Privatization of Mumias Sugar Company through IPO and if necessary sale of a portion of shares to a strategic investor;
- Privatization of Chemelil Sugar Company;
- Privatization of Agro-Chemical and Food Company Ltd. (ACFC);
- Involvement of private sector in Kenya Airports Authority through the award of concessions;
- Involvement of private sector in the Water Department of the Nairobi City Council through the award of concessions;
- Privatization of Kenya National Trading Corporation (KNTC) through liquidation;
- Privatization of Pan African Paper Mills;
- Privatization of East African Portland Cement Company through sale of shares on the Nairobi Stock Exchange.

Table 1. Kenya: Medium-Term Projections, 1997-2004

	1997	1998	1999 Est.	2000	2001	2002	2003	2004
					Projections			
	(Annual percentage change)							
National income and prices								
Real GDP (factor cost)	2.3	1.8	1.4	1.5	3.1	4.4	5.5	6.0
Real GDP per capita	-0.1	-0.7	-1.1	-1.0	0.7	2.1	3.4	3.9
Consumer price index (period average)	11.2	6.6	3.5	5.7	5.0	4.5	4.0	4.0
External sector								
Export volume	-10.0	-2.0	-5.2	4.6	5.7	5.6	5.5	5.9
Import volume	1.1	-3.2	-6.3	6.2	15.6	-3.2	9.4	-1.0
Terms of trade (- deterioration)	2.0	-5.0	-1.4	-3.3	0.9	-0.1	-0.8	-0.7
	(In percent of GDP, unless otherwise indicated)							
Investment and saving								
Investment	18.6	17.2	15.9	16.0	19.9	19.4	23.4	24.5
Central government	4.8	4.3	3.7	3.4	3.8	4.3	4.7	4.9
Other	13.8	12.9	12.2	12.5	16.1	15.0	18.9	19.6
Gross national saving	15.0	13.1	13.4	12.7	13.8	15.4	17.5	20.4
Central government	3.0	4.3	4.3	3.7	4.3	5.0	5.3	5.4
Other	12.0	8.8	9.1	9.0	9.6	10.4	12.3	14.9
Government budget 1/								
Revenue and grants	28.0	27.6	24.5	26.6	26.5	26.1	25.9	25.9
Total expenditure	29.6	27.6	24.5	26.3	26.0	25.6	25.4	25.5
Overall balance (commitment basis)								
Including grants	-1.6	0.0	0.0	0.2	0.5	0.5	0.4	0.4
Excluding grants	-2.4	-0.7	-0.6	-1.5	-1.0	-0.5	-0.5	-0.4
External sector								
Current external balance, including official transfers	-3.6	-4.1	-2.6	-3.3	-6.1	-3.9	-5.8	-4.1
Current external balance, excluding official transfers	-4.2	-4.8	-3.2	-4.5	-7.7	-5.0	-6.7	-5.0
External debt (in U.S. dollars) 2/	5,950	5,760	5,534	5,371	5,264	5,344	5,461	5,553
Gross international reserves (end of year)								
(in months of imports)	2.5	2.8	2.6	2.5	3.1	3.5	3.8	3.7

1/ Fiscal year (July-June); 1998 refers to fiscal year 1998/99.

2/ Public and publicly guaranteed debt.

Table 2. Kenya: Central Government Financial Operations, 1998/99-2002/03 1/

	1998/99		1999/00		2000/01		2001/02		2002/03	
	K Sh	%	K Sh	%	K Sh	%	K Sh	%	K Sh	%
Revenue	192,266	*26.9*	179,855	*23.9*	201,341	*24.8*	220,737	*25.0*	242,630	*25.1*
Income tax	55,235	*7.7*	54,238	*7.2*	57,680	*7.1*	62,889	*7.1*	68,762	*7.1*
Import duty (net)	28,444	*4.0*	28,923	*3.8*	30,597	*3.8*	33,907	*3.8*	37,681	*3.9*
Excise duty	28,733	*4.0*	28,558	*3.8*	29,575	*3.6*	32,416	*3.7*	35,443	*3.7*
Value-added tax	39,205	*5.5*	40,722	*5.4*	51,590	*6.4*	56,745	*6.4*	62,717	*6.5*
Investment income 2/ 3/	16,906	*2.4*	409	*0.1*	1,096	*0.1*	1,195	*0.1*	1,307	*0.1*
Other	23,743	*3.3*	27,005	*3.6*	30,803	*3.8*	33,585	*3.8*	36,721	*3.8*
Of which: earmarked (AiA)	17,056		16,911		18,076		19,708		21,549	
Expenditure and net lending	197,456	*27.6*	184,403	*24.5*	213,607	*26.3*	229,560	*26.0*	247,422	*25.6*
Recurrent expenditure	161,468	*22.6*	158,335	*21.0*	184,570	*22.8*	183,295	*20.7*	192,920	*20.0*
Interest payments	40,055	*5.6*	30,818	*4.1*	30,594	*3.8*	27,749	*3.1*	24,202	*2.5*
Domestic interest 3/	31,743	*4.4*	21,871	*2.9*	21,533	*2.7*	19,660	*2.2*	16,969	*1.8*
Foreign interest due	8,312	*1.2*	8,947	*1.2*	9,060	*1.1*	8,089	*0.9*	7,233	*0.7*
Wages and benefits (civil service)	64,003	*9.0*	68,085	*9.0*	77,840	*9.6*	71,584	*8.1*	72,745	*7.5*
Of which: civil service reform	750	*0.1*	493	*0.1*	7,979	*1.0*	1,636	*0.2*	0	*0.0*
Pensions	5,171	*0.7*	5,770	*0.8*	6,328	*0.8*	7,074	*0.8*	8,469	*0.9*
Other	42,340	*5.9*	44,023	*5.8*	53,237	*6.6*	58,734	*6.6*	68,871	*7.1*
Defense & NSIS	11,087	*1.6*	12,560	*1.7*	16,571	*2.0*	18,154	*2.1*	18,633	*1.9*
Commitment adjustments 4/	-1,188	*-0.2*	-2,921	*-0.4*	0	*0.0*	0	*0.0*	0	*0.0*
Development and net lending	35,988	*5.0*	26,068	*3.5*	29,037	*3.6*	34,515	*3.9*	41,002	*4.2*
Domestically financed	8,893	*1.2*	5,728	*0.8*	9,729	*1.2*	13,930	*1.6*	18,957	*2.0*
Foreign financed	16,381	*2.3*	20,167	*2.7*	17,777	*2.2*	19,000	*2.1*	20,395	*2.1*
Net lending	7,712	*1.1*	172	*0.0*	1,531	*0.2*	1,586	*0.2*	1,651	*0.2*
Commitment adjustments 4/	3,002	*0.4*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*
Unidentified expenditure 5/	0	*0.0*	0	*0.0*	0	*0.0*	11,750	*1.3*	13,500	*1.4*
Balance (commitment basis)	-5,190	*-0.7*	-4,548	*-0.6*	-12,266	*-1.5*	-8,823	*-1.0*	-4,792	*-0.5*
Grants	4,920	*0.7*	4,977	*0.7*	13,956	*1.7*	13,426	*1.5*	9,217	*1.0*
Project Grants	4,525	*0.6*	4,633	*0.6*	6,352	*0.8*	6,789	*0.8*	7,288	*0.8*
Program Grants	395	*0.1*	344	*0.0*	7,604	*0.9*	6,637	*0.8*	1,930	*0.2*

Balance (commitment basis, including grants)	-270	*0.0*	429	*0.1*	1,690	*0.2*	4,603	*0.5*	4,425	*0.5*
Adjustments to cash basis	-2,011	*-0.3*	-5,776	*-0.8*	-4,554	*-0.6*	0	*0.0*	0	*0.0*
Balance (cash basis)	-2,281	*-0.3*	-5,347	*-0.7*	-2,864	*-0.4*	4,603	*0.5*	4,425	*0.5*
Financing	2,284	*0.3*	5,347	*0.7*	-9,980	*-1.2*	-4,603	*-0.5*	-4,425	*-0.5*
Net foreign financing	-8,732	*-1.2*	-14,450	*-1.9*	-12,133	*-1.5*	-6,356	*-0.7*	-1,626	*-0.2*
Project loans	11,856	*1.7*	15,534	*2.1*	11,425	*1.4*	12,211	*1.4*	13,107	*1.4*
Program loans	344	*0.0*	12	*0.0*	14,387	*1.8*	8,756	*1.0*	9,037	*0.9*
Repayments due	-23,728	*-3.3*	-32,871	*-4.4*	-31,998	*-3.9*	-27,323	*-3.1*	-23,770	*-2.5*
Change in arrears	2,796	*0.4*	2,875	*0.4*	-5,947	*-0.7*	0	*0.0*	0	*0.0*
Privatization proceeds	0	*0.0*	5,660	*0.8*	7,572	*0.9*	4,356	*0.5*	4,719	*0.5*
Net domestic financing	11,016	*1.5*	14,137	*1.9*	-5,419	*-0.7*	-2,603	*-0.3*	-7,518	*-0.8*
Of which: expenditure arrears securitization	940	*0.1*	-3,499	*-0.5*	-3,001	*-0.4*	0	*0.0*	0	*0.0*
Financing gap 6/	0	*0.0*	0	*0.0*	12,844	*1.6*	0	*0.0*	0	*0.0*
Memorandum items:										
GDP	714,613	...	753,365	...	810,802	...	884,028	...	966,574	...
Stock of domestic debt, net (end of period)	146,811	*20.5*	160,948	*21.4*	155,529	*19.2*	152,927	*17.3*	145,408	*15.0*
Human Resource Development 7/	...	...	17,820	...	19,541	...	22,531	...	25,600	...

Sources: Kenyan authorities; and Fund staff estimates and projections.
1/ Fiscal year ending June 30.
2/ The outturn for 1998/99 includes K Sh. 7.6 billion in central bank profit transfers budgeted for 1998/99, but received in 1997/98.
3/ At the beginning of 1999/2000, KSh 31 billion of central bank short-term treasury bill holdings were converted into zero-interest long-term bonds.
4/ The fiscal accounts are on a cash basis (with the exception of foreign interest due). Adding accumulation of pending bills and subtracting cash repayment of them adjusts to a commitment basis.
5/ For social programs and other priorities, including civil service wage decompression, to be identified in the context of the full PRSP.
6/ The authorities hope that the financing gap in 2000/01 could be covered by debt rescheduling.
7/ One of seven sectors utilized in the MTEF prioritization process. It includes the non-wage components of education, health and other social spending.

Table 3: Sectoral Allocation Targets (percent of total recurrent and total development)

Sector	Category	1999/00	2000/01	2001/02	2002/03
Public Safety, Law & Order	Recurrent Exp. Development Exp	3.1 1.5	3.57 1.2	3.68 1.2	3.71 1.2
Public Administration	Recurrent Exp. Development Exp	7.1 4.4	5.92 5.3	5.69 3.3	5.51 -
Human Resource Development	Recurrent Exp. Development Exp	12.3 9.6	10.72 13.5	12.07 14.0	12.39 14.6
Agriculture & Rural Development	Recurrent Exp. Development Exp	1.9 18.5	2.07 23.7	2.11 23.1	2.13 24.4
Physical Infrastructure*	Recurrent Exp. Development Exp	0.3 63.2	0.70 54.1	0.73 56.2	0.74 57.8
Tourism, Trade & Industry	Recurrent Exp. Development Exp	0.8 1.7	1.23 2.1	1.25 2.1	1.26 2.0
National Security	Recurrent Exp. Development Exp	11.0 0.1	12.31	12.29	12.29
All Wages and Salaries	Recurrent Exp	58.6	54.26	55.75	58.17
Other	Recurrent Exp	5	9.22	6.42	3.81

* Includes all building and construction in all sectors

Annex 6

Monetary Policy and Financial Sector Reform

1. **Monetary Policy:** Recent experience in the developing countries that have been most successful in achieving high and sustainable growth has clearly demonstrated the importance and value of maintaining a sound monetary policy with low inflation. Persistent inflation does considerable harm to the economy by discouraging savings while encouraging unproductive investments. Inflation causes interest rates to rise over time and creates uncertainty which makes it difficult to make sensible investment decisions. In other words, rising inflation discourages productive investment that is necessary to create jobs. It is important to emphasise that although inflation victimizes all Kenyans in some way, it hurts the poor more as they have no means to hedge against it.

2. The Government recognises the fact that inflation does no good, and the country stands to gain more, in the long run, from maintaining low inflation as an important element of its poverty reduction strategy. For this reason we have managed monetary policy, over the last six years, with a view to providing a stable macroeconomic environment specifically, price stability as the context within which Kenyans and Kenyan business enterprises can plan for the medium and longer-term. This essentially has entailed restricting the growth of the money supply to its demand in line with the increase in our national income.

3. The Government is convinced that to achieve a lasting reduction in poverty, we will first and foremost need to register economic growth that is not only high and stable, but which embraces the poor people and allows them to share in the fruits of development. Such growth will be realised only within a sound macroeconomic framework, in which resources are utilized efficiently in pro-poor income and employment generating activities. In this context, the monetary policy will, supported by prudent fiscal policy continue to aim to deliver price stability through permanently low inflation, defined as not more than 5% throughout the programme period. This will entail limiting expansion of money supply to levels consistent with non-inflationary growth targets. This level of inflation is consistent with that of our major trading partners and will, therefore, help maintain a stable exchange rate.

4. Regarding the transparency of monetary policy, public understanding of the objectives and reasons for monetary policy being pursued has been helped by the greater openness with which monetary policy is now conducted through the Monthly Economic Review and the bi-annual Monetary Policy Statement which are produced by the Central Bank of Kenya.

5**.** **Banking System:** A stable and efficient banking system is critical to the mobilisation of adequate savings to finance the investment and growth that is needed to reduce poverty. The prevalence of a large number of small and weak banks has in the recent past threatened the stability of the banking industry. Moreover, partly because of poor lending practices and weaknesses in the judiciary, which constrain loan recovery efforts, most banks carry very high levels of non-performing loans. In addition, many institutions in the industry operate on outdated information technologies. These weaknesses have partly contributed to the high operating costs leading to high interest rates banks charge on their loans and services.

6. In the immediate future, efforts will be directed towards restoring the stability of the banking sector by, increasing the frequency of on-site inspections, intensifying off-site surveillance, and encouraging more of the small banks to merge. With respect to on-site inspection and off-site surveillance, it is important to note that over the last two years, the Banking Act has been extensively revised with a view to enhancing the powers of the Central Bank to supervise banks and also ensure compliance with prudential regulations. The Central Bank is now empowered to levy monetary penalties to banks that do not comply with the laid down regulations. In this context, the Central Bank will intensify on-site inspections to ensure that by the year 2001 each institution is inspected once every year. On-site inspection will continue to be complemented by off-site surveillance which is now able to provide reliable early warning signals on the status of institutions.

7. In addition to surveillance, the paid up capital base of commercial banks and non-bank financial institutions will be progressively increased to a sound level. This will be done either through additional capital injection or encouraging small banks to merge. Appropriate legal and other enabling procedures will be put in place by the end of 2000 to remove legal impediments in areas like the assignment of assets and liabilities and to ensure bank mergers are effected smoothly in order to encourage consolidation of bank services.

8. To further clarify and expand on prohibited activities, the Central Bank will issue prudential regulations and policies including on the amount of risk that banks may incur in lending operations. A system will also be set up to enable the Central Bank share debtor information with licenced banking institutions.

9. To improve operational efficiency of the banking sector, banks will be encouraged to modernize their information technology, to pool services such as ATMs in order to cut costs, and improve customer service. Institutions will also continue to be encouraged to improve their corporate governance by enhancing the role of audit committees which will be made mandatory.

10. On the issue of the large non-performing loan portfolio, the Government will move with speed to improve the capacity of the judiciary to facilitate speedy disposal of the commercial cases currently pending before the courts. Lack of adequate accommodation for courts, in the face of limited financial resources of the Government, has been a major constraint. To redress this problem, plans are under way to renovate the Income Tax House specifically to accommodate commercial courts. Phase I of the renovation works is to be completed by June 2001 and Phase II by June 2002. In addition, the number of commercial judges will be increased to a level that will facilitate clearance of the backlog of pending commercial cases. Furthermore the Government will coordinate with the Central Bank on establishment of Credit Reference Bureaus. Towards this end, appropriate legislation will be put in place by 31st December 2000 to allow institutions disclose their non-performing loans to the credit reference bureaus.

11. The Government will accelerate its divesture from the financial sector during the three-year period to 2002 by selling its shareholding in Kenya Commercial Bank (KCB), National Bank of Kenya (NBK), Development Bank of Kenya, Stanbic, Housing Finance Company of Kenya (HFCK), Consolidated Bank and Industrial Development Bank (IDB).

12. **Investment/Merchant Banks:** To deepen the financial sector and promote investment vehicles such as mutual funds and unit trusts etc., investment merchant banks will be encouraged. However, they will be ring fenced from traditional banking services to encourage them to develop as specialised financial market institutions. Investment banks will be non-deposit taking institutions, which will distinguish them from the normal commercial banks operations. In this regard, they will have less capital and liquidity requirements compared to commercial banks. The core functions of the investment banks, being non-deposit taking institutions, will include investment advisory, corporate finance, restructuring public enterprises, mergers, acquisitions, takeovers, public issuance of securities, dealing in securities and underwriting arrangements.

13. Investment banks will be regulated by the Capital Markets Authority. In this context, the CMA Act will be amended by July 2000 to provide for enabling regulatory legislative framework. In addition, guidelines on operations and regulations of investment banks will be issued by October 2000.

14. **Micro-finance Institutions:** A large number of Kenyans derive their livelihood from micro and informal business enterprises. Therefore, development of this sector represents an important means of promoting employment, growth, and poverty reduction in the long-term. However, in spite of the importance of this sector, experience shows that provision and delivery of financial services and credit to the sector by formal financial institutions, such as commercial banks has been below expectation. This means it is difficult for the poor to emerge out of their poverty through meaningful and productive activities. Therefore new, innovative and poor friendly modes of financing informal and small-scale enterprises need to be developed, which are based on sound operating principles.

15. In the last two decades or so, co-operative banking sections, and other micro-finance institutions set up within the NGOs framework, have been important sources of credit for a large number of small-scale producers and business operators in the rural and urban areas. These micro finance institutions have however operated without an appropriate policy and legal framework. There is therefore need to reinforce focus on these institutions to enhance their effectiveness as catalysts, and conduits in the provision of credit to the poor.

16. The Government recognises that greater access to, and sustainable flow of credit to the informal sector operators, are critical to progress in poverty reduction. Therefore, development of an appropriate policy and legal framework to promote a viable and sustainable system of micro-finance in the country will be initiated and completed in 2000/01. In doing this, the Government will consult with the stakeholders to get their views on the best way to create the required enabling environment for this sub-sector. In addition, a full-fledged micro finance unit will be established

in 2000/01 in the Central Bank to regulate micro finance organizations. The unit will be required to formulate policies and procedures to address the problems facing these institutions and to build up a database to facilitate better monitoring of their operations.

17. **Money and Capital Markets:** Money and capital markets play an important role in mobilisation and allocation of both domestic and international capital. In this regard, they constitute an important sector critical in underpinning economic growth and poverty reduction.

18. Access to long-term capital funds by the small and medium scale companies with high growth potential has not been adequate. To address this problem, the stock market has been restructured into three independent market segments, namely:

- **The Main Investment Market Segment (MIMS)** represents the main quotation market. Listing and disclosure requirements for this segment is more stringent.

- **The Alternative Investment Market Segment (AIMS)** caters for companies that are not able at the moment to have access to the market because they cannot meet the stringent eligibility requirements. This market segment therefore provides an alternative method of raising capital particularly for small and medium sized companies and will have less stringent eligibility and listing requirements. The market also offers investment opportunities to high net worth individuals and institutional investors.

- **The Fixed Income Securities Market Segment (FISMS),** provides an independent market for fixed income securities such as security bonds, treasury bonds and preference shares, among others.

19. Other measures contemplated to promote domestic savings include:- (a) the promotion of collective investment schemes to encourage saving and to facilitate access to capital markets by small savers; and (b) introduction of a secondary mortgage market. The legislation to provide for the establishment of collective investment schemes - such as mutual funds, unit trusts and property trusts - is in the process of being introduced. The necessary Bill was tabled in Parliament in May 2000. The Capital Markets Authority will, contingent on the passage of the Bill into Law, develop by July 2000, the necessary operational guidelines and the requisite regulatory framework.

20. To harness long-term financial resources for the housing sector and facilitate savings in financial assets, a framework for issuance of asset-backed securities and development of a secondary market for mortgages will be initiated. A Policy Paper setting out more clearly the basis and benefits of asset-backed securities will be finalised by September 2000. The necessary legal framework for the use of asset backed securities by housing finance companies and the mortgage companies will be prepared and completed by June 2001, and appropriate guidelines will be issued by September 2001.

21. The capital markets play an important role in mobilising international capital to supplement domestic savings and to meet the financing requirements of the economy. In this regard, as part of the liberalisation programme of the Kenyan economy, foreign portfolio investors were allowed to acquire interest in public listed companies at the Nairobi Stock Exchange subject to pre-determined ceilings. The ceilings are a maximum aggregate of 40% of the share capital and a maximum individual shareholding of 5%. The present requirements inhibit active participation of foreign investors in the domestic money market and have a negative perception in an otherwise liberalised economy. Consequently, the rules governing foreign portfolio investments will be reviewed with a view to making them more investor friendly.

22. To improve efficiency and functioning of the capital markets, the Capital Markets Authority and the Nairobi Stock exchange have begun a programme aimed at implementing comprehensive modernisation of trading and settlement operations and systems. As part of this programme, electronic trading system by the Nairobi Stock Exchange (NSE) is being developed and it is planned to be completed and implemented by January 2001. In addition, a central depository system, an electronically driven system of registration and settlement, will be introduced in FY 2000/01. The system is expected to facilitate efficient mobilisation of securities. A Bill to create the necessary legislation has been published and is expected to be tabled in Parliament by April 2000. A consortium of institutional investors led by the Nairobi Stock Exchange, International Finance Corporation (IFC), some local banks and insurance companies, is expected by the end of July 2000 to sign a shareholders agreement and contribute to the initial capital of the project.

23. **Regulatory Framework**: There are a number of institutions currently empowered to regulate the various institutions providing a variety of financial services to the business and non-business community. At times, because of the overlap of responsibilities and conflicting regulatory requirements, this regulatory regime has caused serious operational difficulties to market participants. There is therefore a need to consolidate the regulatory regime to address the problem of overlap of responsibilities and thereby enhance efficiency of our financial system. The consolidation is envisaged to include initially the Capital Markets Authority, Retirement Benefits Authority and Insurance Commission to form a single financial services regulatory body. A study to provide the basis for the most appropriate modalities of establishing such an institution will be carried out and completed by June 2001. An appropriate legislation to provide for its establishment will be prepared and finalised ready for tabling in Parliament by December 2001.

Annex 7

SELECTED SOCIAL INDICATORS/TARGETS

	1998	1999 est	2000 est	2001 est	2002 est
Unemployment	25%	24%	22%	21%	20%
Infant mortality rate*	74	72	70	68	65
Under five mortality*	112	110	105	100	98
Maternal Mortality **	590	570	550	520	500
Incidence of stunting in children under 5	37.5%	37%	36.5%	36%	35%
Crude death rate*	12	11.5	11	10.5	10
Wasting among children under 5	6.3%	6.25%	6.2%	6.1%	6%
Life expectancy	60	58	53	54	55
Adult literacy	75%	76%	77%	78%	80%
Gross primary enrolment	89%	90.5%	90%	91%	92 %
Primary school completion rate	46%	48%	50%	52%	55%
Gross secondary enrolment	23%	24%	25%	30%	40%
Fertility rate	4.8	4.6	4.2	3.8	3.5

* per 1000
** per 100,000 births