TABLE OF CONTENTS

LIST OF ABBREVIATIONS

ACP-EU	-	Africa, Carribean and Pacific - European Union
AGOA	-	Africa Growth and Opportunity Act
AFC	-	Agricultural Finance Corporation
ASAL	-	Arid and Semi Arid Land
CSC	-	Chemelil Sugar Company
COMESA	-	Common Market for Eastern and Southern Africa
CCK	-	Communications Commission of Kenya
CFAA	-	Country Financial Accountability Assessment
DIDC	-	District Documentation Centers
EAC	-	East African Community
EARNP	-	East African Road Network Project
ERP	-	Electricity Regulatory Board
EEZs	-	Exclusive Economic Zones
EPZs	-	Export Processing Zones
FSAP	-	Financial Sector Assessment Program
GDP	-	Gross Domestic Product
HIV/AIDS	-	Human Immuno Deficiency Virus/Acquired Immune Deficiency Syndrome
ICT	-	Information and Communications Technology
IT	-	Information Technology
IEK	-	Institute of Engineers of Kenya
IFMIS	-	Integrated Financial Management System
IPPD	-	Integrated Payroll and Personnel Database
IFC	-	International Finance Corporation
JICCC	-	Joint Industrial and Commercial Consultative Committee
KEMSA	-	Kenya Medical Supplies Agency
KENGEN	-	Kenya Electricity Generation Company
KARI	-	Kenya Agricultural Research Institute
KLGRP	-	Kenya Local Government Reform Programme
KPA	-	Kenya Ports Authority
KPLC	-	Kenya Power and Lighting Company
KRC	-	Kenya Railways Corporation
KRA	-	Kenya Revenue Authority
KTB	-	Kenya Tourism Board

KUC	-	Kenya Utalii College
LATF	-	Local Authority Transfer Fund
LPG	-	Liquefied Petroleum Gas
MRA	-	Maritime Regulatory Authority
MSE	-	Medium and Small Scale Enterprises
MTEF	-	Medium Term Expenditure Framework
NEMA	-	National Environmental Management Authority
NARC	-	National Rainbow Coalition
NSEC	-	National Social Economic Council
NSHIF	-	National Social Health Insurance Fund
NGO	-	Non-Governmental Organisation
NSSF	-	National Social Security Fund
OMO	-	Open Market Operations
PPA	-	Participatory Poverty Assessment
PIN	-	Personal Identification Number
PCK	-	Postal Corporation of Kenya
PRSP	-	Poverty Reduction Strategy Paper
PSP	-	Private Sector Participation
PRSP/MTEF	-	Poverty Reduction Strategy Paper/ Medium Term Expenditure Framework
PEM	-	Public Expenditure Management
PER	-	Public Expenditure Review
PPIAF	-	Public Private Infrastructure Advisory Facility
R&D	-	Research and Development
TKL	-	Telkom Kenya Limited
VAT	-	Value Added Tax
VER	-	Voluntary Early Retirement
VSAT	-	Very Small Aperture Terminal
WSS	-	Water and Sewerage Services
WMES	-	Welfare Monitoring and evaluation Survey

STATEMENT BY THE MINISTER FOR PLANNING AND NATIONAL DEVELOPMENT

This Economic Recovery Strategy for Wealth and Employment Creation aims at giving Kenyans **a better deal** in our lives and in our struggle to build a modern and prosperous nation. It aims to empower Kenyans and to provide them with a democratic political atmosphere under which all citizens can be free to work hard and engage in productive activities to improve their standards of living. In this regard, this strategy is focused on implementing the promises in the Manifesto of the National Rainbow Coalition (NARC), our ruling party, which are based on two concepts: **democracy and empowerment.**

During the past two decades, we have seen Kenya slide systematically into the abyss of underdevelopment and hopelessness. Poverty has increased, unemployment has become rampant, insecurity has visited almost every homestead, hunger is prevalent among the poor, the health condition of the people has declined significantly, while corruption and bad governance became entrenched as political oppression weighed heavily on the people. The oppression went for long by dividing the people along ethnic lines, nurturing hatred and suspicion among the people and creating a huge divide between the governors and the governed. Many Kenyans almost lost hope in their own nation.

Thus the gains of the first two decades of independence have actually been halted or reversed during the last thirty years. Kenya can get no better deal than recapture the initiative we had at independence with the aim of climbing to greater heights in development with the view of becoming part of the First World in the next twenty five years. This is the only worthwhile ambition we can have for ourselves in the twenty first century. We must rekindle faith in ourselves. We must work hard to become a nation of proud people, "**a working nation**". That is the vision the President gave us on Madaraka Day, first of June 2003.

In order to live up to this vision, however, we must have a good and clear road map for the future. We must plan and plan well. We must make sound choices on what we are doing. We must get our priorities right. We must then implement what we choose to do in order to get the results that will improve our lives and not those that will set us back several years. In this Recovery Strategy, a road map is provided for taking specific actions during the next five years to put Kenya on the path to economic prosperity. Some of these actions may, in the short run, be painful and difficult to accomplish. In the long run, however, they are bound to pay dividends.

The Economic Recovery Strategy for Wealth and Employment Creation recognizes that we have actually experienced negative growth over the last ten years in the majority of sectors of our economy. We have not only stagnated in terms of economic growth; we have unfortunately lost even the ground we had covered. So, in order to begin the serious business of economic growth, we must **recover the lost ground.** This means undertaking radical **reforms that** will drive our recovery process.

As we moved from a state-controlled economy to a more market-oriented economy in the nineteen nineties, we undertook macro-economic reforms which should have served us well were we not bogged down by corruption, mismanagement, unmanageable borrowing in the domestic market, poorly conceived public investments, wastefulness and general bad governance in government and the public sector. We now realize that the unfinished business of **reforming the state and its operations** so that good governance can prevail under democracy and the rule of law is vital to the recovery process. This requires our own political resolve and commitment before we even tackle the issues of institutional reforms and the enacting of new good governance laws. While maintaining a sound macro-economic framework, this Recovery Program gives priority to **good governance and the rule of law** as the foundation of our economic growth. In this regard, reforms are proposed that will deepen and institutionalize growth with macro-economic stability, good governance, the rule of law, public security and social solidarity.

Although we realized at independence that both **physical and social infrastructure** are extremely vital for the creation of wealth and development in general, and that they are the arteries of our economy, we have, over the years, ignored or run down both. Kenya, given her economic potential, has one of the lowest **connectivity per capita** among the Sub-Saharan African countries in terms of physical infrastructure, i.e. telephony, roads, air and maritime transport, railways, electrical power, financial services and internet provision. In terms of education and health—social infrastructure—the momentum built soon after independence was lost twenty years ago as services deteriorated through corruption and poor governance.

Firstly, by providing compulsory and free primary school education, we have set the stage for recovering this lost ground. Secondly, by initiating a National Social Health Insurance Scheme, we shall endeavor to see that all our citizens have access to proper and sustainable health care system. Thirdly, to create the environment for wealth and job creation, the government intends to rehabilitate, expand and properly maintain physical and social infrastructure sectors. These initiatives are intended to achieve the Milleneum Development Goals within the coming decade.

In undertaking these and other key development initiatives that this Recovery Plan identifies as priorities, the government would like to appeal to civil society, labor, the private sector and all our development partners to join us in the mobilization of needed resources for our Recovery Program. We are also faced by such **emergency issues** like the HIV/AIDS pandemic, the adverse effects of unpredictable weather, the terrorism menace and political instability in neighboring countries. The government will be proactive in dealing with these issues and committing needed resources at its disposal. It will strengthen domestic and international partnerships in achieving our goals. In this regard, we are establishing the **National Economic and Social Council (NESC)** to provide an arena for partnership for the making, monitoring and evaluation of public policy. The NESC, in line with our active participation in the New Partnership for African Development (NEPAD), will go a long way towards improving public-private partnership in Kenya's development process under the NARC government. Our diplomatic policy in the context of NEPAD should move away from the benign "good neighborliness" stance to more productive economic diplomacy.

With the improvement in our infrastructure and given our commitment to good governance and the rule of law, we are determined to create a friendly and affordable environment for investment and doing business in Kenya. This will lead to improved efficiency and productivity in the productive sectors: agriculture, trade, industry, tourism, mining and other services so that more and more of our people can be productively employed and hence live better.

Whether we are talking of the smallholder farmer, the medium enterprise owner or the captains of industry, government must ensure that all receive good services so as to produce and create wealth for our nation. The government will, in turn, find the basis for getting its revenue through taxation. It must not be forgotten that a good tax regime is that one which is user-friendly and not that which is punitive and invites calculated evasion by the taxpayers. The government invites Kenyans to pay their taxes while feeling perfectly at home in doing so. During the next five years, the government will take urgent measures to enhance public savings and reduce public consumption so that substantial resources can be availed for domestic capital formation. In line with this policy, the government will seek to enhance the confidence of the public to participate in the Nairobi Stock Exchange (NSE). After six months in office, the government is encouraged by the confidence of Kenyans in the way public affairs are being managed. This should be underscored by sustainable macro-economic stability, increased investments and rapid growth.

The process of producing this Recovery Strategy started with our campaign to change Kenya for the better and our election Manifesto on democracy and empowerment. I would like to thank all those people who worked hard to establish the National Rainbow Coalition and all those who prepared and produced the Manifesto. I would also like to thank the young men and women who worked on our Post-Election Action Program. But more profoundly, I would like to thank the people of Kenya who gave us the mandate to govern this country by voting for NARC overwhelmingly in the last general elections.

There have been a series of consultations with various stakeholders in putting together this Recovery Program. In February 2003, a three-day seminar was held in Mombasa to discuss the basic analysis proposals that the Ministry was advancing on strategies for economic recovery. We used the Poverty Reduction Strategy Paper (PRSP), the Government Action Plan, the NARC Manifesto and the Post-Election Action Plan (PEAP) in preparing the basic document. The seminar triggered off a series of consultations with employers, manufacturers, labor unions, professionals, civil society organizations, organizations and ministries dealing with the global commons and people from Arid and Semi-Arid Lands. More recently, in preparing for the July Economic Summit, the views incorporated into the Strategy have been discussed with smaller audiences from these stakeholders so that the Ministry can arrive at a realistic framework for implementation.

The government must now express this national solidarity in a development process that is all-inclusive and that will promote nationhood in Kenya. That is why, in the program of action integral to this Recovery Strategy, specific attention has been paid to the Arid And Semi Arid Lands (ASALS) to move away from the benign neglect of the past, and to fully develop the potentials of these areas.

I would like to thank all the Cabinet Ministers, Members of Parliament, Government officials, consultants, professionals, civil society organizations, development partners and friends of Kenya with whom the Ministry consulted and discussed to produce this Recovery Program. I would also like to thank the staff of the Ministry of Planning and National Development for the hard and steadfast work they have performed.

Finally, I would like to express my gratitude to His Excellency the President for having supported this process with commitment and dedication. The President has given Kenyans confidence that change for the better is possible, and its fruits can be reaped in our lifetime. In July this year, the President will be launching the Blue Print for long-term economic development in Kenya. This Strategy for Economic Recovery over the next five years lays down the foundations for this long-term perspective plan to be published as a *Sessional Paper.*

If we dedicate ourselves as a hard working nation, a truly *unbwogable* people, we shall definitely transform this nation from a third world nation to a prosperous and modern nation in the next twenty-five years. There is work to be done: let us all do it.

Hon. P. Anyang' Nyong'o
Minister for Planning and National Development

June 2003.

EXECUTIVE SUMMARY

After experiencing moderately high growth rates during the 1960s and 1970s, Kenya's economic performance during the last two decades has been far below its potential. As a result, per capita income in constant 1982 prices declined from Kshs 3,813 in 1990 to Kshs 3,360 in 2002. The number of people openly unemployed currently stands at over 2 million or 14.6 per cent of the labour force, with the youth accounting for 45 percent of the total. The majority of the unemployed, though educated, do not have necessary skills. In addition, the number of the working poor is staggering comprising primarily subsistence farmers, female-headed households and pastoralists. Disguised unemployment is also a serious problem, especially in the public sector.

The sharp deterioration in economic performance worsened the poverty situation. The number of people living in poverty is estimated to have risen from 11 million or 48 per cent of the population in 1990 to 17 million or 56 per cent of the population in 2001. Welfare monitoring surveys conducted by the Kenyan Government indicate that three quarters of the poor live in rural areas while the majority of the urban poor live in slum and peri-urban settlements. In a number of Participatory Poverty Assessment (PPA) surveys carried out in the 1990s, the poor attribute their poverty to natural calamities, and traditions and cultural beliefs that deny women access to productive assets. The deterioration in the standard of living in Kenya is demonstrated well by the worsening in key social indicators over the last two decades. Illiteracy rates increased as enrolment rates in primary school declined while life expectancy and child mortality worsened. This disappointing development has further been complicated by the upsurge of the HIV/AIDS pandemic.

It is against this background that the Government of the National Rainbow Coalition (NARC) was elected in December 2002. The major challenge facing the NARC Government is how to restore economic growth, generate employment opportunities to absorb the large army of the unemployed, particularly the youth, and reduce poverty levels. The overwhelming support given to the new Government was a resounding indication by Kenyans that they needed radical changes, changes that would make Kenya an attractive place to live and a place to feel at home. The NARC Government is convinced that economic recovery is the primary vehicle through which it can achieve improved provision of education, health, better infrastructural services and gainful employment for Kenyans. The Government is convinced that employment creation is the most effective strategy for halting the increasing poverty.

Immediately after taking office, the new Government commenced the process of preparing an Economic Recovery Programme, focusing on the main strategy for reviving the economy and creating jobs. The Strategy takes into account existing government policy documents particularly the Poverty Reduction Strategy Paper (PRSP) that was issued in 2001. It also incorporated the policy proposals contained in the Manifesto of the National Rainbow Coalition (NARC) and Post-Election Action Plan. The Strategy document, which was prepared under the auspices of the Ministry of Planning and National Development, embodies the views and aspirations of Kenyans, which were collected through a process of consultative workshops with a wide cross section of stakeholders.

This Strategy identifies key policy actions necessary to spur the recovery of the Kenyan economy and is based on four pillars as well as five cross cutting themes reflecting the overall goals of our society. First, the Government recognizes that rapid economic growth will be required over the next four years but in an environment of macro economic stability. In this context, measures are proposed for enhancing revenue collection, expenditure restructuring, and a monetary policy that will support the achievement of economic growth without putting into jeopardy price stability objective.

Four priority areas will form the core of the macro economic framework. Firstly, the Government will seek to maintain revenues at above 21 per cent of GDP to enable the bulk of Government expenditures to be financed from tax revenues. This target will be achieved by rationalizing the tax rates, broadening the tax base to include the informal sector and modernization of revenue administration. Secondly, the Government will restructure expenditures to be more growth and pro poor oriented. This will be achieved through the deepening of the MTEF process, implementation of the Country Financial Accountability Assessment (CFAA) Action Plan, the Public Expenditure Management (PEM) reforms, and utilizing an annual Public Expenditure Review (PER) to inform the resource allocation process. Thirdly, the Government will focus its deficit financing on non-domestic sources to enable private sector credit to grow despite the limited growth in money supply. Fourthly, the Central Bank will pursue a monetary policy consistent with low inflation without compromising the recovery effort.

The second and more fundamental pillar is strengthening of institutions of governance. The Government is convinced that good governance underpins sustainable development. In this regard, the strategy outlines various reforms in public administration, national security, and law and order. It also underscores the centrality of the rule of law as opposed to the 'rule of man' in the creation of good governance in Kenya. It is emphasized that poor governance and the breakdown of law and order have contributed substantially to higher cost of doing business in Kenya, thereby negatively impacting on the economy. The programme proposes reforms to enhance efficiency and improvement in governance. Focus will be on building capacity for institutions involved in making justice accessible to all, and especially the poor.

Priority actions on the governance front will include implementation of the provisions of the **Anti Corruption and Economic Crimes Act** and the **Public Officer's Ethics Act** that were recently enacted; strengthening the security agencies with interventions covering training, equipment, housing, recruitment and increased collaboration with neighbouring countries; strengthening the rule of law through increasing legal staff, both in the judiciary and the Attorney General's Chambers, increasing availability of equipment and facilities, strengthening the Judicial Service Commission (JSC) and harmonization of laws; and enhancing local governance through a devolution process arising from the ongoing Constitutional Review process. In addition, Public Sector reform will be built around the civil service reform programme involving rightsizing, pay reform and enhancing efficiency; privatization of commercial state owned enterprises; enhancing competition and reforming the regulatory environment to facilitate the formalization of the informal sector and reduce the cost of doing business.

The third pillar is rehabilitation and expansion of physical infrastructure. The Government believes Kenya has the potential to become Africa's commercial centre. To achieve this vision requires the country to modernize, and uplift to first world class, its key economic infrastructure. Poor infrastructure has been identified as a primary factor that makes production cost excessively high, thereby undermining the competitiveness of locally produced goods. In particular, roads, railways and telecommunications have had a serious negative impact on production. The Strategy has identified policies to rehabilitate the dilapidated infrastructure while building new ones.

Infrastructural priority actions will fall in six areas. Firstly, rehabilitation, reconstruction and expansion of the road network, including the rural access roads. This will be done through implementation of the Roads 2000 programme for rural access roads, the concessioning of the Mombasa Malaba highway for conversion to a dual carriageway, rehabilitation of the road network and strengthening of the legal and institutional framework which includes the Kenya Roads Board (KRB). Secondly, energy availability will be improved by linking to the Southern African power pool, completion of power generation projects including Olkaria and Sondu Miriu, enhanced revenue collection, increasing connectivity and increasing competition in the sector. Thirdly, the telecommunications sector will be opened up to increased competition and private sector participation. Fourth, the railway sector will be revamped by restructuring and eventually privatizing Kenya Railways through concessioning. Fifth, the port of Mombasa will be converted to a landlord port and this will enable the private sector to participate in its modernization, while construction of a bypass at Dongo Kundu will eliminate the need for ferry services and potentially enable the conversion of the port into a free-port. Air transport will be improved through modernization and expansion of facilities and increasing the role of the private sector.

The fourth pillar is investment in the human capital of the poor. The Government believes a well-educated and healthy population is an important factor in enhancing productivity and the overall performance of the economy. While the impact on the economy will not be immediate, there is no doubt investment in human capital is an important ingredient to the realization of poverty reduction objective. Priority interventions in the socio economic sphere will focus on seven areas. These include putting in place measures to achieve 100 percent net enrolment at primary level; enhancing secondary education by expanding bursaries to cater for at least 10 percent of enrolled students, rehabilitating laboratories and classrooms and standardizing teacher student ratios at 35:1;meeting the health challenge through the establishment of a comprehensive National Social Health Insurance Fund (NSHIF) which will provide both in patient and out patient services to all Kenyans; continuing the battle against the HIV/AIDS pandemic by putting in place an integrated approach to prevention, increasing community involvement and ensuring the special health care needs of the infected are met; carrying out legal and institutional reforms to enhance employment creation, reforming the system of arbitration to minimize employment disputes and strengthening the role of productivity measurement in the labour reward process; conversion of the NSSF into a pension fund; and provision of low cost housing.

The Government strongly believes that recovery is primarily the result of improvements in the productive sectors of the economy including agriculture, tourism, trade and industry. Existing research suggests that factors responsible for the poor performance of the productive sectors other than those already discussed include the high cost of engaging in productive activities, high cost of capital particularly for medium and small scale enterprises (MSEs), lack of supportive services and weak institutions. The programme outlines specific policies and institutional reforms that will be implemented in order to revive the various sectors. Also emphasized in all sector policies is the removal of various regulatory impediments that increase the cost of doing business.

Productive sectors' interventions will be focused on 5 areas. Interventions in agriculture will focus on providing a single enabling legislation to replace the large number of excising legislations in the sector, rationalizing roles and functions of agricultural institutions to empower resource poor farmers and increase institutional efficiency, strengthening extension services and increasing smallholder access to credit. Institutional reform will also include revamping the co-operative movement by reviewing the Cooperative societies Act to improve governance in the sector and addressing issues of indebtedness in the sector. Interventions in the manufacturing sector will be built around an **Industrial Master Plan** which will lay the groundwork for the first phase of Kenya's industrialization strategy and restore the sector to a rapid growth path. The tourism sector will be promoted through increased funding for marketing, upgrading the tourist police force to make it more effective and diversification of markets, both in terms of geographical distribution and customer base. The Government will also be putting in place an **Investment Code** to consolidate investment incentives, protection and institutional framework in a single legislation to establish a one-stop office for investment promotion activities. Export promotion will be carried out within the framework of an export development strategy to ensure maximum export earnings are achieved for minimum promotional costs. The Government will also promote the Micro and

Small Enterprises Sector (MSE) by finalizing and implementing a Sessional paper on the sector, focusing on employment creation and formalization of informal activities.

The state of the financial sector is very important in supporting economic recovery.. The recovery programme outlines the main challenges facing the country's financial sector and identifies priority policies and institutional reforms to ensure a vibrant financial sector supportive of the country's development programmes.

Financial sector reform will be built around a Financial Sector Assessment Programme (FSAP) which will identify the strengths, weaknesses and synergies in the sector. Among the issues to be considered are whether there is adequate justification for an overall financial sector regulator.. Financial sector reform will concentrate on reducing the interest rate spread, enhancing investor confidence and consumer protection in the sector, dealing with the problem of Non Performing Loans (NPLs) and creating an independent insurance regulator.

The Government recognizes that the benefits of economic growth may still not reach all the people, particularly the most disadvantaged members of the population. Consistent with the Government's goal of fighting poverty, the programme outlines some social sector interventions that are critical in addressing the problem of poverty. The pro-poor spending proposals particularly in health and education are important in reducing the state of inequality.

The Government is aware of the weak implementation record that has in the past characterized its economic management. This has cost the country dearly in terms of withdrawal of much needed budgetary support by our development partners leading to non-completion of projects. The NARC Administration is fully committed to implementing the policies contained in this recovery programme. In this regard, the Government will put in place an implementation framework to ensure that the programme is implemented. To assist in this process, an implementation matrix, which is attached to this document, will be used to monitor and evaluate progress at each stage of implementation.

Priorities will be in three areas. Firstly, establishment and institutionalizing a mechanism for monitoring and evaluation following the work already done in the Ministry of Planning and National Development. Secondly, establishment of the National Economic and Social Council (NSEC) through an Act of Parliament. Thirdly, ensuring that the implementation matrix is adhered to.

Finally, the Government acknowledges that it is committed to improving the enabling environment for business and will strive to remove the various impediments that may hamper private sector development.

1. INTRODUCTION

Kenya's economic performance during the last two decades has been far below its potential. Consequently, per capita income in constant 1982 prices declined from US$271 in 1990 to US$239 in 2002. The number of people openly unemployed currently stands at over 2 million or 14.6 per cent of the labour force, with the youth accounting for 45 percent of the total. The majority of the unemployed, though educated, do not have necessary skills. In addition, the number of the working poor is staggering comprising primarily subsistence farmers, female-headed households and slum dwellers. Disguised unemployment is also a serious problem, especially in the public sector.

The persistent poor economic performance worsened the poverty situation. The number of people living in poverty is estimated to have risen from 11 million or 48 per cent of the population in 1990 to 17 million or 56 per cent of the population in 2001. Welfare monitoring surveys conducted by the Kenyan Government indicate that three quarters of the poor live in rural areas while the majority of the urban poor live in slum and peri-urban settlements. In a number of Participatory Poverty Assessment (PPA) surveys carried out in the 1990s, the poor attribute their poverty to natural calamities, and traditions and cultural beliefs that deny women access to productive assets. The deterioration in the standard of living in Kenya is demonstrated well by the worsening in key social indicators over the last two decades. Illiteracy rates increased as enrolment rates in primary school declined while life expectancy and child mortality worsened. This disappointing development has further been complicated by the upsurge of the HIV/AIDS pandemic.

The major challenge facing the NARC Government is how to restore economic growth, generate employment opportunities to absorb the large army of the unemployed, particularly the youth, and reduce poverty levels. The overwhelming support given to the new Government when it was elected in December, 2002 was a resounding indication by Kenyans that they needed radical changes, changes that would make Kenya a better home for all Kenyans. The NARC Government is convinced that economic recovery is the primary vehicle through which it can meet Kenyans expectations. The main expectations are improved provision of education, health, better infrastructural services and gainful employment. The Government is convinced that employment creation is the most effective strategy for halting the increasing poverty.

Immediately after taking office, the new Government commenced the process of preparing an Economic Recovery Programme, focusing on the main strategy for reviving the economy and creating jobs. The Strategy takes into account existing government policy documents particularly the Poverty Reduction Strategy Paper (PRSP) that was issued in 2001. It also incorporated the policy proposals contained in the Manifesto of the National Rainbow Coalition (NARC) and Post-Election Action Plan. The Strategy document, which was prepared under the auspices of the Ministry of Planning and National Development, embodies the views and aspirations of Kenyans, which were collected through a process of consultative workshops with a wide cross section of stakeholders.

This Strategy identifies key policy measures and programmes that the Government is committed to pursue over the next five years. Implementation of these measures will create the conditions necessary to achieve the desired rapid economic growth, wealth and employment creation and poverty reduction.

The strategy report is organized as follows:-

- Chapter 2 highlights the macro-economic policies necessary to support the achievement of the desired economic growth while maintaining price stability.

- Chapter 3 presents the measures the Government intends to take to strengthen institutions of governance and the rule of law.

- Chapter 4 describes policies the Government will take in the next five years to improve service delivery by the public sector, which includes, among others, civil service, local authorities and public entities.

- Chapter 5 sets out the programmes the Government intends to implement to modernize and uplift to first world class, the country's physical infrastructure.

- Chapter 6 explains specific policies and institutional reforms the Government plans to implement to revive the productive sectors, which include, among others, agriculture, tourism and trade and industry.

- Chapter 7 outlines some social sector interventions that the Government plans to take to alleviate the problem of poverty, conscious of the fact that the benefits of economic growth may still not reach the poor.

- Chapter 8 presents specific programmes that will be implemented to tap the potential of the Arid and Semi-Arid Lands (ASALS).

- Chapter 9 discusses policy reforms that require to be implemented in a number of service sectors in order to create the conditions necessary to achieve the desired rapid economic growth. The sectors include the financial sector, land administration, environment, information and technology and regional authorities.

- Chapter 10 describes the process of monitoring the implementation of this Strategy in order to ensure realization of the expected outcomes.

- Annexes to this document give further statistical details on the various key economic and financial indicators and an implementation matrix. The matrix provides details of specific policy actions by sector and identifies specific government agency expected to implement the policy action in question. The matrix also indicates the time frame when specific actions will be implemented.

2. MACRO ECONOMIC FRAMEWORK

2.1 Macroeconomic Objectives

The Government is committed to the maintenance of a stable macroeconomic framework, but within the context of structural reforms that will lead to wealth and employment creation aimed at poverty reduction. The key macroeconomic objectives for the period 2003-2007 include:

- Creating 500,000 jobs annually;
- Reducing poverty level by at least 5 percentage points from the current 56.8 percent level;
- Achieving a high real GDP growth rate - - rising from an estimated 1.1 percent in 2002 to 2.3 percent in 2003 and 7 percent in 2006;
- Containing average annual inflation rate to below 5 percent;
- Increasing official foreign exchange reserves from US$ 1.1 billion or 2.8 months of import cover in 2002 to US$ 1.7 billion or 3.5 months of import cover in 2007;
- Containing the current account deficit in the balance of payments to an average of 6.2 per cent of GDP; and
- Increasing domestic savings so as to enable higher levels of investment for sustainable development.

The projected current account deficit is much higher than the average for the last three years mainly due to the large investments expected to take place particularly in infrastructure whose import content tends to be high.

To achieve the desired growth and employment creation targets, Kenya will require an increase in ratio of gross fixed capital formation to GDP from 16.8 percent in 2002 to about 23 percent in 2007. Investment particularly by the private sector is envisaged to recover assisted mainly by the stable macroeconomic conditions and envisaged improvement in governance following implementation of the proposed far-reaching reforms in this area. Much of the investment recovery will be financed with domestic savings, which are projected to rise from 10.7 percent of GDP in 2002 to 15.8 percent in 2007. To finance the remaining resource gap, external resources of at least US$2.2 billion will be needed by public sector and US$1.1 billion by the private sector over the next five years.

The sector expected to lead in reviving the economy will be building and construction, which is projected to grow annually by 16.7 per cent on average. Consequently, building and construction share of GDP will rise from 2.3 per cent in 2002 to 4.2 per cent in 2007 driven primarily by increased public investments in infrastructure described in detail in Chapter 5. The other major source of growth is manufacturing sector, which is projected to grow during the recovery period at an annual average rate of 8.6 per cent compared with 1.2 per cent in 2002. Consequently, the share of the manufacturing sector in GDP will rise from 13 percent in 2002 to 15.7 per cent in 2007 driven mainly by higher capacity utilisation and reduced costs of production as a result of improved business environment resulting from improved governance, public sector efficiency as well as improved security situation.

The agriculture sector, which has been faced with myriad structural problems, is expected to grow by an average of 3.1 per cent annually during the recovery period as investments in rural infrastructure, agricultural research and extension services begin to yield desired results. Tourism is also expected to make a significant contribution to the economic recovery, growing by an annual average of 5.4 per cent over the period. Similarly, the Information and Communications Technology (ICT) sector is expected to contribute significantly to the overall growth, increasing by annual average growth rate of 5 per cent. **ICT has the potential and capacity to grow even faster as other sectors begin to adopt IT solutions and management techniques. The strategy therefore is to make Kenya a less agricultural-dependent country by diversifying to other sectors while still recognizing the strategic position of agriculture in fighting poverty**. The agricultural sector share of GDP will consequently decline from 24.0 per cent in 2002 to 22.2 per cent in 2007.

2.2 Macroeconomic Policy Framework

The macroeconomic policy framework and institutional changes described below will be put in place in order to achieve the desired growth, employment creation and poverty reduction.

2.2.1 Monetary Policy Reforms

The main focus of monetary policy is to ensure that growth in money supply is consistent with economic growth, employment creation and a viable balance of payments position without putting undue pressure on inflation. In the last five years, monetary policy aimed at maintaining a low stable inflation while providing adequate liquidity to enable the country achieves its development needs. To a large extent the pursuit of low stable inflation was achieved. As a result, the shilling exchange rate, which since 1993 has been market determined, has been fairly stable particularly in the last two years. Although interest rates remain a source of concern, considerable progress has been made in lowering them in line with reduced inflation. Concerns on perceived high interest rate problem will be addressed through measures to improve the effectiveness of the financial system. In this connection, focus of monetary policy will be to:

- **Contain inflation to below 5.0 per cent;**
- **Maintain a competitive exchange rate consistent with an export-driven economic recovery;**
- **Maintain an interest rate structure that promotes financial savings and ensures efficient allocation of the same; and**
- **Ensure adequate growth in credit to the private sector**.

To achieve the set monetary objectives during the recovery period, overall money supply is expected to grow annually by 10.0 per cent which allows for the build-up in reserves, and expansion in credit to the private sector of about 11.0 per cent annually to support expected recovery in business activity and investments. The financial programme does not envisage much government borrowing from the domestic banking system, as a large proportion of government borrowing requirement will be financed from external sources.

The Government will undertake a number of reforms to achieve the set monetary policy objectives. These reforms include:-

- **Strengthening of the Monetary Policy Committee by expanding its membership to include people from outside government with expertise in financial and monetary policy disciplines. Adoption of this reform will improve the formulation of monetary policy;**
- **Adopting a more transparent conduct of monetary policy by publishing minutes of the Monetary Policy Committee a month after the relevant meeting. The purpose of this proposal is to reduce information asymmetry and to improve public confidence in the monetary authority;**

- **Empowering the Central Bank of Kenya to be responsible for issuing banking licence, and when necessary revoking it;**
- **Enhancing the analytical as well as the operational capacity of the Central Bank in order to improve overall monetary policy management and to ensure that the Central Bank is more responsive to the emerging needs of the economy;**
- **Strengthening the co-ordination mechanism for fiscal and monetary policy to ensure that the conduct of fiscal policy does not undermine monetary policy objectives**.

The Central Bank will largely rely on Open Market Operations (OMO) to implement monetary policy. In this context, the Central Bank will consider reviewing downwards the cash ratio requirement in order to reduce intermediation costs in line with economic and financial developments.

2.2.2 Budgetary and Public Expenditure Reforms

A factor that has significantly contributed to the weak economic situation is the high level of domestic debt and the associated high interest rates. To mobilise the necessary investment to achieve the desired growth and employment creation it will be necessary for lending interest rates to decline significantly. Conscious of this, the Government will continue to tighten fiscal policy with the objective of reducing domestic debt and thereby reducing pressure on interest rates. Therefore, the overall deficit on a commitment basis (excluding grants) is programmed to decline from 6.2 per cent of GDP in 2002/03 to 3.7 per cent by 2005/06, allowing for a decline in net domestic borrowing from 4.2 per cent of GDP in 2001/02 to a net domestic debt repayment by 2005/06. Net external borrowing will rise from negative 1.4 per cent of GDP in 2001/2002 to 3.4 per cent in 2005/2006. In order to achieve these fiscal objectives the Government will undertake reforms on both tax revenue and public expenditure as discussed below.

Tax Reforms: Kenya's tax in relation to GDP is higher than that for many low income countries. However, Kenya's tax regime remains complex and cumbersome making it costly for business. It is characterized by uneven and unfair taxes, a narrow tax base with very high rates and rates dispersions with respect to trade, and low compliance. Measures will be taken to deepen the tax reform, which is aimed at reducing the tax burden particularly on businesses and to broaden the tax base.

In this regard, the following actions will be put in place to achieve revenue aims of the Government.

- **Removing suspended import duties and all remaining discretionary duty exemptions in order to reduce the scope for tax evasion;**
- **Consolidating all tax collections through the Kenya Revenue Authority(KRA) by optimally using the PIN and VAT registration systems;**
- **Expanding the tax base, particularly to target the informal sector. This will create space for the Government to reduce some of the tax rates;**
- **Harmonizing Kenya's tax regime to bring it in line with those for other members of the East African Community; and**
- **Rationalizing personal income tax by raising tax threshold and reducing the number of tax brackets.**

In addition, steps will be taken to modernize tax administration infrastructure of KRA in order to strengthen its capacity to effectively enforce tax collection. This will also improve administrative efficiency and ensure greater compliance and collection of tax arrears. When this has been accomplished, the compliance costs of business will progressively come down.

Public Expenditure Reforms: Public expenditure management in Kenya is characterized by the following: (a) significant variations between budgeted and actual expenditure; (b) inadequate recording and tracking of donor funded expenditure; (c) an administrative classification rather than an economic one; (d) failure to comply with multi-year Medium Term Expenditure Framework (MTEF) projections and; (e) poor budgetary control leading to domestic arrears (pending bills).

To date, the reform measures taken, including adoption of the MTEF process and posting finance officers to assist accounting officers, have not achieved the desired results.

Government expenditure priorities comprise the following: (a) reducing the overall expenditure in relation to GDP in order to reduce the budget deficit; (b) refocusing expenditures in favour of development, operations and maintenance and poverty-alleviation expenditures and; (c) reducing wage related expenditures to 8.5 per cent of GDP by the end of FY 2005/06. Achieving these objectives will require the Government to implement further expenditure reform measures which among others, will include the following:-

- **Deepening of the MTEF process to ensure proper coordination of policy, planning and budgeting in accordance identified national development priorities. In this connection, additional budgetary resources would only be allocated to support new policy initiatives. Reforms in this area will focus on strengthening macro-economic analysis, reviewing budget procedures to ensure budget formulation process is appropriately integrated with the fiscal strategy;**
- **Strengthening public expenditure management by reviewing the non-budgetary flows to bring them into the budget, institutionalizing public expenditure review to become an annual exercise for informing new reforms that should be undertaken on expenditure management. The Government will implement recommendations contained in the 2003 Public Expenditure Review (PER) and the 2001 Country Financial Accountability Assessment (CFAA) Action Plans;**
- **Improving reporting and accountability by establishing regular reporting of flows in and out of government accounts, implementing the Integrated Financial Management System (IFMIS), strengthening oversight bodies and automating the internal audit function;**
- **Developing a strategy to clear pending bills by paying them once the verification exercise is completed. To avoid recurrence of pending bills in future, the Government will take measures to strengthen expenditure control at commitment level, and to operationalize Public Procurement and Disposal of Assets Bill once it is enacted as a law.**
- **Developing criteria for dealing with stalled projects to determine those that are viable and should be completed and those that are not viable and should be liquidated**.

2.2.3 Expected Impacts on Employment and Poverty

Employment Outcome: The core aim of the economic recovery programme is to achieve economic growth rates that are consistent with the creation of 500,000 jobs annually. The translation of economic growth into jobs depends on successful implementation of the Action Plan.

Kenya's informal sector provided an estimated 936,000 jobs over 2001-2002, while the formal non-agricultural sector lost 18,000 jobs in 2001 but gained in 2002 registering 21,500 new jobs. Since it is unlikely that the formal sector will annually create 500,000 jobs over the medium term, the bulk of employment creation will continue to be in small enterprises. **Therefore the**

policy focus during the recovery period will increasingly be on the small business enterprises. Over the period 2003-2007, a total of 2,636,130 jobs are expected to be created, out of which 12 percent will be from the formal sector and the balance of 88 per cent from small business enterprises.

Poverty Outcomes: On the assumption that income inequality does not worsen and population growth remains at 2 per cent per annum, the poverty rate is estimated to decline from 56.7per cent to 51.8per cent - an improvement of 5 percentage points. While this may appear a small gain, it is nonetheless a substantial improvement given that poverty has been rising in the last two decades and it will take a long time to reverse the trend in full.

Growth in Wealth Gains: The false dichotomy between the formal and informal sectors in our economy has only been meaningful in as far as the small enterprises remain small, are denied needed services, and infrastructure, and do not pay taxes. This strategy for economic recovery progressively seeks to eliminate this dichotomy by providing infrastructure and services, particularly financial, to small and medium enterprises and by ensuring that they pay taxes.

3. GOVERNANCE, SECURITY AND RULE OF LAW

3.1 Governance

Most of the problems bedevilling Kenya and its people arise from the many years of bad governance and poor economic management. The rapidly growing poverty, food insecurity and economic collapse are largely related to the previous government's inability to manage the country affairs in the best way possible. The poor management, excessive discretion in government, appointments of people of dubious characters and political interference and lack of respect for professionalism led to widespread corruption, gross abuse of public office in many government departments and incorrigible tolerance – if not outright encouragement of mediocrity and lack of standards. For these reasons the solution of the current national crisis is to be found in our ability to reclaim professionalism and confidence in public officers, and guaranteeing efficiency.

In an effort to revive the economy and meet the expectations of Kenyans for better living conditions, the starting point is better governance, improved security in the country and restoration of the rule of law. These steps are necessary because bad governance, insecurity and breakdown of the rule of law have led to misappropriation of productive resources thereby undermining economic development by discouraging investors, both local and foreign, raising the cost of doing business, and leading to the withholding of financial support by Kenya's development partners. The impact of these adverse developments are manifested in the decline in economic performance, increase in poverty and galloping unemployment over the years.

The NARC Government has demonstrated strong commitment to addressing Kenya's problems of governance. The measures already taken or in the process of being implemented include:

- **The creation of a new Ministry of Justice and Constitutional Affairs and a new department, under the President's Office, in charge of Governance and Ethics;**
- **The passage into law in May 2003 of two key pieces of legislation:-**
  - **(a) The Anti Corruption and Economic Crimes Act which created the Kenya Anti-Corruption Commission with responsibility to investigate corruption and economic crimes; and**
  - **(b) The Public Officers Ethics Act which provides for codes of conduct for all public officers including members of parliament, the executive and the judiciary, and which compels all officers to declare their wealth including that of their spouses and dependent children.**
- **Arraignments in Court of persons involved in corruption. The Attorney General and the Anti-Corruption Police Unit are producing quarterly reports on progress made in investigating and prosecuting cases of corruption;**
- **The establishment of task forces to review all contracts relating to jobs undertaken for Government and for which payments are pending;**
- **The recommencement of the constitutional review process in April 2003 with a view to early establishment of a new constitution that will provide a more effective political and institutional framework for governance;**
- **The programming for legislation of other governance-related bills such as the Public Procurement and Disposal of Public Assets, Financial Management and Accountability Bill, etc within the 2003/04 Financial Year; and**

- **The establishment of a Commission to investigate and report on the Goldenburg scandal so that proper prosecution can follow and Government can recover some of the money**.

Further measures that are contemplated to strengthen governance and human rights include the creation of the Office of Ombudsman to be responsible for investigating reported cases of official abuse of power and establishment of a Truth and Justice Commission to deal with past abuses of human rights and other injustices.

3.2 Security

A well functioning police force is vital for maintenance of peace and security and, enforcement of the rule of law. In the last two decades the Kenya public security system deteriorated to the point where the government was unable to guarantee its citizens personal security, and that of their property. This had emerged because of low morale in the police force, low professionalism, inadequate allocation of required resources, and endemic corruption in the force.

The contribution of the efficient enforcement of law, the maintenance of public safety, and the guaranteeing of law and order to economic growth, and the improvement of quality of life cannot be over-emphasized. This sector is crucial in creating an enabling environment for private sector-led growth and development. The failure of the sector to deal effectively with the pervasive governance issues, the existence of unacceptably high level of crime and delays in determination of cases in court have all served to reduce the competitiveness of Kenya as a destination for investment. In addition to these problems, the police will encounter new challenges, which include increased cases of sophisticated crimes such as cyber-crime, terrorism, money laundering and drug trafficking.

In order to effectively address the above challenges facing the police force, the Government will implement the following:

- **Increase the overall police to population ratio from the current ratio of 1:850 to 1:450;**
- **Develop and implement a public education programme to build trust between the police force and the public;**
- **Enhance police effectiveness and service coverage through recruitment and re-training on modern technology and emphasizing the need to operate within the law;**
- **Provide police force with modern equipment and technology;**
- **Improve housing and terms and conditions of work for the police force. As a first complete all the stalled housing projects within the Recovery Programme period;**
- **Review and enact appropriate laws to deal with modern crime challenges in terrorism, money laundering, cyber-crime, tax evasion, among other areas; and**
- **Develop and enforce a framework for cross border and territorial waters' policing, and collaborative security management.**

3.3 Rule of Law

In democratic society, the rights of the individual citizen and other protection and promotion under the Constitution by all organs of the government, is a cardinal principle of good governance. It is the Rule of Law, not the rule of man, that must prevail in a democratic society. Dispensation of justice and its access, which is a key ingredient of the rule of law, , has faced various challenges in the past. Among the challenges facing the sub-sector are delays in hearing and determination of cases; interference with the Judiciary and poor enforcement of the rule of law; inadequate office accommodation for courts and Judges; inadequate budgetary provisions; prevalence of corruption in the Judiciary and lack of meritocracy; in the promotion of judicial officers, cumbersome laws and procedures and over-use of custodial sanctions; and human resource capacity constraints including inadequate capacity for drafting and enactment of laws.

In order to strengthen the rule of law, the Judicial Service Commission approved and gazetted the Judicial Code of Conduct and Ethics following the enactment of the Public Officers Ethics Act. Under this Code, Judicial officers will be required, like other public officers, to declare their wealth including that of their spouses and dependent children. A committee of enquiry into corruption in the Judiciary has also been appointed and is expected to lead to additional measures to strengthen the Judiciary. In addition, the Government has taken action to strengthen the rule of law by appointing a new Chief Justice and senior personnel at the Office of the Attorney General. Further, to ensure that the laws of the country remain relevant to meeting the emerging challenges the Government has strengthened the Law Review Commission by appointing new and capable Commissioners.

To improve the efficiency and the effectiveness of legal and Judicial processes, the Government plans to undertake the following reform measures:

- **Recruit more professional legal staff for the administration of justice and enhance training;**
- **Modernize administration of registries in the sector by accelerating the ongoing computerization;**
- **Facilitate the creation of alternative dispute resolution mechanisms including arbitration and ensuring these decisions are recognized in law; and**
- **Allocating additional resources to commercial courts to facilitate recruitment of more Judges and establishment of regional commercial courts to ensure speedy determination of commercial disputes**.

3.4 Prison Services

The prison services are charged with confinement and rehabilitation of offenders. Such rehabilitations can contribute to economic recovery if their graduates can be transformed into useful members of society. To this end, the service aims to equip the offenders with practical and technical skills, which will make them more productive members of the society. The Department has however been faced with numerous challenges including congestion in prisons, inhuman and degrading conditions for both inmates and prison officers; delay in trials further compounding the congestion problem; and inadequate budgetary provisions for operations and maintenance.

To address these challenges, the government in collaboration with other stakeholders will implement the following measures:

- **Implement in full the Community Service Order Act, which allows persons convicted of minor offences to serve their time outside prisons , and will have the advantage of reducing the cost of correction and decongesting the prisons;**
- **Provide more financial resources to enable the institutions, expand accommodation facilities to reduce congestion and acquire equipment necessary for training of inmates, including improving housing and conditions of work for prison officers;**
- **Rationalize the role of prisons in line with modern prison management practices; and**
- **Retrain prison officers to equip them with modern corrective skills in line with the changing society needs.**

4. PUBLIC SECTOR REFORMS

4.1 Introduction

Improving public administration is essential to economic recovery. The sector is excessively large thereby absorbing inordinately large amount of national resources. The sector is also characterized by wastefulness and inefficiency. Consequently, the sector has become a bottleneck to the overall development of Kenya. Therefore, one of the priorities of the economic recovery strategy is to downsize the public sector and make it more efficient and investor-friendly in order to promote private sector-led growth and poverty reduction.

4.2 Civil Service Reforms

The Government has been carrying out civil service reforms over the past decade focusing on downsizing the core civil service (excluding teachers and disciplined forces), harmonizing pay and benefits and putting in place interventions to enhance efficiency of the civil service. In particular, civil service downsizing has seen the civil service decline from over 272,000 in 1991 to 193,000 in 2002. This happened as a result of Voluntary Early Retirement (VER) scheme, compulsory retrenchment exercise as well as, the impact of natural attrition since a freeze on new employment was enforced. Despite these reforms, the civil service wage bill has grown to reach the current 9.0 per cent of GDP. It is worth noting that while the various measures reduced the size of the civil service significantly, there was, at the same time fresh recruitment for essential services of health, security (police and prisons) and the teaching service. Additionally in July 2001, the Government raised the house allowances for public servants to approximate market levels. However, there is urgent need to carry out an audit of the civil service payroll to find out if there are other factors that may have contributed to the high wage bill.

The Government is committed to accelerating the Public Service Reform to create a leaner, efficient, motivated and more productive Public Service that concentrates public finance and human resources on the delivery of core government services. Reforms will also focus on providing adequate incentives to attract and retain skilled personnel to achieve a pay structure and size of the civil service consistent with both macroeconomic objectives and a sustainable wage bill. These reforms will include rationalization of ministerial functions with a view to eliminating duplication of functions and divesting from services that can more efficiently be provided by the private sector.

Key elements of the civil service reform strategy and activities that are envisaged for implementation by June 2004 include the following:

- **Developing an ICT policy for the civil service by June 2004 to progressively transform into an e-government in a coordinated manner. This will increase efficiency in government and at the same time help to reduce pilferage and misappropriation of funds;**
- **Operationalising the ICT policy in the public service including full implementation all ICT programmes such as the Integrated Payroll and Personnel Database (IPPD) system for both the civil service and the teachers' service to provide a basis for improved establishment control and integrity of the payroll system;**
- **Accelerating the ongoing ministerial rationalization and developing strategic plans for ministries/department in order to allow for: proper utilization of resources on clearly identified core functions, determination of appropriate staffing levels, objective appraisal of staff, better and improved method of supervising staff based on achievement of set targets, among others.**

- **The Government will after every 5 years review the structure and functions of Government in order to meet the emerging challenges;**
- **Undertaking job evaluation to form a basis for determining a rational grading structure and terms of service for civil servants. This will be undertaken every five years.**
- **Introducing a contributory pension/superannuation scheme and a comprehensive medical insurance scheme for all civil servants in FY 2003/04.**
- **Developing, introducing and institutionalizing performance based management practices in the public service;**
- **Undertaking service delivery surveys in all ministries/departments and developing and installing service charters with clear service bench marks and standards in order to enhance efficiency, transparency and accountability in service delivery;**
- **Carrying out an immediate and comprehensive benchmarking exercise to identify the minimum costs of delivering Government services and thus enable cost reductions in Government activities;**
- **Developing a clear recruitment and training policy aimed at ensuring proper supply and development of skills in the civil service and pegging promotion on both performance and training;**
- **Putting all Permanent Secretaries and Chief Executives of parastatals on performance contracts; and**
- **Establishment by June 2004 of a Permanent Public Sector Pay Review Board to ensure that from that point in time pay and benefits in the public service will be rationalized, market oriented and performance based.**

4.3 Reform of Local Authorities

The Government is committed to improving governance and service delivery at the local level. The ongoing Constitutional Review is likely to result in increased responsibilities for local authorities requiring greater managerial competence. Secondly, business enterprises operate in localities for which local authorities are responsible for essential services. Thus there are strong reasons to enhance the local government reforms initiative. To date reforms implemented include improving local finances through the establishment of the Local Authority Transfer Fund (LATF) and rationalization of local business licences. Other measures that are linked to the LATF system have been introduced to improve local authorities capacity to manage their finances and service delivery. One ongoing initiative is the Integrated Financial Management System (IFMS), which is being piloted in eight local authorities and is expected to be replicated in other local authorities in a systematic and phased manner.

The local government reform is now entering a consolidation phase during which ongoing reforms will be accelerated and strengthened. This phase will include:

- **Reviewing of local authorities to ensure that only the viable and sustainable one are retained;**
- **Accelerating the ongoing Kenya Local Government Reform Programme (KLGRP) including expanding the coverage IFMS, strengthening monitoring and implementing the local Government reform initiatives;**

- **Implementing staff rationalization and rightsizing in all local authorities with a view to reducing the wage bill, which is currently excessively high, and to improve efficiency and effectiveness in service delivery.**
- **Reviewing the Local Government Act in line with constitutional Review proposals with a view to giving the Local Authorities more autonomy and enhancing their capacity to perform their roles and removing conflicts with central government;**
- **Introducing information technology in personnel management, which in conjunction with IFMS will lead to improvement in performance and promote good governance; and**
- **Implementing the recommendations of the Constitutional of Kenya Review Commission when enacted.**

4.4 Public Enterprise Reforms

The Government remains fully committed to moving away from commercial activities that can be performed more efficiently and effectively by the private sector. In this context, the Government recognizes that the private sector provides the basis for long-term sustainable economic growth. For this reason, the process of reducing the role of the government in commercial activities, which has been on-going since the early nineties, will continue especially through accelerating the privatization programme. In this connection, the Government in the medium term will implement the following on-going privatization programme:

- The Government will prepare by end of September 2003 a detailed strategy on further liberalization of the telecommunication sector and an action plan with a clear time frame on the privatization of Telkom Kenya by the end of June 2004/05. The full liberalization of the telecommunications sector will effectively render Telkom Kenya's monopoly a thing of the past.
- Prepare **Kenya Railways Corporation(KRC)** for concessioning, with the International Finance Corporation (IFC) acting as the Government's transaction advisor. The KRC is currently heavily indebted and any attempt to concession it without jump-starting the financial and operational performance will be futile. Towards this end, IFC's will assist in creating a substantial commercial capability for KRC by designing a suitable three-year management contract by end of June 2003. The management contract will put KRC on a sound operational and commercial footing with capability of handling six million tonnes from Mombasa to the hinterland within two years of the contract. During the third-year of the contract, the Government with the assistance of IFC will arrange to concession the KRC to a successful bidder in a competitive bidding process.
- Transform **Kenya Ports Authority(KPA)** into a landlord port by June 2004.
- Complete the strategic options study for the Mombasa container terminal operations, including the option for a possible expansion and establishment of a second container terminal at the port by December 2004.
- Introduce preferred arrangement for private sector participation (PSP) by June 2004.
- Reduce its direct equity in the **Kenya Power and Lighting Company (KPLC)** to below 39 percent in order to remove it from the purview of the State Corporation's Act. Given the existing ownership of KPLC with the Government shares standing at 40.41 percent, NSSF 10.81 percent and private sector accounting for 48.77 percent and since NSSF is by definition a State Corporation, KPLC is also by extension a State Corporation. Simultaneously, measures will be put in place to ensure that these socially important but

commercially unviable activities such as rural electrification continue. These measures are elaborated in Chapter 5. The Government recognizes that there is an urgent need for further legislative reforms to strengthen the regulatory function of Electricity Regulatory Board (ERB), and to restructure Kenya Electricity Generating Company (KenGen) to enable a Public Private Partnership necessary to mobilize the investment needed for expanding generation capacity. The Power Sector Restructuring Task Force will by **December 2003** prepare a specific time-bound action-plan to realize these objectives.

- Continue to implement the Water Act 2002 by establishing the necessary institutions that will facilitate separation of functions of policy formulation, service delivery and regulation of the sector. This is critical for improving service delivery and attracting additional investment especially from the private sector. The current privatization programme targets Nairobi, Mombasa and Coastal region, Nakuru and Kisumu. Nairobi and Mombasa and Coastal region are ahead of the others because detailed studies have been done and reports are available. The Government now targets to bring on board the other two urban centers, namely, Kisumu and Nakuru, as soon as practicable.
- Consider implementation of the recommendations of the Nairobi Water Options Study. The study, which is funded under the Public Private Infrastructure Advisory Facility (PPIAF) was intended to determine the best PSP option. The study focused on comparative technical, legal and financial feasibility of the four main options for privatization of the water supply and sewerage services in Nairobi. The Government will take a decision on the mode of PSP by end of September 2003 taking into account the privatization policy.
- Decide by September 2003 on mode of PSP with respect to Mombasa and Coast Water utilities;
- Implement its decision to concession the management and maintenance of Mombasa-Nairobi North Corridor Road to a private operator. The implementation will be effected immediately following the World Bank financed Roads Project during fiscal year 2003/04. Preparatory work on the concession arrangements has already commenced.
- Put in place by end-July 2003 containing a time-bound action plan for the privatization of Chemelil Sugar Company (CSC). A consultant has already been engaged as advisor of CSC privatization and has completed the first phase of the work recommending two strategies, notably, (i) equity linked loan facility; and (ii) sale to a strategic investor.

The Government has prepared a Privatization Bill which will be table in Parliament to provide the legal framework for the privatization process. The basis for putting in place the privatization legislation is to ensure that public confidence in the process is maintained by ensuring maximum transparency. The legislation will require among other conditions competitive bidding, wide advance publication of firms to be privatized, clearly publicized privatization criteria, public process of opening bids and publication of results. Consequently, the Government will by December 2003 develop a clear privatization strategy and program with an implementation plan and time table for the remaining list of public enterprises. The strategy will include outright privatization, liquidation, mergers, public/private sector partnerships and staff rationalization. Key institutions to supervise the process will also be put in place. These include the Privatization Commission and the Privatization Tribunal.

4.5 Regulatory Reforms

The existing regulatory framework imposes significant costs on business and has been identified as a major hindrance to the development of Medium and Small Enterprises (MSEs), and the formalization of the informal sector. To ensure that the cost of regulation is minimized, the Government will establish a Commission to review all business-related regulations, covering both legal and institutional aspects. The findings and recommendations of the Commission will be used to formulate a strategy and action plan to address impediments caused by such regulations. Where regulations are required, institutional capacity will be developed to ensure a level playing field. Among the issues the Commission will address are:

- **Simplification of rules and regulations; and**
- **Rationalization of regulations to remove those regulations that may not be necessary and creating those that may not be in existence but are required**.

4.6 Competition Law Reforms

For Kenya to succeed as a market economy and enhance the gains from liberalization, there is need to encourage fair competition by enhancing capacity to regulate and manage competition policy. The challenges that have undermined the effectiveness of the Monopolies and Prices Commission include outdated Restrictive Trade Practices Monopolies and Price Control Act; inadequate financial resource allocation to the Commission therefore hampering its effectiveness; and lack of harmony between sector regulatory laws and competition law.

Competition will be improved by enacting and enforcing relevant and appropriate laws supportive of competition; harmonizing competition law with sectoral regulatory laws; giving the commission more autonomy and making adequate budgetary provisions to build the human resource capacity of competition authority to enable it to regulate all sectors of the economy. The formulation and implementation of the competition law will take cognizance of the special regional and preferential interests of the country.

4.7 Reforms in Statistical Production and Dissemination

The government recognizes that good statistics is crucial for evidence based decision making in planning and policy formulation. Statistics also play a central role in supporting implementation of policies in particular monitoring and evaluation which in turn aids transparency and accountability. In the past poor statistics hampered the ability of policy makers to take informed decision, undertake meaningful monitoring and evaluation, thus undermined effectiveness of projects and the attainment of transparency and accountability.

One of the administrative reforms to be implemented within the framework of the Recovery Programme is the restructuring and strengthening the Central Bureau of Statistics (CBS) to improve governance of statistics and for the Bureau to be able to produce relevant statistics in a coordinated and timely fashion. A five year Strategic Plan covering the period 2003/04-2008/09 has been prepared through a consultative process. The plan sets out the strategic direction for the provision of timely official statistics and gives the road map as well as the framework for harnessing national and international resources for building sustained statistical capacity in the country. It comprehensively outlines the vision, mission, and the strategic objectives. The strategic objectives incorporate a detailed work programme, a capacity building programme, and proposed new Statistics Act. The proposed Statistics Act aims at elevating the CBS to a status of a national statistics agency with a board of directors to set the policy direction and specifies the coordination role of CBS in the overall national statistical production in the country.

A sustainable statistical system will satisfy many demands for data including the Economic Recovery for Wealth Creation and Poverty Reduction, the Millennium Development Goals (MDGS), New Partnership for African Development (NEPAD) and data requirements for peer review process, and other development and poverty reduction efforts by all stakeholders. An Integrated Household Based Survey Programme (IHBSP) as opposed to stand alone and narrow surveys that satisfied the needs of only a few stakeholders will form the basis of data collection.

5. INFRASTRUCTURE

5.1 Introduction

Physical infrastructure is an important prerequisite in creating and supporting a business environment that facilitates private sector investment, growth and job creation. The provision of adequate infrastructure and the services thereof, coupled with macroeconomic stability and a long-term development strategy, are essential preconditions for sustainable economic and social development. Despite the importance of the sector, the past Administration allowed infrastructure to deteriorate to the extent that it has become a major hindrance to economic development. Kenya is currently characterized by a dilapidated road network, inadequate and dilapidated railway network, unreliable supply and costly electricity, poor telecommunications, neglect of Information Technolgy, and inadequate and poor quality of water supply systems.

This sorry state of infrastructure has occurred despite substantial amount of resources committed by the Government since independence for the development of the sector. To address the problems in the sector, some initiatives have been attempted in the past with the aim of increasing its efficiency and competitiveness. These measures include divestiture, commercialization of management and operations, privatization, sub-contracting of certain services, introduction of competition, tariff liberalization and financial restructuring of some parastatals. These reform initiatives were not fully implemented and therefore the sector remains wanting in terms of service delivery. Given the importance of this sector which accounts for approximately 10 per cent of GDP billion and employed over 183,000 workers in 2002 with over Kshs.51.4 billion in wage payments, and its role in facilitating all other productive sectors, rehabilitating the sector is of utmost importance.

Deterioration of physical infrastructure has resulted primarily from inadequate allocation of resources for construction, maintenance and rehabilitation of existing facilities, poor contractual work, rapid urbanisation, high population growth, and adverse weather conditions. The effects of these factors have been compounded by the lack of integrity in procurement of physical infrastructure services and the high poverty levels in Kenya. Therefore, the broad strategies to address these problems in provision of physical infrastructure services will be geared towards creating an environment for facilitating procurement strategies that yield value for money expended, curbing wastage, and enhancing performance of infrastructure services.

In this regard, if the country is to succeed in the increasingly competitive global market, the economy must be supported by low-cost high quality infrastructure services that most of her competitors already have or are aspiring to get. Therefore, the physical infrastructure sector is an important building block in efforts aimed at economic recovery. The broad objectives in this sector include supporting the other sectors (productive, social, etc); and facilitating creation of employment and poverty reduction.

The physical infrastructure sector in Kenya has contributed to degradation of the nation's environment through wasteful extractive processes in acquisition of raw materials for development of physical facilities, wasteful water applications, poor maintenance of buildings and transport networks leading to high levels of emission of greenhouse gases, and application of planning systems and procedures that fail to take full cognizance of the impact on the environment. Consequently, the other objective of the sector will therefore be to foster adoption production techniques and consumption patterns that preserve our environment.

5.2 Road Transport

The deterioration of the road network has contributed significantly to the high cost of living and doing business in Kenya. Because Kenyans experience the high cost of transport every day, improvement of the road network is, in many ways, the "barometer" by which they will measure the performance of the Government. The institutional and financing framework for the road sector has been reformed significantly in the right direction. This includes the road maintenance levy, the establishment of the Kenya Roads Board, and the increased use in the long-term the private sector for all road maintenance. A programme for training small construction enterprises has been included in the Roads 2000 Programme and the Government is in the process of privatizing Axle Load Control and its management. Axle load control system will be reviewed regularly in consultation with other member states within COMESA and EAC regional framework.

The use of inappropriate materials has significantly contributed to faster deterioration of the road network. To improve the quality of materials used in road construction the Government will take the following actions: **Update the road design manuals and specifications through enhanced research activities on all road making materials; enhance cost effective designs for roads and other civil engineering structures; and enhance quality control during construction, maintenance and rehabilitation of all works. This will include strengthening the Regional Testing Laboratories to cater for all on-going road projects, monitor performance, identify potential problems on road pavements and structures and recommend remedial measures for urgent attention including monitoring the performance of new road construction materials.**

It is estimated that the cost of rehabilitating and reconstructing the road network could be as high as US$1 billion. A key challenge is therefore one of financing. A recently completed feasibility study shows that there is scope for concessioning of some roads to private investors. This is in principle, an attractive proposition, since it would release public resources to focus on roads that are not commercially viable. However, it raises the issue of equity (who should pay). The choices are charging the specific road users (toll), all road users (a road use levy) or a combination of the two. A detailed concessioning proposal including legal considerations is being worked for consideration by the Government and stakeholders.

The Government recognizes that professional incompetence contributes to poor project supervision and implementation. The Engineers Registration Board (ERB) is currently updating its register to get rid of errant engineers. The process will also create awareness among employers of the need to employ competent and qualified engineers recognized by the Institute of Engineers in Kenya (IEK) and registered by ERB.

The broad objective in the roads sector will therefore be to build and maintain durable quality “standard” roads with emphasis on safe and efficient transportation. In this effort, the following measures are envisaged:

- **Dualing of the Mombasa-Nairobi-Busia/Malaba Highway;**
- **Developing of roads under the East African Road Network Project (EARNP);**
- **Accelerating the implementation of the *Roads 2000 Programme* which involves development of rural access roads which will help the poor by improving their mobility;**
- **Taking measures to decongest transport in key urban centres through construction of bypasses, that is the Northern and Southern bypasses in Nairobi and the Mombasa bypasses; and**
- **Reforming the legal, institutional and regulatory framework with a view to enhancing the proper design of roads, integrity in road contract procurement, enhancing safety and proper and timely maintenance of the road network and allowing for private sector participating in the sector.**

5.3 Rail transport

Kenya Railways, which is the sole rail service provider, is constrained in its ability to contribute to the country's development by operation of aged locomotives, wagons and equipment. Poor signaling telephone and telecommunication system negatively affects the utilization of resources as locomotives and wagons cannot be turned as fast as desired.

In 2002, the Corporation completed overhauling 35 locomotives of class 93/94 which has helped to improve traffic haulage on the mainline from 1.7 million tonnes in 1997/98 to 2.4 million tonnes in 2002/03. Rehabilitation of 12 locomotives of class 67 will start in mid 2003. In order to substantially improve capacity beyond the current performance levels, intervention is required to assist in meeting the immediate requirements for infrastructure development, maintenance, rehabilitation and repair of locomotives, wagons and equipment. The Government strategy for addressing these problems will mainly involve:

- **Privatizing Kenya Railways by offering a unitary concession to a private operator;**
- **Divesting from Gulf Marine Services on Lake Victoria**.

Revitalization of rail transport services is likely to lead to a substantial diversion of long distance freight traffic from road to rail and might help Kenya Railways to regain 50 per cent share of the Mombasa-Nairobi traffic and also reduce road damage and carnage, and traffic pollution.

5.4 Air Transport

Air transport is the main transport mode for tourists, high-value exports and imports; and perishable goods. The service has the potential to facilitate economic growth particularly high value agricultural exports. In addition, Kenya occupies a strategic position as an Aviation Centre in the Eastern Africa region, serving as the hub for the East, Central and Indian Ocean areas and offering transit and refueling facilities for North/South and East/West air traffic.

In the last ten years both passenger and goods traffic through Kenya's main airports has increased substantially. The number of passenger arrivals increased from 804,600 in 1991 to 1.0 million in 2002. The growth of passenger traffic would have been much higher were it not for the politically instigated tribal clashes in 1997 which adversely affected tourism and the economic slowdown in the last decade. Expansion and modernization of the air transport capacity is therefore vital to the growth of Kenya's economy.

The Government has in the last few years undertaken significant reforms aimed at improving capacity and efficiency of the sub-sector. These reforms include liberalization of the domestic passenger and cargo market, which was preceded by privatization of Kenya Airways; establishment Kenya Civil Aviation Authority in October 2002 in replacement of Directorate of Civil Aviation; and establishment of Kenya Airports Authority (KAA) in 1991 to take over the functions previously performed by the Aerodromes Department. The Authority is responsible for administering, controlling and managing aerodromes; providing and maintaining facilities needed for efficient operation of aircrafts; and providing rescue and fire fighting equipment and services.

Despite these reforms, the air services are still not efficient and will need further institutional and regulatory reforms in order to meet the objective of handling 2 million tourists and export volume growth. To achieve these objectives the Government will:-

- **Upgrade Kisumu, Malindi, Wilson and other tourism airports to be able to accommodate the operation of medium range jets;**
- **Modernize air traffic management system under Phase I and Global Navigation satellite system to provide Navigation guidance without referring to ground based facilities. Projects to be undertaken include Phase II of Kenya Air Traffic management**

modernization project and a study to determine the feasibility of establishing a joint system of providing Air Navigation services in the East African region upper space;

- **Privatize commercial and non-regulatory services at the airports; and**
- **Explore the possibility of private sector participation in building capacity for passenger terminal facilities.**

5.5 Maritime and Inland Waterways

Marine transport offers low cost means of transporting heavy and bulky items. Mombasa port administered by the Kenya Ports Authority is the principal seaport in Kenya. The port also serves the hinterland countries of Uganda, Rwanda, Burundi, Democratic Republic of Congo, Ethiopia, Southern Sudan, Northern-Eastern Tanzania and Somalia. A number of reforms have been implemented at the port aimed at improving port services, lowering costs to port users and facilitating the movement of cargo especially transit traffic. These measures have mainly focused on computerization of key operations. Despite these reforms, the performance of the port at 10 million tonnes in 2002, is still far below the total capacity of 22 million tonnes. The poor performance of the port is a major cost to the economy in terms of impairing the competitiveness of Kenya's industries and diversion of traffic and hence loss of revenue to other ports in the region.

In order to improve the performance of the port, further reform measures are required. These include:

- **Conversion of the port of Mombasa into a land lord port;**
- **Conversion of the conventional cargo berths Nos. 11 to 14 into container handling facilities to enhance the container handling capacity of the port and enhance the performance of rail-mounted gantries to cope with the rise of rail bound containers;**
- **Integration of information technology network between Kenya Ports Authority, Kenya Revenue Authority, Kenya Railways and other port users in order to facilitate and shorten the period of processing documents, from the current 2-4 days to 1 day. The intention of this on-going project is to eventually make the port an E-port and eliminate/reduce the large number of documentation required. Another advantage of the reforms will be reduction in theft and pilferage of goods at the port;**
- **Dredging of the port;**
- **Construction of a new road access across Kipevu Bridge and explore the potential at establishing a free-port in the area;**
- **Establishment of a ship open registry and a Maritime Regulatory Authority (MRA) to de-link seafaring administration activities from the Kenya Ports Authority's core business;**
- **Development of a Maritime Search and Rescue Centre at Mombasa; and**
- **Development of cruise ship facilities at the port of Mombasa.**

5.6 Telecommunications

The communications sector includes telecommunications, postal services, internet services, telex, paging and facsimile services. However, it is the telecommunications sector that has impacted negatively on the Kenyan economy and will therefore be the main focus for reform. Telecommunications services are vital to economic well being of a nation. Inadequate and inefficient telecommunications services has contributed to the high cost of doing business in

Kenya in addition to hindering the introduction of modern services such as data transfer, e-commerce and widespread use of credit cards.

In recognition of the important contribution of telephony to the country, the Kenya Government has initiated institutional reforms, which led to the splitting of the Kenya Posts and Telecommunications Corporation into Communications Commission of Kenya (CCK)- a regulatory body, Postal Corporation of Kenya (PCK) and Telkom Kenya Limited (TKL). However, the sector faces the problem of deterioration in fixed line services and low teledensity of one fixed line per 100 people. There is also wide disparity between urban and rural areas with urban teledensity of 4 lines per 100 compared with 0.16 lines per 100 persons in the rural areas.

The broad objective of the sector is to create a seamless, efficient and cost-effective telecommunications service for business and social interactions. It is hoped that through various measures outlined below teledensity will rise from the current unsatisfactory level to 4 lines per 100 persons in the rural areas and 20 lines per 100 persons in the urban centres. To achieve these objectives, the Government will put in place the following measures:

- **Restructure Telkom Kenya to improve its performance in preparation for eventual privatization which is planned to be completed by June 2005.**
- **License a second national fixed line operator by end of fiscal year 2004/2005 and a third mobile operator by December 2003 to increase competition with the aim of increasing the quality and efficiency in service provision and eventually lowering the costs;**
- **License by the end of 2003, a third mobile operator and four other internet gateway service providers in line with the Government's commitment to enhance competition in the telecommunications sector; and**
- **Fully liberalize the use of VSAT services during the 2003/04 fiscal year.**

5.7 Energy

The three main sources of energy supply in Kenya are electricity, wood fuel petroleum and renewable energy. Energy plays a critical role in the development of the country. The current energy policy objectives emphasize the need for its availability and accessibility at cost-effective prices, and in support of sustainable socio-economic development while protecting and conserving the environment. In appropriating these sources of energy as tools in the development agenda, the Government intends to formulate a comprehensive energy development policy and reform programme embracing all sources of energy, especially renewable ones aimed at fulfilling the energy policy objectives.

Electricity

Provision of inexpensive and reliable supply of electricity is the lifeblood of any modern economy. Kenya's electricity supplies are unreliable and expensive. This has arisen for a variety of reasons, including ineffective management of power purchase agreements leading to extremely high tariffs of privately generated power, inequitable distribution of operating costs, weak and inefficient utility management, a bloated work force in the Kenya Power and Lighting Company Ltd, past politicization of sector management, wasteful and cost ineffective procurement, failure to invest in system reinforcement and poor maintenance of power distribution infrastructure, lack of commitment to reforms and integrity and governance related problems.

The objective of the power sector is to ensure a reliable supply of electricity at competitive tariffs. In this connection, a number of reforms have been carried out in the power sector since 1994, which included review of tariffs, retrenchment in the key power utility institutions, liberalization of power generation in 1995 and separation of power distribution from generation and regulatory services. Despite these reforms, the quality of electricity services has not improved as evidenced by the frequent unplanned power outages. To correct this undesirable situation, the following measures will be put in place:

- **Enhance collection of receivables to reduce working capital costs and increase connectivity to increase capacity utilization;**
- **Create a specific statutory body to implement the rural electrification programme with the aim of enhancing connectivity to at least 40 percent.**
- **Develop and implement a programme to reduce the current level of system losses from about 21 per cent to 15 per cent. As the reduction of non-technical losses (largely power thefts) needs little financial outlay, priority will be accorded to this activity whose benefits are immediate and estimated at about Kshs.200 million for each percentage point drop;**
- **Target investment in improvements of the transmission and distribution system reinforcements starting with those areas with highest returns;**
- **Amend the Electric Power Act to facilitate competition at all levels of generation and supply and distribution in 2003/04 financial year;**
- **Strengthen institutional capacity of ERB, KPLC and KENGEN in order to improve their operational and financial performance;**
- **Accelerate Geothermal Resource Assessment(GRA) to facilitate economic merit order ranking of geothermal energy as a least cost source of electricity supply;**
- **Enhance availability, accessibility and sustainability of electric power supply at cost effective tariffs through: diversifying power supply sources by accessing South African pool and enhancing imports from Uganda; and implement power projects identified under the least cost power development plan. In addition, Sondu-Miriu power project will be completed and deliberate efforts made to extend electricity services to rural areas and targeted urban areas to increase accessibility to both the rural population and the urban poor.**

Petroleum fuels

The main problem affecting this sector is the high cost of petroleum products due to inefficiency of the Kenya Petroleum Refineries Limited (KPRL), which is passed on to consumers. To address this problem, the following will be implemented:

- **An independent study to establish the economic viability of the continued operation of KPRL relative to imports of petroleum products will be completed by December 2003 and its findings will help the Government to make a decision on the future of KPRL;**
- **A study to standardize LPG cylinders, gas regulators and valves to allow flexibility of usage is at an advanced stage of completion. The study's recommendations on an appropriate legal and regulatory framework to enforce standardization of cylinder valves and regulators will be incorporated in the Petroleum bill expected to be tabled before Parliament by September 2003;**
- **Construction of LPG import handling and storage facilities at Mombasa and of bulk storage facilities in Nairobi;**
- **Acceleration of the pace of prospecting for fossil fuels;**

- **Enhancement of the share of new and renewable energy in Kenya's energy supply matrix; and**
- **The Government will publish a Petroleum bill whose aim will be to regulate the Sector and protect the consumer from adulteration, dumping and misuse of monopoly power.**

Pipeline transport

Pipeline transport is crucial to the economy in facilitating the speedy and safe delivery of petroleum supplies to the hinterland. In this regard, the petroleum pipeline will be extended to Kampala during the Plan period.

6. PRODUCTIVE SECTORS

6.1 Introduction

The productive sectors in the context of the Economic Recovery Strategy are agriculture, tourism, trade and industry. These sectors account for approximately 50 per cent of GDP, provide 628,000 formal sector jobs and 3.7 million SME sector jobs while agriculture alone provides 62 per cent of overall employment. Hence, the productive sector is very important for economic recovery and employment creation. It is thus the core of the NARC Government's economic recovery strategy.

6.2 Agriculture and Fishing

Agriculture

Over the last decade, the agricultural sector with exception of horticulture, experienced low and declining productivity in terms of export earnings, employment creation, food security and household farm incomes. Thus from a real growth rate of 4.4 per cent in 1996, it decelerated to 1.5 per cent in 1999 and to a negative` 2.4 per cent in 2000. In 2002, the performance remained weak with a growth of 0.7 per cent. The country's traditional exports: coffee and tea face declining real world prices coupled with low value addition that has led to low returns. This scenario in agriculture portends a critical challenge to the country's economic recovery. Reasons for the decline in agricultural productivity include:

- **Poor governance in key agricultural institutions, particularly the cooperative sector and lack of a comprehensive legal framework to guide formulation of consistent policies;**
- **Institutional failure due to lack of capacity by the private sector to take over functions previously performed by the state after liberalisation; and lack of markets and weak marketing systems;**
- **Poor access to farm credit, high cost of farm inputs, insecurity in certain parts of the country, and taxation of farmers through local authority cess and other levies;**
- **High prevalence of HIV/AIDS affecting agricultural productivity;**
- **Low level of public funding and inefficient use of public resources resulting in inadequate and inefficient infrastructure which has led to high cost of production; and**
- **Inappropriate technology that is unresponsive to variations in agro-ecological zones; and inadequate funding for research and extension services.**

In an effort to reverse the declining agricultural performance, initiatives have been put in place to revitalize the sector. Some of the strategies the Government is implementing for the development of the agricultural sector include both legislative and institutional reforms. Key initiatives include enactment of the Tea Act, Sugar Act, Coffee Act and a review of the Cotton Act and the Co-operative Societies Act. Despite these measures, the problem of low productivity still persists. In this connection, further measures will need to be taken if the envisaged growth and employment objectives are to be achieved.

The planned interventions, which are contained in the Kenya Rural Development Strategy, include:

- **Legal and institutional reforms**: To consolidate during the recovery period the over 60 Statutes governing the agricultural sector into a single legislation. The objective of the legislation will be to ensure safety and health, promote self-governance, and encourage efficiency and competition;

- **Research and Extension Services**: The Government will put in place a new agricultural extension policy to promote collaboration with other extension services providers, enhance cooperative extension services, establish a database for extension planning and performance monitoring, and provide farmers with demand-driven extension services. Since effective extension services ensure that outputs of R&D effort are transmitted to farmers, reforms in the short term will be geared towards extension services. Further reforms will entail consolidation of public sector agricultural research institutions into a single institution by merging the smaller research units with the Kenya Agricultural Research Institute (KARI). The benefit will be administrative efficiency;

- **Access to Credit**: To raise the productivity of farmers, access to affordable credit (in terms of collateral and repayment terms) is critical. The Government through the Financial Sector Assessment Program (FSAP) will review the institutional framework with a view to encouraging development of institutions that are well placed to provide credit to agriculture. This will include development of micro-finance institutions (MFIs) and the revival of the Agricultural Finance Corporation (AFC);

- **Irrigation Development:** The Government will rehabilitate irrigation schemes in the country to increase production of crops such as cotton and rice. It will also finalize the review of the Irrigation Act to reflect the socio-economic changes in the sub-sector and to facilitate greater participation of farmer's in irrigation development;

- **Diversification of Enterprises and Crop Uses**: The Government will encourage diversification through production and use of non-traditional crops such as cashew nuts, bixa, oil crops, sorghum, arrowroots, cassava and sweet potatoes. Research and extension services targeted towards the non-traditional crops in the country will be supported to boost their production and consumption;

- **Pyrethrum:** The Government will remove constraints in this sub-sector by liberalizing the domestic market for pyrethrum;

- **Co-operative Development:** Most agricultural crops are produced and marketed under co-operative societies. However, the movement has been bedeviled by governance related problems. Farmers based institutions and associations will be strengthened inn order to reduce cost of inputs and improve access to markets. In this connection, a Task Force has already been established to review the Co-operative Societies Act of 1997 and the Government will implement the recommendations of the Task Force;

- **Value Addition**: In order to improve value addition of textile exports in AGOA the Government will rehabilitate the Bura and Hola Irrigation schemes; and

- **Guaranteed Minimum Return (GMR)**: modalities for establishing an effective and sustainable GMR facility for strategic crops will be developed.

Livestock development

The livestock industry comprises mainly of dairy, meat production and hides and skins from cows, sheep, goats and poultry. Apart from its relevance as a direct source of food, it also accounts for about 7 percent of GDP. The sector is also dominated by small-scale producers. For instance about 80 percent of the milk consumed in the domestic market is produced by small-scale producers and marketed through informal channels. Hence the performance of the industry has significant impact on employment and poverty levels. However the performance of the industry in the last few years has been handicapped by the collapse of supportive infrastructure and legal impediments. In order therefore to improve the performance of the industry, the Government will undertake the following measures:

- **Develop a clear policy on milk production, processing, and marketing emphasizing on health and safety standards;**
- **Promoting animal health by reactivating and expanding dipping, breeding and clinical services including monitoring and control of animal diseases. In this regard, the Government will consider allowing the stocking of animal drugs by animal health technicians;**
- **Promoting dairy goats as an emerging source of milk and other small stock activities such as poultry and bee-keeping;**
- **Supporting the development of facilities for milk handling such as collection and cooling centers;**
- **Encouraging the private sector and local authorities to establish small abattoirs and meat processing facilities; and**
- **Encourage establishment of value adding processes.**

Fishing

The fishing industry's contribution to local incomes, subsistence and nutrition is extremely important as most of this contribution occurs in areas that have the highest incidence of poverty in the country (Nyanza and Coast provinces). The sector has the potential to contribute significantly to employment and export earnings. Exports of fish products earn Kenya Kshs. 4 billion annually. The industry is however unable to realize its full potential due among other factors a stagnant aquaculture sub-sector, over-reliance on capture fisheries, environmental degradation, and an uncertain export market. Due to these and other bottlenecks, the industry is projected to grow by only 0.8% per year between 2002 and 2007. To remove these bottlenecks and exploit the potential in the fishing industry, the Government will:

- Develop facilitative infrastructure which include landing breaches, cooling plants and access roads to reduce wastage and to achieve the required sanitary and health standards;

- Promote aquaculture to improve food security, nutritional status and incomes.

- Enter into agreements to promote closer regional cooperation in the management and regulation of the trans-boundary fishery resources including control of water hyacinth;

- Encourage growth of micro-finance institutions to provide credit.

6.3 Tourism

The tourism sector in Kenya continues to play an important role in the country's economic development in terms of Gross Domestic Product (GDP) contribution, foreign exchange earnings and employment. The sector significantly contributes to national income, foreign exchange earnings and employment. Due to its high multiplier effects, the sector acts as stimuli to the growth of other sectors that include transport entertainment, agriculture, trade and industry. However the performance of the sector is currently experiencing challenges in terms of escalation of global terrorism, infrastructural deficiencies, static and un innovative products, meagre resources allocated for promotion and marketing, declining standards of tourism products, increased regional competition.

The government will therefore pursue various strategies to revamp the sector. In this connection the government is committed to do the following**:**

- **Re-launching Kenya as global tourism destination**. Currently the sector is faced with serious challenges in terms of image. Due to recent global terrorism threats, the country is increasingly being perceived as insecure. The government will provide more resources towards promotion and marketing in our source markets;
- **Diversifying and improving tourism products, circuits and source markets while ensuring sustainability.** Kenya has been over dependent on the beach and safari tourism products. Diversification will be done through opening up of new tourists circuits, promotion of new products like conference tourism, sports tourism, retirement tourism, eco-tourism. Participation in international and regional travel fairs and exhibitions will be enhanced as well as opening up new tourism offices and re-establishment of National Tourist Office in key source markets;
- **Upgrading of the Tourist Police Unit**. The Unit currently operating at the Coast will be upgraded and its operations expanded to other regions of the country with high tourism potential. The officers will trained and equipped to make them more effective;
- **Ensure maintenance of standards.** To maintain tourism product standards the government will regularly classify all tourists establishment, carry out regular inspections and improve regulation of the sector through licensing;
- **Hotels and other accommodation facilities refurbishment**. The government has been assisting hotels through duty and VAT exemptions for hotel refurbishing equipment. This programme will be intensified and alternative measures like mobilisation of short term and long term soft loan from International Development Finance institutions will be pursued;
- **Involvement of Local Communities in Tourism Development.** The government will ensure that local tourism operators are facilitated through availing accessible and affordable credit through Kenya Tourist Development Corporation (KTDC)/Catering Training Levy and Development Trustee (CTLDT) and Tourism Trust Fund (TTF). The operators will also be assisted through the refresher courses on business management at Kenya Utalii College (KUC). On marketing, Kenya Tourism Board (KTB) will ensure production of promotional materials for the small operators, which it will use to market their products. Local communities' tourism projects and Small and Micro-Enterprises in tourism will be facilitated to forge partnerships and linkages with the dominant tour operators;
- **Provision of Skilled Manpower**. The Government will undertake the following: Upgrading of KUC to offer degree programmes; Establishment of regulatory framework for standardisation of training for the sector through CTDLT; Refurbishment of KUC’s training facilities; establish a tourism training college at the Coast;
- **Provision of Incentives**. There will continuously review taxation measures that adversely affect the sector with an aim of providing incentives to the private sector**;**
- **Promotion of domestic tourism.** The government’s strategy in this respect involves promotion of domestic tourism through participation in various local and regional trade shows; publicity through advertisements in the print and electronic media; hosting of public workshops to sensitize the general public on the importance of tourism to the national economy and encouraging Kenyans to tour their country;
- **Development of a Tourism Policy, Tourism Development Plan, Legislation and Regulatory Framework**. The government together with all tourism stakeholders has embarked on formulation of a tourism policy framework and a tourism development plan. Legislation and regulatory framework affecting private sector operations in the sector will be reviewed with a view to providing a conducive environment for the sector operators; and
- **Creation of a Tourism Information System.** Currently a feasibility study of establishing a Tourism Satellite Account has been conducted. The next phase of the Tourism Satellite

Account will be undertaking three studies inbound and outbound tourism expenditures and household expenditure surveys.

6.4 Trade and Industry

This sector accounts for over 20.0 per cent of GDP and employ about 300,000 people in the formal sector and 3.7 million in the informal. In addition, the sector accounted for over 43 per cent of Kenya's total export earnings in 2002. Exports of manufactured goods accounted for over 33 per cent of merchandise exports earnings. The trade and industry sector is strategic to economic recovery because it is the sector likely to recover fastest.

A number of constraints limit the realization of the full potential of the sector. These factors include low morale occasioned by poor governance, poor infrastructure, high business transactions costs, insecurity unfair competition from counterfeit import goods and problems of access to external markets. Various measures have been put in place to address the challenges facing the sector. These include incentive schemes for the manufacturing sector such as duty/VAT exemptions or remissions on imported inputs and the Export Processing Zones (EPZs); the Secretariat on Counterfeit Control, and Commercial Courts; strengthening of surveillance on transit imports to avoid diversion; active participation in regional and international integration and cooperation schemes such as EAC, COMESA, and ACP-EU; the application of safeguard measures under the COMESA agreement to protect the sugar and wheat industry and improving market access abroad particularly in Africa and European Union.

The micro and small enterprises which covers a range of establishments employing one to 50 persons is an important component of tourism, trade and industry sector. A 1999 survey of MSEs indicated that these enterprises are faced with many constraints. The most serious constraints identified are: lack of adequate market (34 per cent) for their products; access to affordable credit; insecurity and harassment by local authorities; and dearth of serviced commercial worksites. The study findings suggest that policy and programme attention or priority should increasingly be targeted towards rural-based enterprises, which account for 65.6 per cent of total micro and small-scale enterprises. One important spin-off of focusing policy interaction on the rural based MSEs is the advantage of stabilizing migration and hence reducing stress on urban environment and infrastructure. The other area of policy focus that needs urgent attention is establishment of a conducive environment for growth of MSEs to medium enterprises that have capacity to produce high quality products and to create quality employment. Given the significant contribution of MSEs to the national GDP and employment, estimated at 18 per cent and 72 per cent respectively, special priority will be accorded to this sector in order to enhance its role in generating growth, creating jobs and in reducing poverty.

As indicated earlier, the Government has been taking measures to improve security and infrastructure, which will benefit all sectors of the economy. The Government will undertake the following further measures:

- **Improve the investment environment by putting in place an Investment Code that consolidates into one Act all incentives, property rights' protection and institutional arrangements in order to reduce the red tape and cost of bureaucracy. The Code will provide for the creation of a one-stop Investment Authority;**
- **Computerize the entire system of investment-related offices including the immigration, customs, security vetting services, lands office, and registrar of companies (among others) to ensure that investors and the Investment Authority have real time access to relevant data and information;**

- **Expand and strengthen partnership with the private sector especially in negotiating trade protocols and other business related issues;**
- **Identify suitable zones (through Local Authorities) with basic infrastructure which will serve as incubators for SMEs. This will also improve their image, visibility and facilitate linkage between SMEs and medium and large scale enterprises;**
- **Promote existence of peace and harmony in the industry in order to encourage new investments and raise productivity and employment creation opportunities. This will be achieved by reviewing the industrial and labour relations framework to provide for a proactive and efficient dispute settlement mechanisms. This will in particular focus on reviewing the wage guidelines to ensure that the wage setting mechanisms take account of the need to retain international competitiveness.**
- **Develop an export development strategy that considers all sectors (goods and services) of export potential and review the existing export development incentives' schemes (such as EPZs and MUBs). The strategy will also focus on the measures required to ensure diversification of export markets and reduce vulnerability to unilateral decisions over trade in the export markets;**
- **Review the Sessional Paper No.2 of 1997 on Industrial Transformation to the Year 2020 as a pre-requisite for preparing a comprehensive Industrial Master Plan by the end of 2004. The Plan will identify the institutional, infrastructural, human resource and incentive regimes necessary to promote industrialization and will be primarily focused on enhancing Kenya's labour intensive export-oriented industries. The Plan will incorporate measures proposed in the Sessional Paper on the development of MSEs;**
- **Complete the Sessional Paper on micro and small enterprises (MSEs) with a focus on employment creation and poverty reduction.**
- **Benchmark key industries to international competitors and structure recovery efforts for these industries around the established international benchmark prices. The focus will be on resource-based industries to maximize the benefits to the rural areas;**
- **Focus on garments or clothing manufacturing to take advantage of the AGOA market. This market provides an opportunity for development of long-term clothing supply capacity with high potential for rapid employment creation, foreign investment, export earnings, and transformation of the MSE sector through linkages with external markets;**
- **Build capacity to monitor international trade malpractices in order to effectively apply anti-dumping and countervailing measures so as to ensure that Kenyan products are not unfairly driven out of markets; and**
- **Enhance support for R&D for industries by reviewing the tax incentives for doing research and zero-rating research-related equipment.**

6.5 Information, Broadcasting and Film

Information, broadcasting and film sub-sectors are key sectors in the economy. Improvements in information technology have become a precondition for economic survival all over the world. Further, the right to information is a fundamental human right. The huge potential in the film sub-sector offers Kenya an excellent opportunity to market its tourism.

To improve the media, broadcasting and film sub-sector the government will do the following:-

- **Creation of a Film Commission of Kenya and promotion of the film industry**. To fully exploit the large potential the government will create a Kenya Film Commission as a joint stakeholder institution with the mandate to market and popularize Kenya as a filmmaking destination and facilitate filmmakers with the licensing and logistical support here on the ground. Deliberate efforts will be put in place to step up the marketing of Kenya as a film destination of choice by enhancing:-Participation in TV/Film markets and festivals; production of promotional materials and establishment of an interactive web-site.

- **Development of a comprehensive film policy.** These will facilitate sustainable exploitation of the sub-sector that ensure maximisation of benefits accruing to the country.

- **Ensure full liberalisation** of the airwaves in media and broadcasting. Licenses for electronic and media services will be issued on the ability and integrity of the applicant.

- **Review policy on vernacular services** to ensure the service full exploits the existing potential in community broadcasting. The KBC transmitter will form a backbone for signal distribution, as is the case in South Africa and United Kingdom.

- **Improve the legal framework in the media and broadcasting sectors.** This will ensure continuos access to quality information and that the investors in this sector have a conducive environment to carry out their business.

- **Prepare a programme of standardised information** training and education to ensure maintenance of high standards in the media and broadcasting sectors.

6.6 Forestry and Mining

Forestry and mining are important not only because of the direct consumable products such as timber, but also because of the impact that their exploitation has on the environment and productivity of other sectors. In particular, agricultural productivity is significantly dependent on forests and a healthy environment. Although mining has not featured highly in the economic agenda, the combined output of various industrial materials is significant.

The forestry and mining sector is faced with many constraints, which hamper its development. These constraints include inadequate policy, legal and institutional framework governing natural resources exploitation. There is inadequate community participation in management of the environment and natural resources. Besides, there is insufficient information on natural resources inventory. The forestry in particular has been seriously affected by weak governance, which has led to unprecedented destruction of forests with serious environmental consequences. This has been exacerbated by lack of cheaper alternative sources of energy. Inappropriate policies on alternative fuels like Kerosene have resulted in deforestation.

In order to overcome the constraints noted above and encourage new investments and competition in the sector, the Government is already implementing measures aimed at accelerating the expansion of forest cover and repossession of forestland that had been irregularly allocated to private developers. Other measures that are contemplated include:

- **Develop a clear policy in order to eliminate corruption regarding harvesting of forest products and allocation of forest land for private development;**

- **Promote development of agro-forestry and encourage community participation in efficient management of forests. This will be complemented with continued re-**

afforestation including private sector participation to ensure the attainment of the minimum required forest coverage of 10 per cent by the end of 2007; and

- **Develop a mining policy to guide decisions on project proposals, compensation for people displaced by mining projects, environment protection, technology transfer requirements, and determination of efficient royalties to cover the costs of mining.**

7. EQUITY AND SOCIAL-ECONOMIC AGENDA

7.1 Introduction

The broad objectives of the social sector is to reduce poverty and narrow inequality through employment, empowerment and improving access, affordability and quality of social services. Rapid economic growth or the baking of a bigger national cake, is the only assured way of reducing poverty and enhancing gainful employment opportunities in Kenya in the long run. However, in the medium term, interventions that increase access to social services and reduce inequality can improve the situation of the poor even before the impacts of rapid economic growth begin to be felt. Furthermore, there are segments of society who, due to their vulnerability, marginalization or lack of skills will be unable to benefit from improving socio-economic conditions. The focus of this chapter is to address the issues relating to the poor, marginalized and vulnerable groups, which, even in a 3-year recovery period, cannot be allowed to await general economic improvement but must be tackled as part of a wider socio-economic agenda.

As indicated in Chapter 1, Kenya has high levels of inequality: the poor are disproportionately less educated and less skilled than the non-poor. In addition, the poor are more likely to be unable to access social services such as treated water, adequate sanitation, medical services and other social services. Furthermore, employment opportunities of the poor are highly constrained. Finally there is a wide range of characteristics that define the poor ranging from landlessness, reliance on subsistence farming and large household sizes among others. The key interventions envisaged include policies for education, health and nutrition, HIV/AIDS, labour and social security.

7.2 Education

Education is a key determinant of earnings and therefore an important exit route from poverty. Education improves people's ability to take advantage of the opportunities that can improve their well-being as individuals and be able to participate more effectively in the community and markets. Higher educational attainment for a household head significantly reduces the likelihood of a household being poor. Likewise, the education level of mothers significantly affects the health status of the entire family.

The broad objectives of education sector interventions are to achieve 100 per cent net primary school enrolment rate and reduce the disparity in access and quality of education. Secondary objectives are to improve access and quality and to reduce disparities at all levels of education. In meeting these objectives several challenges will be faced by the sector. The first challenge is direct costs of schooling, which have kept a significant proportion of the poor away from school. According to the 1997 Welfare, Monitoring and Evaluation Survey(WMES), 30.7 per cent of the poor children who were out of school were unable to attend due to affordability. This non-attendance has led to declining enrolment rates. The second challenge is the low levels of internal efficiency as evidenced by high drop out rate (5-6 per cent annually) and repetition rates (15-16per cent annually) at primary levels and low transition rates. Finally is the regional and gender disparities with the ASAL areas being particularly hard hit.

In order to meet these challenges, the Government has introduced free primary education and substantially revised the curricula to reduce the financial burden of education. Further measures will however be required to ensure attainment of these objectives. These measures include:

- **Optimal staffing (student teacher ratios of 40:1), increasing availability of textbooks to achieve a pupil text book ratio of 3:1 in the early grades and 2:1 in the higher grades, and sensitization of communities on the benefits of education;**
- **Conducting in service training for teachers annually;**
- **Increasing the bursary programme to cover at least 10 per cent of enrolled students, with emphasis on ASAL areas and other vulnerable groups, paying particular attention to girls;**
- **Reviewing the education curriculum to make it relevant to the changing socio-economic environment so that the students can more easily fit in the labour market**.

7.3 Health

The health situation of Kenyans improved progressively after independence up to 1990 but has thereafter been deteriorating. The achievement of good health is critical in enhancing human development. Improving health conditions reduces production losses caused by worker illness, increases the enrolment of children in school and increases learning ability. Thus, the human capital of the poor is improved by increasing their access to basic healthcare and nutrition. An important aspect of the recovery programme must therefore ensure that the fundamental concerns of equity, access, affordability and quality in the provision of basic health services are met.

Socio-economic analysis of the poverty dimensions reveals that the main health challenge facing the poor is affordability. The ***Second Report on Poverty in Kenya*** revealed that 40 per cent of the poor (39.5 per cent of the urban poor and 43.8per cent of the rural poor) did not seek medical care when they were sick due to inability to cover the cost of medical care compared to only 2.5 per cent who were constrained by distance to a health facility. Hence issues to do with affordability will be critical to improving the well being of the poor. Against this background the main objectives of the health care during the next three years will be to improve affordability and coverage of quality health services particularly for the poor.

Although the Government has been allocating substantial budgetary resources to health sector, the general health of Kenyans continues to deteriorate for various reasons including: emergence of new diseases such as HIV/AIDS, misuse of resources due to corruption and emigration of health workers from Kenya largely due to low remuneration. In this connection, the Government will take corrective measures to meet the objectives of the health sector as indicated above. These measures include among others.

- **Enactment of legislation converting the NHIF into a National Social Health Insurance Fund (NSHIF) which will cover both in patient and out patient medical needs sharing of costs between the Exchequer, the employers and employees, informal sector and other productive segments of society;**
- **As part of the NSHIF implementation process, the Government will set up special healthcare endowment fund to target vulnerable groups, for instance the aged, disabled and other deserving persons;**
- **Rehabilitate existing health facilities; and**
- **Overhaul the system of procurement and distribution of drugs for public health facilities in order to reduce cost of drugs and make them affordable and also to rationalize the distribution system to ensure that drugs are supplied to areas where most needed. In this context, the Kenya Medical Supplies Agency (KEMSA) will be operationalised as a least cost non-profit provider of drugs and medical inputs.**

7.4 Labour and Industrial Relations

The labour force is a major contributor to output growth in all societies. In Kenya, however, there is a massive under-utilization of this productive asset. There are about 2 million unemployed persons, mostly young and with no skills. The high level of unemployment has a direct impact on poverty levels and social problems such as crime and insecurity. A second dimension of the labour force problems is the productivity issue. Low labour force productivity is primarily a result of low education and skills. Labour productivity is also affected by the status of industrial relations and conditions at work places. The key objectives of the labour policy are therefore to promote acquisition of skills, harmonious industrial relations and ensure healthy working conditions for workers. In order to achieve these objectives, the Government will:

- **Put in place measures to expedite settlement and arbitration of trade disputes to promote industrial harmony;**
- **Enforce the laws aimed at promoting health and safety standards and protecting workers from occupational hazards by implementing surveillance and hygiene audits at work places;**
- **Strengthen the recently established National Productivity Centre with a view to institutionalizing a productivity measurement process and internalizing the same in labour policy formulation process especially as relates to wage setting; and**
- **Improve Labour-Employers-Government interaction and policy understanding through the National Economic and Social Council.**

7.5 National Social Security Fund (NSSF)

Social security or social protection is needed to improve resource allocation in an economy. The provision for old age, disability, accidents and sickness, as well as safety nets and social assistance programmes are designed to ameliorate the impact of adverse shocks particularly on the poor. Social protection is an economic as well as a social imperative. Following a shock, social security programmes help prevent or at least mitigate what could be irreversible damage to accumulation of human capital such as child labour, malnutrition or dropping out of school.

Kenya's social security system is dominated by the NHIF and the NSSF. The NSSF covers only workers in the formal sector and has been adversely affected by poor investment decisions. Since the NSSF excludes informal workers, over 70 per cent of total employment is excluded from public social security. Employers in the informal sector do not contribute to social insurance schemes. Those who are self-employed often lack sufficient income to contribute to social insurance schemes. However, if appropriate legal and institutional frameworks were put in place, the system would be affordable to a wider spectrum of people.

In order to improve the situation in social security, the Government will:

- **Review the NSSF Act to provide for conversion of NSSF from a provident fund to a pension scheme and expand coverage to provide for the requirements of the people in the informal and other sectors;**
- **Explore flexible contributions to allow more contributors to the social security scheme and non-contributory schemes such as social assistance programmes to assist the poor and vulnerable groups; and**

- **Explore the possibility of the social security funds lending money to employees and employers for developmental purposes and especially for housing projects for their workers.**

7.6 Shelter and Housing

Shelter and housing are basic needs for human survival and are important for the advancement of well-being. Shelter is a social as well as an economic good. As a social good, it provides dignity, privacy and security to individual, family and community. As an economic good, it provides capital formation, employment creation, improvement of health, and increasing labour productivity.

In Kenya, the fundamental issue is the high cost of decent housing, which the majority of the population cannot afford. This high cost is due to the high cost of land, construction and building materials. As a result, less than 21 per cent of all housing and 48 per cent of urban housing had durable walls; only 10 per cent of all housing and 43 per cent of urban housing had access to electricity; 19 per cent of all housing and 56 per cent of urban housing had access to piped water; and 17 per cent of the population had no access to sanitary facilities whatsoever, while over 43 per cent of houses were overcrowded.

The core aim of Government policy is to facilitate the construction of 150,000 housing units annually during the period covered by this Recovery Programme to meet the growing demand for housing. The Government will enact appropriate land and housing legislation to facilitate private sector development of affordable houses. In addition, the Government will explore the possibility of working with development partners to develop a framework for upgrading slums and informal settlements in the urban areas.

7.7 HIV/AIDS

The HIV/AIDS pandemic deserves special consideration given that it impacts negatively on all sectors of the economy. The pandemic is the single-most serious health and development challenge that Kenya has faced in its post-independence history. It is the only health problem that is believed to have reversed the significant gains made in life expectancy and infant mortality during the first three decades of independence. The pandemic is becoming much more than a health problem because it encompasses economic, social, and cultural dimensions. The epidemic continues to exert pressure on the healthcare delivery systems yet prospects for finding a cure for it remain elusive.

The Government recognizes the devastating effect that HIV/AIDS is having on children and those who care for them. To spearhead the battle against this pandemic, the Government considers it prudent to deal with it at highest level. In this context, a Cabinet sub-committee on HIV/AIDS chaired by the President was established at the beginning of 2003. The country will deal with HIV/AIDS pandemic by developing a comprehensive HIV/AIDS research and control programme. The multi-sectoral approach to HIV/AIDS will be continued and the institutional framework to implement it will be strengthened in partnership with major stakeholders. This will entail taking the following additional measures.

- **Setting up a special healthcare programmes for HIV/AIDS infected people;**
- **Training communities on HIV/AIDS home-based care;**
- **Implementing HIV/AIDS curriculum in all schools;**
- **Strengthening the health sector response to HIV/AIDS by forming Aids Control committee at constituency level.**

7.8 Food and Nutrition

Despite tremendous improvement in nutritional status of Kenyans since independence, a significant proportion of people, particularly children still live under continuous threat of hunger and starvation. Malnutrition in children is particularly common in certain areas or certain times of the year due to due to poverty and disruptions in food supply systems among other factors. Chronic under-nutrition is the most common form of malnutrition and is associated with insufficient dietary intake. The achievement of food security and good nutritional status is critical in enhancing human development and overall productivity of Kenya. A key objective of the Recovery Programme is therefore to ensure food security in order to reduce the incidence of malnutrition. **In this regard, the Government proposes to eliminate vitamin A deficiency in under 5- year olds by 2005; start awareness campaigns on the benefits of improved nutrition; and promote production and consumption of nutritious food.**

8 ARID AND SEMI-ARID LANDS

8.1 Introduction

Kenya's arid and semi arid areas, which cover about 80 per cent of Kenya's total land surface and 25 per cent of the human population, are unique in nature and require special attention to strengthen not only the economic base of the inhabitants but also the economy as a whole. Since independence, the economic potential of the arid and semi-arid lands (ASALs) remained largely unexploited because of, among other reasons, the security problem in the area.

Presently over 50 per cent of the country's livestock population is based in the ASALs and these areas account for more than 80 percent of eco-tourism interests in the country. The livestock sector accounts for 90 per cent of employment and more than 95 per cent of family incomes in the ASALs. Most of the livestock slaughtered in major urban centres today originate from these areas. In spite of the available potential, the areas have the highest incidence of poverty averaging about 65 per cent and very low access to basic social services. The infrastructure per capita is very low compared to the other parts of the country and literacy levels are wanting. The NARC Government recognizes the need to integrate ASALs in the overall development strategy of the country so that the resources available in the region can be tapped for the benefit of the people living in the region.

The development objective in arid and semi-arid areas is to strengthen rural livelihoods through support to livestock and range management, eco-tourism, and where feasible initiating long-term irrigation projects to contribute to the overall food production and security in the country. Improvement in livestock production and marketing, however, remains the key goal in the medium term. Strategies to be adopted will also aim at minimizing stock losses resulting from drought. Other Governments objectives for ASALs include improving security and communication access to health, education, water, energy, and telecommunications services. These objectives will not only promote sustainable livelihoods but also militate against the rampant poverty in ASALs.

8.2 Livestock Development

Livestock comprising of cows, camels and goats is the main resource for the ASALs. In this connection, the Government will implement a broad based livestock development programme in the ASALs to improve the welfare of the communities. Similarly, the Government will give priority to the marketing of livestock in these areas. Private sector entrepreneurs will in this regard be encouraged to establish slaughterhouses and other viable marketing channels for export market. The Government will therefore oversee a rapid development of the ASALs through development of improved livestock marketing and infrastructure; facilitation of private investment in meat processing to help improve the purchasing, processing and marketing of livestock. These efforts will similarly focus on rehabilitation of existing community water pans, dams and boreholes in collaboration with the private sector, NGOs and other development partners; and facilitating production of small stock and camels through disease control measures, mainly by strengthening the community based animal health approach.

To improve animal production and marketing, the Government will make specific interventions that include:

- **Providing adequate water for the rangelands by sinking boreholes and constructing dams at strategic locations in the region to avoid disruption of the migratory nature of the communities;**

- **Conducting research on livestock breeds, and particularly on the indigenous livestock, with a view to improving the local breeds;**
- **Putting in place measures to control environmental degradation and carrying out periodic national livestock census;**
- **Strengthening the animal health delivery system in the region by providing mobile animal health clinics and screening units and disease surveillance mechanisms;**
- **Addressing legal and policy barriers to livestock trade, such as livestock movement quarantines and cess/taxation;**
- **Developing supporting infrastructure, including roads, and stock routes with water facilities;**
- **Strengthening disease control measures in partnership with regional animal health programmes**
- **Creating strategic Disease Free Zones to facilitate export of live animals; and**
- **Increasing cross-border disease surveillance and cross border conflict resolution and management mechanisms;**

8.3 Fishing and Mining Development

Measures to develop the fishing and mining sub-sectors in the ASALs will also be enhanced. In this regard, the Government will:

- **Facilitate private sector development of cooling plants, landing sites for the fishing industry in the potential regions;**
- **Collaborate with the private sector, NGOs and other stakeholders in sensitizing the communities on the nutritional importance of fish and the economic use of other resources such as gums, resins and honey; and**
- **Assess mineral potential in the regions with a view to exploitation.**

8.4 Tourism Development

The ASAL areas have a potential for tourism growth as they host most of the country's game reserves and national parks. One of the major problems in the past has been little involvement of the local communities in the ASAL areas in addition to lack of adequate motivation to conserve these natural resources. The ASAL areas also suffer substantially from human-wildlife conflicts. To address these problems and tap the potential in these areas, the Government will:

- **Allocate a larger portion of the revenue generated from game reserves and national parks to community projects;**
- **Strengthen community based wildlife conservation and other approaches through which wildlife can benefit pastoralists directly so as to motivate them to conserve and accommodate wildlife in their production systems; and**
- **Support development of eco-tourism activities since the areas have very high potential for eco-tourism.**

8.5 Trade and Industry Development

ASAL areas have been characterized by lack of investments. This has been a result of the low potential of these areas in attracting investment. However, opportunities can be created for investment in livestock based cottage industries such as livestock feed processing plants, leathertanning industries and small to medium scale abattoirs. These will create jobs and reduce poverty by raising personal incomes.

To facilitate commerce and industrial development in the ASALs the medium term focus will be on:

- **Improving infrastructure especially the road network and the telecommunications system to facilitate free movements and exchange of goods and services;**
- **Facilitating the establishment of livestock based industries in pastoralist areas and;**
- **Offering appropriate investment incentives for private investors targeting these areas.**

8.6 Disaster and Emergency Response Co-ordination

The development programmes outlined for the ASALs face special risks related to natural disasters. The country, particularly in the ASAL regions, has in the past suffered from disasters whose effects would have been minimized. However, this has not been so because of lack of disaster management policy, early warning system/information being limited to only ten districts, lack of co-ordination of agencies involved in disaster management and response, lack of appropriate policy on natural resource management in ASAL areas, lack of resources for maintenance of strategic food reserves, and poor accessibility to disaster prone areas. In order to effectively cope with disasters and reduce their effects, the Government will undertake the following measures:

- **Strengthen food distribution and targeting mechanism;**
- **Develop and implement a disaster management policy; and**
- **Establish community based drought early warning systems, in all relevant districts, that provide timely information to decision makers at all levels.**

8.7 Land Tenure

The land tenure systems in pastoral areas have constrained their social and economic development. The communal land use, access, controls and management is central to pastoral production systems but is poorly recognized in current land tenure arrangements. Currently there are three legal land holding categories. These include Government land, Private land, and Trust land. Trust land is the dominant land tenure system in ASALs. However, under the Trust land Act, rights and interests of residents under customary law have suffered through statutory allocation of land to individuals or government institutions. Pastoralists have lost land to wildlife conservation, to military exercise grounds and other uses. Land tenure and land ownership among pastoralist communities therefore needs to be resolved through appropriate legal framework in order to diffuse inter-ethnic conflicts, competition over critical communal resources and to provide an effective system through which the natural resource base can be improved and managed on a sustainable basis by the communities themselves. In this connection the Government will:

- **Undertake data based inventories of the nature of tenure arrangements, resource planning and use and avail the results for public inspections and reference;**
- **Investigate and where necessary declare a moratorium in all Trust land areas, halting any ongoing adjudication processes, until the necessary land reforms are legislated. Such a moratorium will target groups trying to irregularly register crucial grazing areas; and**

- **Establish credible land control boards that are acceptable and respected by the local communities.**

8.8 Health and Education

Population increase in ASALs is intensifying pressure on social services and environmental base. It is therefore essential that the existing monoculture relying on the livestock resource base is supplemented through diversification of income sources and livelihoods. Improved provision of education and training to pastoralists in ASAL areas thus becomes crucial.

The medium term policy focus for education in ASALs will therefore be on:

- **Initiating out of school programmes for pastoralist children and continue testing out the mobile schools approach;**
- **Developing linkages and equivalencies so that pastoralist children receiving non-formal education can move to the formal system at various levels;**
- **Extending bursary schemes for children in the pastoralist areas;**
- **Providing resources for infrastructure development to improve schooling facilities and equipment and strengthening boarding institutions to cater for nomadic pupils;**

At the same time provision of health services should recognize the people's needs and lifestyle. The existing health facilities have to be made more accessible, properly stocked, staffed and improved in terms of infrastructure and equipment relevant to the social and physical environment. In this regard, Government efforts will be directed at:

- **Strengthening community-based health care programmes, and promoting mobile outreach clinics for remote areas;**
- **Ensuring that drugs and equipment meant for health facilities reach the intended destinations;**
- **Intensifying immunization of vulnerable children and other members of the pastoralist community and strengthening district capacity to detect and contain epidemics; and**
- **Providing public health education to communities for preventive and promotive health care.**

8.9 Security and Law Enforcement

Conflicts among Kenyan pastoralists have been frequent and have led to loss of life, property, increased levels of insecurity and vulnerability among the people. The proliferation of arms and the rising commercialization of cattle rustling combined with politicised conflicts have worsened the situation. Previous attempts by the Government to address this problem have not been quite successful because of inappropriate approaches adopted.

The Government will therefore address this problem through a mechanism that incorporates clan elders, the youth, and women's movements. The Government will:

- **Strengthen the security apparatus in ASALs through better equipment and through better, impartial and accountable response by the provincial administration and the security forces;**
- **Ensure that that the District security mechanisms work with and support customary conflict management modalities; and**

- **Increase surveillance and strengthen immigration points at the border entry points to curb the large influx of refugees and illegal firearms.**

8.10 Physical Infrastructure Development

The current poor state of physical infrastructure in ASALs is a major constraint to economic and social development. Inadequate road network and water sources are a major stumbling block to development. In this connection the Government infrastructure objectives aim at:

- **Bituminizing major roads in arid and semi arid areas like Garissa - Mandera, Isiolo-Moyale and Emali-Loitoktok roads.**
- **Rehabilitation of the Kapenguria - Lodwar Road to tarmac standards and gravelling the Wajir - Moyale, Isiolo-Madogashe and the Maralal-Chemolingot roads to all weather roads standard.**
- **Utilising relief food in food-for-work road projects in order to provide employment, food and improve the condition of the roads.**
- **Using community groups in the maintenance of strategic feeder roads inorder to provide incomes and strengthen the purchasing power of pastoralists.**

9. CROSS CUTTING ISSUES

9.1 Introduction

This Chapter focuses on discussions of financial sector, land administration, environment and information and communication technology. These service providing sectors by their nature cut across other sectors of the economy.

9.2 The Financial Sector

The role of the financial sector in the development process is to mobilize financial resources and to allocate those resources efficiently in the economy. The financial sector is the fifth largest sector in Kenya with a contribution to GDP of about 10.6 per cent. It also accounts for about 3.8 per cent of total employment. The ability of Kenya's financial sector to contribute to development process has been undermined by non-performing loans portfolio which stood at nearly 30 per cent of the total loans and advances from commercial banks by the end of 2002. Other factors that have contributed to the poor performance of the financial system include absence of effective competition which has led to persistence of wide interest rate spreads; absence of strong and vibrant institutions for long term capital and a legal system characterized by long delays in the determination of commercial disputes and enforcement of contracts.

A sustainable economic recovery programme requires a vibrant and integrated financial sector that ensures mobilization of adequate financial resources to finance the required investment. Although the financial sector in Kenya is fairly diversified in terms of financial institutions, removal of those factors that have constrained effectiveness of the financial sector's intermediation role is necessary. The Government will therefore carry out a comprehensive study of the financial sector to identify weaknesses that have impeded growth of the sector and reforms that are needed to strengthen its intermediation role. While the assessment exercise is in progress, the government will take the following measures:-

- **Accelerate the enactment of Micro-Finance Institutions Act, as a step towards enhancing competition in the financial sector.**
- **To clean up the balance sheet of government owned banks in preparation for their privatization, the Government will set up a non-performing assets resolution fund to warehouse the bad debts. In addition, the Government will encourage the private sector to establish loan buying companies. To facilitate this process the Government will accelerate the implementation of supportive legal and judicial reforms to guide settlement of commercial disputes. This will lead to narrowing of the interest rates spread.**
- **Enhance tax incentives to encourage more savings through the pension schemes by removing the maximum allowable tax deductibility of contributions.**
- **Review the tax incentives structure to encourage contributors to opt to withdraw from schemes after retirement age by making withdrawals at and after retirement tax-free.**

9.3 Land Administration and Survey

Land is one of the most important resources as it is the origin of most natural resources and the base upon which activities, e.g. agriculture are carried out. Land is also important as a store of wealth. The country however does not have a clearly articulated land policy and hence important issues such as land use, management, tenure, reforms, environmental protection, planning and conflict resolution are currently inadequately addressed through the existing systems. Moreover land administration operated on the basis of outdated legal framework and many legislations making conveyance a nightmare. Other problems facing land administration include inaccurate and insufficient land records and lack of a strategy for management of emerging informal urban settlements creating a fertile ground for corruption.

Resolving the land and administration problems will be a critical requirement for sustained economic recovery. It will also be vital for minimizing conflicts and tensions between various communities. Recognizing the serious problems facing land administration, and the contribution that effective land administration would make to the economic development process, the Government appointed a Commission of Inquiry into existing Land Laws, tenure systems, and records with a view to making recommendations to improve land administration.

During the first half of FY2003/04, the Government will develop clear time bound action plan for implementing the recommendations of the Commission. Some of the areas that will require immediate attention by the Government include computerization of land records.

9.4 Environment and Natural Resources

Economic recovery needs to be sustainable if the objectives of poverty reduction and employment creation are to be achieved. This Economic Recovery Action Plan takes cognizance of the need to achieve the broad macro and sectoral objectives and targets without compromising the health of the environment. Kenya faces a serious environmental challenge due to mismanagement of the sector by the previous Administrations. The problem has been compounded by rampant poverty in the country because wood-fuel and charcoal are the main energy sources for cooking and lighting used by the poor people putting tremendous pressure on forest resources. The symptoms of the environmental damage include deforestation, soil erosion and siltation of water reservoir, pollution of river systems from industrial effluents and discharge of raw sewage, clogging of lakes and river systems by weed, and increasing air pollution by harmful emissions from industries and poorly maintained motor vehicles.

The other problem that Kenya faces on the environment issue is pollution resulting from solid waste such as polythene and plastic generated waste. The problem reflects absence of a policy on recycling of waste materials and dysfunctional local authorities.

In an attempt to address these problems an environmental legislation was enacted providing for the establishment of National Environmental Management Authority (NEMA) to oversee the management of environment. However, further measures are required to address environmental challenges that continue to face the country especially finding alternative and affordable energy sources for the rural and urban poor.

Other measures that will be required to restore and preserve environment include: a comprehensive afforestation programme; development of a national policy on anti-pollution; introduction in schools of curriculum on environmental education; and development of a policy on recycling.

9.5 Water and Sanitation

Despite the fact that Kenyans have identified a strong link between poverty and lack of access to improved water supply and sanitation and diminishing water resources, the sector has been grossly under-performing due to: inadequate and complex institutional framework; lack of funds for new infrastructure investments and for operations and maintenance; and destruction and degradation of water resources and the catchments areas. Adequate quantity and quality of water is a basic requirement for Kenya's economic growth and performance.

Water Resources Management

Kenya is classified as a chronically water scarce country with a freshwater endowment of only 647 cubic meters per capita. This per capita availability is projected to fall to 235 cubic meters by 2025 as the population increases, and could be even less, if the resource base continues to deplete. Water is becoming scarce simply because of a limited national endowment, the growing needs of rapidly increasing population, as well as serious water resources degradation. In addition to this scarcity, Kenya is highly vulnerable to rainfall variability: droughts are now endemic and floods occur quite frequently. This is despite the fact that Kenya's socio-economic development goals are highly dependent on availability of good quality and quantity water. Sustainable utilization, development and management of water resources fundamentally underpin the achievement of long-term socio-economic goals.

To ensure availability of adequate water resources, Water Act 2002 as well as the Integrated Water Resources Management Strategy (IWRM) propose institutional reforms that separate water resources management functions from water supply delivery functions. A Water Resources Management Authority (WRMA), to be established under Water Act 2002, will manage all water resources in the country. In addition to setting up of the WRMA, catchment development and management activities and investments in rehabilitation/expanding water resources management infrastructure as well as sustainable storage facilities are urgently needed to reverse the current decline.

Water and Sanitation Services

The Government recognizes that the current institutional arrangements are inappropriate and a bottleneck to achieving the set poverty reduction objectives. The Government proposes to undertake comprehensive institutional reforms that will facilitate pro-poverty water and sanitation services programmes. Among the key reforms are to:

- **Establish a Water Services Regulatory Board to be responsible for over-seeing water services provision and licensing;**
- **Establish Water Services Boards to be responsible for water and sanitation services provision and asset development;**
- **Transfer government water and sanitation services schemes to Services Boards, communities and other lower level actors;**
- **Implement Private Sector Participation in financing and management of water and sanitation services;**
- **Develop models for distribution of water and sanitation services to the poor in both rural and urban areas; and,**
- **Establish Water Services Trust to facilitate financing of water development in rural and low income areas of the country.**

In contrast to the past, the government is adopting a programme approach to sector development by formulating a sector investment programme as the main vehicle for implementing the institutional reforms and infrastructure investment. The sector investment programme will be implemented over a 10 year period, based on the 3 year MTEF budget cycle. This programme will have a strong focus on providing services to the poor while ensuring availability of adequate water for the various competing demands.

Water for Agriculture/Irrigation and Flood Control

Agricultural production in Kenya is heavily dependent on rainfall. The main constraint to development, income generation and food security in the ASAL areas is inadequate water. To promote all year round agriculture and enhance food security, maintenance, construction and rehabilitation of existing dams, pans, and drilling of more boreholes and development of irrigation schemes will be of critical importance. The irrigation sub-sector will be revived along the lines of the new irrigation policy whose main thrust is to separate irrigation infrastructure development and maintenance from crop production and marketing. In recent years, floods have continued to cause havoc leading to loss of human life and property particularly in the Nyando and Nzoia river basins. The strategy that the Government is putting in place involves:

- **Construction of dams across the rivers;**
- **Rehabilitation of deforested water catchments;**
- **Construction of dykes; and**
- **Preparation of an early warning system.**

9.6 Information and Communications Technology

The Government recognizes the economic value and benefits of information and communications technology services both in the rural and urban areas. Information and Communications Technology (ICT) is important to the realization of the required improvement in productivity and empowerment of the citizenry. The sector has however not been able to achieve its objectives due to low penetration of ICT usage in Kenya especially in the rural and marginal areas due to high cost of equipment, poor telephone communications service, and lack of power supply. In general however, ICT has been bedeviled by the lack of **awareness, priority, focus, coordination, resources and capacity.**

In order to achieve faster growth in the sector, the Government intends to:-

- **Establish an Inter-Ministerial Committee working closely with the NESC, to mainstream ICT into government operations so as to enhance efficiency and productivity.**
- **Invest in adequate ICT education and training. In this context, the Government will streamline the education curriculum to incorporate IT studies to develop appropriate skill requirements.**
- **Implement a well targeted tax reduction and/or tax incentives on both computer software and hardware to make them affordable to micro-enterprises and low-income earners;**
- **Review the legal framework to remove impediments that have discouraged adoption and use of e-commerce;**
- **Develop a masterplan for e-government by end of June 2004.**

9.7 Science and Technology

Science and Technology play special roles in the development of a country. However, in the history of this country a wide gap has developed between those who generate and store scientific knowledge and technology and the end users. Consequently, there is an urgent need to bridge this gap so as to enhance adoption and application of science and technology in productive activities.

In order to address the above need, every Ministry will be required to develop and implement strategies that enhance linkage between researchers/technology developers and producers. In addition, Ministries will be required to develop strategies for capacity building in beneficiary organizations to empower them to make demands on service providers, thus making science and technology demand driven.

9.8 Regional Authorities

Kenya has established six Regional Development Authorities based on the river basins and large water masses to provide balanced integrated multi-sectoral programmes and projects that transcend administrative boundaries to rationalise equitable development in the country. The general emphasis of the Authorities remain the sustainable utilisation of natural resources including water, fisheries, forestry and soils towards poverty reduction in the respective areas under their jurisdiction. The functions of these Authorities as they emanate from their respective mandates though broad, still remain valid.

The main challenge facing the Authorities are:

- Lack of concise regional development policy and frequent relocations from one Ministry to another and the arbitrary transfer of potential revenue generating assets to other State Corporations.
- Inadequate funding of the programmes and projects of the Authorities.
- Political interference in the operations of the authorities.

To ensure that these Authorities contribute to the economic recovery the Government will:

- **Review the relevance and sustainability of all Regional Development Authorities.**
- **Develop and implement an institutional capacity building programme for the viable and sustainable Regional Development Authorities.**
- **Finalise staff rationalization processes in order to offload idle staff capacity.**
- **Recruit qualified technical professionals to spearhead policy formulation and research.**
- **Support the Authorities in the development of Regional Data Banks and Early Warning Systems for planning and Research within the regions.**

10 IMPLEMENTATION FRAMEWORK

10.1 Introduction

To achieve the outcomes set out in this Economic Recovery Strategy for Wealth and Employment Creation it will be important to have an effective implementation, monitoring and evaluation framework. This is necessary because failures of past policies and development programs were largely due to absence of such an implementation framework and lack of political will.

The NARC government is fully committed to implementing strategies outlined in this Recovery Strategy. An appropriate institutional framework that utilizes existing departments and institutions to implement actions specified in this Strategy and which facilitates the active participation of the private sector, civil society and communities is being developed. Capacity gaps have been identified and additional support is being provided. The framework provides for regular feedback between agencies entrusted with the implementation.

10.2 Implementation Matrix

The implementation of this Strategy is anchored on good governance, economic growth, poverty job creation and hence poverty reduction. The implementation matrix, which has been derived from the preceding Chapters, is the outcome of the consultation process involving the government, private sector, and the civil society. The process also benefited from the Medium Term Expenditure Framework budgeting that included public hearings for various sector proposals as well as the resource bidding exercise during which the scarce national resources were allocated to support the implementation of the actions required in the Economic Recovery Strategy.

The implementation matrix therefore, has been carefully prepared taking into account financial, human and institutional resource constraints. The matrix presents a synthesis of sectors and sub-sectors where actions are proposed, the objectives stated, expected outputs identified, who takes action and by when specified.

10.3 The National Economic and Social Council

One of the major weaknesses that undermined Kenya's economic reform efforts was inadequate consultation between the government and the citizenry. There has been lack of appropriate forum through which the synergy between the private sector, the business community, and the government could be exploited for the benefit of the country. As a result, independent views and advice of the private sector and the expectations of the government could not be synchronised.

In the past attempts have been made to address the problem of implementation but without success. It was proposed in the 8th National Development Plan that a high level advisory and consultative forum on economic management be established then to assist in the monitoring of the implementation of government decisions. The Strategy proposed the formation of a Presidential Commission. Although the Commission was formed in 1996, it remained dormant because of lack of political support. Some consultations took place under the Joint Industrial and Commercial Committee (JICC), but the forum neither provided the government with independent advice nor did it make it possible for the government to stay on course with good policies.

To strengthen consultation between the government and the citizenry as well at to create a forum through which such dialogue can be conducted meaningfully, the Cabinet has approved the establishment of National Economic and Social Council (NESC) to advice the government on policies that may be required to address emerging socio-economic issues. The NESC is to be established by an Act of Parliament.

10.4 Role of Ministries and Government Departments

10.4.1 Role of Ministries

The process of reforming government functions has been ongoing for sometime now. The PRSP/MTEF budgeting process has been under implementation since 1999. Within this framework government ministries have been grouped into eight sectors for effective budgeting and management of public resources. The NARC government further refined this by taking into account new political dispensation and core functions of the government as defined by the new administration. The eight sectors are: finance; public administration; public safety, law and order; agriculture and rural development; tourism, trade and industry; physical infrastructure; information and communications technology; and the social sector. In addition to these an appropriate macroeconomic framework has been recognized as vital to the realization of strategies specified in each of these sectors. Given the strong Government's commitment to deliver the election promises and the high public expectation, the government and implementing agencies are to be held accountable for the realization of strategies set out in this Strategy.

The responsibility of ministries and government departments are clearly defined in the Presidential Circular No. 1 of 2003. Thus implementing free primary education within the social sector for example is to be executed within the mandate of the Ministry of Education and related institutions such as the Teachers Service Commission. Reconstruction and rehabilitation of physical infrastructure especially roads and up-grading of slums will be implemented by the Ministry of Roads, Public Works and Housing. Similarly local government reforms, public sector performance, regulatory and competition law reforms, governance, and security issues are to be implemented by the public administration and public safety, law and order sectors.

Keeping stakeholders fully informed and on board is crucial to the success of this Recovery Strategy. Consequently, regular sharing of information through workshops, seminars, and even through the information communications technology are an integral part of the implementation, monitoring and evaluation. A quarterly progress report on implementation of this economic recovery programme will be prepared and published by NESC. Collaboration with the non-state partners, the Non-Governmental Organizations and the Civil Society will be coordinated by the relevant sector/ministry to ensure that the participation of all stakeholders is fully integrated in the implementation process.

10.4.2 Implementation at the Local Level

Poverty is area specific. Interventions aimed at creating employment and reducing poverty must equally be area specific. Implementation of a number of actions in the Recovery Strategy will take place either at the district, local authority or at the location levels. Local Authorities are already receiving substantial amounts of resources from the exchequer through the Local Authority Transfer Fund (LATF), for purposes of implementing programs at the local levels. The Government is also disbursing resources directly to the districts and constituencies such as those for the District Roads and the HIV/AIDS funds for interventions at those levels. Several NGOs are also operating at the local level implementing a number of poverty reduction interventions.

The Government is committed to the decentralization and devolution of power as one of the modalities to ensure that services are delivered effectively and efficiently to communities. **The equivalent of the NESC will be established at district levels to assist in effecting the actions outlined in the Recovery Strategy at the district, constituency and community levels.** At the local level the Council will take the form of a restructured District Development Committees that brings together the private sector, NGOs, the government departments and civil society. A devolved monitoring and evaluation will be set up and will provide mechanisms of tracking progress.

The District Documentation Centers (DIDC) are being strengthened and equipped with relevant information so that they become centers of excellence in terms of area specific information. Poverty maps showing the levels of poverty in every district, division and location as well as other social and economic indicators are to be availed to the DIDC for purposes of enlightening the communities to demand for their rights at the community levels. The intention of the Government is to empower the communities with the knowledge to create the necessary awareness and to enable them to demand for services at the district and constituencies so that they may be able to question the leadership on the outcome of such funds.

10.4.3 Harambee

Harambee was originally started soon after independence, as a way of mobilizing community initiatives to provide for social welfare needs such as schools, health centers and cattle dips. Over time, however, Harambee has increasingly been misused, leading to corruption and tremendous waste in scarce resources. While preserving the spirit of Harambee in community initiatives, the Government intends to scale down Harambee as it currently stands. Instead the Government will support a planned and accountable form of community-based initiatives, aimed at wealth creation, service provision and poverty reduction. The Government will put in place a social Action Fund to support this initiative.

10.4.4 Internal Support Structures

The Government has adopted several internal support structures that will augment the implementation of the Recovery Strategy. The Public Expenditure Review (PER) will be institutionalized and reports produced annually as part of expenditure tracking and effective implementation. The Public Expenditure Management (PEM) program has also been put in place. The Country Financial Accountability Assessment (CFAA) and Integrated Financial Management Information System (IFMIS) are being implemented to strengthen the financial management and accountability for better implementation.

10.5 Monitoring and Evaluation

Monitoring the extent to which activities in this recovery Strategy are implemented is critical for the Government. The government has utilized the output of the several studies that were initiated within the framework of the PRSP to inform the process of establishing an appropriate institutional framework for monitoring and evaluation of the recovery Strategy and reporting on the millennium development goals. The Government has identified ingredients of establishing a national monitoring and evaluation framework. Monitoring and evaluation will take place at three levels: national; district/local authority; and at community levels.

At the national level, the attached matrix provides a logical framework for Monitoring and Evaluation. Targets and indicators have been identified and are integrated in the matrix and will be disseminated at lowest levels. The same indicators will be made available through the DIDC to assist the communities to participate in the monitoring and evaluation.

ANNEX II

Table 1: Selected Economic and Financial Indicators, 2000-2006

	2000	2001	2002 Est.	2003 Est.	2004 Proj.	2005 Proj.	2006 Proj.
			(Annual percentage changes, unless otherwise specified)				
National income and prices							
GDP (At factor cost and constant prices)	-0.2	1.2	1.1	2.3	3.7	5.1	6.5
GDP (At Market prices, current prices)	6.6	10.8	9.8	7.3	7.0	9.1	10.8
Consumer price index (dec. to dec.)	10.0	5.8	2.0	3.8	3.5	3.5	3.6
External sector (on the basis of US$)							
Exports	-1.2	7.1	4.8	5.9	8.7	8.0	7.2
Imports, c.I.f.	6.2	6.3	0.6	7.5	9.1	10.0	12.6
Non-oil imports, c.I.f.	4.2	11.9	1.0	10.4	11.8	12.4	13.4
Export volume	2.7	6.8	3.9	3.2	4.9	6.3	6.1
Import volume	15.4	18.7	-2.7	5.1	4.2	7.4	10.0
Money and credit (growth rates %)							
Reserve money							
Net domestic assets of the CBK	-1.65	1.80	11.82	7.42	7.45	5.91	6.22
Broad money (M3X)	4.1	2.3	10.2	7.4	7.5	5.9	6.2
Gross national saving (% of GDP)	12.3	11.2	10.1	10.8	12.0	13.8	15.5
Of which: Central Government	1.0	-0.4	-0.5	-0.5	-0.4	0.1	0.3
Other	11.3	11.6	10.7	11.2	12.3	13.7	15.2
Gross Investment (% of GDP)							
Fixed capital formation	15.4	14.7	13.6	15.0	16.6	19.0	22.2
Central Government	2.4	2.4	2.3	3.7	4.1	5.0	6.0
Other	13.0	12.2	11.3	11.3	12.5	14.0	16.2
External current account incl. Official transfers (% of GDP)	-3.8	-3.8	-4.6	-4.9	-5.7	-7.5	-7.5
External current account excl. official transfers (% of GDP)	-4.6	-3.8	-4.6	-5.1	-6.0	-7.7	-7.7
Central Government finance (% of GDP)							
Revenue	23.1	22.0	21.3	21.8	21.6	21.1	21.5
Total Expenditure	25.6	26.1	25.2	26.3	26.2	25.9	12.8
Deficit excluding grants commitment basis	-2.4	-4.1	-3.9	-4.4	-4.6	-4.8	-2.3
Deficit including grants	-0.5	-2.3	-3.2	-3.6	-3.4	-3.0	-1.2
Current balance, excluding grants	1.0	-0.5	-0.5	-0.5	-0.4	0.1	0.3
Government external debt (US $ millions)	5252	4884	4772	4979	5339	5815	6385
Government external debt service ratio (%)	12.91	9.17	11.01	9.51	8.29	7.43	4.02
Government foreign Interest payments ratio	3.89	3.03	3.03	2.71	1.90	1.63	1.45
			(In millions of US$ unless otherwise specified)				
Overall balance of payments	294	61	103	197	476	476	-33
Gross international reserves (end of period)	1398	1459	1423	1620	2096	2572	2539
Gross international reserves (in months of imports)	4	4	4	4	5	6	5
Nominal GDP at market prices (in billions of Kshs.)	796	883	969	1040	1113	1214	1345
Exports of goods and non-factor services (in bn Kshs.)	211	234	245	256	280	303	324
Exchange rate (Kshs/US$, period average)	76.20	78.60	78.62				