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USAID/Kenya

Assessment of Program Impact

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ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
AIDSCAP	AIDS Control and Prevention Project
API	Assessment of Program Impact
AVSC	Association for Voluntary Surgical Contraception
CBFP	Community Based Family Planning
CBS	Central Bureau of Statistics
CIF	Cost, Insurance, Freight
CIMMYT	International Wheat & Maize Improvement Program
CMR	Child Mortality Rate
CPR	Contraceptive Prevalence Rate
CSM	Contraceptive Social Marketing
CYP	Couple Years of Protection
DAP	Diammonium Phosphate
DFH	Division of Family Health
DRSRS	Department of Resource Surveys & Remote Sensing
D/VAT	Duty and Value Added Tax
EEC	European Economic Community
EPZ	Export Processing Zone
FPEAK	Fresh Produce Exporters Association of Kenya
EPPO	Export Promotion Programs Office
EPZA	Export Processing Zone Authority
FHH	Female Headed Household
FPMRP	Fertilizer Pricing & Market Reform Program
FY	Fiscal Year
GDP	Gross Domestic Product
GOK	Government of Kenya
HCDA	Horticultural Crops Development Authority
HIS	Health Information System
HIV	Human Immunodeficiency Virus
HYV	High Yielding Variety
IBRD	International Bank for Reconstruction & Development
IESC	International Executive Service Corps
IPC	Investment Promotion Center
IUCD	Intra-Uterine Contraceptive Device
KAM	Kenya Association of Manufacturers
KARI	Kenya Agricultural Research Institute
KCPS	Kenya Contraceptive Prevalence Survey
KDHS	Kenya Demographic & Health Survey
KEDS	Kenya Export Development Support Project
KFY	Kenya Fiscal Year
KHCF	Kenya Health Care Financing Program
KL	Kenyan Pound (20 Kenya Shillings)

KMAP	Kenya Management Assistance Program
KMDP	Kenya Market Development Program
KNFA	Kenya National Fertilizer Association
KNH	Kenyatta National Hospital
KREP	Kenya Rural Enterprise Program
KSC	Kenya Seed Company
LMIS	Logistics Management Information System
MCH	Maternal Child Health
MHH	Male Headed Household
MOA	Ministry of Agriculture
MOH	Ministry of Health
NARC	National Agriculture Research Center
NARP	National Agricultural Research Project
NCPB	National Cereals & Produce Board
NCPD	National Council for Population and Development
NGO	Non-governmental Organization
NHIF	National Hospital Insurance Fund
NTE	Non-Traditional Export
OPV	Open Pollinated Variety
OYB	Operational Year Budget
PAM	Policy Analysis Matrix
PED	Private Enterprise Development Project
PGH	Provincial General Hospital
PGR	Population Growth Rate
P/PHC	Primary/Preventive Health Care
PSI	Population Services International
RPE	Rural Private Enterprise Project
SME	Small and Medium Enterprise
STD	Sexually Transmitted Disease
TFR	Total Fertility Rate
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
VSC	Voluntary Surgical Contraception

FOREWORD

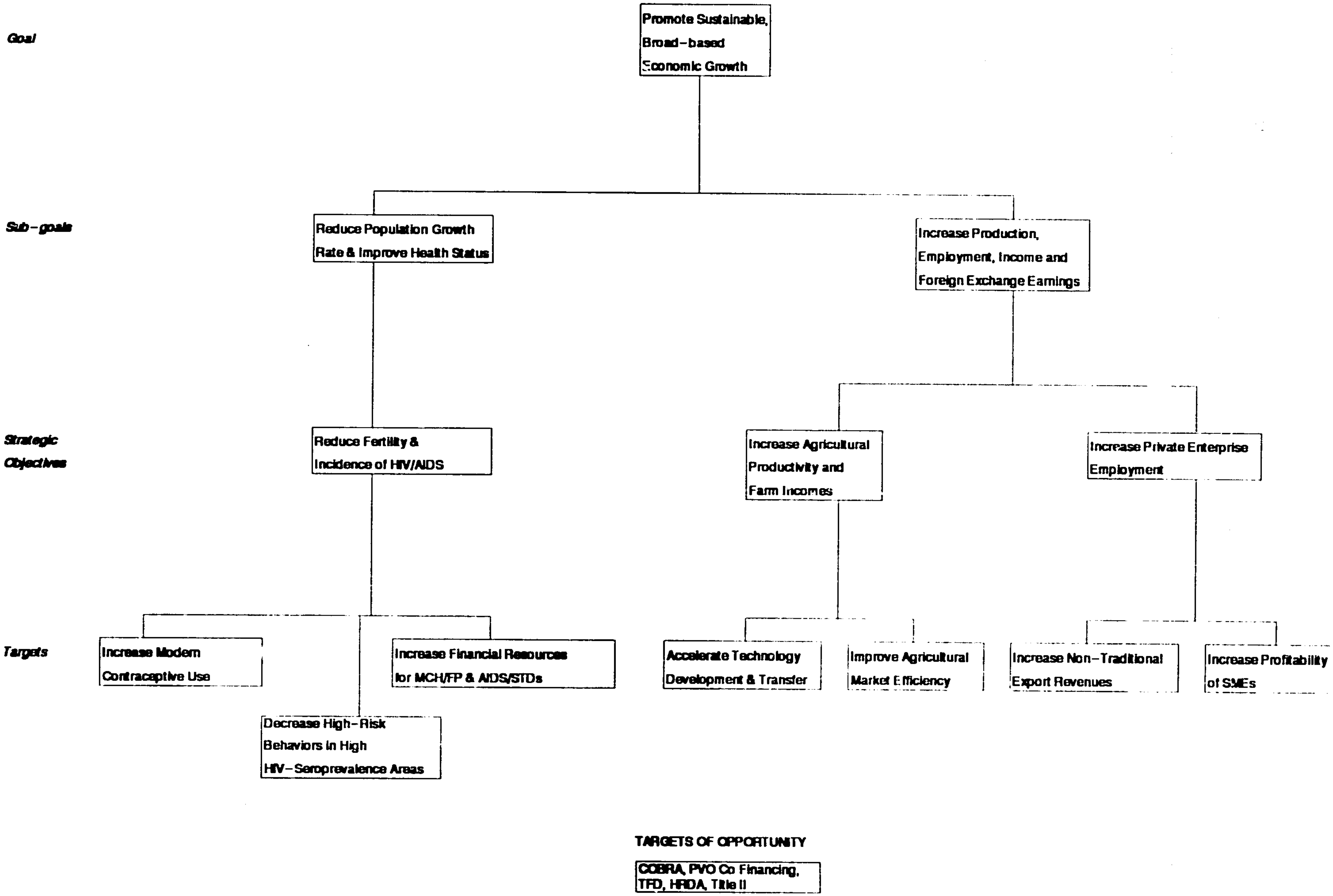
Over the past year USAID/Kenya revised and the Africa Bureau approved a major adjustment in the Mission's Program Logframe. This revision reflects the integration of HIV/AIDS efforts into the Mission's portfolio. Changes have therefore been made in the articulations of Sub-Goal One and Strategic Objective One. These rearticulations clarify the principal focus of the Mission's Population and Health portfolio, without altering the original intent of the objective or its supporting investments.

Sub-Goal One now focuses on reducing the population growth rate and improving health status. The Mission's new Strategic Objective One becomes reducing fertility and the incidence of sexually-transmitted HIV. These changes reflect USAID/Kenya's confidence that it has sufficient leverage to directly influence fertility on a national scale, as well as to affect the rate of incidence of HIV/AIDS.

The API's section on population and health is also enhanced this year with the data provided by the recently completed Kenya Demographic and Health Survey II.

The new section IV reports progress in two of the four agency priority areas not covered in section III -- protecting the environment and building democracy and good governance. A " lessons learned" section will be transmitted by separate cable. Annex A documents modifications to the sub-goal and strategic objective, and describes the indicator changes at each level.

USAID/KENYA PROGRAM LOGFRAME



SECTION I

SPECIAL FACTORS AFFECTING THE USAID/KENYA PROGRAM

A mix of contradictory factors have affected the Kenya program this year. On the positive side, a reasonably representative multi-party election was held and the democratic transition is beginning. While democratic forms are often fragile in Africa, one cannot overestimate how important the tradition of free public debate and continuing press freedom can be in improving democratic governance in Kenya. In the economic realm, spectacular breakthroughs have been made that far exceed anything the donors ever thought was possible two years ago at the 1991 Consultative Group in Paris. Official exchange rates, exchange control allocation, import licensing, and most price controls have been abolished. The monetary system's weaknesses have been attacked, most political banks have been closed, inflation appears under control, there is a new Governor at the Central Bank and budget and economic management has clearly changed for the better. In the governance realm, a civil service action plan has been approved and the economic liberalization measures have closed the major avenues by which massive corruption was previously conducted. This is indeed a positive track record for one year's efforts.

Other things being equal, these genuine improvements would lead to increases in investor confidence and sound public finances. These would normally support the Kenya program's strategic objectives. Small and medium enterprises as well as export production should then benefit, bringing employment and income increases. In the rural sector, farmer productivity and incomes could be expected to advance as policy liberalization and improved technologies take hold. And lastly, family planning and health services should benefit from better budgetary management.

Unfortunately, other things were not equal. On the negative side, there have been troubling events which make donors question whether the Government of Kenya (GOK) is actually committed to political, economic and governance reform, or whether it is all window-dressing. First, in the political realm, despite the genuine progress made, there has still been harassment of some opposition publications and opposition politicians. Incitement by some ruling party leaders has led to violent ethnic clashes, with 250,000 people being displaced, and food production and small business loan repayments affected. GOK action to deal with these conflicts has begun only belatedly. Too little attention has been given to a reconciliation process, and leaders who incited the violence have not been held accountable. This is not a social environment that investors find reassuring, and indeed investment has decreased.

Second, in the economic realm, this past year saw runaway inflation caused by GOK printing of currency. Inflation reached almost 100 percent at one point, though it has since been brought under control by the pragmatic new leadership in the Ministry of Finance and Central Bank. A large fiscal deficit also occurred, though it too is now in hand. However, there has been little progress in privatization and restructuring of the largest and most financially draining parastatals. Similarly, there has been only limited progress in maize liberalization, which is crucial step to increasing food security and rural incomes. Corrective tight budgetary management has meant that public funding of health and population services has decreased. Tourism, the leading foreign exchange earner has gone down due to occasional violence affecting tourists and an international image of political instability. In sum, while considerable progress had been made to regain lost ground by the end of the reporting year, the first half of the year saw many destructive factors in operation. These have caused an actual decline in real GDP growth.

Third, HIV/AIDS has now become a major health problem. It is spreading rapidly and unless controlled will soon consume the majority of the already strained health sector budget. There are 41,000 reported cases, and 730,000 people infected with HIV 5 percent of whom are children. AIDS patients presently occupy 15 percent of hospital beds, and the financial capacity to continue delivering basic health care services in the future is in question. Thus, even while the indicators of fertility and population growth show amazing progress, mortality rates could go up in the years ahead due to HIV/AIDS.

Lastly, on top of these concerns, Kenya has had to cope with an influx of 400,000 refugees from civil conflicts in neighboring countries, a drought in its own northern arid areas, and a serious rainfall deficit in its principal food producing highlands. The rainfall shortage has caused a 30 percent decrease in cereals production which will require considerable foreign exchange expenditure on food imports.

SECTION II

PROGRESS TOWARD OVERALL COUNTRY PROGRAM GOALS

GOAL: *Promote Sustainable Broad-based Economic Growth*

1. **Economic Growth:** Inflation-adjusted gross domestic product (real GDP) in 1992 increased at an annual rate of 0.4 percent, the lowest since independence in 1963. The major reasons for this low growth rate were prolonged drought, continued shortcomings in economic management and delayed policy adjustments, and a general climate of uncertainty during Kenya's first year of multiparty politics. For the second consecutive year, economic growth fell below population growth. In addition, per capita real GDP fell once again, reflecting the poor rainfall, weak monetary and fiscal policy implementation and the shortage of foreign exchange.

2. **Life Expectancy:** The success Kenya has made in increasing life expectancy is being sustained. Life expectancy at birth is now 60 years, compared to 54 years in 1984 and 45 years in 1960. Kenyan women continue to live slightly longer than men. Life expectancy for women is 62 years compared to 58 years for men. In terms of Sub-Saharan Africa, life expectancy in Kenya is above the region's average of 52 years. Further long-term improvements in the longevity of Kenyans will depend on how well the country handles a new health challenge, the spread of HIV and the increase in AIDS deaths.

SUB-GOAL 1: *Reduce Population Growth Rate and Improve Health Status.*

1. **Population Growth:** USAID continues to achieve major impact in the population and health sector. The contraceptive prevalence rate (CPR) continues to rise, particularly for modern, more effective methods, pushing the total fertility rate (TFR) downward with unprecedented speed. Family planning efforts by USAID and the donor community have had a measurable impact on the population growth rate. The rate of population growth has decreased from 4.1 percent in 1984 to 3.8 percent in 1989 and the current estimate of 3.4 percent in 1992. The fertility decline is the single most important factor accounting for the slow down in Kenya's population growth rate. Nonetheless, at 3.4 percent, Kenya's population growth rate is still among the highest in the world. AIDS will have a significant impact on Kenya's population. Due to AIDS mortality, Kenya's population is projected to be 3 million smaller by the year 2005. However, even with the staggering mortality toll of an unchecked AIDS epidemic, the population is still projected to continue growing at a rate of 2.1 per cent per year (doubling time 34 years).

2. **Infant Mortality:** The number of infants who die before reaching one year of age, per 1,000 live births in a given year (infant mortality rate) in Kenya has almost been halved between 1960 and 1992. The rate has fallen from 124 to 67 per thousand live births. Kenya's infant mortality rate compares favorably with the average infant mortality rate of 103 for Sub-Saharan Africa.

SECTION II: USAID/KENYA PROGRAM GOALS

	Baseline	Actual				Data Sources
	FY 1985	FY 1989	FY 1990	FY 1991	FY 1992	
GOAL						
PROMOTE SUSTAINABLE, BROAD-BASED ECONOMIC GROWTH:						
1) Real GDP Growth Rate	5.1%	5.0 %	4.3 %	2.3 %	0.4%	Economic Survey
2) Real Income Per Capita Growth Rate (years)	0.5 %	1.5 %	0.6 %	−1.3 %	−2.9%	Economic Survey
3) Life Expectancy at Birth	54	59	60	60	60	UNDP Report

SUB-GOAL 1						
REDUCE POPULATION GROWTH RATE AND IMPROVE HEALTH STATUS:						
1) Population Growth Rate	4.1	3.8	3.6	3.6	3.4	US Bureau of Census
2) Infant Mortality (per 1000 live births)	75	70	68	68	67	UNICEF Report
3) Child Mortality (per 1000 live births)	113	111	108	108	108	UNDP Report

[illegible]						
INCREASE PRODUCTION, EMPLOYMENT, INCOME AND FOREIGN EXCHANGE EARNINGS:						
1) Private Sector Contribution to GDP	62.7 %	62.9 %	60.3 %	60.0 %	75%	Economic Survey
2) Agricultural Production as a percent of GDP	29.4 %	28.5 %	26.2 %	27.3 %	26%	Economic Survey
3) Annual Employment Growth Rate	5.5 %	3.5 %	5.5 %	5.1 %	4.6%	Economic Survey
4) Foreign Exchange Earnings (Total Exports Plus Tourism, $ in Millions)	$1,228	$1,405	$1,475	$1,527	$1,356	Economic Survey

3. **Child Mortality:** Between 1973 and 1985, the child mortality rate (CMR) fell 27 percent to 113 deaths per 1,000 live births. The estimated 1992 CMR was 108/1000. There is considerable concern, but little empirical data to confirm that AIDS will slow, and possibly reverse, this decline. Projections of AIDS' impact on child mortality over the next decade are distressing. The AIDS Impact Model projects the CMR increasing to 130-140/1000 sometime between 1998 and the year 2005 (versus 92-100/1000 in the absence of AIDS). UNICEF recently projected an even more rapid increase to 180-190/1000 by the year 2000.

SUB-GOAL 2: *Increase Production, Employment, Income and Foreign Exchange Earnings*

1. **Private Sector Contribution to GDP:** The tradition of private initiative continues to be embedded in the Kenyan economy. According to a recent World Bank study, private sector farms and firms account for three-quarters of total output and nearly 90 percent of total employment. The sector also provides a half of formal sector wage employment and about a half of fixed investment. Therefore, the private sector has a strong effect on the national growth rate. Production efficiency in Kenya is higher in the private than in the public sector.

2. **Agricultural Production as a Percent of GDP:** The Performance of agriculture (the largest sector) continued to be depressed because of drought, a poor policy and institutional environment, high input costs and ethnic violence in certain parts of the country. The share of agriculture in overall real GDP declined to 26 percent in 1992 from 27.3 percent and 28.2 percent in 1991 and 1990, respectively. Production of food crops increased somewhat, but these increases were primarily due to the variability of weather, or a switch out of controlled-price commodities to other food crops. There was a drop in local production of wheat from 195,000 tons in 1991 to 126,000 tons in 1992 and there were substantial declines in output of most cash crops such as tea, sugarcane, cotton, pyrethrum and sisal. Tea production decreased by 7.5 percent from 204,000 tons in 1991 to 188.1 thousand tons in 1992. Coffee output decreased by 1.3 percent.

3. **Annual Employment Growth Rate:** Employment growth tends are presented in the table below. Kenya has continued to register an impressive record in job creation. Employment in the modern sector which is comprised of mainly wage employees (over 96 percent) grew at a rate of 3.6 percent a year from 1981 to 1991. It is encouraging that the rapid growth in public sector employment witnessed in the period 1974-85 began slowing down during the 1980s. During these periods the private sector wage employment growth rate almost doubled. The table below also indicate that a vast majority of Kenyan rural households are engaged in smallholder agriculture and non-farm economic activities, and that the informal sector continues to absorb the growing labor force most quickly. Prospects for significant employment creation will depend on Kenya's ability to improve the business climate for the private sector, remove outdated laws that are used to harass small scale enterprises, promote rural non-farm enterprises by providing infrastructure (roads,

markets, water and electricity), and develop export oriented economic activities.

Employment Growth Trends

	Actual Employment (000)		Growth Rate (percent)	
	1985	1991	1974-85	1981-91
1.Modern Wage Sector	1,175	1,442	3.3	3.6
Private	600	727	1.7	3.1
Public	575	715	5.3	4.1
2.Smallholder Agriculture	5,542	5,548	3.0	3.3
3.Urban Informal	504	599	10.1	14.0
4.Rural Non-Farm	214	549	6.7	7.4

Source: World Bank, 1993. Kenya: Employment Growth for Poverty Alleviation, Report No. 11650

4. **Foreign Exchange Earnings:** Performance of exports and tourism was less satisfactory in 1992 compared to 1991. Export earnings declined from more than $1 billion in 1991 to $962 million in 1992. Of the major exports, only proceeds from tea grew modestly at 3.4 percent. Earnings from horticulture stagnated and non-traditional exports (the second major foreign exchange earner after tourism) declined slightly by 3 percent. Earnings from coffee and manufactured exports fell sharply by 22 percent and 19.8 percent, respectively. Receipts from tourism fell from $423 million in 1991 to $394 million in 1992. Therefore, total foreign exchange earnings from exports and tourism declined by 11 percent. Tourism which is Kenya's leading foreign exchange earner was depressed as a result of world recession, the uncertain domestic political environment, and isolated security-related incidents in Kenya's game parks. While prices of all major exports rose during 1992, the volume of coffee, tea and horticultural exports fell. On the positive side, Kenya implemented far reaching export promotion incentives. These include: the introduction of the first-ever export retention scheme in Kenya (exporters are allowed to retain 50 percent of their foreign exchange earnings), the abolition of the import licensing system, and liberalization of the foreign exchange market (including substantial depreciation of the Kenya shilling). The impact of these reforms on export growth will be significant.

SECTION III

PROGRESS TOWARD STRATEGIC OBJECTIVES AND RELATED PROGRESS INDICATORS

STRATEGIC OBJECTIVE 1: ***Reduce National Fertility and the Incidence of Sexually-Transmitted HIV in Selected Target Populations.***

One of the most powerful determinants of the population growth rate (PGR) in Kenya is the total fertility rate (TFR), or the average number of children borne to a woman during her reproductive lifetime. Since 1977, the TFR has been declining, and at an increasing rate. In the decade from the late 1970s to the late 1980s the TFR fell approximately 20 percent from 8.1 in 1977 to 6.7 in 1989. In the four years between 1989 and 1993, the TFR fell another 20 percent from 6.7 to 5.4 -- one of the most precipitous declines ever recorded. This historic drop in fertility is due mainly to increased use of modern methods of contraception. This progress is also due in large part to over twenty years of USAID support for family planning services in Kenya-- something for which the Agency can feel justifiable pride and a sense of accomplishment.

The incidence of HIV will be reported in next year's API when the priority country AIDS control program under the agency's AIDSCAP Project will have begun implementation. Progress is expected to emerge from four actions now underway: first, activities under the above-noted AIDSCAP project action plan, second, reorientation of the Contraceptive Social Marketing Project to focus on AIDS prevention, third, efforts under the Health Care Financing Project to increase and sustain local financing for AIDS treatment and prevention of new HIV infections, and fourth, the utilization of the extensive USAID-funded MCH/family planning service delivery network to deliver HIV/STD prevention services.

TARGET 1.1: ***Increase Modern Contraceptive Use***

The 1993 Kenya Demographic and Health Survey (KDHS) found a moderate increase in the use of any method of contraception among all women since 1989 (from 23 to 26 percent), and a significant increase in the use of more effective, modern contraceptives from 14.7 in 1989 to 20.9 percent. The shift to modern methods since 1989 was even more dramatic for married women-- from 18 to 28 percent. The percentage of women using oral contraceptives increased from 4.6 to 7.5 percent and those using injectables more than doubled from 2.7 to 5.5 percent. The consistency of increases in the use of contraception across all provinces, and the continued high prevalence for the four major modern methods (pill, IUCD, injectables, and sterilization) indicate a strong national family planning program, particularly when compared to other programs in Africa. The Mission will be analyzing the 1993 KDHS to understand better the factors which have been key to the dramatic increase in modern contraceptive prevalence. Among the factors to be examined are the USAID target of improved service availability and accessibility, as well as explicit

STRATEGIC OBJECTIVE NO. 1

	Baseline	Actual and Planned			Data Source
		1989	1993	1995	
STRATEGIC OBJECTIVE 1					
REDUCE NATIONAL FERTILITY AND INCIDENCE OF SEXUALLY-TRANSMITTED HIV IN SELECTED TARGET POPULATION					
Total Fertility Rate	7.7 (1984)	6.7	5.4	5.0	KCPS/DHS
Prevalence of HIV	* (1993)	–	–	–	AIDSCAP
TARGET 1.1					
INCREASE MODERN CONTRACEPTIVE USE					
Modern Contraceptive Prevalence**	9% (1984)	14.7%	20.9%	25%	KCPS/DHS
SUB-TARGET 1.1a					
IMPROVE AVAILABILITY OF FAMILY PLANNING SERVICES					
Number of USAID-supported sites offering voluntary surgical contraception	4 (1984)	49	65	76	AVSC/DFH
Percentage of district stores maintaining adequate stock (3+months) of: a) low-dose oral contraceptives; b) condoms	a) 35.5 b) 18.9 (1989-1990)	70.6 34 (1991-1992)	74 70	80 80	LMIS/HIS LMIS/HIS
Number of public sector facilities offering family planning services	577 (1984)	750	1004	2404	LMIS/HIS
Number of private sector/NGO sites offering family planning services	181 (1984)	–	800	1000	LMIS/HIS
[illegible]					
REDUCE UNMET DEMAND FOR CONTRACEPTIVES					
Discrepancy between actual and desired TFR	–	2.7	1.6	1.0	KCPS/DHS
TARGET 1.2					
DECREASE HIGH-RISK BEHAVIORS IN HIGH HIV-SEROPREVALENCE AREAS					
Decrease in proportion of people (15-49) reporting two or more sexual partners	* (1993)	–	–	*	AIDSCAP
Increase in proportion of people (15-49) reporting having used a condom during most recent sexual encounter with a non-regular sexual partner	* (1993)	–	–	*	AIDSCAP
Increase PSI/CSM condom sales	319,000 (1990)	–	2.1 million	7 million	PSI/CSM
TARGET 1.3					
INCREASE FINANCIAL RESOURCES FOR FP/MCH AND AIDS/STDs					
Increase in cost-sharing revenue available at district-level for primary/preventive health care services (P/PHC)	6.8 million (1990-1991)	8.4 million (1991-1992)	14.5 million (1992-1993)	>40 million	KHCF Secretariat
Percentage increase in Ministry of Health expenditures allocated to Rural and P/PHC	13.7% (1984)	22.5%	28.6%	30%	MOH/KHCF Secretariat

* AIDSCAP Data Source and Timing
** For All Women of Reproductive Age (15-49)

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and consistent GOK support for family planning and continued donor support.

The KDHS revealed differences in modern method use among married women continue to be based on residence, educational status and region. Use is higher in urban than in rural areas (38 vs. 26 percent), use increases with the level of education (15 percent with no formal education versus 45 percent with at least some formal education), and there are large differences in use by province with half of the married women in Central Province using a modern method versus one-fifth of those in Coast Province. These differences indicate a continued need to increase the availability of family services and information in rural and under-served areas, and to intensify outreach to less well educated women.

All indicators for improved availability of family planning services demonstrated positive improvement as shown on the summary table. Other information collected by the KDHS now allows for a more disaggregated and useful set of indicators to monitor trends in the method mix. The KDHS has found the following method-specific contraceptive use breakdown for all women of reproductive age. It reveals the dramatic increase in modern non-condom contraceptive use, notably oral pills and injectables, since 1989:

	1989 (Percent)	1993 (Percent)
Oral Pills	4.6	7.5
IUCDs	3.0	2.9
Injectables	2.7	5.5
Norplant	0.0	<0.5
VSC	3.6	3.9
Traditional/Other	9.2	6.2
Non-Use	76.9	73.5

Using the FAMPLAN model and KDHS data, the Mission will report annually on the shifts in contraceptive use with a focus on long-term and permanent methods. Verification checks will be provided by the KDHS conducted every four years.

With regard to reducing unmet demand, the strategic objective No. 1 table describes the reduction in the discrepancy between stated ideal family size and actual TFR. This preferred measure of unmet demand demonstrates that the discrepancy between actual and desired TFR moved from 2.7 to 1.6 between 1989 and 1993. The 1993 KDHS found that 26 percent of married woman want to wait two or more years before having another child and that another 46 percent want no more children. This reveals that a very large number of women want family planning services. The Mission's programmatic efforts should therefore focus more on increasing availability and quality of family planning services than generating new demand.

TARGET 1.2: ***Reduce High-Risk Behaviors in Targeted High HIV-Seroprevalence Areas***

Figures on condom sales under the Contraceptive Social Marketing Project (CSM) have not yet been compiled for 1993. However, it is known that a recent monthly sales figure for condoms was 380,000. This compares very favorably with the 1990 annual sales total of 319,000 condoms. The increase is attributable to a marketing campaign that focuses on sexually transmitted diseases (STDs), particularly HIV. Behavior change data on the other indicators will become available from the AIDSCAP Project in the next year.

TARGET 1.3: ***Increase Financial Resources for Family Planning/Maternal Child Health and HIV-AIDS/STD Services***

The financial sustainability picture for achievement of fertility and HIV reductions is beginning to improve. Major increases in cost-sharing revenues have begun to occur at the district levels in support of primary/preventive health care (P/PHC) services. In the past year, there has been a 72 percent increase in the availability of these revenues. Other data reveal that Kenya's national referral hospital, the Kenyatta National Hospital (KNH), now expects to earn over 11 percent of its budget from service fees and National Hospital Insurance Fund payments. In some provincial general hospitals, cost sharing revenues now equal or exceed their non-wage recurrent budgets. While the outlook is generally positive, care will have to be taken to ensure that cost-sharing revenues do not substitute for recurrent budget support to these institutions. The problem of securing donor resource additionality is present in this as in so many other assisted programs.

Another indicator of sustainability and cost-effectiveness in the health care system-- budget allocations to rural and primary/preventive health care (P/PHC) services-- reveals a positive trend. There has been a 27 percent increase in Ministry of Health (MOH) budget expenditures for these activities from Kenya Shillings (KSHs) 22.5 to 28.6 million. In addition there has been a positive trend in reducing the proportion of MOH budget allocated to curative services. Analyses of the combined GOK recurrent and development budgets indicate that until 1987/88, curative services absorbed between 68 and 76 percent of MOH expenditures. Since then, however, the proportion of the MOH budget for curative services has declined to less than 60 percent. At the same time, this has been matched by a steady increase in rural primary/preventive and P/PHC expenditures from under 13 percent of actual expenditures in the mid-1980s to almost 30 percent in the 1994/95 forward budget.

However, given the current fiscal crisis in Kenya, where the budget deficit is scheduled to be quickly reduced, the Mission will be carefully monitoring total allocations to the health sector, the share of expenditures allocated to rural and P/PHC services, and the continued additionality of cost sharing revenue to the MOH budget.

STRATEGIC OBJECTIVE 2: ***Increase Agricultural Productivity and Farm Incomes***

USAID/Kenya's strategy to increase agricultural productivity and farm incomes focuses support on technology development and transfer, fertilizer and grain market liberalization, and policy research. The Mission's geographic focus is on high and medium potential agricultural areas encompassing 20 percent of land area and 80 percent of rural population. This area produces virtually all of the major commodity output including coffee, tea, dairy products, cereals, pulses, and horticulture. Smallholders dominate the high potential areas accounting for an estimated 75 percent of total production and 60 percent of marketed output.

The agricultural sector is undergoing tremendous pressure from drought and mismanagement of the economy. This is evident in the productivity estimates for 1992/93. Land and labor productivity fell by 5 percent and 7 percent respectively. Overall agricultural sector value added declined by 4.2 percent, while maize yield for the key growing season fell by 10 percent relative to 1991/92. While drought was the main cause of this poor performance, inefficient output markets compounded the drought effect. The output markets continued to operate in an uncertain environment arising from conflicting policy signals from GOK. However, recent fundamental changes in economic policies, if sustained, may improve the performance of this sector.

TARGET 2.1: ***Accelerate Technology Development and Transfer***

USAID supports the Kenya Agricultural Research Institute (KARI) in major ways. Historically. agricultural research has had a significant impact on Kenya's agricultural and economic growth. This is especially true for maize, Kenya's key staple. Maize contributes up to 20 percent of total agricultural output, 25 percent of total agricultural employment and 44 percent of per capita calories.

A recent survey showed that in 1992 over 75 percent of western Kenya's subsistence farmers used hybrids rather than traditional varieties. This densely populated area holds 25 percent of Kenya's population and contributes almost 40 percent of national maize area. In the Rift Valley with 20 percent of the population and nearly 30 percent of the national maize area, 95 percent of smallholders use hybrids. Nationally, the area under hybrid maize has increased from 2 percent of total maize acreage (1963) to 71 percent (1992). This exceeds the target set for 1995.

KARI strives to develop technologies for easy adoption by both male and female farmers as 40 percent of Kenya's farm families are female headed households (FHH). KARI surveys indicate that technology adoption does not differ significantly between male headed households (MHHs) and FHHs. In 1992 70 percent of MHHs and 66 percent of FHHs adopted hybrid varieties while 17 percent of MHHS used Open Pollinated Varieties (OPVs) compared to 19 percent of FHHs. In addition, 50 percent of MHHs used planting fertilizer compared to 48 percent of FHHs while FHHs applied 28 percent more fertilizer at 87 kg/ha

STRATEGIC OBJECTIVE No. 2

	Baseline	Actual and Planned 1991/92	1992/93	1995	Data Sources
STRATEGIC OBJECTIVE 2					
INCREASE AGRICULTURAL PRODUCTIVITY AND FARM INCOME:					
Value of Agricultural Production / Hectare*	24.1 (1985)	29.1 (1991)	27.7** (1992)	3.7% annual increase	Economic Survey
Value of Agricultural Production / Worker*	146.6 (1985)	150.1 (1991)	140.2** (1992)	1.1% annual increase	Economic Survey/FAO
Agricultural Sector Value Added, Annual Growth	4.0 (1986-89)	-1.1 (1991)	-4.2 (1992)	4% annual increase	Economic Survey/FAO
Maize Yields (MT/Hectare)	2.20 (1985-89)	2.0	1.8*	4% annual increase	MOA/DRSRS
TARGET 2.1					
ACCELERATE TECHNOLOGY DEVELOPMENT AND TRANSFER					
SUB-TARGET 2.1a					
INCREASE ADOPTION OF NEW TECHNOLOGIES					
HYV Maize Seed Sales (tons/year)	18,516 (1985-89)	21,608	-	22,225	KSC
% Maize Production Area Under HYV Maize	63 % (1985-89)	60 %	71	65 %	KARI/KSC/USAID
% HYV Maize Area Under Smallholder Production	80 % (1989/90)	82 %	77% West 95% Rift	85 %	KSC/KARI
% New Horticulture Cultivar Sales	Establish 1993				
SUB-TARGET 2.1b					
INCREASE DEVELOPMENT & TRANSFER OF TECHNOLOGIES					
Number of Seed Varieties & Cultivars Disseminated **	9	11	11***	15	KSC/NARC - Kitale
o maize	7	8	8		
o sorghum	2	J	3		
o horticulture	Establish 1993				
[illegible]					
IMPROVE AGRICULTURAL MARKET EFFICIENCY					
SUB-TARGET 2.2a					
IMPROVE FERTILIZER MARKET EFFICIENCY					
Percent Over CIF/Mombasa Price Paid by Farmers	60 % (1988)	28 %	33	Market Determined	USAID
SUB-TARGET 2.2b					
IMPROVE GRAIN MARKET EFFICIENCY					
Marketing Costs for Maize ***					
o Average marketing costs of maize (Ksh/Kg)	.62	.62	1.7****	Reduce by 15%	KMDP
o Farmgate Price as a % of Retail Market Price	69 % (1991/92)	69 %	66 %		
Variation in Seasonal and Regional Maize Prices					
o Seasonal average price differentials - surplus markets	36 %	39 %	-	Cost of Storage	USAID
o Seasonal average price differentials - deficit markets	31 % (1990)	45 %	-		USAID
o Regional average price differentials - western Kenya	29 %	36 %	-	Cost of Transport	USAID
o Regional average price differentials - eastern Kenya	38 % (1990)	48 %	-		USAID

* Yield Long rains Average only. Does not include abnormal short rains yield

** Valued in constant 1982 Kenyan pounds

*** A seed variety is defined as disseminated when it is available for purchase by farmers

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than MHHs at 68 kg/ha. In terms of non-adoption, 11 percent of both MHHs and FHHs had never bought improved seed and 45 percent and 46 percent of MMHs and FHHs respectively had never bought planting fertilizer. In sum the technology adoption behavior of MHHs and FHHs showed no significant difference.

Unfortunately, technology adoption parity does not mean maize yield parity. MHHs averaged 3.1 tons per ha while FHHs averaged 2.3 tons. In 1992 (a poor production year) FHHs averaged 1.7 tons per hectare, while MHHs averaged 2.0 tons. Most likely, lower FHH productivity reflects less access to resources (farm size, equipment and land quality), extension and credit. MHHs own or have better access to farm equipment resulting in more timely farm operations. FHHs farm size averages only 85 percent of MHH holdings and tend to be on steeper and less fertile land. Perhaps illustrating an extension system gender bias 45 percent of FHHs had never received extension advice compared to 36 percent of MHHs.

TARGET 2.2: *Improve Agricultural Market Efficiency*

SUB-TARGET 2.2a: *Improve Fertilizer Market Efficiency*

The purpose of the Fertilizer Pricing and Marketing Reform Program (FPMRP) is to increase small farmer fertilizer use through policy reform. Reforms encouraged fertilizer price decontrol and development of a competitive market where retail prices reflect actual costs and average trader profits. With adequate supply, marketing competition holds the greatest potential for increasing small farmer fertilizer use. FPMRP led to the GOK's decontrol of fertilizer prices in early 1990.

Virtually all of Kenya's chemical fertilizer requirements are imported. Therefore, fertilizer market competitiveness, and thus efficiency, depends on effective private importation. Importer effectiveness is determined by access to hard currency and credit while these are affected by the risk perceptions of overseas bankers and suppliers as regards the Kenyan economy.

During the 1992 fertilizer import season (September-February) Kenya's economic environment was extremely uncertain for many reasons. These included the approach of multi-party elections, the October ban on maize movement, hard currency shortfalls and shilling depreciation, the introduction of market based Forex certificates, donor withdrawal from sub-sector support, government control of fertilizer import licenses, and, the decontrol of wheat and wheat product marketing and prices. As a result, fertilizer importers were uncertain where to access foreign exchange, what exchange rate forex would be purchased at, whether overseas banks would confirm letters of credit, what costs could be passed to the farmer, and, whether donors would finally bail the government out with in-kind fertilizer deliveries.

These uncertainties led to 1993 Eldoret retail fertilizer prices that were between 53 to 116 percent higher than in February 1992, and to productivity and value added decreases shown in the table. Eldoret is in one of Kenya's most productive maize and wheat producing areas. Nonetheless, the margin between CIF/Mombasa and Eldoret retail (including transport) was only 33 percent even with very little sales competition. This indicates that despite continuing economic management problems, the USAID fertilizer sector reform program is succeeding. Fertilizer market decontrol, and greater private trading, have led to fertilizer prices that reflect actual import and distribution costs and average profits. Furthermore, as a result of liberalization and improved maize variety adoption, fertilizer use on maize increased from 41 percent (1975-76) to 49 percent (1992) while per hectare fertilizer application rose from 24 to 47 kgs of nitrogen equivalent.

SUB-TARGET 2.2b: *Improve Grain Market Efficiency*

The Kenya Market Development Program's (KMDP) project efforts involve policy research and dialogue, market information improvement and market road rehabilitation. These project components are complemented by sector grant funds and PL 480 Title III commodity grants to be disbursed when movement and price liberalization steps are taken. Most of the Non project Assistance (NPA) resources have yet to be disbursed as the GOK has not been able to keep to the agreed program. They have turned liberalization steps on and off, seriously undermining the confidence of farmers and the agri-business community. For example, in early 1991 the GOK increased the amount of maize that could be moved without a permit from 2 to 10 bags. In March 1992, this limit was further raised to 44 bags, and in June of the same year, the ceiling was again raised to 88 bags. However, in October 1992, the GOK reversed the movement controls liberalization by banning all maize movement without a permit.

The strategic objective 2 table demonstrates that the proportion of farmgate price in the retail price fell from 69 to 66 percent. This was due to the reimposition of maize movement controls. Consumer prices rose by between 13 and 17 percent in the major cities. Per unit marketing costs between the key maize surplus areas and Nairobi rose by 123 percent, largely as a result of costs associated with the clandestine movement of maize; and farmgate prices dropped by 6 percent.

Nonetheless, there has been significant progress in a number of areas which should be noted to appreciate what is taking place in the area of market efficiency improvement. Sorghum, millet, bean and minor crops marketing have been freed up. The policy research work by a Kenyan university team has been of high quality and is now being fed into the dialogue process in an effective manner. The market information available in the country has begun to improve in quality and timeliness. Most spectacularly, the market road rehabilitation component has reduced transport costs and post-harvest losses significantly for large areas of major crop and dairy producers. While the impact of these cost reductions on farm family revenues is not yet available, it is obvious at this stage that the $36 million ten year stream of benefits from road rehabilitation substantially exceeds KMDP's initial $5 million road investment.

STRATEGIC OBJECTIVE 3: ***Increase Private Enterprise Employment***

USAID/Kenya's third strategic objective, to increase private enterprise employment, addresses the need to create jobs for the 490,000 people that enter the Kenyan labor force each year. USAID/Kenya contributes to the creation of these essential jobs by encouraging economic growth among two high potential groups of private enterprises: non-traditional exporters (all exports except coffee and tea), and small and medium enterprises (firms with fewer than 100 employees). USAID/Kenya strengthens Kenyan institutions, primarily non-governmental organizations (NGOs) to provide support services to entrepreneurs, on the one hand, and to advocate for policy reform, on the other.

Significant progress was made in accomplishing Strategic Objective No. 3 in this reporting year. Private sector employment increased faster than the labor force, despite severe recession. Informal sector employment is growing faster than originally projected by USAID, and USAID assisted firms grew even faster. Non-traditional exports (NTEs) as a percentage of total exports expanded from 44 percent to 46 percent. Horticulture, an industry with a predominantly female work force, is now the fourth largest foreign exchange earner (after tourism, tea and petroleum products). Progress in NTEs is largely due to improved export policies. Finally, assistance to small and medium enterprises (SMEs) in the form of loans has increased fourfold in the last two years, and the number of individuals trained has doubled. NGOs assisted by USAID provided 75 percent of the loans disbursed to SMEs last year and 90 percent of micro-enterprise lending.

Despite the recent economic downturn, private sector employment (outside the small scale farming sector) in Kenya grew last year, by 6.5 percent, accounting for some 1.4 million jobs. In contrast, the labor force grew at only 4.1 percent, which implies an increasing portion of the labor force is finding jobs in the private sector. Private sector employment in Kenya has increased, on average, by 6.3 percent per year since 1985, when the first USAID/Kenya private enterprise activities got underway. Over the last seven years, private sector has generated about 470,000 jobs. In addition, private sector employment has far surpassed the public sector in job creation, providing 91 percent of the net increase in jobs outside the small scale farming sector in 1992.

As the private sector continues to grow, women's role in the sector has also been increasing since 1985. Although gender disaggregated data is not available for the private sector specifically, in 1992, women constituted 24 percent of total wage employment, an increase from 22 percent in 1991 and 20 percent in 1985.

STRATEGIC OBJECTIVE No. 3

	Baseline	Actual 1992	Intermediate 1993	Planned 1995	Data Sources
STRATEGIC OBJECTIVE					
INCREASE PRIVATE ENTERPRISE EMPLOYMENT Private Sector Annual Employment Growth Rate	5.2% (1985)	6.5 %	6.6%	7.0 %	Economic Survey
TARGET 1					
INCREASE NON-TRADITIONAL EXPORT REVENUES					
Non-traditional Export Revenues	$486 mil.	$485 mil.	$540	$600 mil.	Economic Survey
Number of NTE Enterprises	1488 (1990)	–	–	2000	USAID
Total Employment in NTE Enterprises	157,000 (1990)	–	–	8 % Annual Increase	NSSF/USAID
SUB-TARGET 1.1					
IMPROVE POLICY ENVIRONMENT FOR EXPORTS					
A. Taxes and Tariffs: Number Tariff Categories	25 (June '90)	6 (June '93)	5	3	Budget Speech
Highest Tariff	100% (June '90)	40% (June '93)	–	–	Budget Speech
B. Foreign Exchange: Overvaluation of Currency	18% (June '91)	19% (June '93)	13%	0%	Africa Analysis
C. Regulatory Policy: Percent Imports Requiring Licenses	100% (June '92)	0% (June '93)	0%	0%	Budget Speech
D. Infrastructure: Jet Fuel Charges	$1.75 (June '92)	0.95 (June '93)	–	–	USAID/ KEDS
SUB-TARGET 1.2					
EXPAND SUPPORT SERVICES FOR NTE ENTERPRISES					
Number of Organizations with Support Programs for NTE Enterprises	2 (1990)	2	–	8	USAID
Number of NTE Enterprises Assisted per Annum	–	–	–	–	–
TARGET 2					
INCREASE PROFITABILITY OF SMALL & MEDIUM ENTERPRISES					
Average Annual Real Revenues per SME o Formal/modern sector o Urban informal sector	Ksh 24.4 mil. Ksh 99,000 (1990)	–	–	5% Ann. Incr. Ksh 31 mil. Ksh 126,000	CBS/USAID Study
Total Employment in SMEs o Formal/modern sector Annual increase Number employed	– 221,829* (1986)	–1.5% 271,873 (1991)	0.7% 290,904	5.0% 361,336	Statistical Abstract/ Economic Survey
o Informal sector Annual increase Number employed	– 254,457* (1986)	14% 556,028	– 633,872	11% 722,510	Economic Survey
SUB-TARGET 2.1					
IMPROVE ENABLING ENVIRONMENT FOR SMEs					
A. Regulatory Policy: Number goods under Price Control	61 (1986)	3 (June '93)	2	0	Budget Speech
B. Finance/Banking: Real Interest Rate	3.3% (1986)	2.7% (1992)	–	Positive (Market)	Economic Survey
C. INFRASTRUCTURE: Percent GOK expenditure on Infrastructure	21.4% (June '86)	6.8% (June '93)	–	–	GOK Budget
D. TAX: Corporate Tax Rate	45.0% (June' 86)	37.5% (June '91)	36.7%	35.0%	Budget Speech
SUB-TARGET 2.2					
EXPAND SUPPORT SERVICES FOR SMEs					
Number of Organizations with Support Programs for SMEs	56 (1990)	74	–	–	USAID
Number of Loans Disbursed to SMEs	2,200 (1990–91)	6,900	–	–	USAID
Number of Individuals in SMEs Trained or Counselled	4,040 (1990–91)	9,500	–	–	USAID

* Data revised from 1992 API.

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TARGET 3.1: ***Increase Non-Traditional Export Revenues***

USAID/Kenya focuses on non-traditional exports (NTEs) because it is one of the sectors with the highest growth potential in Kenya. As the GOK moves further to liberalize the economy, private enterprises are responding by increasing the utilization of local resources for export production. Horticultural production has shown particularly high growth potential in this environment. USAID/Kenya channels its assistance to the NTE sector through its Kenya Export Development Support (KEDS) project. Along with the overall goal of increasing employment in NTE enterprises, the KEDS project aims to increase foreign exchange earnings, and employment through improving the policy environment for exports.

NTE earnings are increasing in significance for the Kenyan economy. In 1992, NTEs represented 46 percent of foreign exchange earnings, up from 44 percent in 1991. The most significant group of NTEs, horticultural crops, has now surpassed coffee in foreign exchange earnings.

NTE employment is also increasing. The second most significant NTE, french beans, employs an estimated 59,000 people in Kenya, compared to an estimated 160,000 in coffee and 150,000 in tea. A KEDS sponsored study of the 136 most active non-traditional exporters revealed high employment growth rates, particularly for women. Employment in the firms surveyed grew by 20 percent in 1992, far in excess of the employment growth in the private sector as a whole (6.5 percent). The proportion of women employed in NTE firms as a whole increased from 33 percent in 1991 to 38 percent in 1992.

The most significant achievement of KEDS has been in the area of trade policies. The GOK has partially liberalized foreign exchange, abolished import licenses, harmonized tariffs and tariff categories, and lowered the cost of jet fuel, a key cost for horticultural exporters. Both the World Bank and International Monetary Fund contributed to this policy change. Nonetheless, USAID/Kenya's KEDS project also contributed to these reforms through the development, advocacy and implementation of better policy options. In the private sector, KEDS is building the capacity of the Kenya Association of Manufacturers (KAM) and the Fresh Produce Exporters Association of Kenya (FPEAK). Both of these organizations represent the private sector in policy dialogue with key Government policy makers. For example, seminars on access to foreign exchange were particularly instrumental in instituting the 50 percent foreign exchange retention scheme foe NTEs. To advocate for change from within the GOK and to streamline GOK export programs, KEDS has placed a long-term advisor in the Export Promotion Programs Office (EPPO) in the Ministry of Finance and provides technical assistance to Horticultural Crops Development Authority (HCDA) which is a parastatal. The EPPO office implements the key tax based incentives for exporters (Duty/VAT remission). Exporters have doubled their use of the facility since June 1992.

TARGET 3.2: ***Increase Profitability of Small and Medium Enterprises (SMEs)***

USAID/Kenya also creates jobs by assisting small and medium enterprises (SMEs). Because SMEs are generally more labor intensive than large enterprises, investments in SMEs are more likely to result in increased employment. USAID/Kenya's Private Enterprise Development (PED) project, now in its final year, has strengthened private sector Kenyan institutions, and one parastatal, to improve the enabling environment for SMEs and to increase the support services available to them. USAID/Kenya is the leading bilateral donor in SME assistance in Kenya. The lessons learned from the comprehensive assistance provided under the PED project are now being consolidated to guide the development of a second PED project focusing on assistance to SMEs.

Since PED began, SME employment (both formal and informal) has grown faster than general private sector employment. Employment in SMEs has increased, on average, by 9 percent per year since 1985. In 1991, the SME sector grew by 8 percent, below average due to the economic downturn. The informal sector generally fuels this growth because it represents 74 percent of SME employment. Employment in formal sector SMEs actually declined in 1991, by 1.5 percent. In contrast, informal sector employment grew by 14 percent in both 1991 and 1992. This growth, compared to the much lower employment growth of general private sector employment (6.5 percent), illustrates the role of SMEs, particularly informal sector SMEs, as a major source of private sector growth and job creation.

Illustrative data suggest that employment in firms assisted by USAID/Kenya is growing faster than SME employment in general (9 percent per year since 1985). For example, external evaluations completed in 1992 estimate that annual employment growth in firms assisted through the Kenya Management Assistance Program (KMAP) and International Executive Service Corps (IESC) averaged 36 percent and 13 percent, respectively. An internal evaluation suggested that firms assisted through the venture capital component increased employment by approximately 34 percent per annum. Preliminary data from an evaluation of the Rural Private Enterprise Project suggests that employment in firms assisted by this older project grew at an average annual rate of 11 percent. Although USAID/Kenya assists only a small proportion of SMEs, the significant impact of this assistance on firms demonstrates the potential impact of expanded assistance on the larger SME sector.

Women are well represented in the PED-assisted firms, compared to their representation in general wage employment which is 24 percent. In PED-assisted firms, the proportion of female employees ranges from 28 percent in IESC-assisted firms to 38 percent in KMAP-assisted firms. Fifty nine percent of the members borrowing through KREP's micro-enterprise lending scheme are women, and 83 percent of the members using KREP's village banking fund are women.

One factor contributing to the growth in SME employment is the increased availability of support services to SMEs. Since 1990, the number of SME assistance organizations in Kenya has increased by 30 percent, from 56 in 1990 to 74 in 1993. Preliminary data reveals that the number of loans these organizations provided increased fourfold in the last two years, from around 2,200 in 1990 to 8,900 in 1992. USAID supported NGOs provided 75 percent of these loans. Training and counselling services to entrepreneurs doubled, from around 4,040 people trained in 1990 to 9,500 in 1992. PED has encouraged this expansion through building the capacity of local non-governmental organizations (NGOs) to provide assistance to SMEs. For example, the Kenya Rural Enterprise Program (KREP), selected as one of the top ten micro-enterprise lending institutions in Africa, has adapted the Grameen Bank minimalist lending approach to the Kenyan context, and spread it to other organizations by providing training and financial support. Its success has also had a significant demonstration effect for additional organizations not receiving direct assistance. Last year, 80 percent of the loans provided to SMEs in Kenya were provided through minimalist credit schemes. KREP and KREP-assisted NGOs, provided 90 percent of these loans. While the supply of support services to SMEs in Kenya has been increasing exponentially, it still does not meet the demand for services in this large, and ever growing sector. To meet this demand, two PED assisted organizations, KMAP and KREP, are expanding geographically and diversifying their funding base. In this field capacity building is working.

Another major influence on the growth of SMEs is the enabling environment, which improved only modestly in the last few years. The GOK has liberalized price controls on all but three commodities. The corporate tax rate has been reduced, from 45 percent in 1989 to 37.5 percent last year. The GOK also de-regulated interest rates. As was the case with trade policy, the World Bank and IMF were the main players in pressuring the GOK to reform. USAID/Kenya's unique role in domestic policy reform was to built up the capacity of private sector advocacy groups, who play a supporting role in policy change. The PED funded Kenya Association of Manufacturers (KAM), the major representative of formal sector business in Kenya, conducts studies documenting the adverse effect of policies on the manufacturing sector, spreads awareness of these issues, and supplies key policy makers with detailed policy alternatives. KAM was particularly influential in price control repeal. USAID/Kenya expects such private sector advocacy groups to play an increasingly important role in policy reform in Kenya's new political environment.

SECTION IV

OTHER PROGRESS IN PRIORITY AREAS

PROTECTING THE ENVIRONMENT AND BUILDING DEMOCRACY

A. PROTECTING THE ENVIRONMENT

Conservation of Biodiverse Resource Areas Project (COBRA): The Conservation of Biodiverse Resource Areas Project (COBRA) has just begun and represents a Mission Target of Opportunity. The Project focuses on community based natural resource management with an emphasis on improved management of one of the most valuable natural resources in Kenya-- wildlife. In its first year of implementation, it is too early to assess sustainable development impacts of the project. However, a solid impact monitoring system has been established.

There has, nonetheless, been significant progress in this first year. The success to date is the result of three primary factors. The first is excellent multidonor coordination under the auspices of the World Bank's Protected Areas & Wildlife Services Program (PAWS). With World Bank leadership of the PAWS Program, seven donors are involved in different aspects of assisting the Kenya Wildlife Service (KWS), design, establish and implement its new conservation/management programs.

The second factor contributing to the apparent success is the in-depth commitment of the Kenya Wildlife Service personnel to the participatory approaches being introduced under the COBRA Project. Preliminary USAID-funded training of KWS personnel under the project can be credited with the support of this new philosophy within KWS today. The objective of the new approach is clearly the empowerment of local populations over their own destiny as well as that of their country's natural resources. The establishment of the Community Wildlife Service (CWS) within KWS will mean that practical economic benefits should accrue to the communities around protected areas. These will provide real incentives to protect and manage their valuable wildlife resource.

The third major element contributing to success is that the COBRA Project brings benefits to a wide range of people and institutions. Tourism now provides more than half of Kenya's foreign exchange earnings, and the wildlife industry accounts for a large part of that. Thus the beneficiaries of the COBRA Project range from GOK to private sector firms right down to the local communities. Environmental goals are obviously more likely to be achieved when there is this broad base of support.

National Agricultural Research Project (NARP): The National Agricultural Research Project Phase II (NARP) effort focuses on the Mission's Strategic Objective No. 2 of "Increasing Agricultural Productivity and Farmer Incomes". A systems approach is utilized at the Kenya Agricultural Research Institute (KARI) to pursue productivity increases in environmentally sustainable ways. Research methodologies are designed to ensure that recommended production improvement practices incorporate soil and water conservation objectives, maximizing organic farming approaches, and minimizing pesticide and other chemical uses.

Activities to Prevent Pollution: In conjunction with the Kenya Export Development Support Project (KEDS), USAID/Kenya is a member of a group of donors, private sector firms and landowners surrounding Lake Naivasha which is undertaking analysis to determine the long term impact of export flower production on the lake's ecosystem. USAID/Kenya monitors the impact of its private enterprise investments on the environment. For example, Novaskins, a leather processing company, has a high potential to pollute. However, in response to concerns raised by USAID/K the firm has established an excellent waste disposal system that prevents severe pollution. Another project, the Crocodile Farm in Mombasa was initiated by USAID/K through the Kenya Equity Management Project (KEM) and it is an exemplary sustainable development project. This project rehabilitated a former quarry and turned it into a viable ecosystem supporting a wide range of plant and animal life, including the crocodiles.

B: BUILDING DEMOCRACY AND GOOD GOVERNANCE

Democracy: During the past year or so USAID/Kenya assistance to democracy and governance focused most intensely on activities related to the December 1992 multiparty elections. Among the activities carried out and financed (primarily through 116e grants) were the following:

- technical expertise from the International Foundation for Electoral Systems (IFES) which carried out a pre-election assessment detailing the material requirements and logistics needed for the election.

- vigorous policy dialogue at political levels and management advice at bureaucratic levels with the GOK, opposition parties, electoral commission, and NGOs by the USAID/Kenya democracy/governance advisor (in close coordination with the Embassy).

- facilitation of multidonor monitoring of events, coordination of activities with NGOs, and carrying out donor representations to the GOK with regard to the electoral process.

- provision of indelible ink that was used for elections nationwide to mitigate double voting anxieties.

- support to a voter education program by the Kenyan Legal Aid Society.

- funding for the National Election Monitoring Unit (NEMU) which fielded thousands of observers throughout the country,

- fielding of international election monitors through the International Republican Institute (IRI).

The impact of USAID/Kenya support has been significant. First, the above activities ensured that the outcome of the elections broadly represented the will of Kenyans. Second, the quality of the elections were very much better than they would otherwise have been. Initially, the GOK was refusing to consider either domestic or international (and especially American) monitoring efforts, and resisted any form of technical assistance. Third, USAID and the donor community's efforts strengthened the will of the NGOs to be a meaningful check and balance mechanism. Finally, the confidence of the Kenyan public was strengthened by the knowledge that the international community would be present throughout.

Governance: The Mission has been active in improving public sector transparency, accountability and effectiveness. It was the convener of the donor accountability working group and drafted the matrix to track GOK policies and actions in this sphere. In addition to multidonor lobbying for reduction of rent-seeking opportunities, a successful USAID-financed project in budget computerization has laid the basis for a transparent public finance process. The USAID also supports a UNDP tax modernization program which will make for increased equity and efficiency in revenue administration.

Regrettably, little impact has been evident in the GOK's general disposition to improve governance. There has been no follow-through on the Auditor General's findings of malfeasance, checks and balances in normal government procedures are not permitted to operate, fraud and abuse characterize the operations of many ministries and especially parastatals, activities to curb and prosecute corrupt officials are not made, and no one is ever held accountable for well-publicized scandals such as those involving the "political" banks and the Goldenberg financial scam. (Fortunately, due to prudent program design, only 1.3 percent of USAID disbursements in FY 93 passed through the GOK Treasury.)

Despite this seemingly dark outlook, all is not that bleak. The USAID program works principally through the non-governmental sector of NGOs and private firms (22 percent of disbursements in FY 93). Our family planning, private enterprise and agricultural projects strengthen these institutions and their members as centers of countervailing power to state organizations. For example, support to the Kenya Association of Manufacturers and others has increased public/private sector dialogue and contributed to important policy changes. Similarly, the Kenya Export Development Support project is impacting measurably on export incentive schemes and their transparency. Credit schemes for micro, small and medium businesses not only alleviate poverty, but enable enterprises to increase their incomes without relying on political patronage. Taken together, these have resulted in steady improvements in governance and a strengthened civil society.

To strengthen the overall impact of the USAID/Kenya's activities in democracy and governance, the Mission is designing a democratic governance project which should: (a) improve the functioning of parliament, (b) assist the non-governmental sector to advance democracy and human rights,(c) further improve public finance management, and (d) support a private policy analysis think-tank to raise the quality of national development dialogues.

ANNEX A

REVISION OF INDICATORS AND EXPECTED LEVELS OF ACHIEVEMENT

The following provides a brief explanation of revisions made to elements of strategic indicators presented in the 1992 iteration of the API. Changes in indicators were based on research which demonstrated the original indicators did not capture impact of related programs activities or were not operational in terms of data availability or quality. Further detail concerning data presented in the API is included in the technical notes (under separate cover)

Goal: Increase Sustainable, Broad-Based Economic Growth:

- No revisions made

Sub-Goal 1: Reduce Population Growth Rate and Improve Health Status

- Sub-goal 1 has been revised to focus on reducing population growth and improving health status for the following reasons: Fertility has been shifted to the strategic objective level based on recent KDHS II evidence that it is more within the Mission's manageable interest than population growth rate and because it directly affects population growth. Health status has been incorporated to better reflect the impact of the Mission's family planning and HIV/AIDS prevention efforts on many macro health indicators.

Sub-Goal 2: Increase Production, Employment, Income and Foreign Exchange Earnings

- No revisions made

Strategic Objective 1: Reduce fertility nationwide and reduce the prevalence of sexually transmitted HIV in selected target populations

- Fertility is now presented as a strategic objective for the reasons stated above in the Sub-Goal 1 notes.

- Reducing prevalence of sexually-transmitted HIV in selected areas has been included in the strategic objective. Based on the techniques and networks developed to change family planning practices, the behavioral change objectives are believed to within the Mission's manageable interest.

Target 1.1: Increase Modern Contraceptive Use

- Modern contraceptive use has been selected as Target 1.1 due to its importance as one of the strongest determinants of fertility in Kenya, and one which USAID/Kenya can affect.

Current sub-targets for Target 1.1 represent the two most important factors influencing increased modern contraception in Kenya. *Increased availability of family planning services*, therefore, appears as a sub-target 1.1a rather than a target given its contribution to increased modern contraceptive use. Increased demand will no longer be presented as a contributing factor to contraceptive use since KDHS II data suggest that generating demand for contractive services is less important than improving availability and quality of services. Sub-target 1.1b, *reduced unmet demand*, is presented as a gauge of an environment in which couples use family planning services to achieve family size objectives.

Target 1.2: Decrease High-risk Behaviors in HIV-seroprevalence Areas

- Target 1.2 is presented due to the increasing evidence that program efforts directed towards behavior change are the most effective means towards reducing the sexual transmission of HIV. Reducing high risk behaviors is therefore one of the primary interventions of the USAID/AIDSCAP project.

- The indicators for this target have been selected directly from the established World Health Organization Global Program on AIDS (WHO/GPA) HIV/AIDS program performance impact (PPI) indicators.

Target 1.3: Increase Financial Resources for FP/MCH/AIDS/STDs

- USAID/Kenya has added this new target given Mission acknowledgement that the availability of financial resources within the health sector is essential to maintaining and improving ongoing MCH/FP and HIV/AIDS activities.

- Revisions under preparation

Strategic Objective 2: Increase Agricultural Productivity and Farm Incomes

- No revisions made

Strategic Objective 3: Increase Private Sector Employment:

Although the main focus of PED has been and still is on small and medium firms, several PED components still assist some large enterprises. However, all growth rates in the text refer to only the small and medium sized firms within these components.

Target 3.1: Increase Non-Traditional Export Revenues

<u>Non-Traditional Export Revenues:</u> The baseline figure of $449 mil (1990) was removed in favor of $486 mil. The former comes from a special study that USAID has not repeated. The latter is from the *Economic Survey* and is directly comparable

to the 1992 figure.

Sub-Target 3.1a: Improve Policy Environment for Exports

The Mission decided against using a Policy Index this year due to the lack of clarity and potential subjectivity involved in combining different quantitative indicators into one. Instead, Mission is reporting on a list of "key indicators" that reflect major policy priorities, are understandable to an outside audience and are measurable with quantifiable indicators. Each measure was selected as a proxy indicator for a sub-group of policies, for example, "Foreign Exchange Regime". An assumption was made that if the particular measurable policy changed, for example currency overvaluation, then many policies in the sub-group (foreign exchange regime) were likely to be changing as well.

Sub-Target 3.1b: Expand Support Services for NTE Enterprises

- No revisions made

Target 3.2: Increase Profitability of SMEs

- Total Employment in SMEs, Informal Sector: Mission is reporting on the entire informal sector this year. In 1990 there was a special study revealing urban informal employment, but USAID has not repeated this study. Thus, since Mission was using the *Economic Survey* as a main source, it was decided to include both urban and rural informal sector employment. In addition, since the *Economic Survey* data goes back to 1985, the baseline year for other SME indicators, the baseline year in the chart was changed to 1985.

Sub-Target 3.2a: Improve the Enabling Environment for SMEs

Mission did not calculate an enabling policy index score to capture progress in the area of improving the enabling environment for SMEs. Rather, Mission is reporting on a list of "key indicators" that reflect major policy priorities, are understandable to an outside audience and are measurable with quantifiable indicators. The method used to select these key indicators is similar in design to the "Improve Policy Environment for Exports" described above.

Sub-Target 3.2b: Expand Support Services for SMEs

- No revisions made