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UNCLASSIFIED

COUNTRY PROGRAM STRATEGIC PLAN

FY 1990-1995

KENYA

BEST AVAILABLE

MARCH 1990

Agency for International Development
Washington, D.C. 20523

UNCLASSIFIED

EMBASSY OF THE
UNITED STATES OF AMERICA
Nairobi, Kenya

February 2, 1990

Mr. Walter Bollinger
Acting Assistant Administrator
for Africa
U.S. Agency for International
Development
Washington, D. C.

Dear Mr. Bollinger:

I am pleased to endorse this Country Development Strategy Statement and Action Plan now being submitted by the U.S. Agency for International Development in Kenya. My staff and I have reviewed the document, have discussed it with USAID/Kenya staff, and fully support the strategy outlined in it.

I have been in Kenya for only a short time, but it is already clear to me that the major development problems described in the CDSS are, in fact, the most significant problems the country faces. Without swift, concentrated action to overcome them, they are likely to overwhelm all efforts to achieve sustained, broad-based economic growth.

I believe USAID is correct in focusing U.S. resources on the strategic objectives of:

-- increasing contraceptive prevalence in order to decrease Kenya's very high population;

-- increasing agricultural productivity and farm incomes; and

-- increasing the level and productivity of private investment.

I look forward to working with this program during the next few years.

Sincerely,

Smith Hempstone
Ambassador

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EXECUTIVE SUMMARY

Kenya, one of the best economic performers in Africa, has the potential to break through to sustained, broad-based, export-led growth, based on rapid industrialization and expanded agricultural exports. Success in doing so will depend on how well the Government of Kenya carries out its declared program of structural adjustment and reform, and how efficiently the foreign and domestic private sectors respond to the major improvements these reforms are expected to produce in Kenya's investment climate.

Kenya achieved and maintained a real GDP growth rate of over five percent per year between 1985 and 1988. Inflation averaged under 10 percent, and many economic indicators showed positive gains. The Government of Kenya (GOK) has worked closely with the IMF and the World Bank during the past decade through a series of structural adjustment and stabilization agreements. Although Kenya's record on implementing adjustment measures has been somewhat mixed, the country received a major Enhanced Structural Adjustment Facility (ESAF) loan from the IMF and special funding from A.I.D. through an African Economic Policy Reform Program (AEPRP), both in 1989, to recognise and encourage its adjustment efforts.

As Kenya enters the 1990s, there are signs that the economic growth rate is declining, inflation is increasing, foreign private investment is continuing to decline, there is a growing over-reliance on foreign assistance, revenues from traditional exports are declining, the government budget deficit is increasing, and other economic performance indicators are weakening. A number of measures need to be taken to overcome these trends. Greater economic and fiscal discipline is required. Opportunities for improving the efficiency of domestic markets, particularly in agriculture, and for fostering the growth of non-traditional exports and tourism must be grasped. The environment must be protected. Development and use of improved agricultural technologies and methods must be accelerated. Steps must be taken to encourage foreign investment and to mobilize domestic capital. Successful implementation of policy and administrative reforms should produce a positive private sector response resulting in increased production, employment, income, and foreign exchange earnings. Special efforts will need to be made to ensure that as many Kenyans as possible — particularly current or potential small-scale entrepreneurs and smallholder farmers, a majority of whom are women — participate in and benefit from growth.

An overriding factor in Kenya's efforts to maintain and accelerate economic growth and to improve the lives of its people is its very high population growth rate, which has resulted in severe pressures on land, on food availability and on social services. There is good news about the success of efforts to decrease the population growth rate. For the first time in Kenya (and perhaps for the first time in Africa) there is solid evidence that contraceptive use is increasing dramatically and fertility is beginning to decline. The estimated population growth rate has dropped from 4.1 percent in 1984 to 3.8 percent today. That level is still one of the highest in the world. If this rate of fertility decline is not sustained over the next few years, many of the benefits from progress made in other areas could be wiped out.

USAID and many other donors are helping Kenya progress toward the goal of sustained, broad-based economic growth. USAID is involved to the greatest extent in helping to achieve the development subgoals of: reducing fertility and population growth, and increasing production, employment, income and foreign exchange earnings. USAID resources are concentrated on three strategic objectives:

— increase contraceptive prevalence

— increase agricultural productivity and farm incomes

— increase the level and productivity of private investment

USAID also plans to provide assistance for wildlife management and conservation education, although the strategy for this sector is not clearly defined as yet. Kenya's exceptional wildlife population is endangered by poaching, encroachment by human populations into wildlife preserves, and mismanagement. Immediate assistance is required, and USAID proposes to join with a number of other donors to provide it.

The Development Fund for Africa will be the primary source of funding to carry out the strategy, into which the Food for Peace program is being fully integrated. Centrally and regionally funded projects will continue to be tapped where appropriate, and USAID hopes to be able to take advantage of additional funds offered by the AEPRP at least once during the next five years.

To achieve increased program impact, greater concentration of resources and more efficient use of less staff, the Mission plans to increase use of performance-based disbursement programs, to continue to decrease the number of discrete projects, to rely to an even greater extent on non-governmental organizations to provide services and manage programs, and to draw heavily on the skills of an excellent Foreign Service National staff and personal services contractors.

I. OVERVIEW OF THE ENVIRONMENT FOR SUSTAINABLE, BROAD-BASED, MARKET-ORIENTED GROWTH

Kenya has been a top economic performer in sub-Saharan Africa since Independence in 1963. Kenya's economy grew seven times faster in the 1980s than sub-Saharan Africa as a whole. The country has made impressive progress in many areas and clearly has the potential to do much more. Kenya posted a real GDP growth rate of over five percent per year over the past four years. Significant steps have been taken to reduce the population growth rate, which is now estimated at 3.8 percent. The rate is down from 4.1 percent in 1984, but still is one of the highest in the world. The country has made remarkable advances in expanding educational opportunities, with primary enrollment increasing from 54 percent of school-age children in 1965 to 95 percent in 1986; over the same period secondary enrollment has increased from 4 percent to 20 percent. Kenya has registered impressive declines in mortality and a significant extension of life expectancy. There is a vital private sector and good physical infrastructure.

Kenya is one of very few African countries that could make the leap from good economic performance into rapid development and structural change marked by double digit growth rates and single digit inflation rates. High rates of domestic investment, a favorable geographic location with respect to major world markets, and positive attitudes about private sector growth all combine to give Kenya the potential to become one of Africa's first newly industrialized countries.

However, economic and social pressures continue to mount, slowing or offsetting growth. A rapidly increasing trade deficit and accelerating government expenditures (financed by donor grants and loans) have contributed disproportionately to GDP growth. High levels of population growth have resulted in severe pressures on land, on food availability, and on social services; they are the major factor in urban unemployment/underemployment of 25 to 35 percent. Government policies and bureaucratic procedures continue to hinder expansion of private enterprise and make it difficult for farmers and entrepreneurs to take advantage of opportunities. Improvements in technology, particularly in agriculture, have been slow to develop and even slower to reach the individuals who will put them into effect. Kenya — and the donor agencies assisting the country — must act quickly to reduce these constraints if the country is to accelerate and sustain growth and make it possible for the benefits of growth to be shared more equitably among the people.

This document contains no separate social analysis. However, the topic has been thoroughly described in the social analyses of USAID's three most recent program documents: the Kenya Market Development Program, the Kenya Health Care Financing Program, and the Kenya Fertilizer Pricing and Marketing Program. In addition, the extensive Social and Institutional Profile prepared on Kenya in 1983 remains fundamentally valid. With the exception of the Demographic and Health Survey described elsewhere in the CDSS, little groundbreaking work has been done on social analysis in the recent past. USAID will continue to emphasize social analysis in all project design and evaluation documents. Women in Development aspects of the USAID program are described in Annex D.

A. Political Environment

Kenya's most important political achievement since Independence has been the maintenance of peace and basic civil order. With the exception of a short-lived coup attempt in 1982, Kenya has been an island of stability and progress in a region marked by conflict, instability and economic deterioration. As the experience of most of Kenya's neighbors has shown, without this stability, any successful development is very difficult indeed. Related to peace and civil order is basic institutional continuity and coherence. The maintenance of rural-urban linkages has been especially significant, both in a physical and an institutional sense. As an important payoff from the substantial investments that have been made in education and human resource development, Kenya has succeeded in generating substantial technocratic expertise, both governmental and non-governmental. The value of entrepreneurship is strongly embedded in the nation's political culture.

These positive institutional/political attributes, however, also have a negative side, with implications which are detrimental to economic efficiency and which weaken the commitment to economic reform and a private sector-dominated economy. For example, the problem of entrenched bureaucratic interests, a result of continuity, is one explanation for slow implementation of policy reforms. The very stability and coherence of the institutional arrangements has generated a bias against innovation and change. In addition,these political and institutional attributes have been, and continue to be, the rationale behind large public investment in parastatals and the productive sector more generally. They are the impetus behind the continuing growth in public sector employment. They also contribute to the Government's unwillingness to allow the market to set prices for many key commodities and to the difficulty of reconciling technocratic and political goals within the bureaucracy.

In general, African political systems are marked by nationalism, paternalism and the centrality of personal rule and personal relationships. Kenya is no exception. The raison d'etre of the large public sector role in Kenya is a combination of nationalism and paternalism. The nationalism has two components: the first is the utilization of the public sector as an instrument to regain control over economic life from racial minorities and foreign interests; the second is the use of the public sector to unify the nation by distributing the benefits of development among regions and ethnic groups. Paternalism is embodied in the notion of top political leaders as father figures for the nation, expected to respond to the needs of their people by actually delivering the goods. The President becomes a special role model in this regard.

In recent years, there has been an unprecedented centralization of power and authority in Kenya. The concept of a civil society with a plural, democratic institutional base has eroded. Sustained, broad-based economic growth needs vital democratic institutions to ensure that a wide range of views are considered and that the largest number of people have an opportunity to participate in the benefits of development. While the situation is far better in Kenya than in many other African nations, there has been steady deterioration over the past few years in both the numbers and the role of democratic institutions. The autonomy of the trade unions, women's organizations, professional associations, the press and the judiciary has been restricted to some degree. Similarly, there is an increasing politicization of economic life, involving both access to market opportunities in the private sector and decision-making in the bureaucracy. These trends need to be reversed.

In all countries, economic management involves the interplay of technocratic and political considerations. The Kenyan scene has long been marked by a tension between market forces, entrepreneurship and technocratic management on the one hand, and paternalism and what has elsewhere been termed "crony capitalism" on the other. The recent World Bank report, Sub-Saharan Africa, From Crisis to Sustainable Growth, analyzing the long-term outlook for economic development in Africa, gives special attention to the creation of an enabling institutional and political environment. This is as relevant for Kenya as it is for other African nations.

In contemporary Kenya, there is an interesting paradox concerning these themes. On the one hand, there is an increased public realization of, and commitment to, the benefits of market efficiency, entrepreneurship and technocratic management. On the other, there are the disturbing trends of centralization of authority and the ensuing lack of confidence in the impartiality of the judicial and the regulatory systems. These tensions become particularly visible in the context of the structural adjustment program and are highlighted in the decision-making process in the interplay between technocrats and politicians. It is the technocrats who undertake the analysis and draw up the policy reforms; it is the politicians who ultimately decide which become actual government policy. If the credibility of the structural adjustment program and its ability to improve the climate for economic growth and development are to be maintained, the GOK must make a stronger commitment to implementing reforms that it has itself articulated.

B. Economic Environment

Since Independence, Kenya's economy has been based on a philosophy of a mixed economy guided by government intervention. Government corporations and parastatals continue to operate in most areas. At the same time the Government of Kenya (GOK) states intentions of greatly increasing the private sector's role in the economy. A World Bank team called this economic system "a pragmatic blend of laissez-faire capitalism and indigenous African socialism."

Kenya's rapid growth period, 1963-80, was quite impressive for Africa. The economy grew by over six percent annually in real terms and by over three percent annually in per capita terms. This commendable level was achieved in large part by increasing land area under production, substantially increasing cash crops (with concurrent improvement in agricultural terms of trade), promoting import substitution-led manufacturing growth, and increasing government expenditures and employment. The benefits of this rapid growth, however, were not as widely diffused as they might have been. Studies of income distribution undertaken in the mid-1970s showed that the top 20 percent of Kenya's population received 60 percent of national income while the bottom 20 percent received less than 3 percent. The World Bank estimated that half of the rural population lived below the poverty line in 1975.

In the late 1970s, the second oil price shock brought worldwide growth to a standstill and severely affected the Kenyan economy. Kenya's exports fell, inflation increased from under 5 percent to over 15 percent per year, and a balance of payments crisis occurred.

As Kenya entered the 1980s, the economy showed further signs of severe weakness, with problems stemming from:

- rapidly increasing population growth overpowering government services and food production;
- slower agricultural growth because of drought, lack of arable land, and limited potential for further increasing productivity on large-scale farms;
- a narrow base of export earnings in coffee and tea; and
- saturated domestic demand, limiting growth in the import-substitution manufacturing sector.

The 1981-84 period was marked by substantial adjustments in the economy, leading to a real per capita growth of minus 0.2 percent per year. A current account deficit of over 12 percent of GDP led to a contraction of imports, decreased government expenditure in real terms and realignment of the exchange rate. These reforms were carried out with assistance from the World Bank and the International Monetary Fund (IMF).

Recent years (1985 to 1989) marked a recovery period, with Kenya's economy achieving a growth rate of about 5 percent per year and a per capita growth rate of 1 - 1.5 percent per year. The rate of job creation in the economy has been 3.7 percent per year, while the workforce grew at an annual rate of 4.2 percent. Recent higher levels of economic growth were fueled by (1) strong agricultural growth made possible by highly favorable weather conditions, increased fertilizer utilization, and policy reforms that have improved farmer incentives; 2) increased imports financed by lower oil prices and increased foreign assistance; 3) increased government spending (nearly 20 percent average annual increases) to "prime the pump" of the economy; and 4) strong performances in tourism and horticulture. Also significant is the fact that Kenya's population growth rate has begun to slow, decreasing from 4.1 percent in 1984 to 3.8 percent in 1989. There are no recent studies that have explored income distribution in detail. The World Bank's 1988 Report on Employment and Income in Kenya suggests that income distribution patterns have not changed markedly since the mid-1970s, that real wages have decreased in the 1976-1986 period, and that the level of poverty in the country may have even increased.

As Kenya enters the new decade, however, there are signs that the growth spurt of the late 1980s is weakening. Real economic growth for 1989 is likely to decrease to about three percent, while inflation is re-emerging as a major problem. After averaging under 10 percent for the past five years, the annual inflation rate is presently estimated at over 15 percent. Recent declines in the international coffee market have sharply affected export performance. Also, it is unlikely that tourism can continue to grow at the rate it attained in the latter half of the 1980s.

Kenya's total workforce is expected to double from 7.2 million in 1987 to over 14 million by the turn of the century. Unless the private sector begins to substantially increase its rate of job creation, most secondary school leavers will become unemployed over the next decade. One area for hope is the informal sector, in which employment has been rapidly expanding. In 1988, the informal sector was estimated to provide 22 percent of total employment.

Reforms are necessary in many economic areas if Kenya is to attain broad-based growth during the CDSS period. Section II of this document describes the major constraints facing Kenya and reviews opportunities for eliminating or decreasing their effects.

C. Implementation of Stabilization and Adjustment Measures

The GOK has worked very closely with both the IMF and the World Bank during the last decade. It has had a series of seven stand-by arrangements from the IMF in support of economic stabilization efforts and has, at the same time, entered into five structural adjustment lending agreements with the Bank. These efforts have paid off as Kenya has avoided the sharp external and domestic disequilibria that have plagued many African nations. The latest IMF arrangement is an Enhanced Structural Adjustment Facility (ESAF) of SDR 240 million, ($300 million) disbursing SDR 80 million ($100 million) in 1989. The GOK's record of implementing stabilization and adjustment efforts has been mixed. The Government has undertaken tough stabilization measures, especially during periods when severe economic instability threatened, but these efforts have proven difficult to sustain after the potential crises have subsided. Similarly, while the GOK has proposed an ambitious program of structural adjustment, implementation has been slow in many areas.

Since the early 1980s, Kenya has followed an increasingly active foreign exchange management program in order to attain and sustain economic stabilization. The shilling has been devalued by over 50 percent since 1982, allowing Kenyan exports and tourism to maintain their competitiveness. The Central Bank of Kenya maintains a program of periodic marginal devaluations.

A major focus of stabilization efforts has been the interlinked issues of inflation, monetary growth and the budget deficit. In the early 1980s, inflation averaged over 15 percent per year. During 1984-88, stabilization efforts which improved fiscal and monetary discipline brought this rate to under 10 percent. The budget deficit was reduced from over 7 percent of GDP in 1986/87 to under 4 percent by 1988/89. With the exception of 1986, when high coffee prices and low oil costs generated a terms-of-trade windfall, monetary expansion has been held in check. Between 1984 and 1988 (excluding 1986), growth in money supply (M2) rose at an average annual rate of eleven percent.

In late 1989 there were strong indications that the rate of inflation was sharply rising, fueled by increases in government spending and monetary expansion. An increased rate of inflation will make it more difficult to maintain positive real interest rates and will put pressure on the exchange rate management system. Rationalization of budgetary expenditures is a major focus of the GOK structural adjustment program, and it is progressing much more slowly than planned. Budgetary expenditures as a percentage of GDP are actually higher now than at the beginning of Kenya's structural adjustment program. In the past two years, expenditures have increased substantially more than revenues. The commitment to maintain and expand the nation's education system is putting increasingly heavy pressures on the budget, while recent analyses have found indications of declining quality in the education system as a result of population pressure and budget limitations. Given education's proven role in increasing incomes and improving the quality of life, ways must be found to reconcile maintaining educational quality with a sustainable fiscal balance.

The public sector has been used in the past as an employer of last resort. In the 1984-1988 period, public sector employment grew at an annual rate of 4.6 percent, increasing to over 50 percent of total wage employment. It is clear that public sector employment cannot continue to absorb such increases and still meet its fiscal policy targets. The Government is beginning to implement "fee-for-service" schemes in health and education, but their impact on the budget will not be felt in the near term.

As part of its adjustment efforts, the GOK has liberalized the import regime, removing quantitative restrictions on the vast majority of imports. Despite this, a recent study of export incentives has found the trade regime still retains a strong anti-export bias. The system of fixed wholesale and retail prices has also been largely dismantled. Plans are on the books for even more price liberalization. The GOK has also begun to restructure the financial sector, creating a Capital Markets Authority and passing a new banking act. The Central Bank has reactivated its rediscount facility and established an informal Open Market Committee. Most observers believe that these efforts will have to be substantially strengthened in order to have the intended effect of stimulating private sector investment and improving productive efficiency.

D. New and Emerging Issues

1. Urbanization

Urban areas and urban populations are increasingly important in Kenya, with urban problems requiring ever larger shares of resources and public attention. Kenya's urbanization rate of over 8 percent per annum is one of the highest in the world. Nearly five million Kenyans now reside in urban areas. That number is expected to double before the turn of the century. One-third of the urban population lives in the capital city of Nairobi. Kenya's nationwide urban "system" now comprises a complex hierarchy of 172 urban places. In addition to the larger cities of Mombasa, Kisumu and Nakuru, there are nearly 100 cities and towns in the 5,000 to 100,000 population range. They are sites for marketing services for agricultural commodities, industrial and informal sector economic activities, and they provide social and educational services for surrounding rural populations. These smaller urban areas provide opportunities for off-farm employment, which is becoming an increasingly important mechanism for absorbing Kenya's rapidly growing labor force.

2. AIDS

As is the case in many African countries, HIV/AIDS is an important and growing health problem in Kenya. Over 6,000 AIDS cases had been reported as of June 1989, and the doubling time is estimated to be 8 - 10 months. These official figures clearly underestimate the real extent of the problem. HIV prevalence among blood donors is in the range of 1.5 to 2.0 percent, while rates among high-risk groups such as persons suffering from sexually-transmitted diseases (12 - 15 percent) and prostitutes (30-90 percent) are much higher. The international donor community and the GOK are cooperating in developing a comprehensive program focused on surveillance, blood screening, and mass media and community-based education, counselling and condom distribution.

Chart I-1

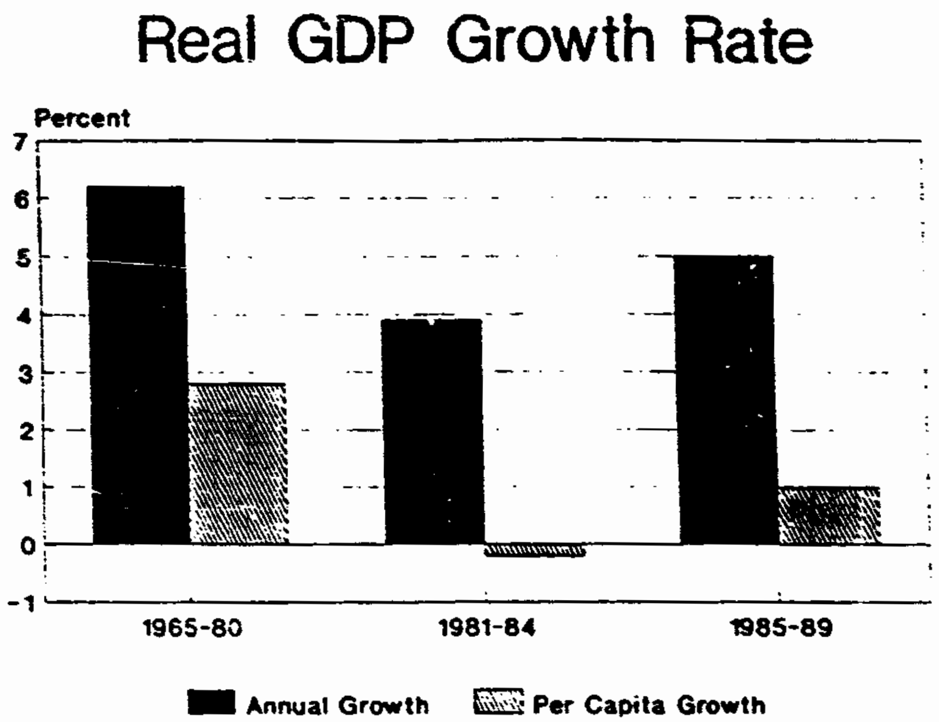


Chart I-2

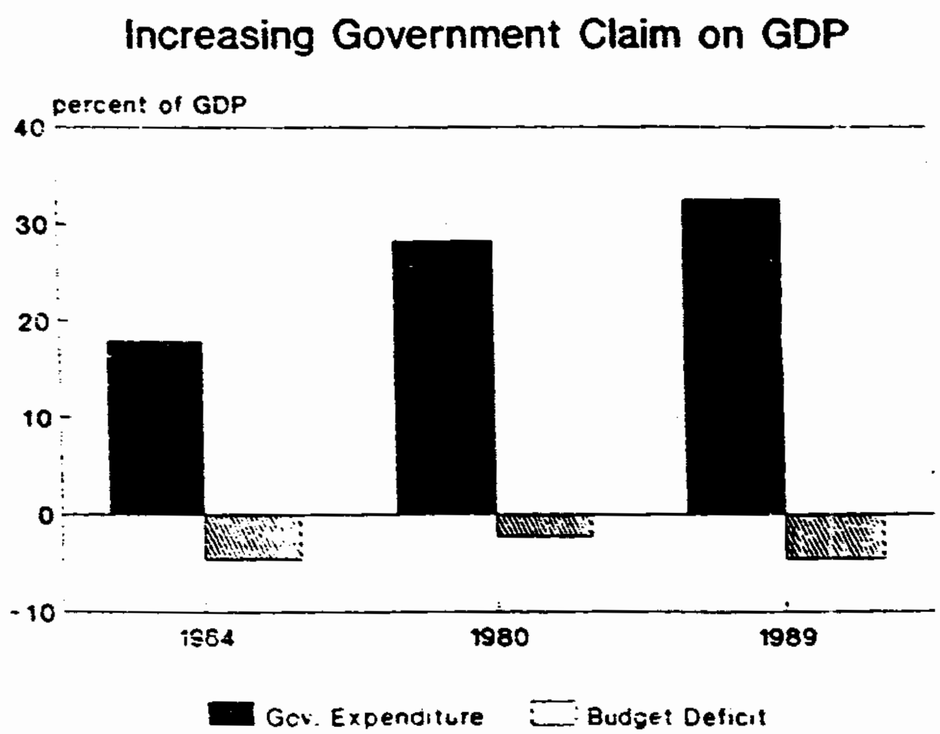
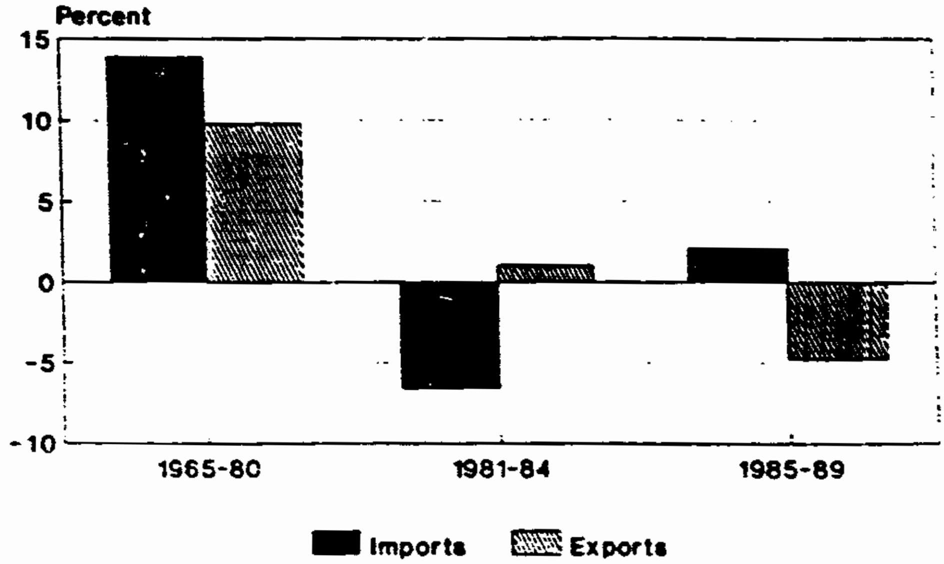


Chart I-3

Declining Exports Can't Pay For Imports

(Rate of Growth of Imports and Exports)



Source: IMF (nominal SDR's)

Chart I-4

Current Account Balance

(as a percent of GDP)

Chart I-5

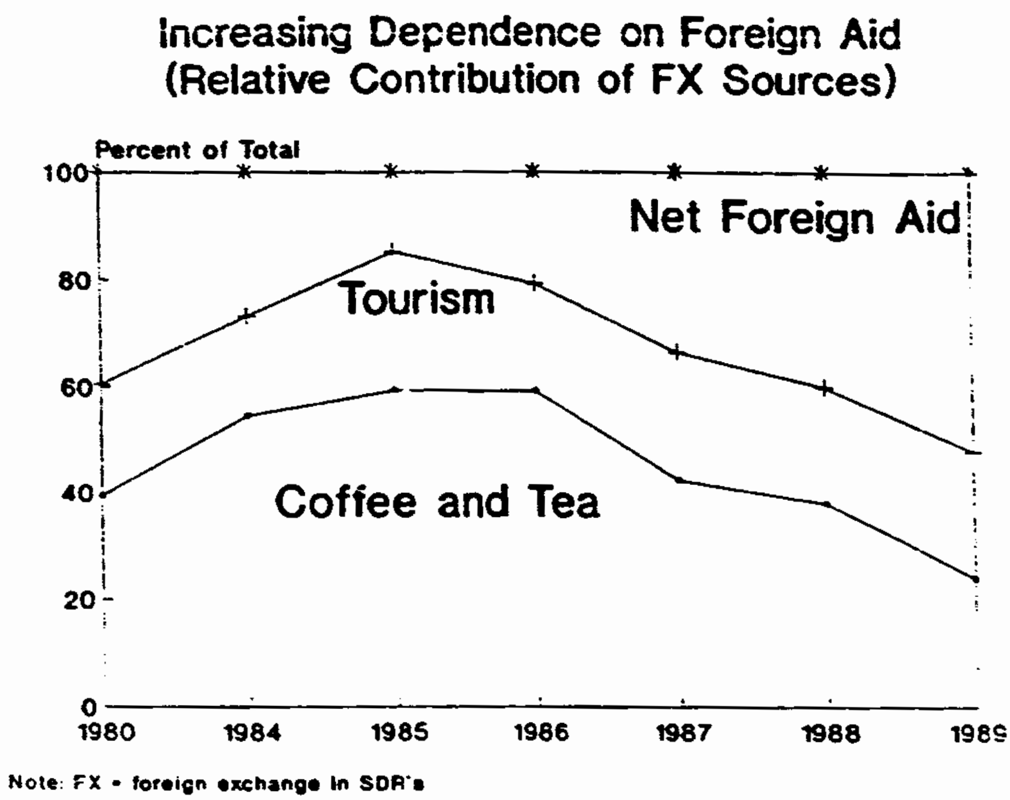
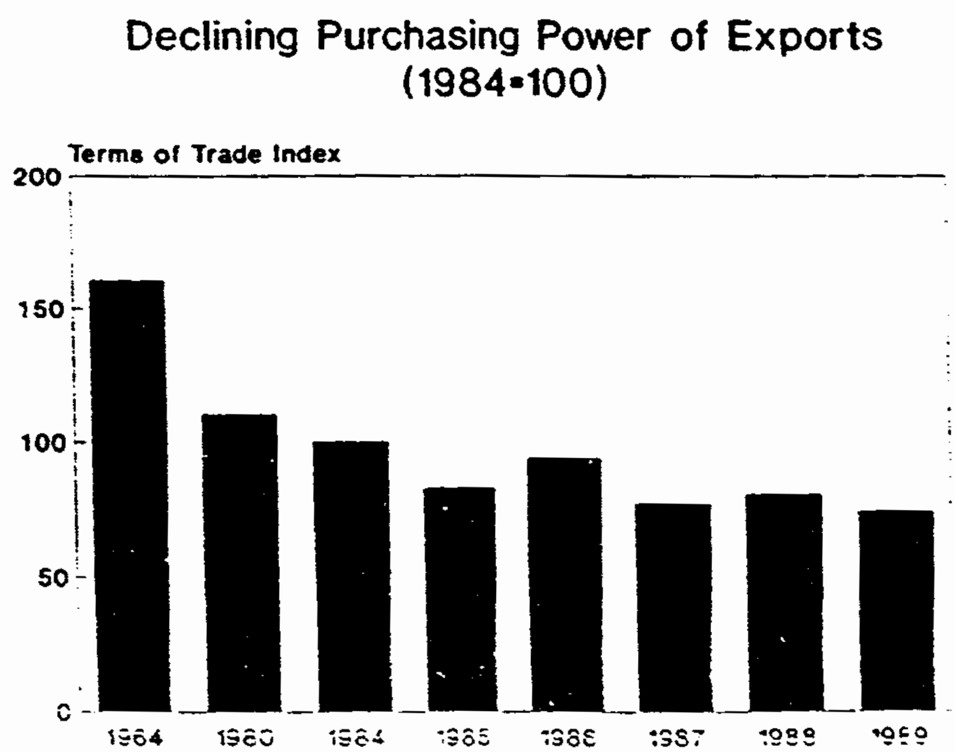


Chart I-6



II. ANALYSIS OF KEY GROWTH CONSTRAINTS AND OPPORTUNITIES

Kenya is frequently congratulated for doing better at managing its resources and economic development than most countries in sub-Saharan Africa. A legitimate aim of a development assistance program might be to help the country maintain that position among the leaders on the continent. Analysis of constraints and opportunities might be geared to that level, and success might be measured against such comparisons. However, if Kenya is to attain a level of sustainable, broad-based economic growth commensurate with its potential, it must raise its sights. Kenya really should be compared with those developing countries (such as Malaysia and Thailand) which are striving for transformation to industrialized economies. Real growth in East Asia, for example, averaged eight percent in the 1980-87 period, compared with an average of 3.8 percent for Kenya and 0.5 percent for sub-Saharan Africa as a whole. Experiences of the newly industrialized countries suggest that private sector-led, export and market-oriented growth (including strong performances in the agricultural sphere) can lead to increased incomes and a structural transformation of the economy, thereby providing a solid foundation for more rapid and equitable development.

The Government of Kenya's stated development strategy is in line with this philosophy. The 1986 Sessional Paper, "Economic Management for Renewed Growth," outlines policies to be followed to accelerate growth into the 21st Century. It stresses the dominant role that must be played by the private sector in revitalizing the economy and the need for the Government to establish market-based incentives to promote private sector activity. Although implementation has been slower than planned and many proposed actions have not taken place, the strategy is laudable and is one USAID supports throughout its program and throughout this CDSS.

Kenya has the resource base, the infrastructure and the trade links that could propel the transformation to rapid growth. Kenya has a large and trainable low-wage labor pool and an established, though small, industrial base. It is an air and sea transport hub for the East Africa region and has well established trade links with and preferential access to European markets. Kenya's membership in the Preferential Trade Area of African countries provides access to another potentially large and untapped market for its goods and services. There is strong potential for agriculture to expand exports of produce to Europe and other seasonal markets and to provide inputs for agricultural production. However, a number of constraints block the development path and must be overcome.

The overwhelming constraint on rapid growth and development is the high level of population growth, which keeps expanding output from being translated into higher per capita incomes, puts severe strain on the service provision capacity of the economy, and generates powerful political pressures for non-sustainable budgetary expansion. While real progress is being made in reducing the population growth rate, more must be achieved, and soon, if rapid broad-based growth is to become a reality in Kenya.

Population pressure is directly linked to a second major constraint, low agricultural productivity and incomes. While Kenya has achieved what are, by African standards, good levels of agricultural output, it must increase the productivity of agriculture and create a context in which small-scale farmers can shift their production to higher value commercial crops. A rapidly growing agriculture will provide the basis upon which industrial diversification can occur by increasing the levels of demand in the economy and providing foreign exchange and investment resources.

Finally, for rapid growth to ensue, the private sector will have to become the primary engine of growth in the economy. This will necessitate an improvement in both the quantity, and especially, the quality of investment. For that to occur, the Government will have to provide a more favorable environment for both domestic and foreign investors. Appropriate macroeconomic and sectoral policies and effective, efficient administration hold the key.

A. Economic Constraints and Opportunities

Economic constraints to sustained, broad-based growth in the Kenyan economy can be divided into external and internal categories.

1. External Constraints

The major external constraints over the medium-term are: unstable foreign exchange earnings; reliance on high levels of foreign aid; low and diminishing foreign investment; and poor prospects for regional trade.

International prices for Kenya's export commodities have been very unstable. Coffee and tea account for about half of total exports, and agricultural exports account for approximately 70 percent of total exports. For this reason, Kenya's trade and current account balances swing widely from year to year, depending on commodity prices. For example, coffee prices are down 50 percent in 1989 from 1988. In general, export growth has been sluggish. Real export growth has been under one percent per year in the past five years, while real imports have grown at about five percent per year. Kenya's terms of trade have deteriorated markedly since 1984, exacerbating the problem of slow export growth. Kenya must increase and diversify exports if the country is to have much chance of reversing its balance of trade problems during the CDSS period. Horticulture presents an excellent opportunity for rapid expansion over the next decade if export incentives can be developed and if infrastructure constraints such as lack of cold storage and insufficient aircargo space are addressed. Possibilities for expanding manufactured exports also hold great promise.

Tourism has been a vital factor in offsetting the balance of trade problem. Continued tourism expansion can increase foreign exchange earnings. Although it cannot be expected to continue to grow as fast during the next five years as it did the past five, during which the number of tourists visiting Kenya each year doubled, tourism must continue to increase by at least five percent annually, in real terms, just to earn enough foreign exchange to cover rising debt service payments. Publicity about incidents of violence against tourists in the national parks and in the cities, about malaria at the Coast, and about wildlife poaching or limited capacity for visitors at the parks have made tourists more wary about deciding on Kenya as their vacation spot. Those problems must be reduced or eliminated, and measures must be taken to retain a greater percentage of foreign exchange earnings (only 8-13 cents per dollar at present in comparison with about 45 cents in East Asia) in order for Kenya to realize maximum benefits from tourism.

Reliance on increasing foreign aid (about 12 percent of GDP in 1989) is probably not a sound strategy for Kenya over the medium term. Although assistance may remain at current levels, providing that Kenya continues to implement the policy changes promised by the government, there are no assurances. With a debt service ratio presently at 35 percent of exports and services, repayments of loans will continue to decrease net aid flows over the next 10 years even if gross aid flows increase. Donor assistance has represented a temporary infusion of investment to serve as a catalyst for structural change, which, among other benefits, is intended to bring in private foreign investment. Unfortunately, foreign investment continues to decline and significant improvements in the investment climate will be needed to reverse this trend. This is a major challenge for government policy.

Regional trade continues to be constrained by instability in neighboring countries and the lack of purchasing power in those same countries. With domestic demand limited, emphasis on new export production and new export markets is needed. Given Kenya's large and growing structural trade deficit of $1 billion, exports would have to double to match the import bill. While this is possible, it would require a coordinated effort to increase non-traditional exports, tourism receipts and foreign investment. The alternative is to drastically restrict imports which would stifle the possibility for expanded growth.

2. Internal Constraints

Internal economic constraints involve macroeconomic policy restrictions, regulatory and institutional controls, and resource limitations. The first is described here. The second is described throughout this CDSS.

Macroeconomic management policies are of constant concern to the GOK, which is addressing economic difficulties through the use of such tools as interest rates, exchange rates, the money supply, and fiscal deficits to control supply and demand of goods and resources in the economy. The Government has gradually devalued the Kenya shilling in real effective terms over the past several years, thereby ensuring that inflationary tendencies do not make Kenyan products uncompetitive on world markets. Also, while the Government continues to impose ceilings on interest rates, these have been generally positive in real terms, so that the rate of inflation has not overly discouraged domestic saving.

Budget and fiscal policy actions have not been as positive. Government expenditures are nearly one-third of GDP. Government deficits remain high, forcing the GOK to borrow heavily in domestic markets, increasing inflationary pressures and effectively limiting private sector access to credit. The main problem has been government spending, driven up by increased debt service burdens and increased public service wage outlays. In addition, the Government continues to make large investment outlays, the most inappropriate of which consist of investments in parastatal activities that the Government itself has acknowledged are an inefficient use of the country's scarce investment resources.

Regulatory and institutional constraints are a major element of Kenya's economic growth problems. The Government has become much too involved in microeconomic management. That such involvement is to the detriment of the overall economy has been an increasingly frequent subject of high-level policy papers, in-depth analysis, and donor dialogue. Microeconomic controls that are counterproductive to the development of a healthy, thriving, competitive private sector in Kenya include licensing controls, marketing controls, and financial controls. They are described in greater detail in C.3 of this section.

B. Selected Major Areas

1. High Rate of Population Growth

A very high rate of population growth is the overriding constraint to sustained, broad-based economic growth in Kenya. Although the rate has at last begun to come down, decreasing from 4.1 percent in 1984 to 3.8 percent in 1989, it remains one of the highest in the world. If the 3.8 percent rate of growth continues, the population will double in less than 20 years, to 50 million in the year 2010. Even with a successful family planning program and further significant decreases in population growth rates, the population of Kenya is projected to exceed 33 million by the year 2000. Clearly, this

Chart II-1

TOTAL POPULATION
Actual and Projected at 1989 Growth Rate

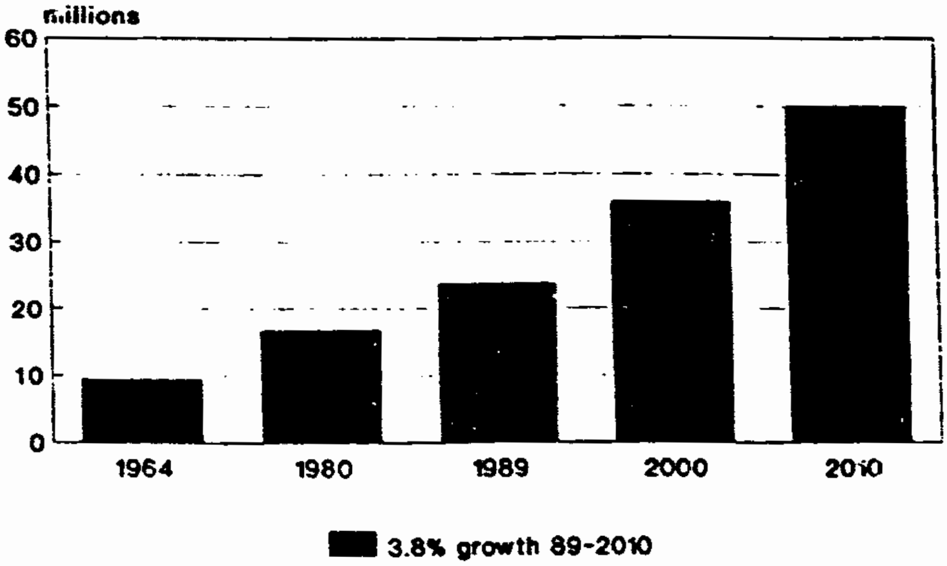
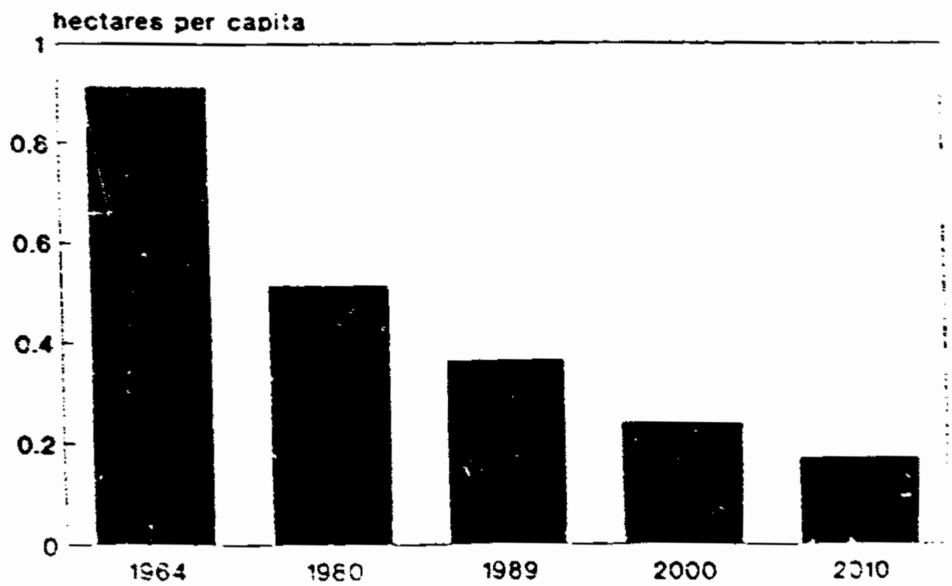


Chart II-2

AVAILABLE ARABLE LAND PER CAPITA**
Actual and Projected



** Projected at 1989 pop. growth rate

15

situation seriously undermines efforts to attain per capita improvements in a wide range of social and economic areas. The increasing scarcity of arable land and limited employment opportunities present a formidable challenge for Kenya.

Another consequence of this high rate of population growth is that well over 50 percent of the population is less than 15 years old. This extremely high dependency ratio strains the resources of individual families and of public sector programs as both struggle to cope with the needs of children until they can become productive members of the society.

While the situation is serious, there is reason for incipient optimism about the future. Now, for the first time in Kenya (and perhaps for the first time in Africa) there is solid evidence that a difference is being made. The 1989 national Kenya Demographic and Health Survey (KDHS) shows a dramatic increase in contraceptive use and provides the first indication of a decline in the total fertility rate. In comparison with a similar survey in 1984, the 1989 survey shows a 60 percent increase in contraceptive use and a 15 percent decline in the total fertility rate (number of children per woman). Total contraceptive use increased from 17 percent in 1984 to 27 percent in 1989, while use of modern contraceptive methods doubled from 9 percent to 18 percent during the same period. The 1989 survey found a total fertility rate of 6.7 children per woman; the 1984 survey reported 7.7.

Despite this recent success, however, fertility remains at a very high level and will have to decline much further if Kenya's medium and long-term population objectives are to be achieved. To reach the GOK 1995 population growth rate target of 3.5 percent, for example, the total fertility rate will need to decline from the current level of 6.7 to 5.9 — an ambitious goal. But KDHS data clearly show that rapid change in fertility preferences and attitudes toward childbearing are underway. Nearly 80 percent of women of reproductive age indicate a desire to either delay or stop childbearing. Such a change, combined with a continued expansion of family planning services in the next five years, makes this fertility reduction objective achievable.

A variety of socio-cultural factors, such as early age at marriage, the high value Kenyans place on children, and the relatively low status of women affect the desired number of children and thus the potential demand for family planning services. Notwithstanding these factors, USAID believes that the major constraints to use of family planning in Kenya relate to the limited supply of services and to lack of information about those services. Possibilities for reducing or eliminating those constraints constitute significant opportunities for increasing the prevalence of contraceptive use. Moreover, it is likely that such an increase will result in reduced fertility and then in further reductions in the rate of population growth.

a. Supply

The KDHS suggests that access to quality family planning services is still a major constraint to contraceptive use. While only 27 percent of women of reproductive age are using a method of contraception, and only 18 percent are using a modern method, the proportion of women wanting to delay or stop childbearing is nearly 80 percent. Thus, the potential demand for contraceptives and family planning services is considerable.

Despite major recent progress (such as an increase in the number of MOH service delivery points), it is estimated that 30-40 percent of the population does not have ready access to family planning services. In the public sector, services are probably routinely available at no more than 50 percent of facilities, because of either the absence of trained staff, equipment, medical supplies or contraceptives. For example, while nearly 400 MOH and NGO health personnel are being trained in family planning each year, a backlog of more than 4,000 are still to be trained. Periodic shortages of certain contraceptives and weak internal distribution systems continue to constrain the availability of services at the periphery. Related medical equipment and supplies, such as disposable gloves, examining instruments, and disinfecting solutions, are also frequently in short supply. Less than 25 percent of MOH hospitals routinely offer VSC services.

Within the private sector, clinic-based services are available through the Family Planning Association of Kenya network and, increasingly, through the large national network of mission hospitals and clinics which comprise the Christian Health Association of Kenya (CHAK). Augmenting this are the more than 120 service delivery points established and assisted by the USAID Family

Planning Private Sector Project. Substantial opportunity exists, however, to further expand the availability of family planning services within CHAK and within private firms.

Community-based services (CBS) are a critical component of a broad-based family planning program. Despite a recent expansion in CBS, coverage through CBS or other forms of outreach is still less than 20 percent of the population. In addition, the lack of a full-fledged contraceptive social marketing program, (subsidized commercial sales) continues to seriously limit ready access to contraceptive supplies for lower socio-economic groups in urban and semi-urban areas.

b. Demand

In the KDHS, lack of knowledge about specific methods was the reason cited by the largest number of respondents (23 percent) for non-use of family planning. While many potential users are able to name most methods, both clients and family planning service providers display a great deal of misunderstanding about the safety, effectiveness and use of these methods. Easily understood and accurate print materials are rarely available to counter rumors and misunderstandings and to support efforts by clinic and community-based staff. Another reason cited for non-use was the husband's disapproval. To date, information programs have not been very effective in reaching men.

The KDHS also indicates that contraceptive use is much lower in areas where infant and young child mortality remains high. In Central and Eastern Provinces, for example, where child (under the age of five) mortality is estimated from the KDHS to be less than 50 and 65 per thousand, respectively, 40 percent of married women of reproductive age are using family planning methods. In Nyanza and Western Provinces, where child mortality is estimated to be 148 and 133 per thousand, respectively, less than 15 percent of married women of reproductive age are using family planning methods.

It is evident that substantial opportunity exists to increase the prevalence of contraceptive use through the increased availability of information and services and through continued support to child survival activities, particularly in selected high-mortality areas.

2. Low Level of Agricultural Productivity and Farm Incomes

Improving the productivity of the agricultural sector will be necessary if Kenya is to achieve sustainable, broad-based economic growth. Agriculture continues to be a major source of income and employment in the economy, representing 30 percent of GDP and close to 70 percent of the workforce. Moreover, Kenyan farmers supply nearly all of the nation's food supply and nearly 70 percent of foreign exchange earnings. Given a proper macroeconomic environment and effective sectoral policies and investments, agriculture has the potential to make significant contributions to employment growth and expansion of exports, as well to provide the base upon which industry can rapidly expand.

Since independence, Kenya has had one of the highest rates of agricultural growth in sub-Saharan Africa. But growth performance in the first independence decade (4.6 percent per annum) was markedly better than in the past fifteen years (2.8 percent per annum), during which time the expansion in output failed to keep up with the rate of population increase. In the past five years, however, as a result of highly favorable weather conditions, increased fertilizer utilization, and policy reforms that have improved farmer incentives, the growth of agricultural output has increased to 4.2 percent per annum.

In spite of this recent growth for the sector overall, per capita maize production has decreased since 1985 because of low growth in yields and high population growth. Maize yields are only now returning to levels reached in the late seventies. Charts II.5 and II.6 on the following page highlight declining maize production per capita and stagnant yield production since the late seventies.

The growth in agriculture since independence has resulted largely from increasing the land area under cultivation. But the prospects for further growth through extension of land area under cultivation are now extremely limited. In the future, increasing use of fertilizer, an improved policy enviornment, and improved seed varieties and other production techniques will hold the key to sustaining significant agricultural growth. Per unit production is already high in Kenya's large farm sector, in which some 3,700

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Chart II-3

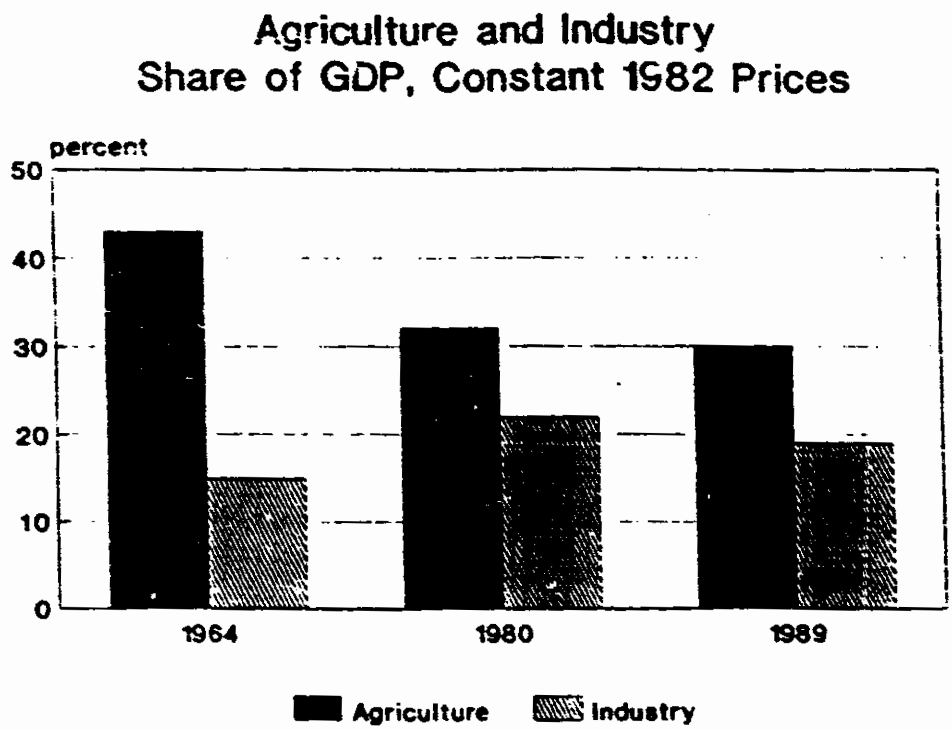


Chart II-4

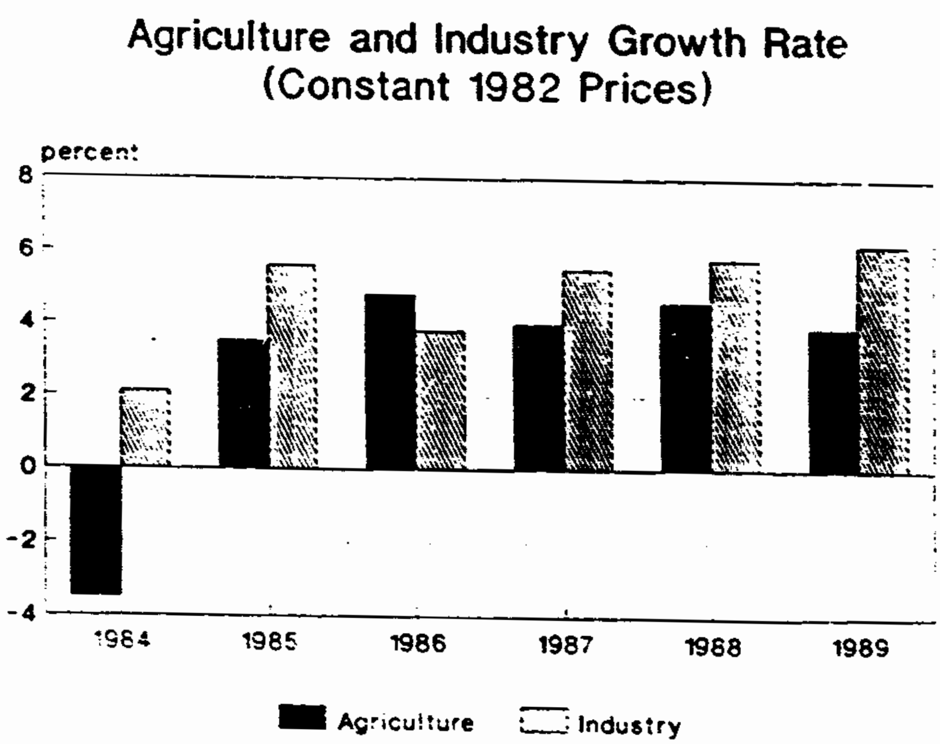


Chart II-5

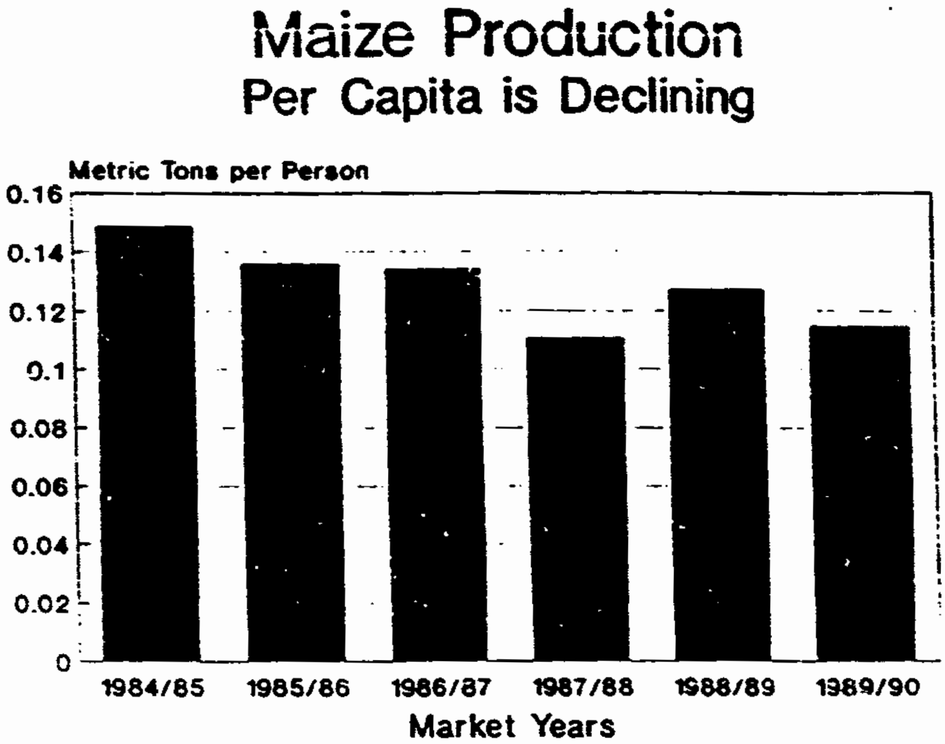
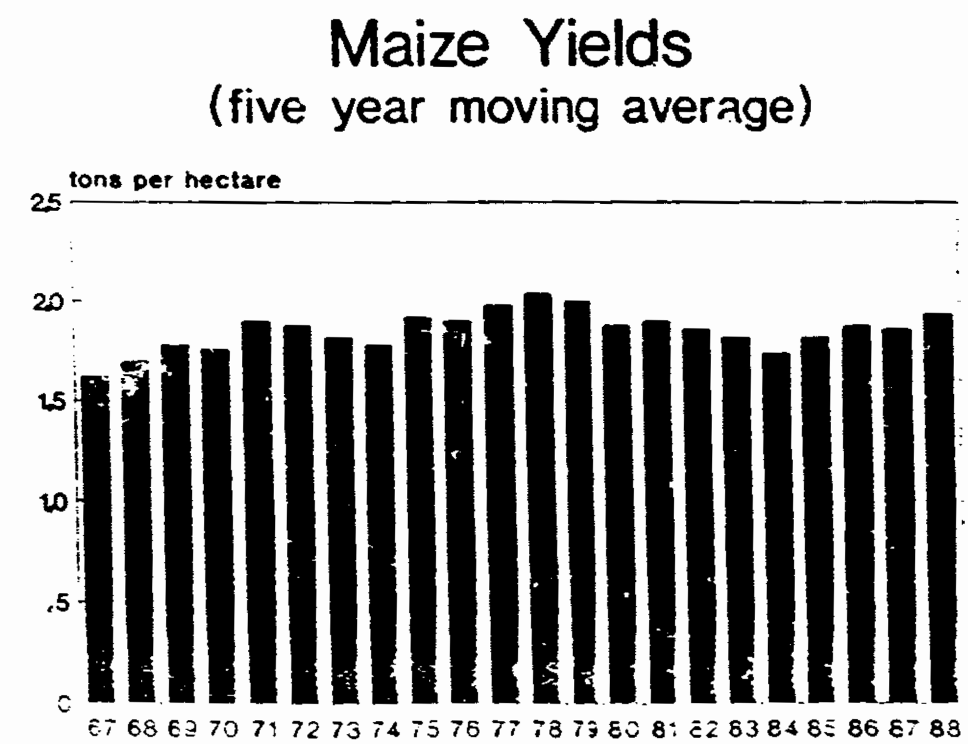


Chart II-6



Source: World Bank

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farms account for one-third of the area under crop production. This means that improving productivity in the smallholder sector, in which 1.7 million farms average some two hectares in size, must be the target for agricultural development strategies.

In the past several years, the GOK, the World Bank, USAID and other donors have undertaken a series of in-depth assessments of the agricultural sector. These assessments have examined the constraints and opportunities in agriculture, the costs and benefits of different approaches to agricultural development, and the impact of various donor projects and programs. They have made recommendations to both the GOK and the donors about agricultural sector strategy options. Among the more important of these assessments are:

— "Kenya's Agricultural Growth Prospects and Strategy Options," World Bank, June 1989;
— "Raising Agricultural Productivity: the Role of Research and Extension," Government of Kenya, January 1989;
— "Increasing Kenyan Agricultural Productivity: Application of the Policy Analysis Matrix - Interim Project Report", prepared for USAID/Kenya November 1989; and
— "Economic and Social Soundness Analysis for the Kenya Market Development Program," prepared for USAID/Kenya, July 1989;

These studies have concluded that there are four key constraints to achieving Kenya's agricultural sector objectives of increasing output and improving productivity, especially in the smallholder sector. These are:

— Limited supply of arable land and insecure land tenure;
— Inefficient marketing and pricing policies;
— Inefficient agricultural input supply systems; and
— Inadequate research and extension services.

In addition, factors outside the agricultural sector such as unfavorable terms-of-trade, a weak balance-of-payments, and inflation have imposed constraints on the performance of agriculture.

a. Arable Land Supply and Land Tenure

Of Kenya's 44.6 million hectares of land, only 8.6 million hectares (19 percent) are medium to high potential agricultural land. Much of the rest is used for extensive livestock grazing or taken up by national parks or forest reserves. Of land not now under production, only 500,000 hectares could conceivably be put into production through irrigation, drainage or flood control. This limited supply of arable land combined with the high population growth rate has generated severe land pressure. Consequently, farming methods, such as reducing fallow periods, have been undertaken which increase soil erosion and decrease per unit productivity.

The land constraint is further complicated by unequal land distribution and insecurity of tenure. Nearly two million small farms occupy less than four million hectares while 3,700 large farms occupy close to three million hectares. Land tenure reform in Kenya has not focused on redistribution; rather it has sought to provide secure tenure to small farmers. Unfortunately, because of complex bureaucratic procedures, tribal politics, and legal difficulties in general and specifically with relation to women, and financial and personnel limitations, the land tenure program has been implemented at a very slow pace. Lack of secure tenure has limited access by small farmers to credit and has limited their incentive to undertake improvements whose pay-offs are longer term. The GOK is working on a framework to address these complex and sensitive issues.

b. Agricultural Marketing and Pricing Policies

The lack of a well-developed marketing system and the presence of administratively fixed agricultural commodity prices create a disincentive to increased agricultural productivity. The extent of Government intervention in agricultural marketing is high. For most major crops, official prices are set through marketing boards which either exert monopsonistic power or substantially control access to marketing by the private sector. Official price policy does not allow temporal or spatial price variation for most commodities. This discourages private storage, increases marketing costs, and contributes to a misallocation of scarce land resources since prices do not reflect local market conditions. In addition, these government controls decrease agribusiness profitability, inhibiting development of extensive private marketing and processing industries.

While in recent years fixed prices have more nearly reflected import/export parity, the potential incentives resulting from these reasonably high prices have been offset by late payments to farmers by the marketing boards. In many cases, farmers have had to wait up to fifteen months to receive full payment for their output. This has resulted in serious liquidity problems for smallholder farmers.

The core of the parastatal marketing system is the National Cereals and Produce Board (NCPB), which markets about one-half of the total commercial sales of maize. In addition to absorbing some $60 million of government subsidies per annum, the NCPB controls a complex set of restrictions that substantially increase the cost of the informal sector maize trade (the other half of total marketed production). These policies benefit only large-scale producers while increasing the cost of maize to consumers and lowering the price to smallholder farmers.

Kenya's rural transportation system is at a critical juncture. Poor roads have increased the cost of agricultural marketing and have discouraged economies of scale. A recent USAID study has identified the poor quality of rural roads as the major infrastructure constraint to more efficient marketing. The rural roads system must be improved or it will quickly fall apart, further limiting the likelihood of improving smallholder productivity. The recurrent budget for rural roads has decreased by 22 percent between 1985/86 and 1989/90.

c. Agricultural Input Supply

Agricultural inputs constitute a critical element in the strategy to enhance smallholder. These inputs include fertilizer, improved seed varieties, pest and disease control chemicals, animal feeds, and farm machinery and implements. The structure of the input delivery system is characterized by a wide range of participants including parastatals, cooperatives and private traders.

Of particular importance is fertilizer. Various studies by the GOK and the World Bank have estimated that the potential requirement for all types of fertilizer is 650,000 tons per year, while actual consumption has averaged only 260,000 tons per year in the past three years. Studies suggest that fertilizer investment is highly profitable, providing returns of 3-4 times its value in maize and wheat and 10 times or more for coffee or tea.

Yet the fertilizer subsector has experienced severe problems in recent years. These are the result of official fertilizer price setting and controls, inadequate and untimely imports due to foreign exchange constraints and cumbersome import quota and allocation procedures, and lack of technical knowledge on the proper use of fertilizer and uncertainty about its financial returns.

In December 1989 the GOK decontrolled fertilizer prices as part of its programs with USAID and the World Bank. This will help address the inputs constraint but will need to be accompanied by action in the other areas of constraint.

d. Agricultural Research and Extension

Prior to independence, agricultural research in Kenya responded to the needs of commercial farmers with mechanized operations and marketed inputs. While government policy has long since shifted to a focus on smallholders, changes in research priorities and activities have lagged behind. The result has been a lack of development of improved technologies for smallholders. Unless significant improvements are made in the existing technology base, smallholder agriculture will not be able to make the productivity gains that will be needed to maintain agricultural output growth at a rate faster than the growth of population.

A 1986 study of the agricultural research system in Kenya led to a decision to consolidate all research activities in the Kenya Agricultural Research Institute (KARI). But, KARI has had difficulty in implementing its research plans because of budgetary constraints, a failure to develop linkages with the agribusiness community, and, especially, a lack of skilled researchers and managers. As Chart II.8 shows, nearly 80 percent of the KARI budget is presently allocated to personnel and administration. Operational funds, already a small fraction of the budget, are subject to political pressures and are often held up at the Treasury. While horticulture has grown substantially in recent years as shown in Chart II.7, it could expand even faster with new technologies.

KARI, Egerton University and other institutions involved in agricultural research have highly qualified senior managers and researchers. However, these institutions lack the depth of expertise and program management capability required to sustain agricultural research programs.

Kenya shares the general problem of many developing countries in extending the productivity-enhancing results of research work to its smallholder farmers. This is the result of poor dissemination of information because of weak links between the research and extension systems, lack of appropriate products to extend to smallholders, inadequate resources and support for the extension staff, and weak management and supervision in the extension service.

3. Low Level and Productivity of Private Investment

The Government, donor agencies, and various private consultants have concluded that the current low level and productivity of private investment in Kenya is the most significant factor constraining growth in production, employment, and foreign exchange earnings. Low investment quality makes it difficult, if not impossible, for the country to attain sustained, broad-based economic growth.

While an increased amount of investment is required, enhancing the productivity of investment is as crucial an issue. Kenya's rate of domestic savings in relation to GDP is one of the highest in Africa, and its annual investment rate is on the order of 25 percent of GDP. However, in comparison with other countries at Kenya's level of development, the growth generated by this high investment level is low. With an incremental capital-output ratio (ICOR) of about five, Kenya's economy currently requires five percentage points of investment to produce one additional percentage point increase in GDP. (In industry and manufacturing, the figure is probably a bit higher.) If the ICOR were to drop by one point (to four), GDP growth could be expected to increase by one percentage point per year, a significant gain.

Chart II-7

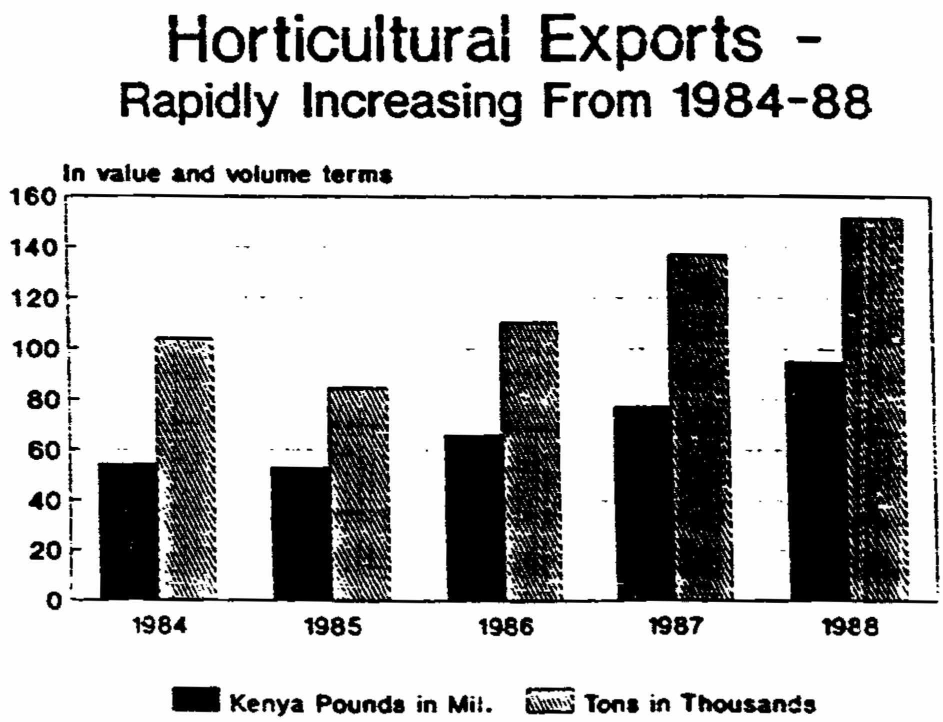
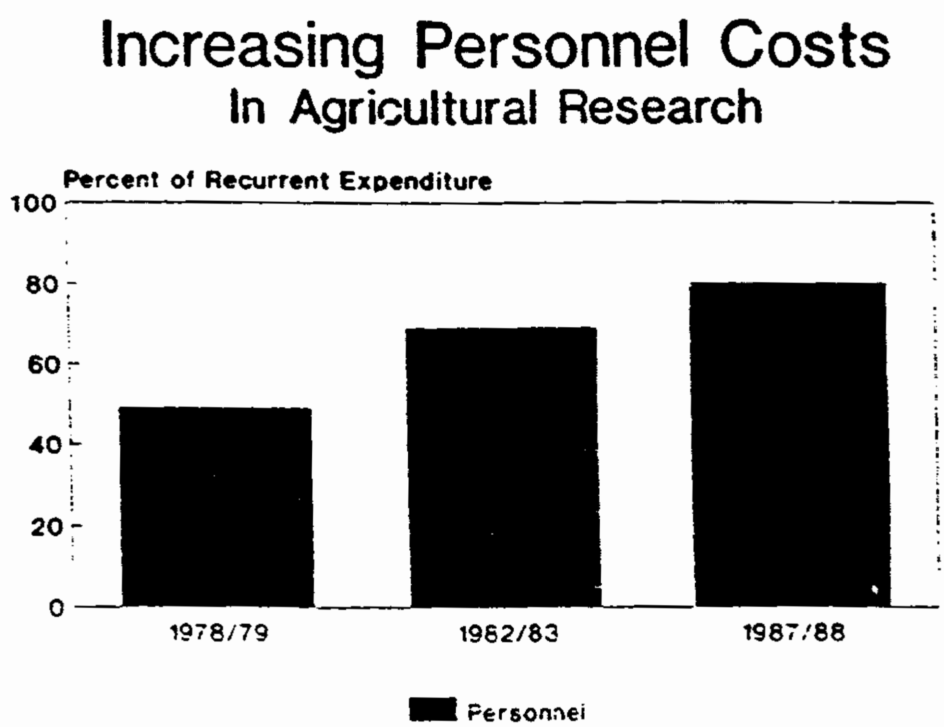


Chart II-8



Source GCK

During the past year, USAID has funded an extensive series of assessments on opportunities and constraints in Kenya's private sector. Drawing from both public and private sector sources, the analyses include a wide range of information about the private enterprise investment and operation climate in Kenya. One of the studies is the largest private sector survey conducted to date in Kenya. Others examined USAID and other donor-funded activities during the last decade and provided recommendations on the most cost-effective, impact-laden interventions for the future. Assessments include:

— "Evaluation of the USAID/Kenya Private Sector Program" (prepared for USAID in July 1989);

— "Export Incentives for Kenyan Industry" (prepared for the Kenya Association of Manufacturers in August 1989);

— "Government Controls and Their Impact on the Manufacturing Sector" (prepared for the Kenya Association of Manufacturers in October 1989);

— "Manual for Action in the Private Sector: Kenya" (prepared for USAID in December 1989); and

— "The Enabling Environment for Kenyan Export Processing Zones" (prepared for the Ministry of Finance in December 1989).

These documents have made a major contribution to understanding the constraints to increased private enterprise activity in Kenya and the opportunities that exist for overcoming those constraints. They have played an important role in shaping USAID's strategy in this sector. The analysis which follows is based on this prodigious body of research and on USAID's extensive experience as the earliest and largest private enterprise donor in Kenya.

Major constraints to increasing the level and productivity of private investment in Kenya include: too many government controls which inhibit investment, especially those which impede expansion and diversification of export production and of foreign private investment; underdeveloped financial markets to make capital available for investment; and insufficient mechanisms to improve the productivity and expand the base of domestic investment and entrepreneurs.

a. Government Controls — The Enabling Environment

Despite numerous pronouncements and some major actions to the contrary, economic policy in Kenya is marked by a long-standing, if now largely discredited, philosophy of development which is suspicious of market forces. Market forces in Kenya have, in too many instances, been superceded by pervasive government intervention. The goals of this intervention were to save scarce foreign exchange by protecting import-substituting enterprises and to ease burdens on the poor -- primarily the urban poor -- by controlling prices of daily necessities, including food. This philosophy has created a policy environment that now keeps the economy from growing as rapidly as it could and should, and that acts as the major constraint to improving levels and productivity of private investment.

The policy environment is improving gradually, however. With strong encouragement from bilateral and multilateral lenders and donors, Kenya is reexamining its development philosophy. In the groundbreaking Sessional Paper No. 1 of 1986, and in numerous subsequent pronouncements (such as annual budget presentations and speeches by high level officials), the GOK has noted the importance of moving away from direct government intervention and toward liberalization for more efficient resource use in the economy. A number of policy improvements have been implemented in the past four years, but much remains to be done. Over twenty years of inward-looking development philosophy has become entrenched in policies to such an extent that reforms cannot occur overnight. Many groups, both inside and outside government, have benefitted from the protected environment and will fight to maintain the status quo. Kenya's challenge is to overcome the strong resistance to change presented by these "stakeholders," and to fully implement needed policy changes.

Major reforms are needed in many categories of government controls. The most important categories involve:

— licensing restrictions, such as import and export licensing, entry and work permits, and trade licensing, all of which make starting and operating businesses extremely difficult and provide numerous possibilities for corruption;

— financial controls, such as foreign exchange regulations which dictate the allocation and use of scarce foreign exchange and make it hard for foreign investors to repatriate profits; and

— market controls, such as price controls and regulation of trade by means of established marketing boards.

Perhaps the most debilitating constraint on investment (either domestic or foreign) is the unfortunate combined effect of all the foregoing controls. The resulting "investment climate" is larger than the sum of these constraints and often causes potential investors to look elsewhere. The symptoms of a poor investment climate — including successful capital flight despite complex controls to prevent it, severe penalties for illegal foreign exchange transactions and drastically reduced levels of foreign investment — are evident in Kenya. Another characteristic of the current investment climate is the widespread prevalence of corruption that pervades all business transactions in Kenya.

Perseverance in developing and implementing market-oriented private enterprise policies is required if private enterprise is to make the enormous contribution to economic growth that it has the potential to make. Opportunities for reform abound, as do opportunities for providing assistance to encourage and support such reform.

b. Financial Markets and Financial Services

Kenya's capital market is large and diversified by African standards. There are 26 commercial banks, of which 3 are government owned, 14 are branches of foreign banks, and nine are private domestic banks. In addition, there are numerous non-bank financial intermediaries, including 37 insurance companies, 1,700 rural savings institutions, and five development "banks." A stock exchange has existed since 1954. However, the achievement of an advanced, outward-looking economy will require the development of a broader range of institutions and financial services than currently exists. Problems in the financial sector are of three types. First, inadequate macroeconomic policy has its initial impact on the financial sector. Since the Central Bank works for the Government, the Government and its parastatals have first claim on banking system credit. As a result, deficit financing crowds out private sector credit. Second, a series of public sector policies is hindering the further development of a financial system which could adequately serve the needs of an outward looking and rapidly developing economy. The most important of these are exchange controls and interest rate controls. The former prevent the development of financial instruments needed by a modern export sector. The latter prevent the credit needs of small business from being adequately addressed. (The experience of USAID/Kenya's private sector portfolio is that financial institutions are usually willing to carry the credit risk of lending to small enterprise, providing their administrative costs are covered.) Finally, there are a number of institutional constraints which need to be addressed. Chief among these are the development of an adequate regulatory institutional framework for equity markets and foreign investment.

c. Incentives to Encourage, and Services to Support, Domestic Investment and Entrepreneurship

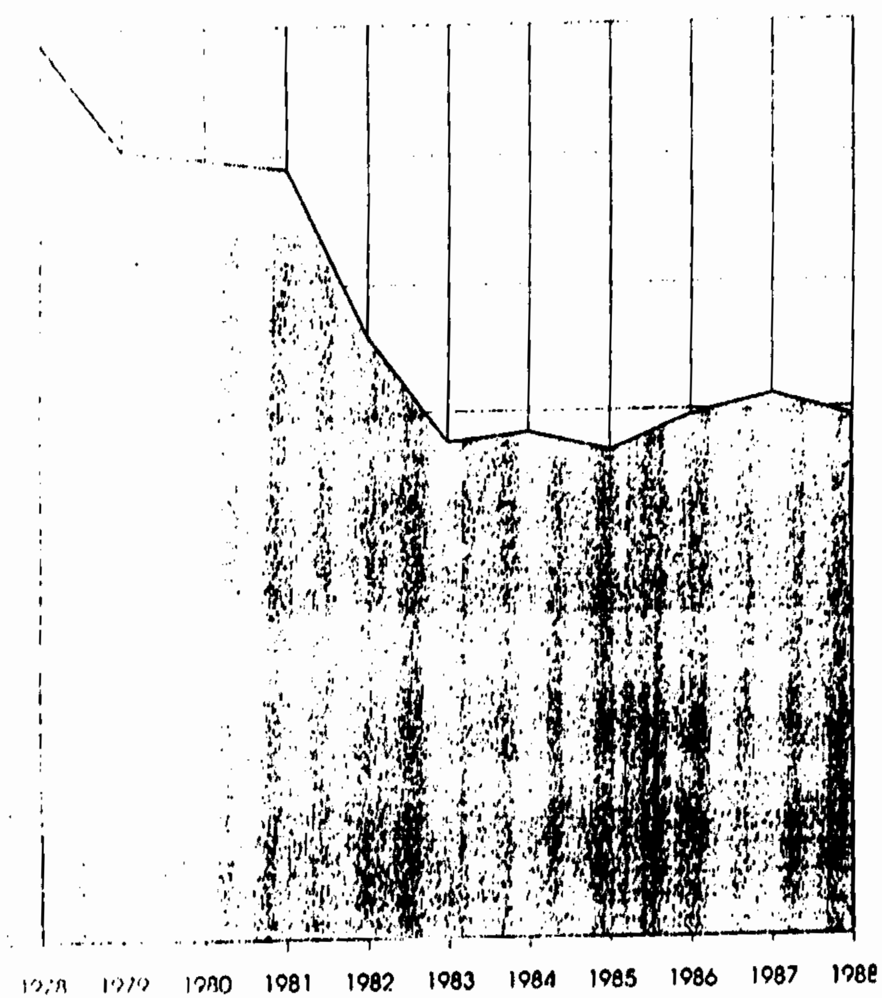
The inhospitable policy environment restricts both foreign and domestic investment. Furthermore, domestic entrepreneurs are constrained by a number of factors. Specifically, given Kenya's very high population growth rate, 400,000 new workers per year are eligible for employment, but the growth in job opportunities does not begin to meet employment demands. Despite strong growth rates recently, the informal sector is also limited in its capacity to employ and to increase productivity. Value added is low, the domestic market is limited, and with greater economic liberalization, outside competition may crowd out today's informal industries. Domestic enterprises have poor access to marketing, technology, and regulatory information, and are also constrained by lack of training in such basic areas as accounting and inventory management.

Like potential entrepreneurs in most other developing countries, prospective

Kenyan entrepreneurs have difficulty locating term funds for investing in productive fixed assets. To blame is a financial system which, though well formed for a country at Kenya's stage of development, still puts most of its term funds into relatively non-productive assets such as residential dwellings and land purchases. Because the financial system is conservative and averse to the risks that more profitable and innovative borrowing might produce, credit provision in general is based on very heavy collateral requirements. As a result, financiers in the formal sector are not skilled in project proposal assessment.

Chart II-9

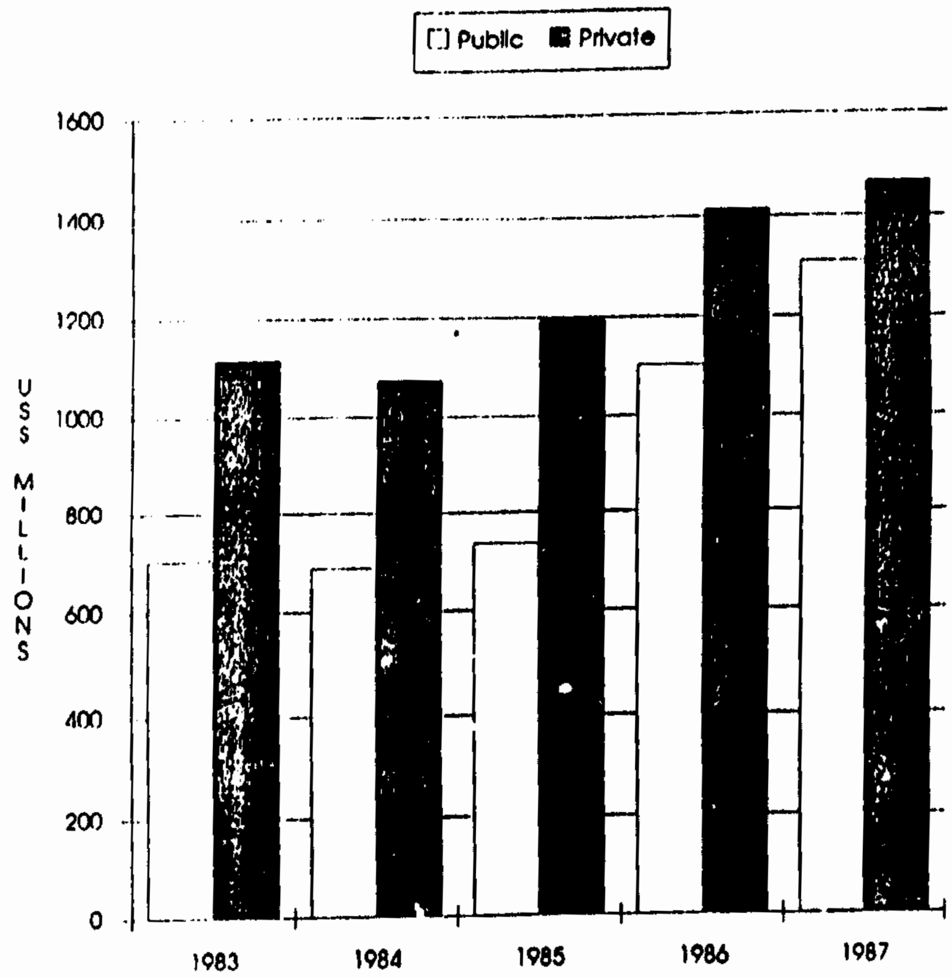
Gross Fixed Capital Formation (Constant 1982 Prices)



...ral Bureau of Statistics

Chart II-10

Credit Use 1982-1987



...rce: World Bank, Kenya: Recent Economic Developments & Policy Issues 1988

Source: Manual for Action in the Private Sector (MAPS) - Kenya, 1989

Table 1. Kenya: Selected External Indicators

	1964	1980	1984	1985	1986	1987	1988	1989
RATIOS TO GDP								
Merchandise Imports	24.7	36.5	25.5	24.[illegible]	23.4	23.6	24.3	2[illegible].3
Exports (GNFS)	n.a.	n.a.	20.2	19.3	20.2	15.5	16.1	16.3
Current Account Balance	5.1	-12.5	-1.9	-1.5	-0.5	-6.3	-5.3	-5.5
EXTERNAL TERMS OF TRADE	160.6	110.1	100.0	82.8	94.1	76.9	80.4	74.0
Import Price Index	17.7	101.0	100.0	104.2	112.2	113.7	125.2	n.a.
Export Price Index	28.4	111.2	100.0	86.2	105.6	87.5	100.7	n.a.
FOREIGN INVESTMENT (mn SDR)	n.a.	60	12.0	(22.0)	36.0	(6.0)	(15.0)	10.0

Table 2. Kenya: Selected Internal Indicators

	1964	1980	1984	1985	1986	1987	1988	1989
PER CAPITA INDICATORS								
Population ('000; midyr)	9,444	16,693	19,536	20,319	21,1[illegible]2	21,957	22,822	23,718
GDP/Capita Index	68.3	100.4	100.0	100.9	102.4	103.2	104.4	105.4
Consumption/Capita Index	103.9	121.0	100.0	93.4	108.9	110.8	113.5	114.4
Agriculture/Capita Index	93.4	101.8	100.0	99.6	100.4	100.4	101.1	101.1
PUBLIC SECTOR INDICATORS				(percent of GDP)				
Revenues and Grants	13.3	25.9	23.7	23.2	23.3	23.4	25.1	27.8
Expenditure/Net Lending	17.8	28.2	27.9	28.7	27.3	30.5	28.7	32.1
Fiscal Balance	-4.6	-2.3	-4.[illegible]	-5.5	-4.0	-7.1	-3.6	-4.3
Credit Growth				(percent growth)				
Public Sector				8.6	44.6	36.2	-2.1	n.a.
Private Sector				15.0	16.4	6.5	16.2	n.a.
				(percent of total)				
Public Investment	n.a.	n.a.	41.[illegible]	39.0	41.2	36.3	41.2	n.a.

III. WHAT OTHER ORGANIZATIONS ARE DOING TO ADDRESS CONSTRAINTS AND TAKE ADVANTAGE OF OPPORTUNITIES

A. Overview

1. Other Donors

Kenya receives a large amount of external assistance, more than $900 million in 1989. About two-thirds of the GOK's 1989/90 development budget is externally funded. Between 1985 and 1989, donor assistance has almost tripled. Kenya has diversified its sources of aid. The United States, once Kenya's leading bilateral donor, was the fourth largest bilateral donor in 1989, providing about nine percent of bilateral funding. The United States is the sixth largest donor overall, with about six percent of total donor funding. Currently, Japan is the largest bilateral donor. The World Bank continues to be the largest multilateral donor, accounting for about 25 percent of total aid flows. Other major donors include the Asian Development Bank, the European Economic Community, France, Britain, Denmark, Germany and the Netherlands.

Table III.1 summarizes major uses of donor assistance. In terms of functional priorities, four areas — agriculture, transport and communications, water supply and sanitation, and energy — continue to command the highest amounts of assistance. Agriculture is clearly the lead sector in donor assistance preferences (accounting for about 18 percent of 1989/90 aid flows). The United States, the World Bank, the Nordic countries, Germany, Italy, the United Kingdom, the EEC, the UNDP and IFAD devote large shares of their assistance budgets to agriculture.

In comparison to other sectors, donors give fairly low priority to education and training (3.4 percent of external resources in 1989/90). For the Government of Kenya, however, education takes an extremely high level (34 percent) of the recurrent budget for all ministries and consumes 24 percent of the total amount budgetted for all ministries.

There is growing donor support for structural adjustment as an essential element of Kenya's development. A substantial amount of aid (31.7 percent in 1989/90 aid flows) is in the form of non-project assistance. Donors are increasingly financing policy-based reforms and essential imports and are providing budget support. There is a relatively large share of such assistance in the programs of the World Bank, the United States, Japan, the United Kingdom, Germany, the Netherlands, the Nordic countries, the AfDB and the ADF.

2. Non-Governmental Organizations/Private Voluntary Organizations

NGO programs are a major feature of development efforts in Kenya. With about 400 registered organizations, three-fourths of which are locally based, Kenya's NGO sector is the most active in sub-Saharan Africa. NGOs carry out large numbers of activities at their own initiative and implement many additional activities with financial assistance from the GOK and from donors.

A recent study financed by the Ford Foundation estimates that about $32 million in donor assistance funds to Kenya is channelled through NGOs. Although this represents a little less than 3.6 percent of total aid flows, such assistance has enormous impact because NGOs operate in most areas of the country, play a disproportionately large role in the provision of social services (particularly health and education services), and usually target the underserved -- the rural poor, nomads, women, and the un- or under-employed. Typical sectors of NGO funding are community water supply, population/family planning, micro-and small-scale enterprises, health and education. Donor support for NGOs is likely to rise as the capacity of local organizations increases. It is estimated that another $150 million per year is channelled to Kenyan NGOs through international religious organizations.

3. Government of Kenya

The GOK's 1989/90 investment program is the equivalent of $922 million (see Table III.2). The Government commits the most resources from its development budget to transport and communications (nearly 18.7 percent), agriculture (about 18 percent) and energy (11 percent). Planning and finance, education and provision of water supply are being accorded roughly equal emphasis, with each targetted to receive about 8 percent of the

1989/90 development budget. Under its budget rationalization program, the GOK is increasing the budget for agricultural research and extension, as well as increasing nonwage operating and maintenance budgets in such sectors as education, health, roads, water supply and agriculture in order to increase the productivity of public investments.

B. Activities of Other Donors, NGOs and the GOK in Major Areas of USAID Concentration

1. Decreasing Population Growth Rates

The United States, the World Bank, UNFPA, the United Kingdom and Sweden devote a large share of their aid to activities designed to decrease population growth rates. USAID is the major donor in this area, with both the largest dollar amount and broadest scope of assistance. New information indicating that a demographic transition is well underway is expected to encourage even greater interest in providing assistance. See Annex E for a summary of other donors' current and planned assistance in this area.

Local NGOs play a major role in the delivery of health and family planning services in Kenya. It is estimated that 30 to 40 percent of rural health services are delivered through the network of hospitals and health centers which comprise the Christian Health Association of Kenya and Kenya Catholic Secretariat. Complementing these programs are clinic-based services provided by the Family Planning Association of Kenya and the health facilities operated by many commercial enterprises. USAID is supporting most of these activities with direct bilateral funding and through U.S. cooperating agencies such as the Association for Voluntary Surgical Contraception, Family Planning International Assistance, and the Pathfinder Fund.

Kenya has an official policy, reflected in a 1984 Sessional Paper, to reduce the rate of population growth. Political commitment, emanating from both the President and senior government officials, is considerable. The President is knowledgeable about and openly supportive of efforts to reduce rapid population growth through voluntary family planning. Kenya's national political party, KANU, has included family planning in its newly re-issued manifesto. Frequent references to the importance of family planning are seen in the popular press.

A National Council for Population and Development was established in 1982 and given responsibility for policy and strategy formulation. It is charged with coordinating all population activities and donor assistance for population in Kenya and with monitoring the implementation of such programs. Instead of directly implementing programs, NCPD serves as an intermediary through which funds flow to implementing organizations, in most cases NGOs. Virtually all of the funding coordinated and managed by the NCPD comes from donors. The GOK now finances most of the operational costs associated with the NCPD secretariat.

In addition to the NCPD, the primary vehicle for implementing the national family planning program is the Ministry of Health. Through the Ministry's extensive network of health facilities, a full range of family planning services is offered. The 1989 Demographic and Health Survey showed that more than 60 percent of current family planning users were served through the MOH system. Because family planning services are thoroughly integrated into the MOH system, the MOH contribution has, and will continue to be, largely in the form of salaries paid to health workers, physical facilities, and minimal levels of equipment and supplies needed to support the program. Most of the direct costs (such as those for training and contraceptive supplies), are financed by donors.

2. Increasing Agricultural Production and Farmer Incomes

All bilateral and multilateral donors in Kenya are involved in the agriculture and/or natural resource management sectors. An increasing amount of donor aid to the sector is in the form of non-project assistance. The multilateral banks, the United States, Japan and European donors are involved with policy-based programs and the provision of essential agricultural inputs. This form of assistance has strong support from the GOK. The World Bank, with probable co-financing from Japan, the Netherlands and Germany, is currently designing a second structural adjustment operation focused on pricing and marketing reforms and on budget

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rationalization within the sector. Eleven donors, including USAID, the World Bank, EEC and ODA are involved in a well-coordinated program of support to agricultural research through the Kenya Agriculture Research Institute (KARI).

NGOs are very active in the sector, particularly in the areas of natural resource management and community-based sustainable agricultural development systems. The rapidly expanding area of wildlife management -- a particular focus of NGOs -- is now attracting increased attention from the World Bank, USAID, the EEC, Japan and Germany.

The GOK strategy for agriculture is wide-ranging, including agricultural education, research and extension, provision of inputs, crop and livestock improvement, market development and many other activities. The overall thrust of this strategy remains the intensification of production on high to medium potential lands, although the strategy in recent years has been broadened, giving increased emphasis to arid and semi-arid lands (ASAL). This new emphasis responds to the need to bring more land under production and thereby provide opportunities for Kenya's expanding population. IFAD and UNDP have taken the lead role in this area, with other bilateral donors supporting the program in specific geographic areas of the country. Given the relatively limited acreage that can be put into production through this expanded emphasis, the greatest opportunity to increase productivity will remain in the high potential areas which are the focus of the USAID strategy. Through continued support to KARI, university education, and the International Council for Research in Agroforestry, USAID also contributes to the ASAL strategy.

3. Promoting Private Enterprise

Other donors, NGOs and the GOK are placing increasing attention on private enterprise as a key growth sector. USAID has emerged as a clear leader and innovator, and the USAID program is consistently cited as a model. Other principal donors in this area are the World Bank, IMF, UNDP, ILO, UNIDO, Germany, Norway and the Netherlands. The United Kingdom, Sweden, Canada, Belgium, Denmark and the European Community are taking steps to become more involved. Generally, the multilaterals have been involved in macroeconomic

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and institutional reform efforts. The bilateral agencies have focused on credit and training for micro- and small enterprises, as well as support to parastatals working with the informal sector and in small enterprise promotion. Among the bilateral donors, attention to women's enterprise issues has been particularly strong.

Most NGO/PVO efforts are directed at income generating activities, and training and credit for micro- and small enterprises. The USAID-supported Kenya Rural Enterprise Program is increasingly recognized as the pre-eminent NGO providing technical assistance, training, loans and grants to community-based enterprises and other NGOs.

The importance of private enterprise, and the need to encourage it, figures prominently in GOK pronouncements at the highest levels. Among its efforts in this sector in the past year, the GOK has restructured its Investment Promotion Centre, created a Capital Markets Authority, established an EPZ Steering Committee, and set up a cabinet subcommittee to expedite investment approvals. Also, the informal, or "jua kali," sector is gaining in importance and is expected to figure prominently in government actions during the next five years.

Table III.1: Kenya - Functional Distribution of Donor Assistance (Commitments - 1989/90)

	In U.S. million dollars	As percent of total
Agriculture, Forestry and Fishery....................	163.6	18.2
Transport and Communications.........................	124.7	13.8
Water Supply and Sanitation..........................	93.7	10.4
Energy...	90.0	10.0
Population and Health................................	51.2	5.7
Industry, Trade and Banking..........................	40.8	4.5
Education and Training...............................	30.6	3.4
Other sectors..	20.9	2.3
Non-Project Assistance...............................	285.6	31.7
Total..	901.1	100.0

Source: Government of Kenya, Development Estimates, 1989/90

Table III.2: GOK Development Budget by Ministry (1989/90)

	In U.S. million dollars	As percent of total
Transport and Communications (including roads)............	172.9	18.7
Agriculture, Livestock, Supplies and Marketing...........	109.4	11.9*
Energy...........................	101.4	11.0
Planning and Finance.............	76.9	8.3
Education and Training...........	76.5	8.3
Water Supply.....................	75.3	8.2
Office of the President..........	48.7	5.3
Local Government.................	48.1	5.2
Health...........................	46.7	5.1
Others...........................	31.6	3.4
Defence..........................	31.5	3.4
Research, Science and Technology..	30.7	3.3*
Environment and Natural Resources.	25.0	2.7*
Lands and Housing................	18.9	2.1
Regional Development.............	12.9	1.4
Industry and Commerce............	7.4	0.8
Cooperatives.....................	5.9	0.6*
Tourism and Wildlife.............	2.5	0.3
Total..........	922.3	100.0

*Percentage given on page III-3 for agriculture includes these elements as well.

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IV. USAID'S ROLE AND EXPERIENCE IN ADDRESSING THESE CONSTRAINTS AND OPPORTUNITIES

During the past decade, USAID has played a major role — along with other donors, NGOs/PVOs and the Government of Kenya — in assisting Kenya to overcome two of the three major constraints described in Section II.

Runaway population growth over the past decade brought with it the necessity of producing an ever greater amount of food on land being rapidly divided and subdivided as generations grew to adulthood. Efforts to increase and improve agricultural productivity, social services, and incomes or to build a solid base for economic growth were severely hampered or negated by the relentless onslaught of population growth. Thus, the need to decrease the rate of population growth and increase agricultural productivity have long been identified as Kenya's most urgent needs. The GOK and assistance agencies were convinced years ago that sustainable economic growth in Kenya was impossible unless significant progress could be made in meeting those needs. No one believed that the problems could be overcome through short-term solutions. And they were right. Long-term solutions were and continue to be required. USAID plans to continue to work toward those solutions.

During the past five years, USAID has also played an important role in assisting Kenya in efforts to increase the role of private enterprise in national economic growth and development.

Continuity of assistance has proved to be an extremely valuable factor in USAID's development effectiveness in Kenya. It has meant that the Mission has been contacted and consulted continually on the full range of issues within the three strategic areas of assistance, even when USAID funding for a given topic is minimal. USAID has therefore had much greater influence and impact than might otherwise have been the case. Access to decisionmakers through activities in the three priority areas has also given USAID a strong voice in influencing macroeconomic policies.

A description of USAID's interventions in its three stategic objective areas over the years could easily fill several volumes this size. For the purposes of this document, however, the segments that follow are brief. Additional information is readily available upon request.

A. To Reduce Population Growth

USAID is the major bilateral donor to the national family planning program in Kenya. The main focus of this support is on expanding and improving family planning services throughout the country.

Under the $46.2 million Family Planning Services and Support Project, financing is provided for in-service training of key health providers; establishment of voluntary surgical contraception (VSC) services; contraceptive supplies (IUDs, condoms, and vaginal foaming tablets); and logistics, community-based family planning services, and information, education and communication (IEC). In FY 1988, the project was amended to include support to the national immunization and diarrheal disease control programs of the Ministry of Health. Augmenting this effort, USAID is financing the Family Planning Private Sector Project ($8.4 million) and a community-based health and family planning activity through the Christian Organizations Research Advisory Trust (CORAT), a local NGO. Under the FPPS Project, USAID has funded the establishment and strengthening of family planning services in commercial firms, mission hospitals, and teacher colleges.

Several A.I.D. centrally-funded cooperating agencies and contractors are intimately involved in the implementation of the program. These include the Association for Voluntary Surgical Contraception (AVSC), The Pathfinder Fund, Family Health International, The Population Council, JHPIEGO, Management Sciences for Health, and John Snow, Inc. In each case, a combination of central and bilateral funding is being used to implement program activities. USAID also receives centrally-funded support from Family Planning International Assistance to strengthen/expand family planning services and from MEDEX to assist with the design and implementation of pre-service training curricula for key health workers.

Under the $15 million Health Care Financing Program, USAID supports government efforts to generate additional revenue for preventive and primary health care, both through user fees and reallocation within existing budgets.

B. To Increase Agricultural Productivity

Over the years USAID has been involved in many aspects of efforts to help Kenya increase agricultural productivity. There have been a number of major accomplishments, but much remains to be done.

USAID has had a relationship with Egerton University, Kenya's foremost agricultural university, on and off since the 1960's through a variety of technical assistance, participant training, and construction activities. The current project, Institutional Development for Agricultural Training, emphasizes curriculum development, staff training, and administrative management. A new activity during the CDSS period will assist Egerton to develop as a center of excellence, contributing to increased agricultural productivity. A fully integrated research, teaching and extension program will be developed; linkages with Kenyan and international research organizations will be strengthened; and a stronger partnership will be developed between Egerton and Kenya's private sector.

USAID has maintained a leadership role in the provision of fertilizer and the liberalization of fertilizer markets since 1984. A 1989 evaluation concluded that the availability, timeliness, and awareness of benefits of fertilizer use had significantly increased. The percentage of farmers purchasing fertilizer from private distributors has increased from 15 percent in 1984 to 53 percent by 1989. The other major donors in fertilizer (particularly IBRD and the Nordic countries) have adjusted their strategies and directly support USAID initiatives in this area. In late 1989, Kenya announced the total decontrol of fertilizer pricing, an important step but one which must be complemented by increased transparency of foreign exchange licensing procedures.

In coordination with 10 other donor agencies, USAID has supported the Kenya Agricultural Research Institute for the past few years, focusing on management and planning systems and on developing linkages with other research organizations. KARI has made tremendous progress in the past year in developing institutional systems and performing research activities, including the release of three new maize varieties.

Grain marketing reform has been a major focus of attention during the 1980's by the GOK with assistance from the EEC, IBRD and more recently USAID. The strategy of the EEC and IBRD efforts has been to develop a lower cost marketing system relying increasingly on the private sector within a national food security system regulated by the National Cereals and Produce Board (NCPB). Initial efforts have concentrated on efficiency improvements by NCPB. USAID and the GOK are presently negotiating a major cereals reform program for an early 1990 start which will focus on the informal marketing of cereals, while complementing continued efforts to improve NCPB's role in managing a strategic grain reserves and price stabilization role. In addition, USAID has supported the On-Farm Grain Storage project for the past six years which has developed, and demonstrated the economic advantages of adopting, new simple, low-cost technologies for storing grain on the farm rather than selling it at unfavorable prices to the NCPB.

Kenya's agricultural strategy, as detailed in Sessional Paper No.1 of 1986, gives prominence to increasing the role of the private sector in serving the agricultural sector. Progress has been slow in this area. USAID is the only donor that is providing support for strengthening management and operational efficiency of agribusiness firms. Within the past year, 24 firms have received direct support.

In additional efforts to work with and support the private sector in the agricultural field, KARI and Egerton (with encouragement from USAID) are beginning to carry out contract research and cost-sharing with private firms. For example, KARI is negotiating with a private U.S. seed company for joint research efforts on new maize varieties in Kenya. KARI's development of high yielding horticultural crops, particularly french beans, was an important factor in rapidly increasing exports of the commodity to European markets.

C. To increase Private Enterprise Development

For several years USAID Kenya has been implementing a wide-ranging private enterprise development strategy. This strategy consists of 20 distinct activities under five projects and accounts for over $100 million in USAID funding. It is one of the most ambitious private enterprise strategies yet implemented by A.I.D. in Africa and includes significant efforts in the areas

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of finance and equity market development, technical assistance, and training for management and policy reform.

Since 1983 the USAID program has provided credit to all levels of the private sector — small loans for informal and micro/small enterprises, medium term credit for rural enterprises, and loans to match equity investments. The program has fostered managerial and entrepreneurial development and has introduced new technology.

On the policy front, USAID has enabled key Kenyan institutions to conduct studies on issues of vital concern to the private sector and to engage their colleagues and the GOK in dialogue on policy changes and new policy implementation. In 1989 the Mission conducted a program evaluation of all private enterprise projects and activities to date — over $111 million in funding — which was the largest evaluation of private enterprise activities conducted by any USAID Mission. The results of the evaluation were used in a comprehensive sector assessment and strategy revision exercise using an Agencywide instrument, the Manual for Action in the Private Sector.

This first phase of USAID's private enterprise program activity has been referred to as a "targets of opportunity" approach. It is actually a complex set of interventions that are designed to test and demonstrate a variety of new, previously untried approaches in Kenya, and it is in various stages of implementation. For example, two credit programs can show the variation in the timing of interventions: one, Rural Private Enterprise, is completing its sixth year; another, Kenya Equity Management, is just making its first investments. Two other programs illustrate the use of a single implementing agency in multiple elements of the portfolio: the Kenya Association of Manufacturers implements both policy studies and a series of training seminars, while the Informal Sector (Jua Kali) Loan Program implements both credit and training programs. Some of the implementing agencies in all three elements are also targets of institutional development activities.

Moving into the 1990s, a new USAID program, Accelerated Investment and Market Support, will be developed to increase the rate and economic impact of private investment in Kenya.

D. Additional Areas of Support

1. Training

Through training, USAID ensures that Kenya has the technical, managerial, and leadership capacity to guide and implement national development, particularly through programs that support USAID's strategic objectives in agriculture, population and private sector development. Women represented 40 percent, and private sector participants, 45 percent, of all Kenyans supported by the Training for Development Project in 1989. Approximately $4,000,000 is spent each year for all training in the U.S., Kenya, and third countries.

Four thousand Kenyans, including many of Kenya's current leaders, have been trained in the United States since the 1950's, beginning with the Kennedy-Mboya airlift. Taking advantage of U.S. historical experience and comparative advantage, and of the importance of U.S. training for transferring technology and leadership skills, USAID is working to identify and train Kenya's future leaders in all fields. This focus on leadership, along with the emphasis on women, the private sector, and support for strategic objectives, will continue during the CDSS period.

2. Support to Non-Governmental Organizations/Private Voluntary Organizations

USAID supports NGOs/PVOs in the full range of the Mission's activities, particularly in the population, private enterprise, and biodiversity programs. In addition to delivering services under USAID projects, NGOs present opportunities for flexibility and experimentation with new ideas and approaches to development that help keep USAID's assistance current and responsive. Annual USAID support to NGOs/PVOs amounts to about $6.4 million.

3. AIDS

A.I.D. is a major donor to the National AIDS Control Control Programme, both through the WHO Global Programme on AIDS, AIDSTECH, and the Africa Bureau's HIV/AIDS Prevention in Africa (HAPA) Project. Through these three mechanisms, USAID has provided broad program support in the area of IEC and surveillance,

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improved diagnostics, and community-based education, counselling, and condom distribution.

4. Housing and Urban Development

The Regional Housing and Urban Development Office for East and Southern Africa (RHUDO/ESA) has been active in Kenya since 1972. Its programs have evolved over the years to meet changing development needs and USAID priorities. Emphasis has shifted from financing shelter provided by government agencies to working with private developers, financial institutions and the informal sector. In collaboration with USAID, RHUDO/ESA has substantially increased its attention to policy dialogue, training and institution building in support of its capital assistance. Efforts have broadened from shelter and service provision to concerns with urban development, especially in the context of developing agricultural market towns.

Three Housing Guaranty (HG) projects with an aggregate value of nearly $30 million have been implemented by the Nairobi City Commission. Another $30 million in authorized HG financing is currently available under the Private Sector Project and the associated Cooperative Housing Project, which will support privately produced and financed low-cost shelter in cities and towns throughout the country.

Outside Nairobi, RHUDO/ESA's Secondary Cities HG program financed low-cost shelter in 11 towns, and the more recent Small Towns Shelter and Community Development Project has financed shelter and urban infrastructure in 26 small towns. These projects have provided $20 million in capital assistance. The related technical assistance and training has focused on improving local government management and operations.

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V. PROPOSED COUNTRY DEVELOPMENT ASSISTANCE STRATEGY

USAID's strategy concentrates assistance in three key areas which are vital to the nation's development, where there is a demonstrated development need not being adequately addressed through other resources, and where U.S. assistance is believed to be able to make a significant difference. USAID also proposes to provide small amounts of assistance to a few selected target areas or organizations which have strong potential for positive development impact, are expected to be able to benefit significantly from limited support, are key factors in Kenya's long-term development, and/or address special Congressional concerns.

A. Goal and Subgoals

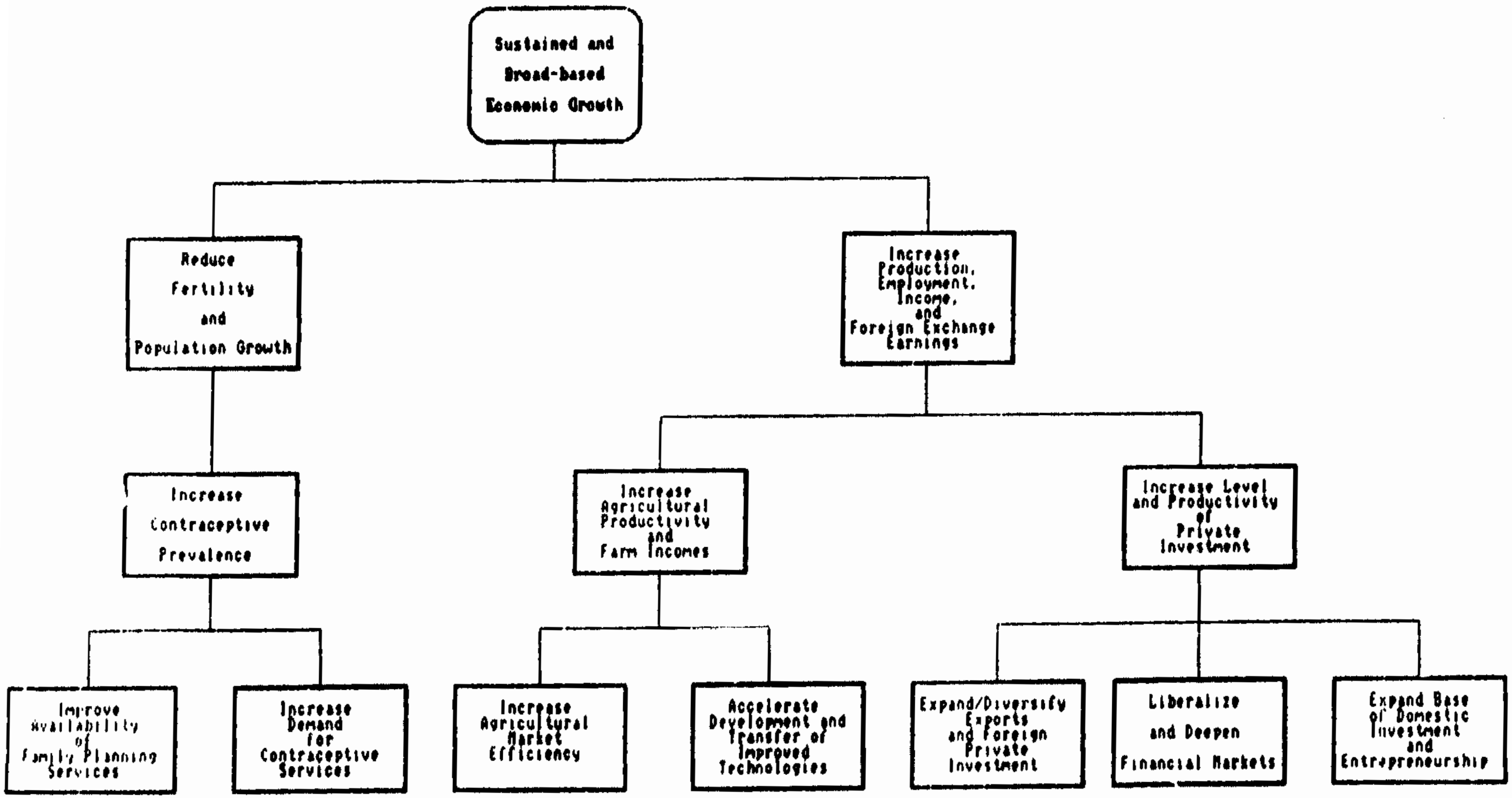
USAID/Kenya's goal for assistance in the FY 1990-95 period is to promote sustained and broad-based economic growth. In USAID's view and in the opinion of numerous assessments commissioned or reviewed in developing this document, Kenya clearly has the potential to achieve this goal. Success will depend on how well the GOK keeps its structural adjustment program on track, how effectively reforms are made and programs implemented to address issues and constraints discussed in Sections I and II, and how quickly the domestic and foreign private sectors respond to the improved investment climate the GOK intends to foster. Another major determinant of success or failure in meeting the goal will be the extent to which a recent declines in population growth can be accelerated. Accordingly, USAID proposes to focus assistance efforts on objectives within two subgoals which are the most critical components for sustained and broad-based economic growth in Kenya. Those subgoals are:

- reduce fertility and population growth; and
- increase production, employment, income, and foreign exchange earnings.

Without significant progress toward the achievement of these two subgoals, achievement of the overarching goal would be impossible. Conversely, the subgoals occupy such an important position at the heart of Kenyan development that substantial successes in these areas are expected to

USAID/KENYA

Program Objective Tree



have a positive impact on goal achievement even if some other key elements of the nation's development program are less than successful.

B. Strategic Objectives

The most direct, most cost-effective, and surest way of reducing fertility and population growth is to increase contraceptive prevalence. This linkage is clear in development literature and in the experience of Kenya and other countries making progress toward the same objective. While there are many other factors which affect fertility and population growth to some degree, USAID has no doubt that concentrating financial assistance and experience on achieving this strategic objective will have the highest impact on achieving the objective.

Strategic objectives that could be pursued to increase private production, employment, income, and foreign exchange earnings are broader and generally less demonstrably linked to the sub-goal by development literature and A.I.D.'s experiences in other developing countries. Over the past several years, partially in preparation for this CDSS, the Mission carried out a series of studies to assist in defining the most appropriate strategic objectives, given Kenya's development experience and potential, to meet this subgoal.

Although their purposes, analytical bases and methodologies differ greatly, there is a common core of recommendations, which are supported by USAID staff perceptions and experiences in Kenya and elsewhere and by development objectives of the Government of Kenya. They have led to the conclusion that: (1) increasing agricultural productivity and farm incomes is critical for national development and for the majority of Kenyans who depend on farming for all or part of their livelihood and (2) increasing the productivity of private investment is essential to moving Kenya to a higher level of economic growth and development.

Therefore, three strategic objectives are proposed as the foundation of the USAID/Kenya program. They are to:

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— increase contraceptive prevalence,
— increase agricultural productivity and farm incomes, and
— increase the level and productivity of private investment.

Linkages between the objectives are evident at many points, and progress toward (or backsliding from) one objective is likely to lead to progress (or deterioration) in the others. For example, an increase in contraceptive prevalence that leads to a reduction in fertility, and hence a reduction in the population growth rate, would have a major positive effect on the employment situation and on income levels and would enhance the positive effects of increases in agricultural and industrial productivity. Alternatively, low contraceptive use and resulting higher fertility rates would be expected to severely limit or nullify increases in food production, lead to lower per capita incomes, and greatly decrease the effects of any improvements in private investment or industrial productivity.

1. Objective: Increase Contraceptive Prevalence

USAID's long-term goal is to assist Kenya in reducing its very high rate of population growth. Specifically, USAID supports the GOK's effort to reduce the rate of population growth from 3.8 percent in 1989 to 2.8 percent by the year 2000. By the end of the CDSS period in 1995, the rate is expected to have decreased to no more than 3.2 percent. To reach this goal, USAID plans to focus on increasing contraceptive use in Kenya through continuation and improvement of highly successful, comprehensive family planning activities. Assistance will help to increase the number of service delivery points, both for clinical and non-clinical services, and improve the quality of care delivered at these sites.

Through increased access to quality services, USAID expects contraceptive use among married couples of reproductive age to increase from the current level of 27 percent to 35 percent by the end of 1995. Use of the most effective methods of contraception by that group is expected to increase from 18 percent to 24 percent during the same period.

On the basis of data collected through the USAID-funded 1989 Demographic and

Health Survey, it is clear that substantial regional variation in contraceptive use levels exists, ranging from 40 percent of married women of reproductive age in Central and Eastern Provinces to less than 20 percent in Coast Province and less than 15 percent in Nyanza and Western Provinces. A variety of factors -- cultural beliefs and practices, women's status, educational levels, and others -- contribute to these lower rates. In addition, the relative weakness of family planning services and relatively high infant/young child mortality rates in those areas are also important factors. A refinement of the USAID objective of increasing contraceptive use nationally, therefore, will be to focus increased attention, both for family planning and child survival, on these low prevalence areas. Specifically, USAID will aim to increase contraceptive prevalence to 25 percent in Coast Province and 22 percent in Nyanza and Western Provinces by the end of 1995.

Ultimately, the success of health and family planning service programs in Kenya will depend on the ability of the GOK and NGOs to finance them, but more funds need to be generated and allocated to preventive/primary care before this can happen. USAID is assisting the GOK with the implementation of policy and program changes designed to institute a cost-sharing program for health services and to encourage increased efficiency in the health sector (see Section V.C.1).

a. Target: Improve the Availability of Family Planning Services

The timely availability of adequate supplies of all contraceptive methods is critical to the achievement of planned improvements in service delivery and increases in contraceptive use. USAID has provided technical and financial assistance to the Ministry of Health, and more recently to NGOs, to improve planning, procurement, and distribution of contraceptives. A system for monitoring supplies is central to this effort, and such a system has been designed and instituted in 22 of Kenya's 42 districts. In close collaboration with the World Bank and SIDA, USAID will continue to expand and improve contraceptive logistics and supply systems throughout the CDSS period.

Improving clinic-based services will be an important means of attaining the target. Despite recent gains, large numbers of public and private health facilities do not routinely offer family planning services. The primary constraints are lack of trained staff and lack of equipment and supplies needed to support those who have been trained. To address these problems, USAID will accelerate in-service training of key family planning service providers; expand the number of private sector service delivery points, focusing on strengthening and/or introducing family planning in existing health facilities; and continue the expansion of voluntary surgical contraceptive (VSC) services in both the public and private sectors.

A significant portion of Kenya's rural population does not have ready access to a health facility. For that reason, it is essential that clinic-based services be supplemented with community-based information and services. USAID is now providing and proposes to continue to provide technical and financial support to enable several indigenous NGOs to introduce and/or expand community-based health and family planning services. While both large and small NGOs are encouraged, the strategy is to focus on those NGOs that represent (at least potentially) large service delivery networks. These include the Family Planning Association of Kenya; the Christian Health Association of Kenya; the Christian Organizations Research Advisory Trust; and Maendeleo ya Wanawake, the national women's organization.

USAID will also continue to encourage increases in the numbers of private sector family planning service delivery points in order to expand coverage to the largest number of potential contraceptive users and to reduce the burden on public facilities. In addition, supporting retail sales of contraceptives is an important means of improving access to services, particularly in urban and semi-urban areas. Contraceptives need to be readily available at affordable prices through retail outlets. Though this has been a key element of USAID's strategy for several years, USAID has not been able to pursue this initiative under the aegis of an official GOK institution. USAID has been advised, however, that such an activity may be undertaken as a purely private sector initiative, using resources outside the bilateral project. USAID intends to work with local private entrepreneurs to build on modest efforts undertaken to date to make condoms, and eventually oral contraceptives, available through retail outlets at reasonable prices.

Benchmarks

By the end of FY 1993

— Couple years of protection (CYP) associated with community-based services (CBS) increases by at least 15 percent over 1990 levels.
— Percentage of population with access to CBS increases by at least 15 percent over 1990 levels.
— Improved logistics system is operational in all 42 districts (22 operational now), and at least 12 months supply of contraceptives is in Kenya at all times.
— CYP associated with MOH clinic-based services increases by 15 percent over 1990 levels.
— The number of retail outlets selling contraceptives at subsidized prices increases from 150 to 400, and sales volume increases from 700,000 to 2,000,000 condoms per year.

By the end of FY 1995

— CYP associated with community-based services increases by at least 25 percent between 1990 and 1995.
— Percentage of population with access to CBS increases by at least 25 percent over 1990 levels.
— Percentage of MOH facilities routinely offering family planning services increases from 50 percent to 80 percent.
— The number of private sector (to include private practitioners trained through the Kenya Medical Association) service delivery points routinely offering family planning services increases from 150 to 200.
— The number of sites delivering Voluntary Surgical Contraception (minilaparotomy) services increases from 52 to 100.

b. Target: Increase Demand for Contraceptive Services

There is substantial unmet demand for family planning services in Kenya. Therefore, USAID does not plan to make large investments to further stimulate

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demand but will work to influence demand directly through the provision of information on contraceptive methods and indirectly through efforts to further reduce infant and young child mortality. It has been well documented in Kenya that providers and clients are often poorly informed about contraceptive methods and about where family planning services can be obtained. USAID will intensify efforts both with the Ministry of Health and NGOs to ensure that complete and accurate information is available on all contraceptive methods offered by the program. USAID recognizes the important impact of female education on contraceptive use and on fertility. Other donors, particularly the World Bank, provide large amounts of support to educational assistance; USAID may help in some small way, such as funding studies of female education in Kenya, with particular emphasis on the impact of education on fertility.

Improving child health and reducing infant and child mortality is important to Kenya for humanitarian and economic reasons. It is also believed to be an important factor influencing demand for family planning services. Data from the KDHS show much lower rates of contraceptive use where infant and young child mortality remain high. USAID plans to continue support for immunization and Oral Rehydration Therapy (ORT) programs over the next few years, giving special attention to these high mortality areas. USAID is reluctant to propose a mortality benchmark given the lack of reliable data to serve as a baseline. It is proposed, therefore, that no benchmark for infant and child mortality be established until the 1989 Census data are available.

Benchmarks

By the end of FY 1993

— proportion of women citing lack of knowledge of contraceptive methods as a constraint to contraceptive use decreased from 23 percent to 15 percent.

By the end of FY 1995

— proportion of women citing lack of knowledge of contraceptive methods as a constraints to contraceptive use decreases from 23 to 10 percent.

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— proportion of women knowing where IUD and female sterilization services can be obtained increases from 60 and 66 percent, respectively, to 85 and 90, respectively.

2. Objective: Increase Agricultural Productivity and Farm Incomes

With its substantial contribution to gross domestic product, export earnings and employment, the agricultural sector occupies a central place in Kenya's economy. Analysis of the economy shows that growth targets for the economy as a whole are unobtainable without rapid growth in the agricultural sector. Significant improvements in the performance of the sector will increase incomes and improve the quality of life for a large majority of the population.

USAID's agricultural sector strategy focuses on increasing smallholder productivity in the high potential areas. Research has indicated that it is in these areas that policy reforms, improved marketing systems, and investments in infrastructure, research, and human resource development will have the greatest impact. Emphasis on smallholders is appropriate. Approximately 70 percent of current output is produced by small farms. Also, large farms are already achieving high yields for major commodities and analysis shows that during the next decade a projected 85 percent of increased production will come from the smallholder sector. The majority of smallholders are women.

Despite relatively high rates of agricultural growth in recent years (estimated at 4.2 percent for the past five years), future growth in the sector is constrained by a shortage of arable land, high population growth rates, inefficient domestic agricultural markets, unstable international markets for Kenya's agricultural exports, and a policy/institutional environment which requires considerable adjustment and development. During the CDSS period, USAID plans to devote significant amounts of financial and personnel resources throughout the program to efforts to relieve some of these constraints.

A continuing emphasis on productivity increases for basic food grains is essential to meet GOK food security objectives. Significant yield increases by smallholders in the near term (for maize, 1.5 metric tons per hectare to 3.3 metric tons per hectare) will allow food security targets to be met and will allow smallholders to use at least some of their land for high-value commodities. Increases in market efficiency and the availability of improved technology over the longer term will facilitate the shift to high-value commodities.Several development themes will be important in carrying out activities under this objective. Encouraging greater private sector involvement in both input and output marketing and in development of agribusinesses is a key element of several planned interventions under both this strategic objective and the objective described in V.B.3. The important role women play in managing farms and in making agricultural decisions will be encouraged and supported in all USAID program interventions.

Another recurrent theme is the recognition that sustainable economic development depends on preservation of the country's natural resource base. Natural resources issues will be addressed through agricultural research, university education, and support to government and PVO/NGO environmental activities. Wildlife protection and management is scheduled to receive special attention (See Section V.C.2).

a. Target: Improve Agricultural Market Efficiency

The lack of a well-developed marketing system which stimulates a high level of private sector participation has been identified as a fundamental constraint to increasing agricultural productivity and incomes in Kenya. During the first few years of the CDSS period, USAID, in collaboration with other donors, will continue to encourage the commercial importation and distribution of fertilizer. Shifting this important input from GOK control to private sector marketing is expected both to improve the fertilizer program and to strengthen GOK confidence in the ability of private firms to provide critical inputs to small and large farmers in a cost-effective manner. This will be a major contribution to the target of improving market efficiency.

Throughout the CDSS period, USAID will assist the GOK to improve its marketing policies and to develop the capacity to analyze and predict the impact of those policies. The maize market will be the focus of marketing improvements, with a longer-term goal of developing a rationalized marketing system for all commodities. Such a system would promote efficient allocation of investment by farmers and traders based on clear market signals and the principles of comparative advantage. USAID will encourage and support major reforms such as the elimination of commodity movement controls in the maize market during the next few years. Concentrating initial marketing development efforts on maize, the central commodity in the marketing system, is expected to increase GOK confidence in potential private sector contributions to market development. Since the vast majority of Kenyan farmers produce maize both for consumption and sale, the economic and policy signals emanating from the maize marketing system can have a major effect on farmer incomes and affect the decisions of producers and private traders in other commodity systems as well.

Improvements in maize marketing should also facilitate a shift toward higher-income crops by clarifying market signals and fostering the establishment of a reliable and low-cost distribution system which would make maize more readily available for sale in many parts of the country. Some of the Kenyan farmers who produce maize (and nearly all of the smallholders do) could increase their net farm incomes by producing other higher-value crops (either in combination with or instead of maize) in line with their natural comparative production advantages.

During the next few years, the Regional Housing and Urban Development Office proposes to initiate a market town development program which would be complementary to and highly supportive of USAID market interventions. The efficient functioning of agricultural market towns is an important element in the economic development of Kenya and in the improved operation of the market system. Market towns provide inputs and services to the farmers in the surrounding area; they are markets for and processors of agricultural commodities; and they provide off-farm employment. Several recent studies have confirmed the interdependence of the rural and urban economic systems in Kenya and have clearly demonstrated the direct relationship between stable sources of non-farm household income and increases in agricultural investment and productivity. Economic rates of return of 14 percent to 17 percent per annum attributable to market infrastructure were found in one Kenyan market town.

As another element in improving market efficiency and in achieving private enterprise targets described in Section V.B.3 below, USAID plans to encourage the development of agribusiness firms. This will include supplying management assistance to agribusiness firms which provide input, marketing and processing services to producers; supporting organizations and individuals who work to improve regulations and procedures; and offering credit to give selected firms needed capital to further develop their businesses and expand into new markets. As the investment environment improves, these firms are expected to expand their operations and play an increasingly important role in Kenya's economic development.

Benchmarks

By the end of FY 1993

— Reduce marketing costs for maize and beans by 15 percent.
— Increase smallholder farm gate prices for maize and beans by 10 percent.
— Reduce regional and seasonal maize pre-milling price variations, reflecting increased arbitrage activity.
— Increase private sector share of commercial fertilizer imports from 10 percent to 35 percent.

By end of FY 1995

— Reduce marketing costs for maize and beans by 30 percent.
— Increase smallholder farm gate prices for maize and beans by 20 percent.
— Further reduce regional and seasonal maize pre-milling price variations, reflecting further increases in arbitrage activity.
— Increase private sector share of fertilizer imports from 10 percent to 60 percent

b. Target: Accelerate Development and Transfer of Improved Technologies

Development and transfer of improved technologies within a positive incentive structure for producers is a critical factor for increasing productivity and farmer incomes in Kenya. In the short run, increased input use and improved , husbandry practices can achieve production gains. In the longer term research efforts must focus increased attention on developing and disseminating technologies and sustainable farming systems appropriate to the resource constraints of the majority of smallholders. The adoption of yield-increasing technology must be accelerated to achieve significantly higher levels of output.

Several analyses and evaluations have concluded that the most critical element in increasing yields is the availability and use of agricultural inputs, particularly fertilizer. Although significant progress has been made and important policy and systems reforms have taken place during the past few years (in large measure because of USAID actions), there remains potential for higher levels of fertilizer consumption resulting in increased productivity. More rapid dissemination of improved technologies combined with increased efficiency in marketing systems is expected to address major constraints to increased fertilizer use. For the next few years, USAID plans to continue a successful program which promotes the commercial importation, distribution and use of fertilizer.

Improving the quality and efficiency of Kenya's system of agricultural research, technology development, and technology transfer is the central, long-term strategy for this target area. In the CDSS period, USAID's agricultural research activities will focus on strengthening research management and coordination and supporting specific commodity research programs. Sustaining the current commodity focus on basic grains (maize, sorghum/millet) can lead to major productivity gains, an important contribution to facilitating the shift to higher value commodities -- the longer term objective. USAID will also be evaluating the potential for more direct research assistance to high value food and non-food crops (particularly horticultural commodities) to complement the present research focus. Emphasis will be placed on strengthening linkages between research institutions and agribusiness firms for the dissemination of new technologies. USAID will promote policy reforms and provide management assistance to enable private businesses to market improved products and inputs directly to farmers.

Specifically, USAID will continue to provide technical and financial resources for development of the Kenya Agricultural Research Institute (KARI);

provide selected investments in training and applied research at Egerton University; encourage technology transfer through both institutions; and foster the linkages of both institutions to agribusinesses, to private research organizations, and to international research organizations.

Support to Egerton University will focus on programs to improve training in extension and applied research for three distinct groups: technicians who will own or manage private agricultural or agro-industrial enterprises, personnel who will staff the research and extension services, and graduates of Egerton who will assume high-level roles in agricultural research and policy making.

The combination of the above activities will result in a more rapid development and transfer of improved technologies and is expected to lead directly to increased agricultural productivity and farmer incomes.

Benchmarks

By the end of FY 1993

- Increase fertilizer use by small farmers by 15 percent.
- Increase ratio of operations and maintenance expenditures to salary expenditures in KARI budget from 20:80 to 30:70.
- Increase the rate of developing technological packages for specific agro-ecological conditions -- 10 by 1993.
- Increase the rate of release of new technological packages -- 4 by 1993.
- Increase food grain output per hectare by 10 percent for smallholders.

By the end of FY 1995

- Increase fertilizer use by small farmers by 25 percent.
- Increase ratio of operations and maintenance expenditures to salary expenditures in KARI budget from 20:80 to 40:60.
- Increase the rate of developing technological packages for specific agro-ecological conditions -- 15 by 1995.
- Increase the rate of release of new technological packages -- 7 by 1995.
- Increase food grain output per hectare by 20 percent for smallholders.

3. Objective: Increase Level and Productivity of Private Investment

The greatest opportunity for achieving high levels of sustainable economic growth and development in Kenya during the next five years is through increased production of a range of private sector goods and services. This increased production can only be accomplished through increased and more productive private investment, both foreign and domestic. As explained in Section II.B.3 of this document, the level of domestic savings and investment mobilization is high in Kenya. However, the prevailing import substitution trade regime, government controls and lack of incentives have adversely affected the quality and magnitude of both domestic and foreign investment. As a result, a large proportion of investment is currently directed to low productivity and/or speculative activity, such as state-owned enterprises and land and real estate development. GDP growth rates in Kenya are therefore lower than rates achieved in other countries with the same overall level of investment.

Increasing the level and productivity of private investment will result in greater value added to the society at large over the medium and long terms, sustained employment generation, higher productivity of capital and labor, and increased foreign exchange earnings from productive investments (e.g., agro-processing and manufacturing). Creation of new jobs will allow more Kenyans to contribute to and benefit from the growth taking place. To the degree that private investment is focused on agribusiness and rural enterprise, the country's largest economic sector and thus the majority of Kenyan workers will be directly involved. In addition, planned improvements in capital markets and financial systems should better spread the advantages of productive investment to segments of the society often excluded from the benefits of economic growth.

To measure performance in increasing the productivity of private investment, USAID will monitor decreases in the incremental capital-output ratios for the manufacturing sector and for the economy as a whole; increases in the ratio of private fixed investment to total fixed investment in the economy; and increases in the ratio of gross domestic savings (both public and private) to gross domestic product. The Kenyan economy has nearly exhausted the per capita growth potential inherent in the import-substitution, public sector-led development strategy it has pursued since Independence. Recognizing this fact, USAID has played a key role in encouraging and implementing attitudinal, operational and legal changes with respect to the private sector. During the CDSS period, USAID proposes to build on this foundation, concentrating activities in areas determined by experience and recent extensive analysis to have the greatest impact on the achievement of the Mission's goals and objectives. Creation of an improved enabling environment for private enterprise growth is an overarching theme of the strategy and is a prerequisite to achievement of all three of the specific target areas described below.

a. Target: Expand/Diversify Exports and Foreign Private Investment

With a limited domestic market, Kenya's greatest opportunity for a substantial leap in economic growth lies in expansion and diversification of export production. This will require major changes in the anti-export bias embodied in current policies and regulations as well as the development of industries capable of competing in markets outside Kenya. Current GOK policy statements assert that the expansion and diversification of exports is a key element in a high growth strategy. Recent studies have concluded that Kenya has good potential for increasing exports of horticultural and other fresh agricultural products and for becoming a successful exporter of manufactured goods in a number of sectors, particularly those which involve labor-intensive operations such as garment manufacturing and processing of local agricultural products. Agro-processing also links directly to the USAID strategic objective of increasing agricultural productivity and farm incomes.

The Government of Kenya, impressed by the success of the newly industrialized countries and following the recommendations of a USAID-funded policy study on Export Processing Zone (EPZ) development in Kenya, is committed to establishing several EPZs over the next five years. The EPZs should attract new investment through comprehensive and automatic incentive programs for export manufacturers. Continued encouragement by donors to liberalize government controls, along with actual experience in doing so through

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EPZs, should result in deregulation of offshore investment and manufacturing being extended throughout the economy.

In concert with other donors, particularly the World Bank, USAID proposes to play an active role in export development. USAID will assist in the planning, management and promotion of privately managed EPZs and will support establishment of an Export Processing Zone Authority which will provide regulatory oversight and expedite government approvals for activity within the Zones. Additional support might strengthen a restructured external trade authority to promote exports of new goods to new markets, increase the volume of non-agricultural exports, and encourage greater transparency and more automatic procedures in the export process.

The Mission will also conduct studies and carry on a continuing dialogue with the GOK regarding policies that encourage export and investment growth. USAID will support policies which reduce or eliminate trade regulations, particularly import restrictions; reduce institutional controls affecting access to foreign exchange, export licenses and customs clearances; and expedite approvals for travel and currency exchange in support of marketing activities. Assistance will be provided to the GOK tax reform and budget rationalization efforts to ensure that tax policy encourages private investment.

Increasing foreign private investment is a necessary complement to export promotion as most new foreign investment will probably be export-oriented. By working simultaneously to expand and diversify exports and to increase foreign private investment, maximum impact on employment and economic growth will be achieved. Foreign private investment has stagnated in recent years and must be revitalized in order to attract needed foreign exchange, generate employment, introduce new technology, promote production practices which will help Kenyan enterprises move into export production, and link domestic resources with world markets. To encourage foreign private investment, USAID will work at the policy level to improve the investment climate and create an enabling environment for investment growth. The Mission will also assist in implementing revised policies and streamlined procedures in concert with GOK export promotion efforts. During the CDSS period, the Mission will support agribusiness trade groups, the chamber of commerce, the manufacturers association and other institutions which can effectively represent key elements of the Kenyan private sector in lobbying the Government of Kenya, introduce new technology and management practices to local industry, and assist in matching joint venture partners and linking Kenyan producers with overseas markets. Additional support from USAID will strengthen the Investment Promotion Centre as a "one-stop shop" for both offshore and local investors.

Benchmarks

By the end of FY 1993

- EPZ Authority fully operational; one EPZ established.
  Export earnings from non traditional exports (value-added from EPZs, manufactured exports and horticulture) increased by 50 percent in nominal dollar terms over 1989 figure.
- 20,000 jobs created directly through establishment of export oriented enterprises.
- New foreign private investments worth between $25 and $50 million (an estimated $3.5 million in new investment was made in 1988/89).

By the end of FY 1995

- Two EPZs fully operational.
- Export earnings from non traditional exports increased by 100 percent in nominal dollar terms over 1989 figure.
- 50,000 new jobs created directly through new foreign private investment and export-oriented enterprises.
- New foreign private investments worth between $50 and $100 million.

b. Target: Liberalize and Deepen Financial Markets

Growth in Kenya's financial markets will directly contribute to increasing the level and productivity of private investment in Kenya by providing new financing options for enterprises, new instruments through which savings can be invested for productive activities, incentives for privatization of parastatals, exit options for current equity holders, and a level of confidence essential to attract both foreign and domestic private investment. With USAID support, the Government of Kenya recently enacted legislation which created a Capital Markets Authority to provide regulatory oversight to the security and money markets in Kenya. This statutory body, modeled after the U.S. Securities and Exchange Commission, will facilitate introduction of new financial instruments and oversee marketplace activities. Decreased government involvement and resultant increased investor confidence are expected to help energize the Nairobi Stock Exchange, which has been dormant for much of its 35-year history. Policy analysis and implementation assistance to the Capital Markets Authority, the Nairobi Stock Exchange, the Central Bank, and selected financial institutions during the planning period will enable them to contribute to strengthening Kenyan financial markets.

Two venture capital companies now exist in Kenya, and both receive USAID assistance. Venture capital is still a relatively new and foreign concept in the Kenyan context. However, there is growing investor interest in equity investments as an opportunity for portfolio diversification, with third party management and potential for high yields. Project sponsors are increasingly interested in equity participation as an attractive non-debt option for securing needed resources for startup and/or expansion, particularly when management expertise can be offered as part of the package. USAID will continue to support the growth of venture capital companies/funds in Kenya through provision of credit lines and technical assistance.

In addition to enhancing the regulatory environment and introducing equity options and other new financial instruments for productive investment, much needs to be done to increase access to available credit. USAID has been working with the GOK for several years to introduce medium-term lending for fully collateralized rural borrowers. The effort has not been wholly successful, in large measure because interest rates have been controlled which has provided a disincentive to commercial banks to extend this type of credit. The GOK recently has amended the program's interest rate structure, an action which should help to institutionalize access to term credit for productive investment. USAID continues to encourage further interest rate deregulation by pointing out the negative impact that interest rate ceilings have on credit availability for small businesses.

To address the issue of collateral, which currently limits access to credit for many borrowers, particularly women, USAID will provide limited training and technical assistance on project-based lending techniques and extend guarantees and targeted medium-term credit through new financial intermediaries. These interventions will improve access to credit for productive private investment, provide experience to banks and non-bank financial institutions in using new appraisal techniques to deliver new services to a different client group, and offer a demonstration model to the rest of the Kenyan financial sector.

Benchmarks

By the end of FY 1993

— Interest rates deregulated.
— Regulatory framework in place for launch of secondary market for T-bills and mortgages, money market instruments, and mutual funds.
— Total equity raised through venture capital companies increases to 60 million Ksh.
— 200 percent increase in number of new issues floated on the Nairobi Stock Exchange (one new issue in 1989); 30 percent increase in volume of trading (average volume of trading for 1989 was 13 million Ksh).
— Medium-term credit extension increased as a percentage of total lending by financial intermediaries.

By the end of FY 1995

— At least one issue of a money market and mutual fund instrument: activity in the secondary market for T-bills and mortgages.
— Volume of trading increased by 50 percent, and new issues on Nairobi Stock Exchange further increased.
— Total equity available through venture capital funds increased to 80 million Ksh.
— Medium-term lending further increased relative to short-term lending by financial intermediaries.

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c. Target: Expand the Base of Domestic Investment and Entrepreneurship

An increasing amount of manufacturing activity in Kenya is based in small and informal sector firms. In fact, small business has contributed most to private sector growth in recent years, while large businesses were stagnant. The small/informal sector is also the area in which uptake potential for employment is highest. This was the only sector in which employment grew in the 1980s. This trend is expected to continue, at least until structural changes occur in the economy. Thus, mobilization of local investment, increased productivity, and expansion of the number and skills of Kenyan entrepreneurs have significant potential to fuel broad-based economic growth. These factors provide important linkages with new export initiatives, increased foreign investment and financial market development. Targeted assistance to Kenyan investors and entrepreneurs also complements and provides a strong demonstration effect for key macro-level and institutional reform efforts.

As described in Section II, domestic investment has not been directed to productive activity and this has severely limited economic growth in the 1980s. Further, a concentration of wealth in relatively few hands poses serious political and equity problems. Although only one-half of one percent of the country's population is of Asian (ethnic Indian/Pakistani) origin, this minority controls at least 70 percent of private industry and commerce in Kenya. The GOK is therefore concerned that Asians stand to benefit disproportionately, at least initially, from economic liberalization.

As the primary effort under this target area, USAID proposes to support and promote activities which increase the presence and skills of Kenyans of African origin as enterprise managers and owners. In keeping with efforts to achieve growth both in the short and the longer term, USAID's aim will be to promote greater participation of the indigenous population in the economy, not to exclude participation of others. Through USAID programs, disadvantaged individuals such as women and rural entrepreneurs will benefit from direct interventions in training, technical assistance and credit to which they normally would not have access.During the CDSS period, USAID plans to provide assistance to make businesses more productive, enable them to benefit from divestiture of state-owned enterprises, help them adjust to a changing economic environment and remove barriers to entry into the formal sector. Such interventions will address the increasingly critical employment problem in Kenya. Assistance might include training, credit for small and medium enterprises, and increasing entrepreneurs' access to information on joint ventures, marketing opportunities, credit sources and government regulations.

Local advocacy groups play an important role in encouraging policy reform and promoting investment. USAID proposes to continue efforts to strengthen business organizations such as the chamber of commerce, the manufacturers association and the agribusiness consortium, which have fairly broad-based membership and provide increasingly useful facilitative services to members.

Benchmarks

By the end of FY 1993

-- Number of Kenyans of African origin and women as a percentage of entrepreneurs increased by 20 percent for each group, as measured by the number of new formal businesses registered per year.
-- Increase the percentage of small enterprises receiving more than half of their capital from commercial services to 30 percent (from less than 25 percent in 1989).
-- Membership of small and micro enterprises and owner-operated firms in business organizations increased by 30 percent.

By the end of FY 1995

-- The number of Kenyans of African origin and women as a percentage of all entrepreneurs increased by 40 percent for each group from 1990 baseline.
-- Increase the percentage of small enterprises receiving more than half of their capital from commercial services to 35 percent.
-- Membership of business organizations increased by 50 percent.

C. Additional Contributions to Goal Achievement

USAID contemplates some assistance for activities which, while not primarily directed toward achieving the strategic objectives and targets outlined above, are strongly supportive of them and are important factors in movement toward achievement of the goal and subgoals. Such interventions can leverage additional assistance, can fill small but vital gaps in strategic objectives of the GOK and other donors, can respond to Congressional concerns, can test innovative ideas, and can explore possibilities and assist in specific areas where longer-term commitments are not warranted.

Under these criteria, USAID plans to provide small amounts of highly focused assistance to help the GOK develop and carry out its macroeconomic stabilization and structural adjustment program and to preserve and manage Kenya's unique wildlife population. In addition, USAID expects to take advantage of special opportunities to fund small, discrete activities to identify and support future leaders, to encourage the development of democratic institutions and human rights, to prevent AIDS, and to support basic education. The first two areas will receive the greatest attention and are described in greater detail below.

1. Economic Stabilization and Structural Adjustment

A solid, progressive economic stabilization and structural adjustment program is fundamental to the achievement of broad-based economic growth and to the achievement of the objectives which contribute to such growth. With the support and encouragement of numerous donor organizations, Kenya's macroeconomic policy agenda has been established with the World Bank and the IMF which take the lead in monitoring progress indicators and providing assistance to implement various aspects of the agenda. USAID's programs and policy dialogue agenda have been instrumental in some key areas of macroeconomic policy reform, are strongly supportive of the structural adjustment program today, and are expected to remain so throughout the CDSS period. In addition, USAID proposes to continue to assist the GOK to improve its economic management systems and practices. Securing additional resources and making efficient use of those available are critical to effective economic management. The Health Care Financing program under the African Economic Policy Reform Program (AEPRP) is an example of an intervention that helps to do both. Although no new USAID funding is planned, USAID will be intimately involved in program implementation and related policy dialogue with the GOK during the first few years of the CDSS. This activity will generate additional resources for the health sector through the implementation of cost sharing in selected Ministry of Health facilities. It encourages the more effective use of resources by indicating the portion of the budget allocated to primary and preventive care. These additional resources for the sector as a whole, and for preventive/primary care in particular, will enable the quality of health services to be expanded and improved. The World Bank plans to continue this initiative under a health sector adjustment operation scheduled for FY 1991. Building on USAID's sector program, this assistance will support a broad-based reform program in the health sector designed to improve both the efficiency and effectiveness of public sector health programs.

The achievement of substantial success in GOK economic management is well beyond USAID's own manageable interest in the development strategy, but small interventions can result in major improvements and A.I.D. often has a predominant capability in providing such assistance. Such assistance often offers opportunities for removing constraints to the achievement of specific strategic objectives and for strengthening donor cooperation. A.I.D. has a strong record in providing training, technical and management assistance, and equipment to these ends. In Kenya, such assistance has been provided for budget and tax systems analysis, agriculture and health planning, all in the context of project implementation. USAID proposes to continue those initiatives in the first few years of the CDSS and to remain open to additional similar initiatives throughout the period.

2. Wildlife Preservation and Management

Kenya contains one of the richest varieties of wildlife in the world, boasting both larger numbers and more species than almost any other country. Primarily because of this, tourism is one of the country's major sources of foreign exchange ($320 million in 1988) and is a key element in the nation's plans for future economic growth. Wildlife is legally protected throughout the country and there is a well-established system of national parks and reserves occupying more than 50,000 hectares.

However, this system and the country's wildlife are being endangered by poaching, by the encroachment of humans who need more land, and by lack of resources and institutional capacity to effectively manage them. The most glaring example of major problems — one which has drawn worldwide attention and concern during the past 18 months — is the precipitous decline in rhinoceros and elephant populations due to poaching. Since 1973, the number of elephants in Kenya has decreased by 85 percent, from more than 130,000 to [illegible]

20,000 in 1973 to just 350 in 1987.

Less dramatic, but just as important to preservation of biodiversity and promotion of tourism, is the fact that many other wild animal species are declining and perhaps disappearing because humans, their farms and their livestock are occupying wildlife habitats and migratory routes. Without the support of the people who live in close proximity to Kenya's parks and reserves, it will be virtually impossible to preserve wildlife. To give that support, those people must share in the benefits that result from tourism and from maintaining biodiversity. Halting the poaching, building support among Kenyans most directly affected by wildlife, and overcoming a number of other problems will require much better management and education than has previously been the case in Kenya.

The GOK, a large number of international PVOs/NGOs, and many bilateral and multilateral donors are mobilizing to deal with issues of preserving and managing Kenya's wildlife. A new Kenya Wildlife Service (KWS) was established in 1989 under the direction of internationally known Kenyan paleontologist and conservationist Dr. Richard Leakey. The KWS is in the process of defining its community conservation activities in research, education and training. Longer-range plans might include a focus on preserving and managing wildlife in a single, important national park, possibly Tsavo.

VI. PLANS FOR IMPLEMENTATION

A. Level and Use of Resources

1. Level of Resources

In developing this strategy, USAID assumes a financial resource level of $28 - $30 million per year from the Development Fund for Africa, $5 - $7 million in Economic Support Funds, and $10 - $15 million in PL 480 commodities. This would be a decrease of about 20 percent from average annual total A.I.D. levels in FY 1985 through FY 89. An assumption is also made that there will be a gradual reduction in U.S. direct hire staff from 25 to about 18 during the CDSS period.

Assistance levels might be increased in several ways during the period. Although not an actual resource transfer, U.S. debt relief provides very real assistance to Kenya. This makes it possible for the Government of Kenya to reduce its budget deficit and reprogram funds it would otherwise have had to devote every year for the next several decades to making payments on U.S. economic development assistance loans. The first of a proposed series of three annual debt forgiveness agreements was signed in January 1990. If the GOK remains on track with its structural adjustment program with the World Bank and IMF, the total amount of principal and interest written off by the end of January 1992 will be $174.8 million.

USAID plans to continue to draw on centrally and regionally financed activities both to increase available resources and to take advantage of the special expertise such activities offer, particularly for family planning and natural resources/wildlife activities. In addition, at least one African Economic Policy Reform Program (AEPRP) grant may be requested during the next five years to reward and reinforce significant policy initiatives contributing to the achievement of one or more development objectives.

The Regional Housing and Urban Development Office (RHUDO) in Kenya provides resources for some activities that are complementary to USAID targets and objectives and that address other development constraints. During the next five years, the RHUDO program plans to focus on development of market towns, slum and community upgrading (carried out by the private sector), and involvement of the private sector in financing shelters for low income housing groups.

2. Use of Resources

The A.I.D. program in Kenya is taking full advantage of the Development Fund for Africa to focus resources on the development objectives described in Section V and to initiate performance-based disbursement programs for health care financing and for fertilizer pricing and marketing reform. Additional non-project assistance activities are being planned during the CDSS period for agricultural market development, for investment and export promotion, and possibly for family planning. Flexibility provided by the DFA is making it easier to channel resources when and where they are needed without rigid adherence to artificial appropriation categories and limits.

USAID plans to take advantage of the flexibility of PL-480 resources and increase their effectiveness by implementing a multi-year Food for Progress (FFPR) program tied to agricultural sector policy reforms. Integrated with the DFA-funded Kenya Market Development Program and supported by host government resources, the $40 million FFPR program will provide added leverage to policy initiatives agreed upon over the 1990-94 period. In addition, USAID will continue to provide support to U.S. PVOs for food-assisted development projects through P.L. 480 Title II during the CDSS period.

Drawing on experience in Kenya over the past 25 years and on A.I.D. worldwide and Africa Bureau strategies and guidance, USAID will employ a variety of methods in implementing its strategy. Policy dialogue, institutional strengthening, technical assistance, training, PVO/NGO cooperation, and donor coordination play important roles throughout the USAID program. Women in Development issues and concerns are also considered and addressed throughout the program (see Annex B for a project by project review).

a. Policy Dialogue

Policy dialogue is critical to the attainment of development targets and objectives. USAID is very pleased with efforts and accomplishments in this area during the past few years and intends to increase both during the CDSS period. The Mission has excellent access to and rapport with many key Kenyans who shape policies and guide opinions affecting the development objectives with which USAID is most directly concerned.

In securing these relationships and carrying out successful policy dialogue, continuity of development assistance has proven to be extremely important in the past and is expected to be even more so in the future. For example, USAID is consulted often and has frequent opportunities to express views on policies affecting population/family planning/health issues, even for activities in which the Mission is not directly involved. The same is true in agriculture where significant policy issues have been addressed in agricultural research and the fertilizer sub-sector. The latter, for example, includes elimination of monopoly marketing of fertilizer, complete decontrol of fertilizer prices, and substantial movement toward private sector markets. Despite the modest level of assistance given for macroeconomic policy reform, the Mission's views are frequently sought because the GOK has come to value USAID opinions on such key issues as export promotion, tax reform, and budget deficit reduction. A higher level of confidence, credibility and influence is now being developed with regard to private investment policies and to agricultural pricing and marketing issues.

Every ongoing and planned USAID activity has policy elements and, in an increasing number of activities during the CDSS period, a large and increasing proportion of USAID financial resources will be disbursed on the basis of performance against an agreed upon series of benchmarks designed to achieve and sustain policy objectives.

b. Institutional Strengthening, Technical Assistance, Training

In beginning to design non-project assistance activities several years ago, USAID believed that some traditional aspects of a development assistance program — institutional strengthening, technical assistance and training, for example — might become progressively less important or less necessary. Experience has clearly shown that such is not the case. These elements play a crucial role in designing, implementing, supporting, monitoring, and sustaining programs and reforms. Without them, strategic objectives cannot be met. They will therefore continue to be important means of accomplishing objectives throughout the program and will continue to require significant amounts of financial and personnel resources. For the most part, these elements will be integral parts of the major USAID activities, but there are instances in which central themes, economies of scale, or specific technical office expertise call for coordination. Therefore, the Mission plans to continue to fund umbrella projects to be able to provide leadership training in the United States, some special in-country training activities not financed through other projects, and institutional strengthening of selected Kenyan training organizations.

c. PVO/NGO Cooperation and Donor Coordination

Time, effort and small, but important, amounts of financial resources will be provided to develop and sustain PVO/NGO and other donor cooperation in support of the strategic objectives of this CDSS and to assist them in accomplishing their own strategic development objectives. Such coordination is always important for a successful development program. As USAID resource levels decrease, it becomes even more important. PVOs/NGOs are a major development force in Kenya, working in every geographical and functional area of the country and reaching vast numbers of people.

USAID already relies on PVOs/NGOs to implement many of its activities and, occasionally, to test new ideas in development implementation. During the CDSS period, USAID plans to continue efforts to improve PVO/NGO institutional capacities and the quantity and quality of services they provide, particularly in areas directly related to USAID strategic objectives. The Mission also proposes to continue to maintain flexibility to support and strengthen NGOs working in important areas that may be outside the scope of specific USAID targets but are still supportive of strategic objectives and development goals.

The interests and contributions of other donors (see Section III) in the areas of greatest importance to USAID provide a far greater likelihood that objectives will be accomplished. In addition, closer cooperation with both PVOs/NGOs and other donors offers opportunities for USAID to influence and make a contribution to development in areas in which the Mission is not directly involved but which greatly affect the accomplishment of the goals and objectives described in Section V.B.

Monitoring, Evaluation and Reporting

Over the past several years, USAID/Kenya has played a leadership role in Africa by placing strong and continuing emphasis on improving the evaluation of program and project performance and improving the use of program performance information in planning and decision-making. In addition to the several impact evaluations the Mission has carried out, this emphasis on evaluation has included numerous discussions and planning sessions to define goals, objectives, targets and performance indicators and to develop systems for measuring them. It has involved a major evaluation workshop attended by a large number of USAID staff, two Mission-wide retreats and several smaller office-specific retreats, a decision by AID/W and the Mission to make USAID/Kenya a Program Management and Evaluation Pilot site, and a September/October 1989 in-depth review and system planning exercise directed by a five-person team of evaluation experts.

That team concluded that USAID/Kenya "represents one of the most successful examples of the DFA Action Plan in practical application" and has made good progress in positioning itself and its programs to develop and use performance information. The challenge now is to actually do so. As basic criteria for its overall evaluation and monitoring system, USAID will:

— Incorporate program performance information into existing reporting, review, and decision-making systems.

— Only collect performance information that is likely to be used and only collect it when the costs of data collection and analysis are exceeded by the expected benefits. Keep Program Performance Evaluation as simple as possible.

— Use existing information sources as much as possible.

— Use project mechanisms to collect and analyze most additional program performance information. Annex F describes in much greater detail, including suggested indicators by objective, a USAID/Kenya plan for improving the collection and use of program performance data. There have been a number of refinements, deletions and additions since the plan was prepared in October 1989, but it forms the foundation for Mission monitoring, evaluation, and reporting.

C. Management Implications

USAID proposes to address the same objectives and implement essentially the same basic strategy outlined in Section V if the level of financial resources is no more than 20 percent higher or lower than the $30 - $35 million DFA/ESF plus $10 - $15 million PL 480 assumed in developing this CDSS and Action Plan. The same is true if personnel resources are marginally higher or lower than the level of 18 U.S. Direct Hire staff assumed at the end of FY 1995. If financial and personnel resources are less than 20 percent lower, however, targets and objectives would take appreciably longer to accomplish.

If dollar amounts are more than 20 percent lower than the base levels cited above, USAID would simultaneously consider cutting such inter-sectoral support activities as the umbrella training and PVO programs and discrete activities within the major focus areas. The latter would imply developing less ambitious targets to meet objectives outlined in Section V.

Carrying out the strategy will require heavy reliance on an ability to recruit and retain a very high quality Foreign Service National staff, both contract and direct hire. USAID is extremely pleased with the caliber of its FSN staff at present and FSNs are directly involved in all aspects of program planning, implementation, evaluation, financial management, and administration throughout the Mission. Recent salary adjustments in Kenya have greatly improved the salary scale USAID is able to offer and we believe that salaries are now competitive with those given by government, the private sector, and other donors.

USAID will continue to look to both program and OE-funded USDH personal services contractors to fill major direct hire gaps, particularly in implementation. A greatly improved monitoring, evaluation and reporting system is expected to play an important role in decision-making and in directing priorities. Implementing the strategy with reduced personnel levels will also require that A.I.D./Washington make special arrangements to eliminate and/or to fund and manage some of the extraordinary requirements that currently fall to USAID/Kenya. For example, USAID provides administrative, contract management, office and residential support and other services to three regional A.I.D. offices located in Nairobi. In addition, exceptionally large amounts of staff time are consumed in hosting conferences and meeting with large numbers of official and non-official visitors who come to Nairobi. These responsibilities must be reduced to allow greater concentration of staff efforts on high priority actions that directly assist in meeting strategic objectives.

As USDH staff numbers decrease during the CDSS period, the organization will be restructured to make optimal use of personnel resources and eliminate office redundancies. A number of different configurations are possible but no alternative organizational structure is proposed in this document because that prerogative should be reserved for the new Mission Director, who is expected to arrive in Kenya in mid-1990.

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LIST OF ABBREVIATIONS AND ACRONYMS

A.I.D..............Agency for International Development
AfDB...............African Development Bank
ADF................African Development Fund
AEPRP..............African Economic Policy Reform Program
AIDS...............Acquired Immunodeficiency Syndrome
ASAL...............arid and semi-arid lands
CBS................Community Based Services
CDSS...............Country Development Strategy Statement
CHAK...............Christian Health Association of Kenya
CRSP...............Collaborative Research Support Program
CYP................Couple years of protection
DFA................Development Fund for Africa
DHS................Demographic and Health Survey
EEC................European Economic Community
EPZ................Export Processing Zone
ESAF...............Enhanced Structural Adjustment Facility
FFP................Food for Peace
FY.................Fiscal Year
GDP................Gross Domestic Product
GOK................Government of Kenya
ICOR...............incremental capital-output ratio
IEC................International Executive Corps
IFAD...............International Fund for Agricultural Development
ILO................International Labor Organization
IMF................International Monetary Fund
JSI................John Snow, Inc.
KAM................Kenya Association of Manufacturers
KANU...............Kenya African National Union
KARI...............Kenya Agricultural Research Institute
KDHS...............Kenya Demographic and Health Survey
KMAP...............Kenya Management Assistance Programme
KWS................Kenya Wildlife Services
MOA................Ministry of Agriculture
MOH................Ministry of Health

NCPB...............National Cereals and Produce Board

NCPD...............National Council for Population & Development

NGO................Non-governmental Organizations

ODA................Overseas Development Assistance

ORT................Oral Rehydration Therapy

PVO................Private Voluntary Organization

RHUDO..............Regional Housing and Urban Development Office

SIDA...............Swedish International Development Agency

UNDP...............United Nations Development Program

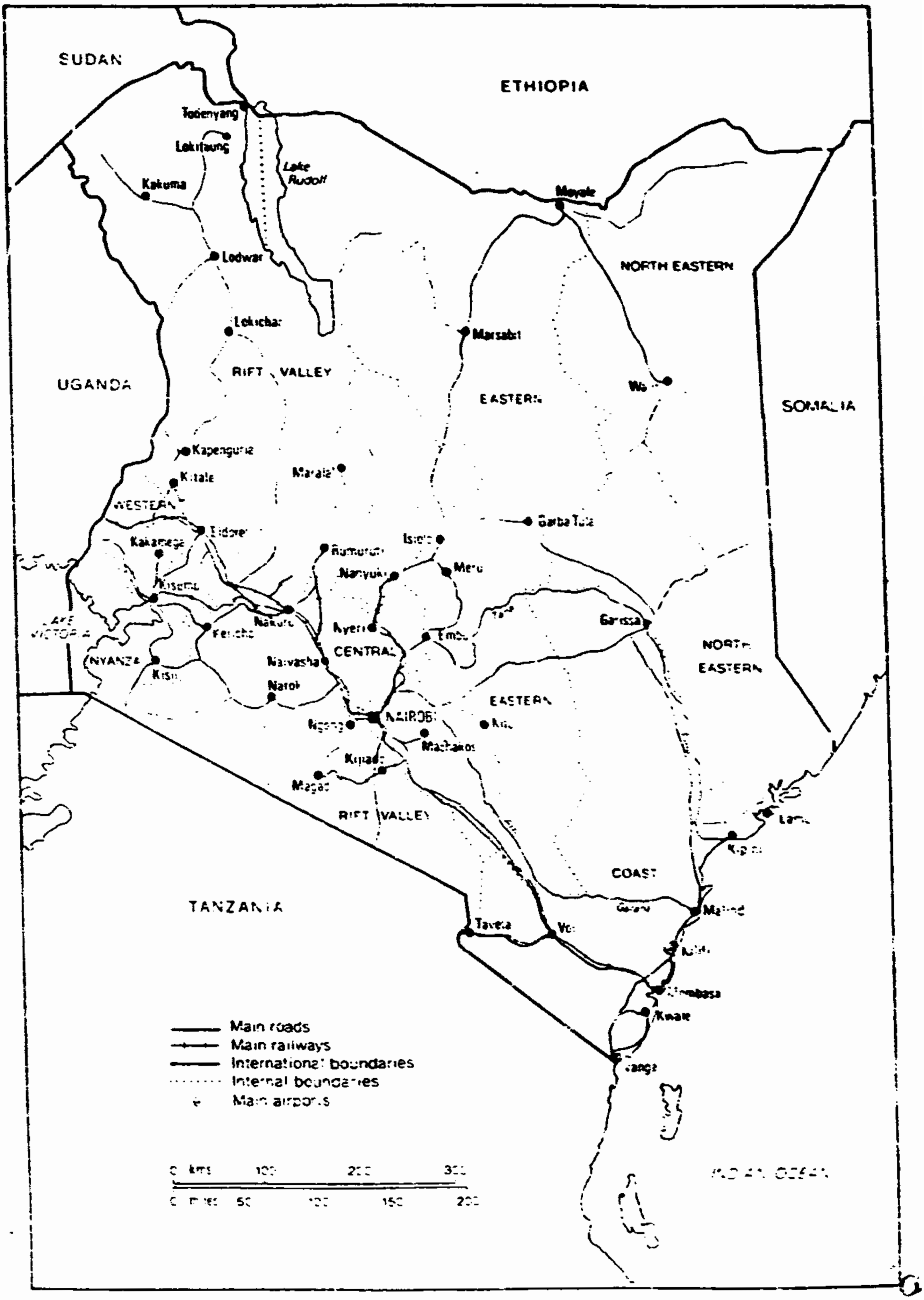
UNFPA..............United Nations Fund for Population Activities

UNIDO..............United Nations Industrial Development Organization

USAID..............United States Agency for International Development

VSC................Voluntary Surgical Contraception

Kenya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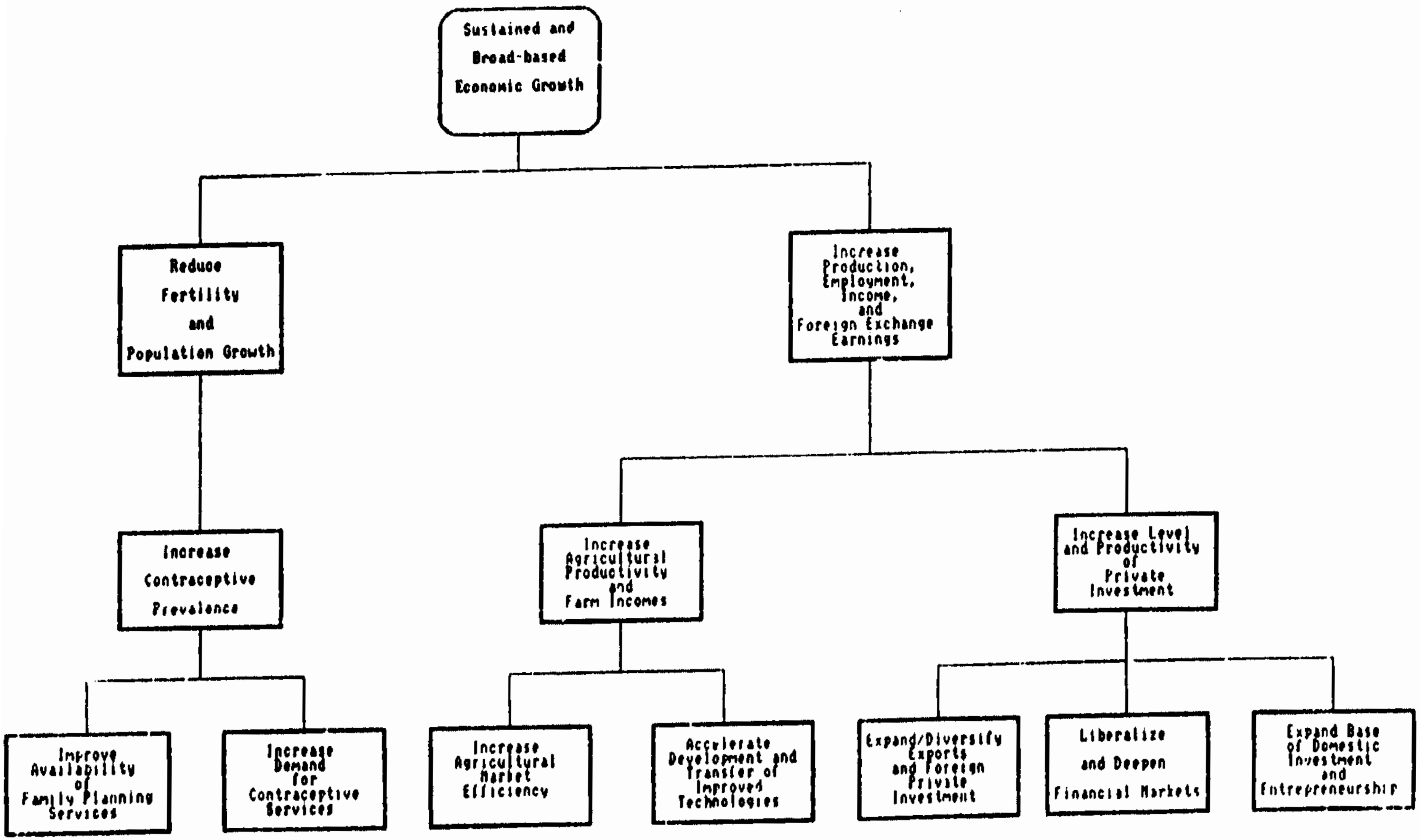
UGANDA
EASTERN
SOMALIA
Kapenguria
Maralal
Kitale
WESTERN
Eldoret
Garba Tula
Kakamega
Isiolo
Nanyuki
Meru
Kisumu
Nakuru
Garissa
LAKE VICTORIA
Kericho
Nyeri
Embu
NORTH EASTERN
NYANZA
Naivasha
CENTRAL
Narok
EASTERN
NAIROBI
Machakos
Kajiado
Magadi
RIFT VALLEY
Lamu
COAST
TANZANIA
Malindi
Taveta
Voi
Mombasa
Kwale
Main roads
Main railways
International boundaries
Internal boundaries
Main airports
0 kms 100 200 300
0 miles 50 100 150 200

USAID/KENYA

Program Objective Tree



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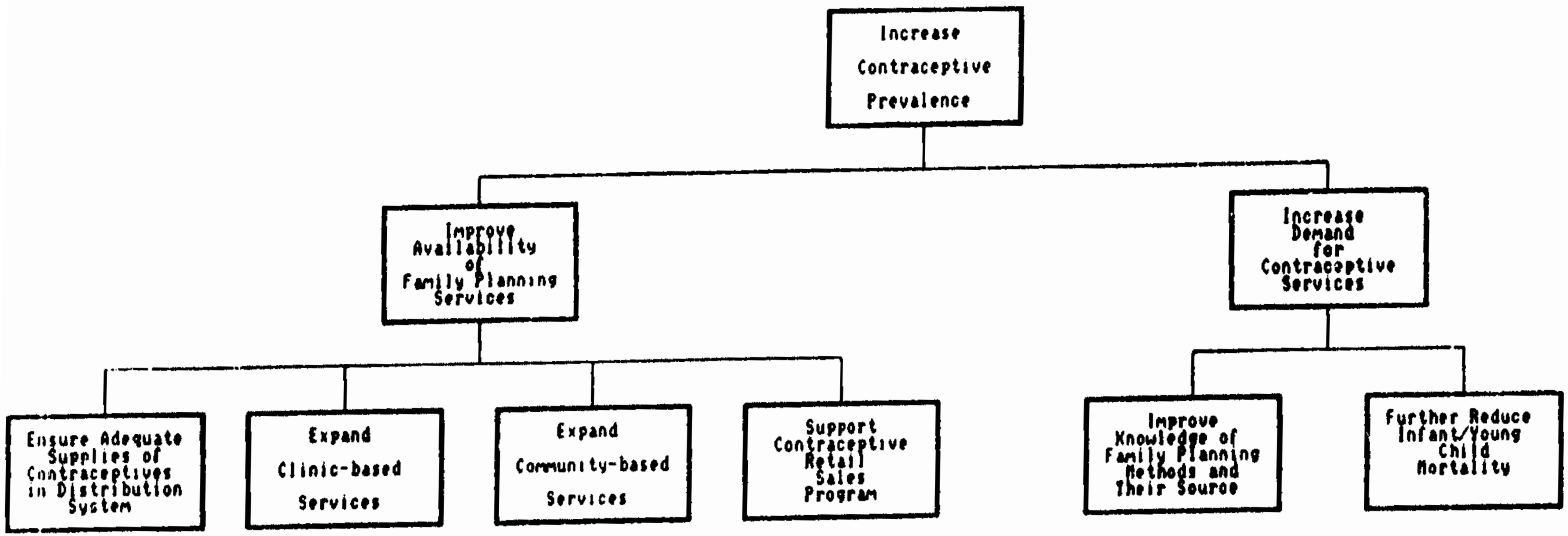

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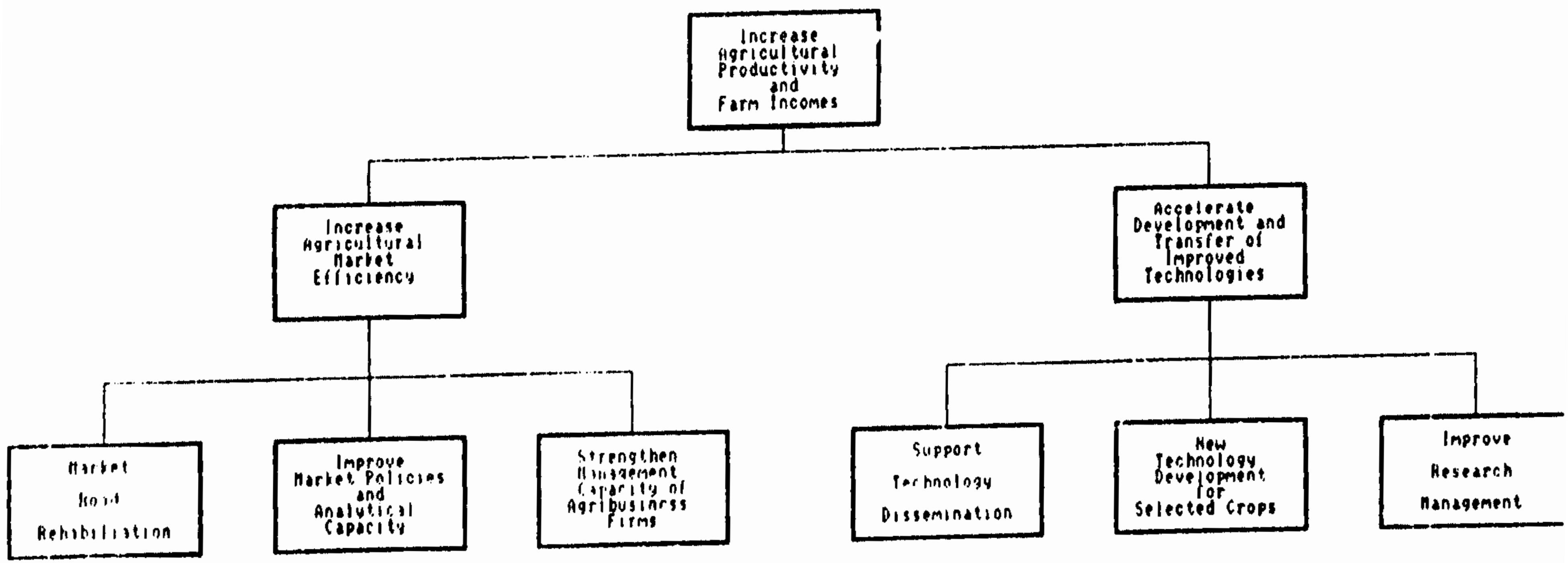

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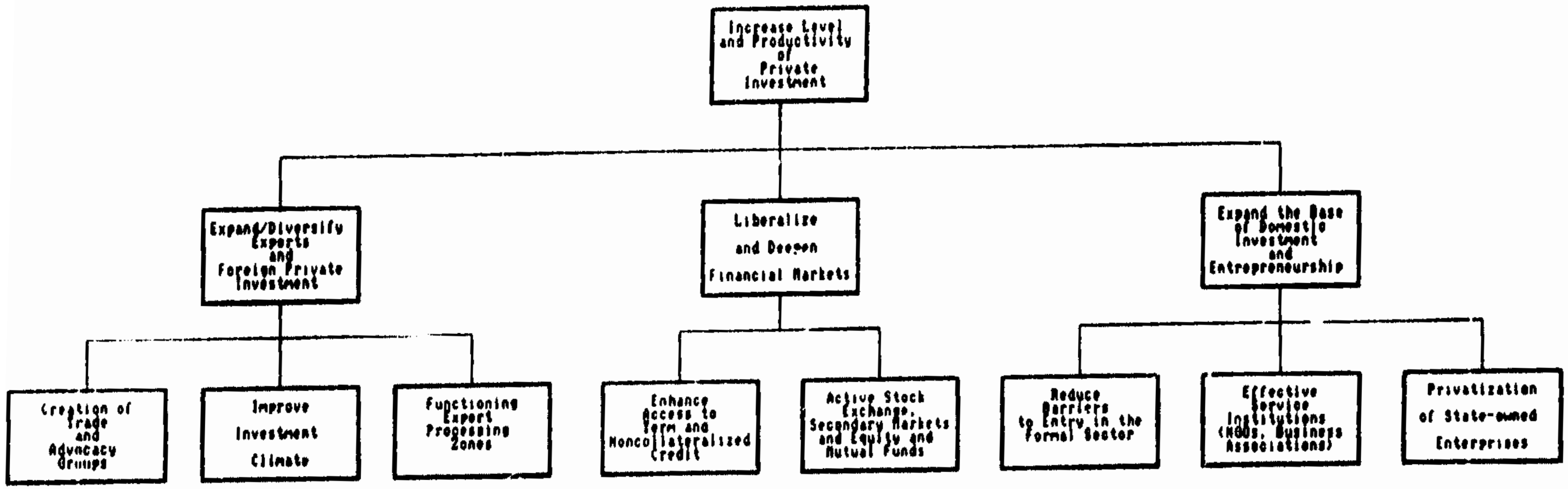
Private Enterprise Objective Tree



CDSS ANNEXES

A. Current and Proposed USAID Activities
B. Policy and Institutional Reform Agenda
C. Macroeconomic Framework
D. Women in Development Activities in USAID Projects
E. Other Donor Activities
F. Improving the Collection and Use of Program
   Performance Data

ANNEX A

USAID's Current and Planned Interventions

Following are the major activities USAID plans to implement to carry out the strategy described in Section V of the CDSS. Asterisked items are representative components of the major activities.

Increase Contraceptive Prevalence

— Family Planning Services and Support (1985-1992, with planned follow-on to 1997)

* strengthen logistics systems and provide contraceptive supplies
* give in-service training for key family planning service providers
* extend Voluntary Surgical Contraceptive (VSC) services in both the public and private sector
* strengthen planning and information systems within the MOH
* support national control of diarrheal diseases and immunization, including provision of measles vaccine
* strengthen/expand IEC activities and community-based family planning through key NGOs
* population research and evaluation, both biomedical and social science
* institutional strengthening within the National Council on Population and Development

— Family Planning Private Sector (1984-1994)

* establish/strengthen family planning services within private commercial firms, mission hospitals, and teacher training colleges through provision of training, equipment and supplies
* develop/implement innovative community outreach and IEC strategies
* operations research to resolve important service delivery constraints

— <u>Christian Organization Research Advisory Trust</u>

* extend/strengthen community-based health and family planning services in four dioceses of the Church of the Province of Kenya and Tenwek Hospital region through provision of training, equipment, and supplies
* establish systems for monitoring/evaluating the impact of community-based service programs

— <u>Kenya Health Care Financing Program/Project (1989-1993)</u>

* assist the MOH, Kenyatta National Hospital and the National Hospital Insurance Fund in designing, implementing and evaluating health care financing reforms
* provide funding to each institution to help finance the cost of implementing reforms

— <u>AIDS Activities (1990-1995)</u>

* through U.S. contribution to WHO Global Programme on AIDS, continue to attribute between $250,000 and $300,000 in areas of surveillance, public education, and counseling
* finance condoms in support of Kenya AIDS program
* promote AIDSTECH assistance for education, counseling, and condom distribution programs.

— <u>Centrally-administered Cooperative Agreements and Contracts</u>, such as:

* AVSC/JHPIEGO to further expand/improve access to voluntary surgical contraceptive services
* Pathfinder Fund and FPIA to support extension of clinic and community-based family planning
* Family Health International to assist with research in contraception and reproductive health
* The Population Council to strengthen operations research capacity within University of Nairobi and implement key studies
* John Snow Inc. (JSI) to assist with design and implementation of improved contraceptive logistics system

* JSI/REACH to assist with implementation of health care financing program (1990) and national immunization program (1990-1993)
* Management Sciences for Health/Family Planning Management Training to assist with strengthening management systems of family planning programs
* JHCC/PCS to assist center communication support for community liased family planning

Increase Agricultural Productivity

— Kenya Market Development Program (1990-94)

* policy reform in cereals marketing
* rehabilitation and maintenance of inter-market roads in selected areas
* establish country-wide market information system that disseminates market prices for major agricultural commodities on a daily basis
* training and support of key agricultural institutions for analysis of impact of changing marketing policies and infrastructural investment on Kenya's agricultural productivity
* government-university collaboration to develop and implement analytical framework for assessing impact of policy reforms on producers and consumers
* institutional strengthening of Ministry of Agriculture and Ministry of Supply and Transport

— Fertilizer Pricing and Marketing Reform Program (1984-92)

* assist the private sector in the direct importation and distribution of fertilizers
* design program impact monitoring system for smallholder
* analysis of impact of increasing private sector fertilizer marketing
* carry out research on the environmental impact of DAP fertilizer on acidic soils

— National Agricultural Research Project (1986-96)

* develop and strengthen maize, sorghum and millet research programs for three agro-climatic zones including on-farm testing programs
* strengthen the planning and management systems within KARI to direct resources to high priority research areas
* expand commodity research focus to higher value food and cash crops (for example, horticulture commodities)
* improve linkages with international research centers, private firms and university research programs
* strengthen human resources development component of the NARS
* establish an operational research fund to contract research with private firms and/or universities
* integrate centrally-funded Small Ruminant - CRSP in mixed livestock-cropping systems research program of KARI

— On-Farm Grain Storage (1982-91)

* assist MOA to expand post harvest management system from two provinces to national level
* ensure post-harvest management extension/education resource materials used at universities and agricultural institutes
* improve quality and increase levels of resource materials used for post-harvest management extension/education within universities and agricultural institutions

— Egerton University

Institutional Development for Agricultural Training (1986-91)

* institutional strengthening in curriculum development, administration and management improvements through assistance from the University of Illinois

* strengthen applied scientific and policy research program
* establish crop management research training program with KARI and CIMMYT

Center of Excellence for Agricultural Development (1991-94)

* develop integrated applied research and teaching in selected agriculture disciplines
* support applied policy analysis research and research linkages with KARI
* support the development of an agribusiness curriculum through joint programs with the private sector

Increase Level and Productivity of Private Enterprise

— Rural Private Enterprise Project (1983-1991)

* medium term credit for medium and large scale rural enterprises through commercial banks
* technical assistance to the Central Bank and commercial banks
* feasibility studies for borrowers
* revolving fund for future term credit
* credit for rural microenterprises
* technical assistance and training for NGOs which extend credit
* strengthening of umbrella NGO to provide leadership, offer training and other services on a fee for service basis and conduct sectoral research

— Private Enterprise Development Project (1987-1994)

* credit line for venture capital investments (Trust with Standard Chartered Bank)
* management contract for venture capital company (EASL/IRG contract for KEM)

* investment promotion and Export Processing Zone development through the Investment Promotion Centre
* assistance to Kenya Association of Manufacturers for policy analysis, advocacy and training
* institutional strengthening for Kenya National Chamber of Commerce and Industry
* start-up support for the Agri-Energy Roundtable
* micro-enterprise credit, technical assistance and training through WEREP
* small business counselling and training through KMAP
* technology transfer through International Executive Service Corps
* participant training through Entrepreneurs International
* program impact monitoring through a comprehensive management information system

— Accelerated Investment and Market Support Program (1991-1998)

* program assistance for policy reform of investment and export-related government controls
* technical assistance and training for the GOK and private sector support institutions to develop and implement streamlined procedures
* specific support for EPZ development and the Capital Markets Authority
* targeted credit and guarantee programs using new financial intermediaries focusing on export enterprises;
* assistance in privatization of selected state-owned enterprises

— Structural Adjustment Assistance Program (1986-1993)

* operational support for the Capital Markets Authority

— Commodity Import Program/Local Currency Generations (1986-1993)

* enterprise restructuring through institutional support for the Rehabilitation Advisory Services
* operational support of the College of Banking, the College of Insurance, and the EPZ Authority

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* commercial bank credit for Jua Kali (informal sector) enterprises;
* commercial credit for SMEs (through DFCK)

— PRE Revolving Fund

* loan guarantees and technical assistance support to 10 banks and non-bank financial institutions

Other Important Current and Planned Interventions

— Natural Resources Management Project (1991-96)

* strengthen the organization and management of the Kenya Wildlife Service through training, technical support and addressing policy issues related to management of natural resources

* preserve and enhance the natural resource base at selected national parks and surrounding communities

The following activities are supportive of objectives described in Section V but are not solely targetted to attain those objectives. Benchmarks for these activities were not provided in Section V; they are therefore included below.

— Training for Development (1987-1994)

* Recruit, screen, and select public and private sector leaders in areas key to Kenya's development
* Design and implement individualized short- and long-term training programs in U.S. tailored to developing participants' technical and leadership skills
* Implement individualized follow-on programs for trainees that will assist them to become more effective leaders upon their return to Kenya
* Design and implement an ongoing monitoring and evaluation system and use data to make adjustments in program as necessary

Benchmarks:

By the end of 1993

- — A minimum of 150 qualified Kenyans returned from the U.S. with enhanced technical and leadership skills
- — 75 percent of returnees with increased confidence in their ability to influence change
- — 75 percent of returnees are viewed by others as more effective leaders as a result of U.S. training
- — 75 percent of employed returnees demonstrate improved job performance
- — 75 percent of self-employed returnees will show positive changes/growth in their businesses

By the end of 1995:

- — A minimum of 175 qualified Kenyans returned from the U.S. with enhanced technical and leadership skills
- — 85 percent of returnees demonstrate that they have been able to have an impact as a result of U.S. training either within or outside of their work environment
- — 90 percent of returnees with increased confidence in their ability to influence change
- — 85 percent of returnees are viewed by others as more effective leaders as a result of U.S. training
- — 85 percent of employed returnees demonstrate improved job performance
- — 80 percent of self-employed returnees will show positive changes/growth in their businesses

— PVO Co-Financing Project (1988-1998)

- * Provide grants to NGOs to implement and sustain targeted development activities
- * Provide technical assistance in the form of institutional strengthening and training to individual NGOs to enable them to increase their development impact

* Conduct workshops to address specific needs identified by the NGO community to enable them to improve their effectiveness

Benchmarks

By the end of 1993

- — 12 NGO projects successfully completed with plans in place for continuing, expanding or institutionalizing activities
- — 50% of NGOs participating in project using improved management, evaluation and planning systems
- — 10% increase in communities benefiting from project interventions since 1988

By the end of 1995

- — 20 NGO projects successfully completed with plans in place for continuing, expanding or institutionalizing activities
- — 75% of NGOs participating in project using improved management, evaluation and planning systems
- — increase in communities benefiting from project interventions since 1993
- — 20% increase in direct beneficiaries of individual projects over LOP
- — 75% of grantees having diversified their resource linkages

— Human Resources Development Assistance Project HRDA (1988-1995)

* Strengthen selected public and private sector training institutions to provide quality training that supports Mission strategic objective
* Improve quality and coordination of public sector training through strengthening of Directorate of Personnel Management (DPM) within the Office of the President
* Support for select U.S. and third country training that falls outside of on-going Mission projects but which are of importance to the Mission

Benchmarks

By the end of 1993

— Management information system (data bank) installed and operational in DPM
— A minimum of 1,100 key public and private sector officials (50 percent private sector, 35 percent women) trained in areas supportive of Mission strategic objections between 1990 - 1993
— Training staff of one of public sector training institution delivering high quality course relevant to needs of two GOK ministries

By the end of 1995

— DPM effectively identifying public sector training needs and facilitating delivery of quality training programs that are responsive to these needs
— An additional 500 key public and private sector officials (50 percent private sector, 35 percent women) trained in areas of importance to Missions strategic objective
— A minimum of two training institutions are providing quality training geared to Mission strategic objectives

ANNEX B

Policy and Institutional Reform Agenda

Policy dialogue and institutional reform are fundamental components of USAID's strategy over the 1990-95 period. The Mission plans to continue to closely coordinate its dialogue and reform agenda with the World Bank and other donors. USAID's policy dialogue and institutional reform agenda for the CDSS period is described below.

I. Increase Contraceptive Prevalence

— Increase portion of MOH budget allocated to preventive/primary care, including family planning.

— Support and facilitate efforts to increase the use of commercial channels and outlets to distribute contraceptives.

— Reach consensus with MOH on policy and guidelines for prescribing contraceptive methods.

— Reach consensus with MOH and NCPD on family planning services statistics system which will include all government and NGO providers.

— Obtain MOH agreement to expand improved contraceptive logistics system to all 42 districts.

— Reach agreement on nature/extent of pre-service training program for non-physician health personnel so that graduates are fully trained in family planning.

II. Increase Agricultural Productivity and Farm Incomes

- Support elimination of government controls on the movement of food grains while encouraging increased private sector marketing of grains.

- Reach consensus with the GOK on the appropriate government role in cereals marketing and price setting.

- Encourage increased private sector importing and marketing of fertilizer.

- Reach consensus with government on enhancing market road maintenance through a more balanced allocation of financial resources to personnel and materials and equipment.

- Encourage clearly defined priorities for agricultural research which are then reflected in allocations of financial and human resources.

- Support on-going policy research which is focused on commodity marketing and pricing issues directly related to policy options and trade-offs regarding food security and increased farm incomes.

III. Increase Level and Productivity of Private Investment

- Support complete deregulation of interest rates.

- Encourage privatization of state owned enterprises.

- Support GOK in establishment of EPZ Authority and private management of Export Processing Zones. Advocate structuring of EPZ legislation to allow backward linkages to local economy and practical options for serving domestic market with goods produced in the zones.

- Encourage GOK to restrain public sector borrowing which crowds liquidity available for productive investment.

- Suggest elevation of status of Investment Promotion Center (IPC) and to enhance automaticity of investment approvals.

- Discuss regulatory issues related to expansion of capital markets to include secondary markets for T-Bills, bonds, and mortgages, and establish new money market instruments.

- Advocate increasing efficiency of manufacturing investments by eliminating Government controls and limiting Government investments.

- Promote with Central Bank a more flexible approach to current collateral requirements in bank portfolio supervision.

IV <u>General Issues of Concern of USAID</u>

- Implementation of Policy Framework Paper (PFP), International Monetary Fund (IMF) Enhanced Structural Adjustment Facility (ESAF), and World Bank sector adjustment loans.

- Implementation of budget rationalization, including user fees in health care and education.

- Greater transparency in Government's investment budget, including program commitments, expenditures, and financial analyses of Government corporations and parastatals.

ANNEX C

MACROECONOMIC FRAMEWORK

This annex contains two sections: a section on prospects for future performance and a statistical section with key data series.

I. PROSPECTS FOR FUTURE PERFORMANCE

As a part of the analysis of Kenya's prospects for sustainable, broad-based growth, USAID undertook to analyze which constraints were binding in the medium-term and which opportunities would lead most directly to broad-based economic growth. To investigate the relative importance of alternative actions, USAID has developed a reduced-form macroeconomic model. Using this model, we were able to analyze three alternative scenarios, including:

Scenario #1: Assume no progress in major policy areas, business as usual, and analyze the prospects for achieving the Government's target of 5.6 percent real growth.

Scenario #2: Assume some progress in reforming the enabling environment, where nontraditional exports increase while imports increase at a slower rate and analyze the prospects of achieving 5.6 percent real growth.

Scenario #3: Assume significant improvement in the enabling environment that leads to increased nontraditional exports, a decreased rate of growth of imports, and increasing productivity of capital and analyze the prospect of achieving 5.6 percent growth.

These scenarios are very difficult to analyze. To discuss results with confidence requires a level of understanding of the economy and a sophistication of economic modeling of the Kenyan economy that does not exist. However, because an initial indication is necessary, USAID constructed a relatively simple accounting framework based on standard World Bank models, modified to include monetary indicators. The following discussion is based on the three scenarios described above. The results are preliminary and deserve further research.

1. The Accounting Framework Explained

The World Bank's Revised Minimum Standard Model (RMSM) is an accounting framework that permits projection of various important economic variables and permits the user to check the internal consistency of these projections. The model takes the user's assumptions on growth rates for several broadly aggregated domestic production sectors, and takes assumptions on various balance of payments variables, including the terms of trade. Using projections of debt service on existing external debt and a specification of the relationship between production and fixed investment, the model projects the annual requirement for external financing, as well as domestic consumption, savings, and investment. The accounting framework is "dynamic" (actually recursive), in the sense that additional external funding requirements generate new projections for debt service in each period. Given a judgment about the likelihood of the requirement for incremental external financing, the user can examine the requirements as generated by the model and determine whether the economic growth rates are attainable or not.

2. Implications of the Projections

All three scenarios described above were run using a modified RMSM. For all three models, the results showed difficulties for the Kenyan economy over the next several years, and the results are not counterintuitive. There are certain trade-offs that Kenya faces. Under the most optimistic conditions, per capita consumption can only grow if investment efficiency improves. For the foreseeable future, Kenya will probably have to continue with large current account deficits in the balance of payments, importing resources to cover its domestic investment requirements. Currently, Kenya is paying for this requisite inflow primarily with foreign assistance in the form of grants and loans. Levels of foreign assistance are now approximately equivalent in magnitude to merchandise exports, and more than double tourism earnings. Although it is conceivable that, with adequate performance in the economy's efforts to adjust, these inflows will continue, this is not a foregone conclusion. Indeed, the purpose of the policy changes that Kenya is undertaking is presumably to reduce this requirement for assistance and replace it with large doses of direct foreign investment.

The results of projections made using RMSM are presented below in Tables 1, 2, and 3. Results for scenario #1, business as usual, can be found in Table 1. The results suggest that to achieve growth of one percentage point per year in per capita GDP and consumption, with a steady ICOR and moderate export growth, Kenya would require a continuation of increasingly large inflows of official development assistance. Or, in other words, the growth would be donor financed.

The results for running Scenario #2 can be found in Table 2. In Scenario #2, we keep GDP growth targets and the ICOR the same, but increase the rate of growth of nontraditional exports, and reduce the elasticity of imports with respect to GDP. These reforms lead to real per capita growth and a significant reduction in the payments gap, but per capita consumption drops over the period.

Finally, Table 3 presents the results from running Scenario #3 in RMSM. Scenario #3 assumes substantial progress in structural reforms. Scenario #3 retains the assumptions in Scenario #2 and, in addition, adds the assumption that the ICOR decreases over the period, by about 8 percent per year. The results of this Scenario show that real per capita growth can increase, as well as consumption, to meet the Government's target.

All three models suggest that it will be very difficult for Kenya to achieve 5.6 percent real growth per year, and that this may be close to maximum growth in the medium term. An interesting result coming from these scenarios is that the Asian model for growth clearly fits Kenya. Export-oriented, private sector-led growth could quickly lead to improved and sustainable growth.

Obviously any of these assumptions could be altered to come up with a variety of scenarios. The reason for presenting preliminary results in Tables 1-3 is to indicate what can be done with RMSM at its current stage of development.

II. Statistical Tables

Tables 4-8 provide information on key economic indicators. The reader is referred to the IMF International Financial Statistics and the annual Economic Survey of Kenya for more detailed information.

Table 1

KENYA: Accounting Framework Projections Summary

(million dollars)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Unfinanced BOP Gap	0	281	282	502	564	622	722	844	990	1164
Additional Amortization to Fill Gap	0	0	0	0	0	56	117	227	358	520
Additional Interest to Fill Gap	0	0	24	48	86	135	191	258	340	467
Additional Total Requirements	0	281	306	550	651	813	1030	1330	1688	2151

The following are some per capita implications of this scenario

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP/cap Index	100.0	101.6	103.2	104.8	106.5	108.2	109.9	111.7	113.5	115.3
Consumption/cap Index	100.0	100.1	101.5	103.0	104.5	106.1	107.7	109.3	110.9	112.6
Agriculture/cap Index	100.0	100.9	101.7	102.6	103.5	104.4	105.3	106.2	107.2	108.1
Investment/GDP Ratio	22.8	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
BOP Current Balance/GDP Ratio	-6.5	-6.3	-7.2	-7.7	-8.1	-8.5	-9.0	-9.7	-10.4	-11.2
Government Deficit GDP Ratio	[illegible]	5.7	4.8	4.0	3.2	2.4	1.6	0.8	[illegible]	-0.8

The following are key assumptions used in this scenario:

Population Growth Rate	3.80	Growth Rate of Government Expenditures	7.4
Growth Rate for Traditional Exports	5.60	GDP Growth	5.4
Growth Rate for Nontraditional Exports	4.50	Agriculture	4.7
Growth Rate for Non-Factor Services	5.10	Manufacturing	6.4
Elasticity of Imports w.r.t. GDP	0.90	Services	5.2
Growth of Current Transfers from Abroad	5.00		
Incremental Capital-Output Ratio	4.40		

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Table 2

[illegible]: Accounting Framework Projections Summary

(million dollars)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Unfinanced BOP Gap	0	189	73	146	21	-157	-351	-597	[illegible]	[illegible]
Additional Amortization to Fill Gap	0	0	0	0	0	36	56	90	101	84
Additional Interest to Fill Gap	0	0	16	23	34	37	28	3	-42	-122
Additional Total Requirements	0	189	90	169	55	-81	-268	-504	-848	-1374

The following are some per capita implications of this scenario

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP/cap Index	100.0	101.6	103.2	104.8	106.5	108.2	109.9	111.7	113.5	115.3
Consumption/cap Index	100.0	98.8	98.9	98.9	98.8	98.6	98.2	97.7	97.0	96.1
Agriculture/cap Index	100.0	100.9	101.7	102.6	103.5	104.4	105.3	106.2	107.2	108.1
Investment/GDP Ratio	22.8	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
BOP Current Balance/GDP Ratio	-6.5	-5.7	-4.7	-3.6	-2.2	-0.5	1.5	3.8	[illegible]	[illegible]
Government Deficit/GDP Ratio	[illegible]	5.7	4.8	4.0	3.2	2.4	1.6	0.8	[illegible]	[illegible]

The following are key assumptions used in this scenario:

Population Growth Rate	3.80	Growth Rate of Government Expenditures	7.4
Growth Rate for Traditional Exports	5.00	GDP Growth	5.4
Growth Rate for Nontraditional Exports	15.00	Agriculture	4.7
Growth Rate for Non Factor Services	5.10	Manufacturing	[illegible]
Elasticity of Imports w.r.t. GDP	0.70	Services	5.6
Growth of Current Transfers from Abroad	5.00		
Incremental Capital-Output Ratio	4.40		

Table 3

[illegible]: Accounting Framework Projections Summary

(million dollars)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Unfinanced BOP Gap	0	189	77	153	31	-142	-332	-573	-576	-1260
Additional Amortization to Fill Gap	0	0	0	0	0	38	56	92	105	92
Additional Interest to Fill Gap	0	0	16	23	35	39	31	7	-36	-112
Additional Total Requirements	0	189	93	176	66	-65	-245	-474	-507	-1280

The following are some per capita implications of this scenario

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP/cap Index	100.0	101.6	103.2	104.8	106.5	108.2	109.9	111.7	113.5	115.3
Consumption/cap Index	100.0	98.8	100.8	102.6	104.2	105.5	106.6	107.5	108.1	108.4
Agriculture/cap Index	100.0	100.9	101.7	102.6	103.5	104.4	105.3	106.2	107.2	108.1
Investment/GDP Ratio	22.9	24.0	22.4	21.1	19.8	18.7	17.7	16.8	15.9	15.2
BOP Current Balance/GDP Ratio	-6.5	-5.7	-4.7	-3.7	-2.7	-0.6	1.3	3.5	[illegible]	9.0
Government Deficit/GDP Ratio	6.6	5.7	4.9	4.0	3.2	2.4	1.6	0.8	0.1	-0.6

The following are key assumptions used in this scenario:

Population Growth Rate	3.8%
Growth Rate for Traditional Exports	5.6%
Growth Rate for Nontraditional Exports	15.0%
Growth Rate for Non-Factor Services	5.1%
Elasticity of Imports w.r.t. GDP	0.70
Growth of Current Transfers from Abroad	5.0%
Incremental Capital-Output Ratio	3.5%

Growth Rate of Government Expenditures	7.4
GDP Growth	5.4
Agriculture	4.7
Manufacturing	6.4
Services	5.6

Table 4. KENYA: Gross Domestic Product

(mn Kenya shillings; percent)

	1964	1980	1984	1985	1986	1987	1988	Prelim. Estimate 1989
CONSTANT 1982 PRICES AT FACTOR COST								
Gross Domestic Product	20,775	53,992	62,960	66,055	69,683	72,995	76,769	80,531
Agriculture	9,012	17,368	19,969	20,674	21,667	22,538	23,580	24,499
Industry	3,089	11,855	11,984	12,653	13,139	13,858	14,659	15,574
Other	8,673	24,769	31,007	32,728	34,877	36,599	38,530	40,457
PERCENT CHANGE								
Gross Domestic Product			0.8	4.9	5.5	4.8	5.2	4.9
Agriculture			-3.5	3.5	4.8	4.0	4.6	3.9
Industry			2.1	5.6	3.8	5.5	5.8	6.2
Other			3.4	5.5	6.6	4.9	5.3	5.0
SHARE STRUCTURE								
Gross Domestic Product	100	100	100	100	100	100	100	100
Agriculture	43	32	32	31	31	31	31	30
Industry	15	22	19	19	19	19	19	19
Other	42	46	49	50	50	50	50	50

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Table 5. KENYA: Consumption, Investment, and Savings

				(mn Kenya shillings; percent)				Prelim. Estimate
	1964	1980	1984	1985	1986	1987	1988	1989
CURRENT PRICES	----	----	----	----	----	----	----	----
Gross Domestic Product	7,134	52,600	87,751	99,866	116,860	131,220	152,680	173,295
Investment	932	15,800	20,551	25,811	25,624	32,499	39,041	45,057
Fixed Investment	886	12,450	16,143	17,608	23,064	25,735	29,832	34,659
Consumption	5,904	42,788	68,459	75,126	94,739	105,407	121,428	138,462
Government	988	10,700	15,504	16,611	22,267	25,460	28,973	33,524
Private	4,916	32,088	52,955	58,515	72,472	79,947	92,455	104,938
Resource Balance	298	(5,988)	(959)	(1,071)	205	(6,690)	(7,789)	(10,224)
Domestic Savings	1,230	9,812	19,322	24,740	22,121	25,813	31,252	34,832
SHARE STRUCTURE								
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Investment	13.1	30.0	23.4	25.8	21.4	24.8	25.6	26.0
Fixed Investment	15.8	23.7	18.4	17.6	19.7	19.6	19.5	20.0
Consumption	82.8	81.3	78.0	75.2	81.1	80.3	79.5	79.9
Government	19.1	20.3	17.7	16.6	19.1	19.4	19.0	19.3
Private	63.7	61.0	60.3	58.6	62.0	60.9	60.6	60.6
Resource Balance	4.2	-11.4	-1.1	-1.1	0.2	-5.1	-5.1	-5.9
Domestic Savings	17.2	18.7	22.0	24.8	18.9	19.7	20.5	20.1
INCREMENTAL CAPITAL-OUTPUT RATIOS								
Gross Investment				4.8	4.7	4.5	4.8	5.2
Fixed Investment				3.7	3.2	4.2	3.8	4.0

Table 6. KENYA: Fiscal and Monetary Indicators

(mn Kenya shillings; percent) Prelim. Estimate

	1964	1980	1984	1985	1986	1987	1988	1989
FISCAL INDICATORS (year ending June 30)								
Current Prices								
Revenues and Grants	898	12,717	19,469	21,802	25,282	29,048	35,634	45,382
Expenditure/Net Lending	1,208	13,839	22,869	26,920	29,567	37,795	40,688	52,347
Fiscal Balance	(310)	(1,122)	(3,400)	(5,119)	(4,284)	(8,747)	(5,054)	(7,045)
Domestic Financing	3	132	3,125	1,752	4,023	8,127	4,517	3,390
External Financing	385	128	715	497	(1,900)	29	1,429	3,776
Use of Cash Balances	(78)	862	(440)	2,870	2,10[illegible]	591	(892)	(121)
Shares of GDP								
Revenues and Grants	13.3	25.9	23.7	23.2	23.3	23.4	25.1	27.8
Expenditure/Net Lending	17.8	28.2	27.9	28.7	27.3	30.5	28.7	32.1
Fiscal Balance	-4.6	-2.3	-4.1	-5.5	-4.0	-7.1	-3.6	-4.3
Domestic Financing	0.0	0.3	3.8	1.9	3.8	6.6	3.2	2.1
External Financing	5.7	0.3	0.9	0.5	-1.8	0.0	1.0	2.3
Use of Cash Balances	-1.2	1.8	-0.5	3.1	1.9	0.5	-0.6	-0.1

	1973	1980	1984	1985	1986	1987	1988	1989 (IMF prog)
MONETARY INDICATORS (from IFS)								
Net Foreign Assets	1,546	1,852	(374)	(1,909)	(240)	(2,159)	(3,651)	(2,691)
Net Domestic Credit	3,998	16,230	28,626	32,173	41,025	49,139	52,529	58,080
Public Sector	855	4,471	11,682	12,682	18,341	24,985	24,465	
Private Sector	3,143	11,759	16,944	19,491	22,684	24,154	28,064	
Broad Money Supply	5,356	16,136	25,293	26,899	35,694	39,666	42,856	47,827
Percent Change in:								
Net Domestic Credit				12.4	27.5	19.8	6.9	10.6
Public Sector Credit				8.6	44.6	36.2	-2.1	n.a.
Private Sector Credit				15.0	16.4	6.5	16.2	n.a.
Broad Money				6.3	32.7	11.1	8.0	11.6
Consumer Price Index	17.2	60.5	100.0	113.0	117.5	123.6	133.8	145.6
Nominal GDP Growth Rates				13.8	17.0	12.3	16.4	13.5

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Table 7. KENYA: Balance of Payments and External Debt (millions of SDRs)

(from IMF)	1964	1980	1984	1985	1986	1987	1988	Prelim. Estimate 1989
	----	----	----	----	----	----	----	----
CURRENT ACCOUNT BALANCE	51	(682)	(111)	(89)	(28)	(387)	(348)	(362)
Trade Balance	(30)	(1,019)	(506)	(519)	(437)	(755)	(800)	(889)
Imports, CIF	246	1,987	1,514	1,447	1,435	1,457	1,557	1,676
Exports, FOB	217	969	1,008	928	998	702	757	787
Services	45	225	223	242	232	202	203	244
of which:								
Interest		(190)	(188)	(201)	(203)	(216)	(249)	(224)
Travel		184	191	230	240	256	276	297
Transfers	35	112	172	188	177	166	257	283
Public	44	91	114	108	127	119	191	214
Private	(9)	21	58	80	50	56	66	69
CAPITAL ACCOUNT BALANCE	(56)	396	154	(2)	104	310	296	420
Long-Term	(45)	292	116	(77)	108	184	234	377
Official		232	104	(55)	72	192	249	367
Inflows			305	162	289	406	443	572
Outflows			201	217	217	214	194	205
Private		60	12	(22)	36	(8)	(15)	10
Short-Term (incl E/O)	(11)	105	38	75	(4)	126	62	43
OVERALL BALANCE	(5)	(285)	43	(91)	76	(77)	(44)	58
FINANCING	5	285	(43)	91	(76)	77	44	(58)
IMF		114	(11)	53	(90)	(84)	64	(18)
Gross Reserves (-increase)			(28)	36	18	161	(20)	(40)
Other Assets			(4)	2	(4)	0	0	0
EXPORTS	217	969	1,008	928	998	702	757	787
Coffee	43	224	283	281	479	237	276	180
Tea	18	120	279	248	232	216	205	177
Other	155	625	446	399	287	249	275	430
TERMS OF TRADE	160.6	110.1	100.0	82.8	94.1	76.9	80.4	74.0
Import Price Index	17.7	101.0	100.0	104.2	112.2	113.7	125.2	
Export Price Index	28.4	111.2	100.0	86.2	105.6	87.5	100.7	
RATIOS TO GDP								
Merchandise Imports	24.7	36.5	25.5	24.2	23.4	23.6	24.3	25.3
Exports (GNFS)			20.2	19.3	20.2	15.5	16.1	16.3
Goods	21.7	17.8	17.0	15.5	16.3	11.4	11.8	11.9
Travel			3.2	3.8	3.9	4.1	4.3	4.5
Current Account Balance	5.1	-12.5	-1.9	-1.5	-0.5	-6.3	-5.3	-5.5
Exchange Rate (KSh/SDR)	7.14	9.66	14.77	16.68	19.04	21.27	23.85	25.12

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Table 8. KENYA: Alternative Balance of Payments Presentation

(percent of "Requirements")

	1984	1985	1986	1987	1988	1989
	----	----	----	----	----	----
RESOURCE "REQUIREMENTS":	100	100	100	100	100	100
Merchandise Imports	80	78	77	77	78	80
Debt Service	20	22	23	23	22	20
Interest	10	11	11	11	12	11
Principal	11	12	12	11	10	10
RESOURCE INFLOWS:	102	95	104	96	98	103
Merchandise Exports	53	50	54	37	38	37
Non-Debt Services	12	11	11	9	9	8
Tourism Earnings	10	12	13	14	14	14
Private Transfers	3	4	3	3	3	3
Official Grants & Loans	22	14	22	27	32	37
Grants	6	6	7	6	10	10
Loans	16	9	16	22	22	27
Private Capital (incl E&O)	3	3	2	6	2	3
RESERVE MOVEMENTS(-increase)	-2	5	-4	4	2	-3
IMF	-1	3	-5	-4	3	-1
Other	-2	2	1	9	-1	-2

ANNEX D

Women in Development

Update on WID Actions Within USAID Projects

USAID/Kenya prepared a Women In Development Action Plan in March 1989. That document explains objectives, describes on-going activities, and outlines strategy for implementing and monitoring progress.

USAID's major objective with regard to women in development is to fully integrate women's issues, participation, concerns and benefits into the overall country development strategy and make them a part of the individual projects and programs through which the strategy is implemented. Semi-annual Project Implementation Reports provide the best opportunity for reviewing qualitative and quantitative progress within selected projects. Project designs, evaluations, and monitoring systems are used to collect gender-disaggregated data and establish benchmarks.

Following is an update of the WID Action Plan's brief descriptions of USAID projects by sector and review of women in development components/actions within those projects. Recent evaluations or special events since March 1989 are highlighted.

HUMAN RESOURCES DEVELOPMENT

Training for Development, 615-0234

Under this leadership training project, which was initiated in 1987 and began operation in 1988, Kenyans from both the public and private sectors are chosen for both long and short term training in the United States. A total of 64 Kenyans (39 from the public sector and 25 from the private sector) have been trained to date. 24 of the 64 training candidates (37.5 percent), have been women. Efforts will continue to assure that this percentage is maintained and raised. A preliminary leadership workshop showed women to be the top performers. Ways are being explored to encourage more top women candidates with leadership potential to apply for training.

Human Resources Development Assistance, 615-0463

The project, which began in 1988, encourages and supports national and regional training programs that provide training to technical, scientific and managerial personnel, policy planners and business executives. The project improves the Government of Kenya's ability to implement development programs and strengthens the private sector's capacity to contribute to economic growth. The programs include technical training, seminars, workshops and special courses in Kenya. Training is divided evenly between the public and private sectors. Women are being actively sought as participants.

A total of eight workshops have been conducted during the past year training a total of 377 people. Of these eight workshops, three were specially designed to train women in the field of management and income generating activities. A total of 184 women (49 percent of all participants) were trained in these workshops. Under an ongoing HRDA redesigning effort emphasis will continue to be placed on seeking out qualified women for training, especially in the area of management.

PVO Co-Financing, 615-0236

Many Kenyan women have very limited access to national level social sector programs or to the formal sectors of the economy, but they do have access to local community groups and private voluntary organizations. By strengthening an organizations ability to provide better programs and services, this project increases the developmental impact of PVO activities in Kenya, thereby benefitting many women. Selection criteria for funding individual PVO activities include the advancement of the well-being of women and promotion of women's participation through the projects. All baseline, monitoring and beneficiary-related project data are being disaggregated by gender.

Specific women in development objectives of the project are: to provide at least 30 percent of international participant training to women; to increase women's employment opportunities through all PVO projects and through women-specific projects; to increase women's access to training, health, family planning and nutrition services, potable water and income generating opportunities; and to increase women's abilities to better guide, manage and sustain their own development. In addition, female staff of PVOs are direct beneficiaries of management and technical training opportunities offered through the international training component of the project. To date 16 participants have been approved for training; 10 (62 percent) are women.

PL 480 Title II

The beneficiaries of Catholic Relief Services' (CRS) maternal and child health (MCH) program are at-risk poor women of child-bearing age and undernourished children less than five years old. The program is expected to reach 30,000 women this year. In monitoring the program, USAID uses the CRS beneficiary list, which is gender disaggregated. Women receive food through the program and also acquire knowledge and skills (through activities such as growth monitoring and health and nutrition education) that could improve the well-being of their families.

In other PL 480 Title II activities, 50 percent of the people benefitted through a Food for Work program are women, and more than 50 percent of the beneficiaries of the General Relief program are women.

AGRICULTURE

Women provide 70 percent of all agricultural labor in Kenya. They maintain substantial roles in the production of commercial crops as well as the production of food for domestic consumption and sale. Because of the key role that Kenyan women play in agriculture, women need and deserve greater access to educational opportunities and leadership positions in diverse agricultural fields. Agricultural development efforts are likely to be hampered unless greater female participation at high levels of education and employment is facilitated.

Agricultural Management, 615-0221

This project aims to improve the management and performance of private and public organizations which support agricultural production, particularly among smallholders. Mid-term evaluation indicates that 20 percent of participants related to business management improvement efforts are women.

Institutional Development for Agricultural Training, 615-0239

Current support to Egerton University under this project re-emphasizes the importance of recruiting female students and faculty and providing them with research and training opportunities, as well as revising the curriculum by "incorporating information on the Kenyan socio-cultural context". The monitoring and evaluation plan identifies the training of female faculty as an issue and includes women's access to research and outreach funds and programs and to programs of the Agricultural Resources Center as topics for examination. A major study of "Factors Affecting Female Career Choice and Aspirations" of female students at Egerton University was completed in August 1989. Statistics obtained from Egerton University show that 23 percent of the female diploma students are majoring in Agriculture and Home Economics. Other departments which have substantial numbers of female students are Agriculture Education and Agriculture and Food Marketing. Moderate numbers are in General Agriculture, Animal Health, Horticulture, Dairy Technology, Farm Management, and Animal Husbandry. When asked which factors affected their choice of a major, most female students (65 percent), said personal interest was a factor but 50 percent indicated that job possibilities also influenced their choice. 35 percent indicated that the curriculum was important to their choice of Egerton.

A review of available data shows: female representation in the student body has not yet achieved the 30 percent goal, reaching a high of 28 percent for those admitted in 1985, but averaging 21 percent over the past seven years; 45 percent of the female students admitted for diploma and BSc studies in 1987 are in the department of Home Economics; female faculty comprise just 12 percent of the total, and half of them are in Home Economics; women make up less than 10 percent of those trained.

On Farm Grain Storage, 615-0190

The purpose of the project, begun in 1981, is to increase the use of more effective on-farm grain drying and storage practices. The project provides technical assistance, training, commodities and construction. Impact of the project on women has been considered during project evaluations and reviews, and it was determined that a sizeable percentage of project recipients are women. From now until the Project Assistance Completion Date in May 1990, the contractor will continue to gather gender information from project files and include it in periodic reports. There are plans to extend the project utilizing counterpart generations. Institutional constraints which have made the project less effective than it could be in delivering benefits to women farmers will be addressed as part of any such extension.

Participation at training sessions continues to run at 40:60 women to men. Structures completed through the project are principally under the management of these women because of their role in maize production.

Kenya Market Development Program, 615-0242

The new Kenya Market Development Program (KMDP) is expected to increase efficiency and lower costs of agricultural marketing. This, in turn, is expected to increase the income of smallholder farmers (mostly women) and traders. The Management Information System for the project is being designed to monitor the program's impact on women and the level of women's participation in the program.

Fertilizer Pricing and Marketing Reform Program, 615-0243

This policy-based sector assistance program, which began in FY 1989, contributes to the goal of increasing agricultural productivity by facilitating policy and institutional reforms in fertilizer pricing and marketing. A large proportion of fertilizer buyers and users are women. Planned studies will monitor their purchase and use of fertilizer and seek to determine the impact of the program on their productivity and incomes.

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POPULATION AND HEALTH

Private Sector Family Planning Project, 615-0223

This project has succeeded in delivering quality family planning services through the existing health facilities of 50 organizations and firms (representing over 120 service delivery points). Since its inception in 1983, the project has served more than 30,000 family planning clients, the vast majority of them women. The project has been expanded to include outreach to the surrounding communities.

Family Planning Services and Support, 615-0232

The overall purpose of the FPSS project is to increase the availability, use, and quality of family planning services. If successful, it is anticipated that 32 percent of all married couples of reproductive age will be practicing an effective method of family planning by the completion of the project. The main beneficiaries of expanded family planning services provided by this project are women. The project is also largely implemented by women. All of the nurses trained under the Clinical Training Services and Support (CTSS) and the Voluntary Surgical Contraception (VSC) components are women, as well as most of the community outreach workers trained under the Community Based Services (CBS) component. Of a total of 53 participants trained under the project, 30 have been women. Regarding non-population related benefits for women, it is generally recognized that family planning programs, particularly community based service projects, help to mobilize the communities involved and to increase the involvement of women in project and non-project related social and development activities.

Health Care Financing, 615-0245

This new program, which began in August 1989, will assist the GOK to carry out health sector reforms needed to ensure the financial sustainability of preventive and primary health services. It will support the implementation of various cost-sharing measures, help to further define a broader agenda for reform focusing both on cost-sharing and improved efficiency, and encourage the reallocation of health sector resources in favor of primary and preventive

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services. These reforms will directly benefit the majority of Kenyans. Because health services are targetted for women and children, and because women are the primary providers of health services, women will be the major beneficiaries. A variety of data on impact will be collected and analysed as the program progresses.

PRIVATE ENTERPRISE

During 1989, a major MAPS (Manual for Action in the Private Sector) activity was carried out as part of the analysis for the CDSS and as an initial step in the design of a major new private enterprise program. One task in the MAPS survey of approximately 800 randomly selected private firms was to quantify levels of women's participation in ownership, management and labor force of private enterprises.

Women own 12 percent of firms in Kenya. As might be expected, women-owned firms have the highest representation of female managers and employees, 73 and 83 percent respectively. In large firms, women represent 11 percent of the workforce but only 5 percent of the top management. For both managers and workers, the percentage of women decreases as the size of the firm increases. Women currently make up only 22 percent of the wage earning labor force. The MAPS activity has provided a wealth of baseline data on the total population against which women's participation in the firms directly assisted by USAID's private enterprise development program can be measured.

Rural Private Enterprise, 615-0220

Begun in 1983, the intent of the project is to establish and expand rural private enterprises in Kenya, increase value added in project assisted businesses, and create 5,500 jobs directly and 9,000 jobs indirectly. The project's components include commercial bank medium term lending, PVO credit extension to small scale enterprises, training, and technical assistance.

Preliminary data on project employment generation suggests that women are receiving a share of project benefits commensurate with their role in the economy. Of the 1713 jobs created under the grant program, over half (880) have been for women. The majority of members in NGOs receiving technical assistance are women; 54 percent of microenterprise loan recipients are women. For the larger scale enterprises receiving assistance under the loan program, 13 percent (226 of 1685) of the employment to be generated will be female. Nationally, women represent only 11 percent of total employees in large firms.

Private Enterprise Development, 615-0238

A recent evaluation of the project recommended that the implementing agencies be made more accountable for documenting the impact of their programs, including obtaining baseline data on all clients served through the program, including gender disaggregated data on employees and owners. Current report formats are being reviewed by USAID and discussed with the implementing agencies. It is intended and expected that greater emphasis on reporting by the implementing agencies will also make them more proactive in serving women.

A management information system has been put in place for the entire USAID private enterprise program. As baseline information and program output date are fully loaded into the database, WID impact data will be readily available and routinely reported.

The International Executive Service Corps (IESC) continues to be successful in providing assistance to women. In the last six months, 56 percent of the businesses assisted by IESC had women as principal officers/partners (up from 25 percent reported the previous six months). Women represent 39 percent of employees in IESC-assisted firms at present (as compared to 19 percent of full-time employees and 40 percent of total employees in the previous six-month period). IESC also has named a new country director for Kenya, the first female IESC country director in the world.

The Kenya Association of Manufacturers (KAM) policy studies and training sessions have not had significant direct impact on women. Only two of the 60 participants in the last two training sessions (on the topics of Industrial Maintenance and Product Development) were women. Greater participation of women is anticipated in upcoming seminars on Food Sanitation and Waste Disposal. KAM seminars target department managers or senior level managers.

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Nationally women represent only 5 percent of managers in large firms and 11 percent in medium firms, the size of firms most representative of KAM's membership. Since to date female manager perticipation in KAM-sponsored seminars is below women's representation in management nationally, for future seminars USAID will work with KAM to select topics that have the potential to attract more women participants.

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ANNEX E

Donor Coordination and Other Donor Activities

This annex expands on information provided in Section III of the Country Development Strategy Statement.

In Kenya, there is close coordination among donors and between donors and the GOK in an effort to enhance the effectiveness of development aid. Constructive and continuing dialogue is viewed by most donors as indispensible if the policy reform process in Kenya is to take hold.

At the macroeconomic and multisectoral level are the World Bank-led Consultative Group (CG) meetings. The biannual CG meetings are relatively effective mechanisms for achieving needed coordination on key issues. In these meetings GOK policies tend to be discussed much more openly. The biannual CGs are supplemented by "mini-CG" meetings in Nairobi that review progress being made toward achieving articulated policies, as well as new policy directions. There are also regular donor coordination meetings under the chairmanship of the World Bank. Most donors participate and support these coordination efforts.

Sectoral and subsectoral coordination arrangements are another important means of furthering the policy dialogue and dealing with operational issues. Effective sectoral/subsectoral coordination arrangements exist in a number of areas, including population, agricultural research, fertilizer pricing and marketing, minor and access roads, and AIDS. Perhaps the best example of successful in-country subsectoral coordination is demonstrated by Kenya's agricultural research program. Donor cooperation facilitated the transformation of 38 uncoordinated donor-financed projects into a far more comprehensive and prioritized national program with coordinated external support. This process assisted the GOK in addressing some of the critical institutional issues of the subsector. On-the-ground coordination efforts for fertilizer pricing and marketing and for minor roads and access roads programs are quite successful. Coordination efforts in the population area are yielding useful results.

The remainder of this annex describes (in greater detail than was possible in Section III) selected other donor activities in areas related to USAID strategic objectives.

1. Decreasing the Population Growth Rate

The organizations described in the next few paragraphs are those which, with USAID, provide most of the foreign assistance funding for population/family planning activities in Kenya.

United Nations Fund for Population Activities (UNFPA)

The bulk of the United Nations' direct support for population and family planning is channeled through UNFPA. Key elements of UNFPA's current five-year program include support for the 1989 population census, population education in schools, family life education, and support for research and training to improve the understanding of the relationship between population growth and national development. In addition to population and family welfare education through the Ministry of Labor, Kenya Federation of Employers, and the Kenya National Union of Teachers, UNFPA also supports efforts through the mass media to enhance awareness of population issues and family planning. Finally, UNFPA supports service delivery through an MCH/FP project in western Kenya and a community-based health and family planning program in Meru District.

World Bank

The World Bank, through the International Development Association (IDA), provides concessional loan financing to Kenya for population and family planning activities. In most cases, the World Bank has succeeded in attracting co-financiers who provide complementary grant financing. Like USAID, the Bank's financing is channeled both through the National Council for Population and Development (NCPD) and the Ministry of Health. Under the Population III Project, which was approved in 1988, the Bank (IDA) is providing $12.2 million, coupled with grant financing of $8.4 million and $5 million from ODA and NORAD, respectively, to help strengthen the NCPD's management and administrative capacity, support information and service programs being implemented by NGOs, and provide support to several line Ministries for population and family planning activities. The largest component is support to the Ministry of Health for the construction and renovation of Voluntary Surgical Contraceptive facilities and health centers and for the upgrading of 140 health clinics and dispensaries to enable them to deliver a full range of MCH/family planning services.

Currently the Bank is in the process of appraising the Population IV Project, which it anticipates will become operational in FY 1990. The Project, currently planned as an IDA credit of $25 million, will provide additional financing to NCPD for a national headquarters, information and service programs with NGOs, and financing for contraceptive supplies and improved logistics systems.

Swedish International Development Agency (SIDA)

SIDA has been a key donor to the national family planning program since the early 1970s. Currently, SIDA is the sole supplier of oral contraceptives to the national program. In addition, SIDA is financing community-based health care and family planning with Chogoria Hospital, support to the Family Planning Private Sector Project for folk media programs, and through UNFPA, is helping to finance implementation of the District Population Programme. In the health sector more broadly, SIDA has helped to finance the Essential Drugs Programme, construction of schools for maintenance technicians and clinical officers, and continuing education programs with both the Ministry of Health and AMREF.

German Agency for Technical Cooperation (GTZ

Through the Division of Family Health/GTZ Support Unit, support is provided for a variety of maternal/child health and family planning (MCH/FP) activities. These include strengthening MCH/FP training through development/application of improved training materials, operations research on fertility-related topics, family planning training for private medical practitioners, and training for cytotechnicians. Two long-term advisors, resident in the Division, assist with this program.

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2. Increasing Agricultural Productivity

Major bilateral and multilateral donors which devote a substantial share of their assistance to the agricultural sector include the World Bank, the Nordic countries, Germany, Italy, the United Kingdom, the European Economic Community, the United Nations Development Program and the International Fund for Agricultural Development. These donors also play a lead role in financing natural resources activities, which will also be briefly described under this topic heading.

The World Bank is the lead donor in the sector, through its Agricultural Sector Adjustment Operations (ASAO) and through more traditional investment projects. The Bank's proposed $100 million ASAO II, scheduled for late 1990, will focus on policy and institutional reforms related to marketing and pricing issues for five major commodities. Under the program the Bank will also address issues of agricultural input supply (particularly fertilizer) and budget rationalization. The Bank will be deepening its involvement in the reform efforts related to the National Cereals and Produce Board (NCPB) grain reserve and price stabilization role.

In recent years, the EEC has taken a leadership role in cereals sector policy reform through its $10 million Cereals Sector Reform Program (CSRP), while the World Bank, under ASAO I, funded complementary studies. The goal of the CRSP is to improve the operational efficiency of NCPB in its role of managing a grain reserve and improving price stabilization. Both USAID and the World Bank are becoming more active participants in cereals sector reform efforts. The Japanese, who have provided financing in the past for developing NCPB's grain storage capacity, have responded to donor pressure and have indicated they will not continue grain site construction for NCPB, but will remain in the sub-sector by co-financing elements of the ASAO II program.

Agricultural research in Kenya is coordinated through the Kenya Agricultural Research Institute (KARI). Major donors include: the World Bank with resources concentrated in developing research facilities; Japan, supporting research on horticultural commodities; the United Kingdom, emphasizing livestock and plant protection; the EEC, SIDA and the Netherlands emphasizing soil and water management research; and CIDA, supporting manpower development and training programs of KARI.

Research on forestry in Kenya is coordinated by the Kenya Forestry Research Institute, with major donor assistance from the World Bank and Japan. The International Council for Research in Agro-forestry has adaptive research sites in two locations, supported by European donors and by USAID.

The World Bank and Japan are the most prominent donors in the areas of agricultural education and extension. Beginning in 1982, the Bank provided $25 million to assist Kenya in establishing the Training and Visit (T&V) system for agricultural extension. In 1990, the Bank will initiate a follow-on program for the national extension service at a funding level of $30 million.

Agricultural education at the university level has received major donor financing from Japan ($10 million) at Kenyatta University and from the United States at Egerton University (see Section IV). In the past, the World Bank has played a major role in developing facilities at the University of Nairobi. The Bank has recently initiated a series of assessments focused on higher education policy issues, including the agricultural universities and colleges in Kenya in anticipation of renewed programs in the education sector.

IFAD and UNDP have recently financed a series of studies to develop a national strategy for the arid and semi-arid lands (ASAL) with a heavy emphasis on natural resource management issues. Many donors are already involved in District-specific programs in the ASAL areas which include NRMS interventions. The Nordic countries, EEC, GTZ, IFAD, and the Netherlands are the most active donors in this program with activities which include water development, soil conservation, energy and rangeland programs. Agro-forestry extension projects are being implemented by DANIDA, the Netherlands and the Swedish International Development Agency (SIDA).

In the area of parks and wildlife management the major donors to date are the World Bank, through extensive involvement in the Masai Mara and the Rural Services Project, and the EEC, which is heavily involved in the Masai Mara.

Both the World Bank and the EEC are expected to continue their substantial work in parks and wildlife while being joined by other major donors, such as USAID, Japan and Germany.

Donor support for rural infrastructure has concentrated on market center and road transport development. Five donors, in addition to USAID, have been involved in market center development. In 1989/90, DANIDA, NORAD, SIDA and UNICEF provided approximately $9 million for the Rural Development Fund, for use by local governments for marketplace infrastructure improvements. The German Government is providing $3.5 million through the Ministry of Agriculture to build a network of wholesale marketplace.

Seven donors — CIDA, SIDA, DANIDA, NORAD, the ILO, the Netherlands and Switzerland — are involved in the five-year Minor Roads Programme to rehabilitate Class E roads in 23 districts in an effort to improve agricultural infrastructure. Six donors — EEC, Japan, ODA, ADB, Germany and the World Bank — are funding the rehabilitation and upgrading of Kenya's international and trunk road network. Sustainability of road of the network is receiving increased attention from any of the donors involved in the sector.

3. Increasing Level and Productivity of Private Investment

USAID activity in the non-agricultural private sector complements World Bank and International Monetary Fund country programs by providing input and support in the form of technical assistance, training and grants. Major activities in the Bank and Fund portfolio are the Financial Sector Adjustment Credit (FSAC) of $120 million to support policy change (e.g., interest rate liberalization, generalized monetary policy instruments, capital markets development) and institutional reforms such as restructuring troubled financial institutions and providing technical assistance to the Central Bank. The African Development Bank (ADB), the Netherlands and USAID (under SAP) are cofinancing about $70 million of the FSAC.

The FSAC was designed to complement the Industrial Sector Adjustment Credit (ISAC), a $112 million credit intended to stimulate investment, export production and improve the efficiency of the sector. Cofinancing for ISAC totals about $90 million, primarily from the OECF of Japan, the ADB and the

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European Investment Bank. As with the FSAC, the ISAC is an important component of the policy framework supporting the IMF's Enhanced Structural Adjustment Facility. The World Bank also has plans for a major export credit program and is currently assessing the project's feasibility.

The major portion of UNDP's $47 million Kenya portfolio is allocated to private enterprise development. Project implementation is carried out primarily through UNIDO or the ILO, with major activities consisting of micro and macro policy formulation in conjunction with the GOK, entrepreneurial training, technology transfer to small enterprise, and establishment of a credit reference bureau and a research foundation for small enterprise. UNDP is also sponsoring regular meetings for donors to coordinate and discuss issues related to small enterprise development.

The Germans, primarily through the GTZ, have an approximately $15 million private enterprise program in place, directed primarily to micro and small entrepreneurs in the formal and informal sectors. Most GTZ enterprise activities are implemented through parastatal institutions. Future activities will address credit policy issues and expand upon existing projects. Belgium has recently granted almost $2 million to informal sector activities through a parastatal supported by GTZ. The Norwegians plan to program $5 million over the next four years for small enterprise development, with a focus on credit and training for formal, rural small enterprises. The Dutch are providing management assistance, credit and equity to various private and semi-public institutions for enterprise development. With the ILO and various NGOs, they are promoting a Business Creation Project. In the future, they plan greater involvement in export promotion, policy reform, and innovations in small enterprise. The Commonwealth Development Corporation (U.K.) has allocated 8 percent of its funding (roughly $8 million) to private sector activities, primarily investments in capital for industry and some agro-processing. The CDC plans to increase the private enterprise share of its portfolio to 25 percent of total funding to Kenya over the next five years.

Despite little involvement in policy reform work, the donor community in Kenya is in basic agreement that the policy and institutional environment is the most crucial element constraining growth in the private sector. Donors have also expressed a desire for more coordination in this area.

ANNEX F

IMPROVING THE COLLECTION AND USE OF

PROGRAM PERFORMANCE DATA

OCTOBER 1989

SUBMITTED TO:

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I. INTRODUCTION

USAID/Kenya in many ways represents one of the most successful examples of the DFA Action Plan in practical application. Over the past several years, the Mission has placed a strong and continuing emphasis on improving the evaluation of program and project performance and improving the use of program performance information in planning and decision-making. This has encompassed an initial series of planning meetings; a formal Mission Evaluation Workshop (facilitated by MSI) in 1988; and subsequent efforts to develop and refine program strategies, performance indicators and evaluation plans, including a number of Office and Mission-wide retreats.

The Mission is also well aware that strategic planning is a continuing process and that many program performance information needs are still not being adequately met. The Mission has periodically revised its strategic goals, objectives, and targets--and its systems for measuring program performance--based on available performance information, shifting development opportunities and constraints, and a clearer recognition of where A.I.D.'s greatest contribution to Kenyan development can be made.

In this regard, the activities of the TDY team should be seen as a continuation and expansion of an ongoing Mission exercise. The Scope of Work for the assignment called on the team to: (1) review current procedures for collecting, analyzing and using performance data; (2) make recommendations for improving these procedures; (3) outline an ongoing and feasible process for implementing the recommended improvements; and (4) initiate this process in one or more areas of the Mission's portfolio. In conducting this task we spent virtually all of our time inside of the Mission reviewing documents, talking to people, developing ideas, and testing them out. More specifically, we:

- reviewed the Mission's major program documents (CDSS, Action Plan, sector strategy statements, etc.);

- briefly reviewed current information systems and data sources;

- catalogued existing external reporting requirements in consultation with Office heads and relevent project officers;

- prepared and discussed ideas for possible strategic objectives, targets and benchmarks for current and anticipated Mission activities, with particular emphasis on the upcoming CDSS exercise;

- [illegible] and discussed specific strategies for generating and [illegible] program information;

- explored with Mission management and other Mission personnel the substantive, organizational, and operational implications of adopting a program perspective;

- developed more complete proposals for data collection, analysis and use in one program area as an example of what might be done; and

- suggested a set of next steps to be taken in implementing a program information and reporting system.

This report briefly summarizes our observations and suggested actions.

II. OVERVIEW OF USAID/KENYA'S COUNTRY PROGRAM

USAID/Kenya has already devoted considerable time and energy to developing, refining, implementing, and evaluating a more focused and effective country program strategy. At the same time, the Mission is currently intensively re-examining its program strategy and performance information systems as a basis for preparing a new CDSS. The following description of USAID/Kenya's country program strategy is intended as input into the CDSS process. It represents the TDY team's best judgement, based on available information and extensive discussions with Mission staff, of where that strategy appears most likely to be heading. Although Mission goals, objectives, and targets will likely change somewhat during the course of the CDSS process over the next several months, this country program description also provides at least a preliminary basis for assessing the Mission's possible uses, needs, and sources for program performance information.

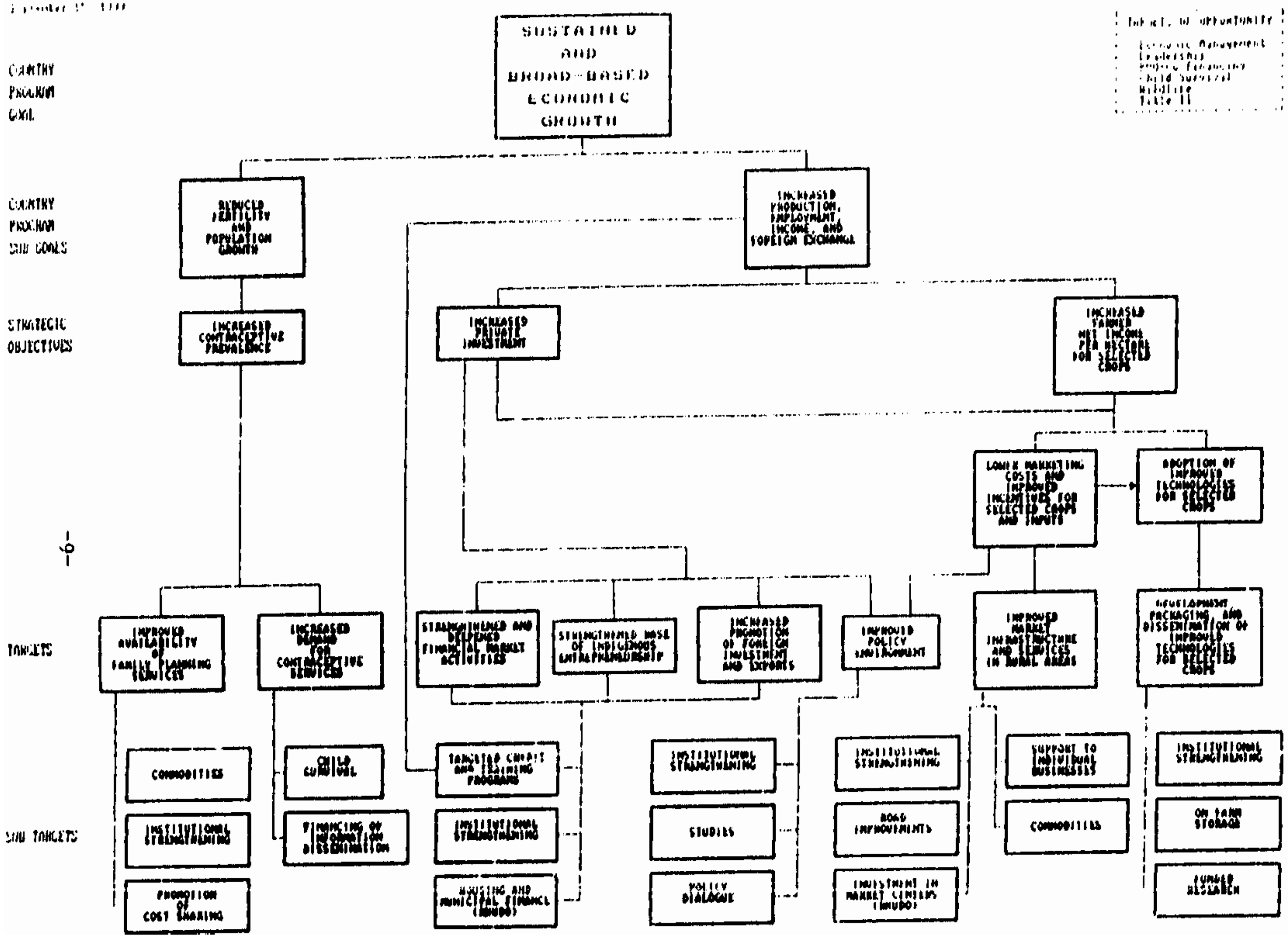
The goal of the country program in Kenya can be seen as helping the government and people of Kenya achieve sustained and broad-based economic growth so that current and future generations can enjoy increased opportunities, higher standards of living, and greater security in meeting their basic human needs. (Figure 1, an "objective tree" depicting the Mission's core program is provided to help in following the discussion of program strategy below.)

USAID/Kenya expects to contribute to two sub-goals that are necessary to achieving sustained and broad-based growth: 1) reduced rates of fertility and population growth; and 2) increased production, employment, income, and foreign exchange from the private sector. These sub-goals have associated strategic objectives which USAID/Kenya feels it can substantially affect and against which it is prepared to have its performance judged.

USAID/Kenya will contribute to reducing fertility and population growth rates by achieving the strategic objective of increased contraceptive use. This, in turn, will be accomplished through two targets: 1) improving the supply of contraceptive services (by increasing the availability of contraceptive commodities and the quantity and quality of services delivered by various family planning providers) and 2) increasing the demand for contraceptive services (through IEC and social marketing activities and by increasing the likelihood and expectation that desired children will survive).

USAID/Kenya will contribute to increasing production, employment, income, and foreign exchange earnings from the private sector by achieving the strategic objectives of increasing private investment for Kenya as a whole and increasing farmer net income for selected crops.

DRAFT OBJECTIVE TREE OF THE USAID/KENYA PROGRAM



The first of these strategic objectives, increased private investment, will be accomplished through actions focused on achieving four targets: 1) strenthened and deepened financial market activities; 2) a strengthened base of indigeneous entrepreneurship, 3) increased promotion of foreign investment and exports, and 4) an improved policy environment. Each of these targets has an associated set of sub-targets and project activities.

USAID/Kenya can be seen as contributing to increased net farmer income per hectare for selected crops through two targets: 1) lower marketing costs and improved incentives for selected crops and inputs (by improving the policy environment and improving the availability and efficiency of market services in rural areas) and 2) the adoption of improved technologies for selected crops (by developing, packaging, and disseminating improved technologies).

The USAID/Kenya country program also includes several activities that we propose be considered targets of opportunity, efforts that the Mission pursues because it has a compelling competitive advantage, a historical commitment, or an external requirement. These include improved economic management by the GOK (focusing on increased fiscal responsibility and budget rationalization -- important areas, but ones in which USAID/Kenya remains a relatively minor player); training the next generation of Kenyan leaders (although such training activities also support other program elements, as discussed later); increasing the quantity and quality of services from indigeneous PVO's (which also supports other program elements); reducing infant and child deaths (which also affects contraceptive demand); and improving wildlife management (as a basis for maintaining foreign exchange earnings from tourism). The Mission also implements PL-480 programs to ensure food availability for at risk populations (which also affects child survival and agricultural production) and several residual activities (such as remote sensing) that are being phased out of future programs.

In addition to the core strategy discussed above, there are several unresolved programming issues with obvious implications for the choice of strategic objectives, the selection of performance indicators, and the choice of data collection approaches. These issues include, but are not limited to, the following:

- the extent to which an explicit focus on small business or small farmers should be reflected in the Mission's private enterprise and agricultural strategies;

- the interest of the Mission in targeting demand (as well as supply) in its family planning strategy;

- the selection of crops to be emphasized in the Mission's agricultural strategy;

- the Mission's strategy with respect to agribusiness development;

- the willingness of the Mission to incorporate serious efforts in entrepreneurship development and promotion of foreign investment and/or export development as elements of its private enterprise strategy.

III. A PROGRAM PERFORMANCE EVALUATION SYSTEM

This section outlines the possible roles, responsibilities, and information sources for the collection and use of program performance information by USAID/Kenya. While many alternative information systems could have been suggested, this plan was designed to reflect the special characteristics and needs of the Kenya Program. It encompasses broad strategic themes, but does not provide detailed project-level coverage. (More detailed performance evaluation plans for Agriculture and Private Enterprise programs are provided in subsequent sections, and in a detailed Annex focusing specifically on the Agriculture program).

A. Underlying Themes

A number of underlying themes define the basic framework for our recommendations about program performance evaluation in Kenya. These include:

1. <u>Incorporate program performance information into existing reporting, review, and decision-making systems</u>.

CDSS's, Action Plans, Project Implementation Reports, and policy reviews all provide opportunities for summarizing program and project information as a basis for action. The ultimate goal is to make program performance information as routinely available and easily used as financial data is now.

2. <u>Only collect performance information that is likely to be used and only collect it when the costs of data collection and analysis are exceeded by the expected benefits</u>.

Information has a cost in time and money and lost opportunities. There is no point in investing substantial resources assessing the potential impact of extension alternatives, for example, if the national extension service is unwilling to alter its delivery modes. Information should only be collected if there is a reasonable prospect that it will affect Mission or government decisions and behavior, or if it is required for external reporting. More information is not necessarily better. Indeed, like most Missions, USAID/Kenya has, if anything, too much data, but too little time to analyze and interpret it adequately. What is critical is getting the right information, about the right issues, to the right people, at the right time for decision-making.

3. <u>Keep Program Performance Evaluation as simple as possible</u>.

Collecting information on dozens of variables is usually just an excuse for not taking the time and effort to determine which variables are most useful and important. Only rarely will more than two or three indicators be needed as a basis for analyzing any particular performance element. Often one "key indicator" will suffice.

Measures should also be kept as simple and straight-forward as possible, and benchmarks, indicators, and trends should not be delineated any more precisely or rigorously than necessary. Quantitative and time series data, if available, are often useful in firmly establishing trends and clearly linking them to A.I.D. interventions. In many case, however, qualtitative data or categorical comparisons will be sufficient as a basis for decision-making, and will sometimes even be preferable.

4. <u>Use existing information sources as much as possible</u>.

Available secondary data (from censuses, routine surveys, economic and trade statistics, etc.) often provide a sufficient basis for extremely convincing program performance measures, particularly at strategic objective and goal levels. However, even at the target and sub-target level, ongoing surveys, routine records, and other administrative sources can provide a basis for useful benchmarks.

Much information about program performance, particularly at the target and sub-target level, can be based directly on routine project monitoring and evaluation data. This not only includes information on service delivery, but also information on the impact of service delivery, the increasing capabilities of institutions, or the implementation of policy changes. This data <u>should</u> normally be routinely collected through ongoing assessments of purpose-level project ahievements.

Most of the reorientation of USAID/Kenya's information systems towards program performance can be accomplished through incremental additions to existing project monitoring and evaluation activities. In the agriculture and private enterprise areas, however, [illegible]

5. <u>Use project mechanisms to collect and analyze most additional program performance information.</u>

Projects are usually the most appropriate setting for a variety of additional data collection and analysis activities. Indeed, improving the data collection and analysis capabilities of indigeneous organizations is often itself a major project purpose (as, for example, in USAID/Kenya's efforts to improve the policy analysis capabilities of the Kenyan Association of Manufacturers). A variety of special studies can also be conducted through such organizations or through project M&E units. In general, project-funded data collection and analysis activities should be sufficient for routine reporting on program performance, at least at the target and sub-target level.

Project mechansisms can sometimes be used to collect and analyze critical information even at the highest strategic levels. The Population Office, for example, has used project funding and technical assistance to support the Kenyan Demographic Survey which provides key national-level information on contraceptive use, fertility, and population growth. Similarly (but at a slightly lower strategic level), the Agriculture and Private Enterprise Programs could add project-funded data collection and analysis components to assess the development and adoption of new technologies, the increased efficiencies of agricultural markets and services, the broadening and deepening of financial markets, and the increasing activities of Kenyan entrepreneurs.

6. <u>Place more emphasis on analyzing and interpretating information and less on data collection as such.</u>

USAID/Kenya already devotes considerable energy to collecting a wide range of project and program data, but spends much less time analyzing that data or using it as a basis for program and project decision-making. Unless attention is clearly focused on interpreting and using data, any effort to improve program performance information is likely to be greeted skeptically. The implementation of a program performance evaluation system should be treated more as a reorientation than an expansion of existing data collection and analysis systems. It provides an opportunity to eliminate data collection and analysis activities that have limited utility for [illegible] reporting.

While more attention should be devoted to analyzing and interpreting performance data, analysis should be kept as simple as possible. Performance evaluations are not intended to prove or disprove scientific hypotheses, but merely to establish reasonable links between AID's activities and development trends. Most such analysis involves straight-forward tracking of perforance measures over time, either through quantitative time series, frequency counts, or qualitative shifts. Ocassionally, more detailed or rigorous analyses may be needed to explore unanticipated effects, assess the distribution of benefits, or provide a basis for choosing among alternatives.

In many cases, smaller-scale special studies can provide sufficient, cost-effective information for decision-making. Such special studies (using rapid and low-cost methods, such as focused surveys, group interviews, case studies, and observational techniques) can be extremely helpful in estimating parameters and in clarifying, testing, or expanding information available from routine performance measures. Such studies are also often the only reasonable way of examining the why questions ("how do you know that" and "so what") associated with program and project results. Such special studies can use rigorous and precise measures, but are not easily generalizable when accurate statistical inferences to larger populations are required.

7. Clearly delineate program management and evaluation roles and responsibilities.

Program performance information will never become routinely available for reporting and decision-making unless roles and responsiblities for obtaining, analyzing, and using this information are clearly delineated. This includes a defined locus for reporting and coordinating information activities (most likely at the Program Office or Deputy Director level) and clearly defined responsibilities for Project Managers, Office Directors, and project personnel. A suggested division of roles and responsibilities for USAID/Kenya is described later.

8. Take advantage of appropriate opportunities to strengthen indigeneous program performance evaluation capabilities and institutions.

Much of the program performance information that is useful to USAID/Kenya will also be useful to indigenous organizations (public or private) that are [illegible] development activities. Indeed, such program performance information is often more immediately relevant to these organizations than to A.I.D. USAID/Kenya already collects substantial program performance information through indigeneous organizations and is making a significant effort to improve their data collection and analysis capabilities. Where appropriate, the Mission may want to make similar efforts to help these organizations make better use of program performance information in their internal management decision-making.

B. Program Performance Information Sources

With the exception of the population portfolio, the team could not identify any regular Mission procedures (other than project evaluation) for collecting, compiling or reviewing data above the project "output level" or for assessing progress with respect to the strategic objectives outlined in the CDSS and the Action Plan. The major sources of data available to project officers and senior managers are:

- quarterly reports from contractors;
- PIRs;
- results of special studies, project evaluations, and audits;
- results of ad hoc reviews conducted in the context of major planning and policy dialogue exercises;
- national statistics; and
- informal information from a variety of sources.

The team observed that there are several occasions when it would apparently be possible to systematically review project and portfolio impact in relation to the objectives of individual projects and/or the overall portfolio. These include:

- semi-annual portfolio reviews;
- preparation and review of the Action Plan;
- preparation for periodic review of the overall AID program with the GOK;
- periodic staffing analyses; and
- responses to individual project evaluations and audits.

At present, portfolio reviews apparently focus largely on implementation progress. Most project evaluations also focus primarily on "process," and most of those which have considered impact have had to collect primary data for that purpose. The following discussion considers possible sources through which program performance information could be made more routinely available.

Project M&E Systems

USAID/Kenya has already established project monitoring and evaluation systems related to each major program area. Most of these M&E systems provide substantial data on service delivery and institution building, but more limited data on how expanded service delivery and enhanced institutional capabilities affect intended beneficiaries (generally, project purpose-level results). Private enterprise projects, for example, track loans made, training received, and the characteristics of training and loan recipients. Population projects track contraceptives supplied, family planning services delivered, and the service capabilities of family planning organizations. Agriculture projects track research funded, individuals trained, and new technologies developed. Much of this information can be directly applied in tracking program sub-target and sub-sub-target benchmarks.

With relatively little additional effort, these project M&E systems could collect much more information on the broader effects of improvements in service delivery and organizational performance. Much of this information should be directly useful in project management, while also providing at least some indication of program achievements at the target and sub-target level. A recent external evaluation of Kenya's private enterprise projects, for example, recommended implementing "impact audits," to assess the longer-term effects of credit and training on individuals and institutions, as a routine part of project M&E. Similar "impact audits" (informal surveys or limited case studies) could be conducted in most other program areas and would provide much useful information on the direct results of projects.

Special Evaluation Studies

Both the Agriculture and Private Enterprise programs are currently redefining their objectives more ambitiously to focus on altering the broader policy and institutional framework for agricultural and private sector growth. As such, these programs will increasingly try to influence the behavior of large numbers of individuals and organizations that do not participate directly in AID projects. Such indirect effects can be difficult to capture through routine project monitoring.

Special evaluations, specifically designed to assess the breadth and magnitude of desired institutional and behavioral changes, will often be needed. Such studies might, for example, focus on changes in farming practices outside AID's project areas, measure the extent of improvements in crop marketing systems, assess changes in entrepreneurial behavior resulting from the replication or diffusion of AID training, or measure wider increases in credit availability for small businesses.

The need for some special evaluation studies can be anticipated in advance to answer key questions arising from the program strategy, and such studies can be outlined and scheduled, at least in a preliminary way, in program area information plans (see, for example, subsequent information plans for private enterprise and agriculture). The need for other special evaluation studies will only emerge as issues and problems arise during the course of program implementation.

Special evaluation studies can take a variety of forms, utilizing diverse methodologies and designs, depending on the particular issues being addressed. Such studies may or may not require statistically representative surveys, since the usual objective is simply to provide enough evidence to clearly link AID activities to higher level performance measures (such as increased private investment) or to provide a basis for interpreting those measures more fully. Focused surveys, case studies, key informant interviews, or observational data are usually the most appropriate methodologies. Special evaluation studies also often use a range of secondary sources, administrative data, and the like. In some cases, where available evidence is inconsistent or inconclusive, more intensive or more statistically generalizable special studies may be required.

Most special studies can be administered through project mechanisms, and conducted either by project M&E units or by project funded research and analysis organizations, even if they encompass concerns beyond that particular project. However, when research and analysis are particularly complex, or when the credibility of participating organizations is an issue, special studies may need to be conducted by external evaluators.

When special studies address performance issues that encompass a range of related project, non-project, and policy dialogue activities within a single program area, responsibility for further analysis, interpretation, and use of study findings will usually reside at the Office Director level. When occasional special studies address issues that cut across program areas and strategic objectives, responsibility should probably reside in the Projects Office or the Program Office. As the focal point for coordinating, summarizing, and interpreting performance information data (as discussed in the next section), the Program Office also has a special responsibility for identifying special study needs and facilitating study design and implementation. Of course, the Program Office also has primary responsibility for special studies related to project, non-project, and policy dialogue activities within its own portfolio.

Secondary Sources

Much of the program performance information that USAID/Kenya will need at the goal and strategic objective level should be available from secondary sources and GOK statistics. This includes information on private sector investment, farming technologies adopted, jobs, income, production, foreign exchange earnings, contraceptive use, fertility, population growth, and economic management. In the case of farming technologies, available information may have to be supplemented by special studies (surveys or case studies) or by direct efforts to improve the data collection and analysis capabilities of indigenous organizations. This later approach has, in fact, been central to the information strategy of the Mission's population program, which obtains key data from GOK statistics and surveys, most of which would be unavailable without A.I.D. technical assistance and financial support.

C. Roles and Responsibilities

The type of information system implicit in adopting a program perspective entails several changes in roles and responsibilities of Mission personnel. These changes include the following:

Project Managers

Most program performance information is obtained through project mechnanisms and sources, and project managers should play the primary role in planning, designing, and managing most routine data collection and analysis activities, including some special evaluation studies. While most initial data collection and analysis will be conducted by project participants, advisors, and consultants, project managers have primary responsibility for interpreting and reanalyzing performance information, for using it as a basis for decisions about project implementation and redesign, and for summarizing and communicating it to Office Directors and Senior Managers. Critically important findings should be communicated as soon as available, with more routine performance information communicated periodically in conjunction with project implementation reports.

Office Directors

Office Directors have supervisory responsibility for reviewing and acting on performance information provided by project managers. Office Directors have primary responsibility for planning, designing, and managing data collection and analysis activities (including most special evaluation studies) that address higher-level objectives, or for clearly delegating such responsibility. While most data collection and analysis responsibilities will likely be delegated, Office Directors [illegible] this data, for using it as a basis for program decisions, and for communicating critically important findings to Senior Mission Managers. Office Directors should also periodically summarize routine program performance information and communicate it to the Program Office in conjunction with project implementation reports and Action Plan reviews.

Program Office

The Program Office is the natural focal point for program performance evaluation. The Program Office has direct responsibility for planning, designing, and managing data collection and analysis related to its own project, non-project, and policy dialogue portfolio and for immediately forwarding critically important findings to Senior Mission managers. The Program Office also has primary responsibility for summarizing, interpreting, and reanalyzing program performance information submitted by individual offices (in conjunction with PIR's) and for forwarding this summary and related action recommendations to Senior Management. The Program Office takes the lead in preparing more comprehensive program performance reports in conjunction with periodic Action Plan and CDSS preparation.

Through the Evaluation Officer, the Program Office has an advisory and coordinating responsibility for the Mission's entire program performance evaluation program. This involves tracking ongoing and planned evaluation activities; providing advice and assistance in planning, designing, and implementing evaluations and special studies; providing assistance in staffing and logistics; and otherwise facilitating the process of obtaining and using program performance information. Through the WID Officer, the Program Office is also responsible for coordinating, summarizing, and reporting required WID data.

Senior Mission Managers

The primary responsibilities of Senior Managers are to ask the right questions, to make sure they get the information that answers those questions, and to use that information, as appropriate, in major program and strategy decisions. Unfortunately, this is much easier said than done. AID has provided few incentives for, and has had little experience with, performance-oriented program management. It is therefore critically important that Senior Mission Managers continue to ask hard performance questions, clearly communicate dissatisfaction when performance information is inadequate, directly demonstrate that good performance information will be used in decision-making, and appropriately reward staff who obtain and use appropriate performance information to improve program results.

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C. Other Management Implications of a Program Perspective

In addition to the direct implications of adopting a program perspective for collecting and using performance information, such an approach has the following other, more subtle, implications for internal management:

1. Program management would best be served by having an individual assigned responsibility for each program objective and target. As presented in this report, several key objectives lack an assigned locus of responsibility (i.e. an individual who feels it is his or her responsibility to ensure that the objective is met). Similarly, the decision that a cross-cutting issue is important should have the implication that some individual, at a minimum, be assigned responsibility for doing the necessary monitoring.

2. Multiple linkages within a portfolio are both good and bad. On the one hand, such linkages reflect and encourage increasing program consolidation. On the other hand, most such linkages need active management in order to be effective. We were struck by the number and range of potential linkages within the USAID/Kenya portfolio, and by the fact that most of these linkages are currently unrealized. Examples include agribusiness, agricultural research and extension, capital market development (PRJ and RHUDO), and uses of HRDA and PVO co-financing. An objective tree displays the logic of these relationships, but only genuine management action breathes life into them.

3. Increasingly, programmatic objectives need to be regarded as the yardsticks by which success is judged. That means using every opportinuty to reinforce the "impact message" by focusing on the implications of the issue at hand for the realization of specific sub-targets, targets, and strategic objectives.

4. Collecting and analyzing data takes time and costs money. In our view, the most practical means of providing the needed support given current Mission financing and OE limitations would be through a modest PD&S "project" managed by the Program Office. The functions of such a project would include M&E planning, hands-on data collection from secondary sources, simple analysis, information packaging, and the provision of assistance to the various offices of the Mission in these areas. Much of this work would presumably be done by individuals resident in Kenya, but some outside technical assitance might also be entailed.

IV. PRELIMINARY PROGRAM INFORMATION PLANS

A. Private Enterprise Program

Background

USAID/Kenya's PRE program (including project and non-project assistance & policy dialogue) has been frankly experimental, encompassing a wide range of interventions aimed at improving managerial and entrepreneurial abilities, enhancing the capabilities and services of private sector support organizations (in particular, credit providers), and improving the broader policy environment for private sector investment. While these efforts have demonstrated that the A.I.D. program has great potential, the major impact of the private sector program thus far has been through targeted assistance that has improved the performance of a relatively small number of businesses and support organizations.

The Mission seems anxious to adopt an ambitious private sector objective, and the stage may have been set for a more focused private sector program aimed at substantially expanding private investment in Kenya and thereby significantly improving the availability of jobs and income for large numbers of Kenyans. The likelihood of achieving these aims is enhanced by the increasing extent to which the Mission's agricultural portfolio seeks similar objectives. In this regard, it is noteworthy that several relevant agricultural activities are directly interconnected to the PRE "objective tree."

Measuring Program Performance

A number of useful measures of private sector program performance, particularly at higher strategic levels, can be derived from regularly published GOK statistics. Most other performance measures can be derived from, or easily added to, existing or planned project information systems. The need for several specific, small-scale "special studies" can also be anticipated to examine key relationships, assumptions, and related issues (such as equity and Africanization) in greater detail. Topics for other special studies will also likely emerge as problems, issues, or unanticipated results become apparent through routine program and project monitoring. More specifically:

Program Performance Trends:

At the level of program goals, the Mission can monitor and report country trends based on available GOK statistical data on changes in private sector production, employment, income, and foreign exchange earnings. Depending on the availability of data, these trends could be reported annually, biannually, or at longer intervals. If [illegible] variability is high, the Mission may want to [illegible] [illegible]

Program Performance Indicators:

At the level of strategic objectives, the Mission could report program performance indicators that are also based largely on available GOK statistical data on private sector investment. This would include information on gross changes in private sector investment over time, changes in the proportion of private to public sector investment, and changes in the magnitude of private sector production as a percentage c GDP and GNP. Again, this data could be reported annually, biannually, or at longer intervals, depending on availability. Given the volatility of investment data, the use of rolling averages based on at least two to three year intervals would appear desirable. To the extent possible, the Mission should also monitor, and if appropriate report, disaggregated data on investment by size of firm, by source (foreign vs. domestic), etc.

To better substantiate the "people-level impact" of increased investment, special studies could be conducted linking such investment directly to increased production, employment, income, and basic human needs, both for owners and employees. This could involve small surveys/impact audits of selected firms; case studies of particular firms, industrial sectors, or enterprise categories (such as micro-enterprises); economic modelling; or some combination. Such special studies might also assess the impact of increased private sector investment for women and for Kenyans of African descent. Separate special studies/impact assessments conducted routinely as part of project M&E could help to establish linkages and parameters (e.g., cost per job created by enterprise size and type). These studies should also measure the direct impact of project interventions on investment, production, employment, and foreign exchange earnings (goals and objectives) for the small number of targeted firms included in those programs.

Program Performance Benchmarks:

At the level of program targets and subtargets, most program performance benchmarks will be based on project purpose and output data which should be available from existing or planned M&E systems. This could be supplemented by special studies tracking the indirect effects of project interventions on private investment institutions, incentives, and performance. Most of these special studies, and many similar studies at higher strategic levels, could be conducted either as a part of project M&E or through project-supported policy analysis institutions.

Most direct service delivery data--the amount, beneficiaries, and cost of technical assistance, training, and credit activities--are already being tracked by existing project M&E systems, but are useful primarily for project management. Adding impact audits (a kind of special study), as recommended in the recent [illegible] evaluation, would provide additional information on the extent to which financial intermediaries are actually changing their credit practices--a useful preliminary indicator of "[illegible] [illegible]

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likely small surveys or case studies) could assess changes in business practices and investment patterns of entrepreneurial training participants. More important indirect effects of institutional development efforts (increases in demand for services and replication and diffusion of service delivery by a broader range of institutions) will, however, be more difficult to track. If aggregate measures of lending patterns of banks and other intermediaries are available, this could provide one basis for tracking larger changes in lending behavior. Special studies of lending practices of non-targeted institutions, or of the experiences of entrepreneurs seeking credit, might provide another useful alternative. Much of this service delivery data could provide the basis for quantitative benchmarks once a baseline is established.

Benchmarks for assessing the performance of equity and venture capital markets should be somehat easier to establish since they involve a relatively small number of institutions. Measures of the volume of funds available for equity and venture capital investments (and the characteristics of firms being funded) should be routinely available from the Kenya Stock Exchange and venture capital organizations. This data might be supplemented by special studies further examining the characteristics of firms, the uses of financing, and the direct impact of financing on production, employment, income, and foreign exchange earnings (to further validate objective and goal level linkages).

Preliminary benchmarks for "strengthening the base of indigeneous entrepreneurship" could be obtained through routine monitoring and "impact audits" of AID-funded participants.

At present, the Mission is implementing relatively few activities (other than policy studies) to promote foreign investment or exports. Assessments of results from this "policy dialogue" effort could be based primarily on disagregated statistics at the strategic objective level. If AID mounts more focused promotion activities (such as EPZ's, trade fairs, public education campaigns, bilateral investment boards, etc.) project M&E systems should provide appropriate benchmarks based on service delivery and investment decision data. To the extent that relationships with foreign firms are promoted by USAID/Kenya on an ad hoc basis, establishing a simple but systematic log of such activities would provide an adequate basis for periodically reviewing the nature and impact of these efforts.

Benchmarks for "improved policy environment" could begin with a checklist of key policy changes proposed, approved, implemented, or rescinded by the GOK. This could be updated periodically (perhaps as part of the "policy inventory" update discussed later) as a basis for policy dialogue and policy study decisions. The checklist could be supplemented by special studies tracking the implementation of policy reforms and their effects on targeted institutions (financial intermediaries, equity markets, venture capital markets, training [illegible]

B. Agriculture Program

Background

USAID/Kenya's Agricultural Program encompasses a broad range of interventions from assistance to agricultural higher education to support for agricultural inputs and technologies. Some projects, such as those developing new technologies for goat husbandry and on-farm grain storage, promoting fertilizer use, and supporting Egerton University, have been underway for a number of years. Other projects are quite new. While the results of individual projects are reasonably well understood, the broader impact of the Agricultural Program is far less clear.

At present, the Mission's Agriculture Program appears to be evolving a clearer focus on technological and marketing improvements aimed at increasing agricultural productivity (farmer net income per hectare for selected crops). To further this objective, the Agriculture Office is currently designing a new Market Development Project and a new Institutional Development Project at Egerton University.

Measuring Program Performance

A more detailed initial plan for Agricultural Program information is presented as Annex 1 below. This section highlights several conclusions emerging from that plan.

Comprehensive data on farmer net income per hectare for selected crops are not currently available, although some component information has been obtained. Adequate indicators for improvements in agricultural productivity will require additional data and analysis that combines existing and new sources of information in a consistent fashion. The Mission can either collect this data directly, collect it through existing GOK agencies (such as KARI or the Ministry of Agriculture), or some combination.

The Policy Analysis Matrix (PAM) appears to be a particularly promising tool for obtaining much of this program performance data. PAM is currently being implemented in conjunction with the IDAT project at Egerton University and may also become part of the developing KMDP project. The Agriculture Office anticipates that PAM will generate much useful information on farm net income and agricultural productivity. PAM would include, for example, data on ten key commodities in important agricultural regions that could be used to generate net farm income (value added) strategic objective indicators. (See, for example, the Agriculture Office's May 1989 paper, "Agriculture Development in Kenya in the 1990's, The USAID Strategy.") Information from PAM could be supplemented by data from the Farm Management Section of the Ministry of Agriculture, particularly if that office makes time series data available.

Program Performance Benchmarks

While PAM can meet many program-level information needs and provide some relevant project data, most projects will require important additional information. The Agriculture Office needs to develop an overall monitoring and evaluation plan to coordinate these efforts and ensure that common measures are used whenever possible.

At the target level, reliable data are currently lacking on almost all key objectives. As discussed in Annex 1, there are common needs arising from several projects for the measurement of changes in marketing costs, improved incentives, and technology packaging and dissemination. Much of this information simply does not exist at this time. Consideration should be given as to how this information could be generated so as to minimize duplication and ensure comparability.

At the sub-target level, information is currently generated by individual projects, but often does not address upward linkages in the objective tree. As at the target level, consideration needs to be given to developing monitoring and evaluation systems that meet both project and program level needs. Finally, it should be noted that various agricultural projects have policy components--either explicitly or implicitly through generation of "lessons learned." These should be identified in the context of the Mission's policy agenda and associated information needs should be met in a coordinated fashion.

C. Other Program Areas

Population

The population program has a well-established strategy, set of indicators, and information systems. Nothing in the objective tree suggests any major changes in the office's objectives or its evaluation methods. If anything, the implication of the proposed approach would be increased selectivity on the indicators used for program monitoring and reporting. Major outstanding issues include the extent to which demand promotion constitutes a significant Mission target, the extent of continuing involvement by the Mission in promoting cost-sharing as a means of improving availability of family planning services, and the role of child survival activities within the Mission's portfolio.

HRD

The principal projects of the HRD office--Training for Development, PVO Co-financing, and HRDA--have implications for each of the Mission's three strategic objectives. Each project also has implications that go beyond these strategic objectives. Insofar as institutions and individuals supported by HRD projects are directly supportive of the Mission's principal strategic objectives, they should be monitored and evaluated in terms of their contribution to those objectives and directly linked to the associated targets noted on the objective tree. To the extent these activities reflect separate targets of opportinuty, they are discussed below.

D. Targets of Opportunity

As noted above, our review of the Mission's portfolio suggests that several of the projects included (or likely to be included) could best be regarded as targets of opportunity. While many of these activities are being reviewed as part of the current CDSS process, and may be modified for incorporation under other strategic objectives, some preliminary thoughts about monitoring and evaluation are presented in the following paragraphs.

Improved Economic Mangement by the GOK

A secondary objective of the A.I.D. program is to improve economic managment by the government of Kenya. The Mission's efforts in this area are focused on rationalization of the planning and budgeting process and on various efforts to promote cost sharing and reduced government involvement in the provision of goods and services. Included are a variety of policy dialogue efforts and specific project interventions aimed at promoting critically needed policy change and improving the management and analytical capabilities of key public organizations. Notable activities include computerizaton of the budget process, health care financing, tax modernization, and the RMRD project.

The achievement of substantial improvement in GOK management appears to be well beyond A.I.D's own manageable interest. The World Bank and IMF are major proponents of policy reforms in this area, and implementation of such reforms is affected by political and environmental factors over which donors (and the GOK) have little if any control. Economic Management activities are therefore perceived as an especially important target of opportunity--one with which A.I.D. is greatly concerned, towards which it will work cooperatively with the GOK and other donors, but for which it can only realistically expect to have limited and specific impacts. USAID/Kenya should track the results of specific project and policy efforts in this area (at the level of targets and benchmarks) and also expects to track broader country trends towards economic liberalizaton.

Leadship Development

The Mission's Training for Development Project is in the process of exploring the feasibility and implications of a focus on "leadership" versus a more traditional emphasis on participant training and skill enhancement. If the project chooses to stress participant training, emphasis will probably be placed on reinforcing the Mission's strategic objectives. If, however, the project ultimately chooses to stress leadership, and the Mission thereby takes on leadership development as a target of opportunity, there are obvious implications for participant selection, the training provided, and the follow-up activities undertaken as part of the project.

From a monitoring and evaluation perspective, participant training should be assessed in term of the impact of training on the behavior of participants and the performance of their organizations. Relatively well established methodologies exist for this purpose. If, on the other hand, the program focuses on leadership, the unit of analysis should be the nature of the leadership displayed by individuals following training. Evaluation methods in this area are relatively undeveloped, principally because of the lack of agreed definition of leadership and effective leadership behavior.

PVO Co-financing

As with leadership, HRD is currently reviewing its options with regard to the future of the PVO Co-Financing Project. Adopting an emphasis on institutional strengthening, as is being considered, would probably result in the decision to focus on a limited number of PVOs. Should these PVOs be chosen from those supporting the Mission's core strategic objectives, there would be no need to include PVO Co-Financing as a separate Target of Opportunity. Should a set of PVOs be selected that would otherwise be outside of the portfolio, monitoring and evaluaton would require establishment of explicit performance criteria for the PVOs selected. In either event, strengthening efforts should be assessed in term of indicators such as those noted in the section of this report (under "Cross-Cutting Issues") that discusses "institutional strengthening." A separate, project-funded, evaluation would almost certainly be required for this purpose.

Child Survival

Child survival is viewed by the Mission both as instrumental to the Mission's family planning objectives and as an end in itself. In this latter regard, well established indicators and measurement systems exist to ascertain changes in infant mortality and morbidity and to relate these to the delivery of specific health interventions.

Wildlife

The Mission is considering undertaking a new project in wildlife development focused principally on improved park management. The project is expected to have considerable visibility and public relations value in addition to its economic impact. While such a project could no doubt be rationalized in the objective tree in a variety of ways, it would seem more appropriate to regard it as a target of opportunity and to report on it accordingly. Precise notions about a monitoring and evaluation system for this project should obviously await clarification of the project's principal objectives and activities.

E. Cross-Cutting Issues

In addition to strategic objectives and targets of opportunity, there are several cross-cutting issues of apparent interest to the Mission. These include:

- -participation by women in Mission activities;
- -policy reform;
- -insitutional strengthening;
- -training;
- -PVO's;
- -privatization; and
- -financial implementation of USAID activities.

Initial thoughts about the generation and use of data regarding these issues are presented in the following paragraphs:

Participation by Women

AID has introduced increasing consistency in the ways in which it monitors and reports on the participation by women in its development activities. Guidelines are presented in Annex 2 of this document. As a minimum, these requirements entail gender disaggregation of beneficiary data. It would appear both straightforward and desirable to summarize and review this data at least once per year as a means of monitoring performance. Responsibility for this review, which would be held in conjunction with PIR or Action Plan preparation, should probably reside with the Program Office or the Mission's WID Officer. This analysis requires that all project and program informaton systems disaggregate their data by gender and would profit greatly by the establishment of the training informaton system recommended below.

Policy Reform

The Mission is engaged in an ambitious array of policy reform activities. Those items that we identified as currently or soon to be included in the Mission's policy dialogue were gathered in a preliminary "Policy Inventory" that was left with the Mission.

There are a variety of reasons for maintaining a consolidated list of such items, reviewing and updating this list from time to time, and perhaps undertaking cross-cutting assessments of the Mission's effectiveness in selected areas. We suggest that such a Policy Inventory be maintained by the Program Office and updated semi-annually in conjunction with the PIR and Action Plan process. An operational format might include the following four column listing:

Policy Item / Project / Responsibility / Target Date

Privatization

A.I.D. requres Missions to prepare and submit privatization plans. In addition to the items included by the Mission in past and current plans, the portfolio provides a rich array of elements, large and small, representing increased use of private sector delivery mechanisms and institutions. These include such things as:

private sector family planning;
use and strengthening of private consulting organizations in the AMP project;
increased role for commercial intermediaries in development banking;
possible privitization of Egerton student services;
etc.

An annual review and consolidation of the Mission's efforts to promote private sector delivery mechanisms would appear to be valuable not only for purposes of external reporting but also to maintain a focus by Project Officers and Office Directors on this cross-cutting objective. Responsibility for this review should probably reside with the Projects Office and should be used to generate discussion about how to continue to expand the use of private sector delivery mechanisms within Mission programs.

Institutional Strengthening

While it is not, and should not be, a strategic objective of the Mission, many of the Mission's activities focus on what can be loosely described as "institutional strengthening." The institutions involved include:

KARI,
Egerton University,
IPC,
KAM,
KEC,
REP,
Kenya Stock Exchange,
Various PVOs,
Various Agricultural Input and Marketing Organizations,
Ministry of Health,
Ministry of Planning,
Treasury,
etc.

We would suggest that a consistent approach be used in monitoring and evaluating the success of these institutional strengthening efforts. Such an approach would focus on five types of indicators for each of the institutions assisted, namely:

- o Changes in the nature of the goods and services provided by the organization to better reflect the needs identified by project designers;

- o Improvements in the quantity and/or quality of output of the organization's principal products or services, or in the efficiency with which the organization produces these outputs;

- o Increases in demand for, willingness to pay for, and/or satisfaction with the organization's pincipal products or services;

- o Improvements in the organization's prospects for financial self-sufficiency in the absence of USAID funding (although such self-sufficiency could include other sources of subsidy, if such subsidies are considered to be relatively reliable over time);

- o Improvements in the organization's prospects for technical self-sufficiency in the absence of USAID funding.

While there is no obvious need to maintain a central point of oversight for the Mission's institutional strengthening activities or to report on these activities collectively, there would appear to be much to be gained by employing consistent evaluation methods and performance criteria and by periodically examining the portfolio of interventions (perhaps in a retreat setting) to identify and transfer lessons learned.

Training

The Mission has two major training projects--HRD and Training for Development--in addition to major training components in a number of its other projects. Wherever these efforts involve training outside of Kenya and PIO/Ps are involved, information is consolidated in the Participant Training Management System maintained by HRD. This information currently dates back to 1978, is in a dBase system, and includes data on:

participant's name,
date of birth,
sex,
position,
employer and employer address,
project number,
type and level of training,
field of study,
training institution, and
departure and return dates.

At present, this information system is used entirely on a demand basis and appears to be relatively under-utilized. A desk review of the nature and magnitude of USAID's work over the last decade in participant training would appear to be of obvious value and to require minimal effort. Prospectively, a cross-cutting review of participant training activities would form an interesting 3 or 4 paragraphs in future Action Plans and a possible area for ongoing discussion with the GOK.

To the best of our knowledge, no systematic means currently exists for collecting and summarizing data on the participants receiving in-country training (or consulting) funded by USAID. The Projects Office has initiated a system to collect and consolidate this information on individuals participating in the Private Enterprise Programs it supports, and HRDA includes a comparable system. Expanding and integrating these systems to include the other sectors of the Mission's program might be of value. As a minimum, such a system would allow the Mission to report on indicators such as training for women in a straightforward manner and, when combined with lists of loan recipients, would provide a basis for generating a contacts file for future activities. If such an effort is deemed worthwhile, HRD would appear to be its obvious locus.

Few of the Mission's training efforts, either overseas or in-country, appear to involve any systematic procedure for following up on past participants to ascertain impact or to maintain participant networks. Some system of tracer studies might be indicated for certain of the Mission's more significant training efforts. The feasibility and value of establishing a consistent set of client records and analyses for in-country training activities remains, however, an area of uncertainty as far as this team is concerned. As a minimum, it would seem desirable to prepare consolidated lists of courses provided, diplomas, numbers of participants (by gender) and subject matter.

PVOs

As in the case of training, the Mission and A.I.D./W have a distinct interest in issues relating to the use of NGOs/PVOs. A rough estimate suggests that the PVO Co-financing Project represents less than 20% of the Mission's involvement with PVOs. While certain of the Mission's efforts entail the use of PVOs essentially as contractors, many activities include explicit provisions for institutional strengthening and other forms of direct support.

Relatively little effort would be involved in someone (presumably in HRD) preparing and maintaining an inventory and augmenting the Mission's annual report on activities with PVO/NGOs. The establishment of such a monitoring system could also have the secondary effects of promoting greater exchange of lessons learned, more consistency in approach, and improved linkages between the PVO Co-financing Project and the Mission's other PVO/NGO activities.

Financial Implementation

The best example within A.I.D. of the generation and use of cross-cutting data concerns data on the financial implementation of programs and projects, particularly data on obligation rates, pipeline, and mortgage. In our view, the Mission makes extensive and effective use of this data, and we have no recommendations for improvements. In fact, one way of viewing the current excercise would be as an attempt to equip the Mission to use program performance data with the same level of versatility and "operationality" that it currently uses financial data.

V. NEXT STEPS

Several next steps would appear to follow from the observations and recommendations discussed above. These include the following suggested actions:

1. Clarify/Finalize the CDSS, particularly strategic objectives, targets, and substantive linkages among Mission activities.

2. Prepare a New Mission Evaluation Order focusing on roles and responsibilities and information utilization.

3. Reorient Evaluation Schedule in Upcoming CP and ABS to reflect initial program information needs.

4. Include Explicit Analysis of Program Performance and Cross-Cutting Issues as part of Future PIR and Action Plan Reviews.

5. Develop a Small PD&S Program or some other suitable mechanism to support the Evaluation Officer in providing the Program Office and Technical Offices with hands-on assistance.

6. Begin planning, preparing, and implementing revised program level M&E systems.