GOVERNMENT OF KENYA
MINISTRY OF PLANNING & NATIONAL DEVELOPMENT

REPUBLIC OF KENYA

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INSTITUTIONAL AND FINANCIAL ANALYSES for the KENYA MARKET DEVELOPMENT PROGRAM

VOLUME A: INSTITUTIONAL STRENGTHENING COMPONENT

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GLOSSARY OF TERMS

ARMES	Applied Research, Monitoring and Evaluation System
ATA	Agricultural Technical Assistant (Extension workers)
CBS	Central Bureau of Statistics
DAO	District Agricultural Officer
DFA	Development Fund for Africa
DOA	Director of Agriculture (MOA)
DC	District Commissioner
DDC	District Development Committee
DPD	Development Planning Division (Ministry of Agriculture)
DPCD	Development Planning and Coordination Division (Ministry of Public Works)
EEC	European Economic Community
EU	Egerton University
FMD	Farm Management Division (Ministry of Agriculture)
GOK	Government of Kenya
GTZ	German Fund for Technical Assistance
IBRD	International Bank for Reconstruction and Development
KMDP	Kenya Market Development Program
KNTC	Kenya National Trading Corporation
Kshs	Kenya Shillings
MIS	Market Information System
MOA	Ministry of Agriculture
MoCoM	Ministry of Commerce
MoCoP	Ministry of Cooperatives
MoENR	Ministry of Environment and Natural Resources

MoLD	Ministry of Livestock Development
MoTC	Ministry of Transport and Communication
MoT	Ministry of Tourism
MoPND	Ministry of Planning and National Development
MoPW	Ministry of Public Works
MoSM	Ministry of Supplies and Marketing
MRP	Minor Roads Program
NIB	National Irrigation Board
NCPB	National Cereals and Produce Board
OP	Office of the President
OVP-MOF	Office of the Vice President and Ministry of Finance
PAM	Policy Analysis Matrix
P S	Permanent Secretary
PSC	Public Service Commission
RARP	Rural Access Roads Program
RTPCs	Rural Trade and Production Centres
SPD	Sectoral Planning Department, MOPND
UON	University of Nairobi
USDA	United States Department of Agriculture

CURRENCIES

Kenya Shs One	=	approximately US $ 0.045
Kenya Pounds One	=	Kshs 20

EXECUTIVE SUMMARY

1. KMDP OBJECTIVES AND SCOPE

The objective of the Kenya Market Development Program (KMDP) is to assist the Government of Kenya (GOK) achieve its major goal of increased agricultural productivity. The Program will support improvements in the systems for implementation of policy changes and a reduction in the real costs of agricultural marketing through investment in rural infrastructures. The program will also complement other GOK programs for the reform of the agricultural sector, and particularly the EEC sponsored Cereals Sector Reform Program (CSRP).

KMDP is envisaged as a long-term (ten-years) program. There will, however, be a phased implementation of the program. These analyses cover the first, three-year, phase of KMDP.

The economic and social soundness analyses of the program carried out earlier confirmed that phase one of the program should comprise the following components-:

- strengthening the institutions responsible for research and analysis of policy issues, and gathering, processing and disseminating market information on major food commodities;

- construction and rehabilitation of roads in the six districts of Kisii, Kakamega, Uasin Gishu, Nakuru, Nyeri and Kitui;

- program based support to GOK for the implementation of policy reforms in grain marketing and in the development and maintenance of rural roads. In this component, USAID will grant GOK US $10 million provided that GOK takes measures to implement the agreed policy reforms. This grant will not be tied to any specific project activities. Institutional strengthening measures under the other two components will support the realization of the goals of the third component.

As stipulated in the terms of reference, a separate Volume B report presents the institutional and financial analyses for the implementation of the roads development component.

This document, Volume A report, covers the analyses for the institutional strengthening and policy reform components of KMDP. The analyses cover the three key institutions whose mandates directly concern the institutional strengthening goals of KMDP, i.e the Ministry of Planning and National Development (MoPND), the Ministry of Supplies and Marketing (MoSM), and the Ministry of Agriculture (MOA).

2. MINISTRY OF PLANNING AND NATIONAL DEVELOPMENT

It is a mandate of the Ministry of Planning and National Development (MoPND) to undertake analysis of economic and development issues. and to formulate overall strategies for the implementation of development programs and projects.

The ministry has an establishment with a relatively large number of well trained economists and policy analysts. This Ministry is also a storehouse of data required for policy development. The MoPND is, therefore, well placed in terms of mandate, status and availability of staff resources to steer the implementation of KMDP.

However, no significant KMDP institutional strengthening measures are recommended for the MoPND because:-

- o the implementation of the planned IBRD funded Monitoring and Evaluation (M & E) project will cater for the institutional strengthening needs of the ministry's Sectrol Planning Department (SPD) and Central Bureau of Statistics (CBS). Indeed, the KMDP applied research, monitoring and evaluation system (ARMES) should be complementary to this M & E Project; and

- o the priority and magnitude of institutional strengthening measures identified in the MOA virtually exhaust the DFA funds earmarked for KMDP.

In the context of Kenya's food policy and planning needs, KMDP resources should support the MoPND's Department of Resource Survey and Remote Sensing (DRSRS). However, DRSRS's current resource requirements can satisfactorily be met only through an expansion of the KMDP budget, particularly with regard to DFA funds, or through another program.

3. MINISTRY OF SUPPLIES AND MARKETING

The Ministry of Supplies and Marketing (MoSM) was created only in March 1988. Its functions were specified to be food distribution and marketing policy, and supervision of the operations of NCPB. These functions were previously managed by the MOA. MoSM has also taken over from the MOA the steering of the EEC sponsored Cereals Sector Reform Program (CSRP).

It is likely that CSRP will in the medium term determine the organizational development and functional priorities of the MoSM. For example, the on-going EEC funded grain pricing study will identify the need or otherwise for the ministry to have a pricing function. Another EEC funded study on the development of a system for monitoring changes in the grain market is likely to give rise to measures for strengthening the ministry's and/ or NCPB's capacity for monitoring the grain market. Furthermore, CSRP's goals in institutional strengthening are likely to remain narrower than those of KMDP. Therefore, it does not appear to be an opportune time for

KMDP to intervene at the MoSM.

Considering the institutional constraints to organizational development in the public sector, it will take time for MoSM to develop any substantial capacity to, for example, develop and manage a comprehensive data base for policy analysis. Therefore, the current organizational status of MoSM is not appropriate for KMDP intervention during the first phase which should take only three years to complete.

Nonetheless, coordination between MOA and MoSM in their operations of KMDP and CSRP respectively will be important in order to ensure complementality between the two programs.

4. MINISTRY OF AGRICULTURE

The mandate for the development and management of the agricultural sector generally falls under the Ministry of Agriculture (MOA). The ministry has through the years acquired considerable capability and experience in policy development and implementation of programs. Its organization and operations span the full range of technical and professional activities necessary for the effective management of the sector.

Institutional Fragmentation

Institutional fragmentation in the agricultural sector largely reflects political decisions to reduce the span of control of the MOA through the transfer of functions to newly created ministries. Consequently, for example, the MOA has the mandate for agricultural policy while the MoSM has the mandate for food distribution and marketing policies. In the circumstances, some degree of duplication of functions is inevitable.

So far, however, there is no duplication in agricultural policy analysis because technical leadership of MOA's Development Planning Division (DPD) in this function is not disputed. Furthermore, the MoPND formal linkages with the planning units in the line ministries provide a framework for coordination of GOK policy initiatives in every sector.

There is duplication in the market information functions of CBS and FMD, and in crop forecasting where there are independent forecasts by CBS, DRSRS, MOA, and NCPB. There are nevertheless positive features of coordination and collaboration between these institutions.

In crop forecasting, the participating institutions are formally coordinated through an Interministerial Committee chaired by the Director of CBS. An Interministerial Technical committee has also been formed to review and harmonize the crop forecasting methodologies adopted by the various institutions. The likely outcome of the initiatives of the latter Committee would be an integrated crop forecasting system.

In the collection and dissemination of market information on agricultural produce, CBS has indicated willingness to provide technical support to MOA's Farm Management Division (FMD). CBS staff appreciate that MOA has a more extensive organizational capacity which can provide comprehensive monitoring of commodity prices. Therefore, KMDP will facilitate collaboration between CBS ad FMD in the development and management of a unified market information system.

Institutional Initiatives Constrained by Lack of Resources

Past initiatives to improve the market information systems for agricultural commodities have been severely constrained by lack of resources. Among these are the FMD initiatives to collect and disseminate market prices data, and to develop micro-data bases on farm production. Therefore, availing the resources to support these initiatives is an appropriate focus of KMDP institutional strengthening measures.

Focusing KMDP Institutional Strengthening Measures on MOA

KMDP institutional strengthening measures should focus on the FMD and DPD at the MOA because:

- the MoPND will soon benefit from the proposed IBRD funded M & E project, and the implementation of ARMES at the MOA will be complementary to the M & E project;

- CSRP is expected to strengthen the MoSM and NCPB's capacity to monitor and evaluate the policy reforms by the program. Furthermore, within the time frame of the first phase of KMDP, there is much better chance of successful implementation of ARMES at MOA than at the MoSM whose current organizational capacity is quite low;

- FMD has already in place some data bases which can be verified and updated within the initial stages of implementing ARMES;

- DPD is well placed to present the results of ARMES-based policy analysis to decision-makers in the agricultural sector;

- GOK is currently encouraging the sectoral ministries to undertake policy initiatives without waiting for clearance and directives from the Office of the President (OP) as had been the practice in recent years. Therefore, ARMES should provide a firm basis for the MOA to initiate policy reforms in the agricultural sector; and

- since DPD and FMD are in the same ministry, potential problems in coordinating the implementation of ARMES will be minimized.

5. INCORPORATING POLICY ANALYSIS MATRIX PROJECT INTO ARMES

A strategy in developing ARMES is to incorporate over time the data and analysis developed under the USAID sponsored, GOK Policy Analysis Matrix (PAM) Research and Training Project into the FMD's farm management data bases. PAM data and methodology will bring into ARMES a powerful tool in understanding and formulating agricultural policies.

In the initial stages of incorporating PAM project data into ARMES, it is recommended that the project is expanded in geographical coverage to the six districts where KMDP resources will be invested in the development of roads. This will provide the PAM project with the first opportunity to focus on specific issues: relating the impact of investments and policy reforms to trends in agricultural production and the efficiency of marketing channels.

6. PRIORITY INSTITUTIONAL STRENGTHENING MEASURES

The priority KMDP institutional strengthening measures will comprise-:

- support to FMD in:
    - a) updating and verifying its existing data bases for use in strategic planning and policy analyses;
    - b) incorporating the applied research data developed under the PAM project into ARMES;
- support for the extension of the PAM project activities to the six districts where phase one of KMDP will be implemented:
- support to DPD for enhanced capacity to utilize the data bases of FMD in strategic planning and policy analysis;
- support to FMD in the development and operation of a comprehensive market information sy-tem for a select number of agricultural commodities; and
- support to the Ministry of Public Works (MoPW) in monitoring and evaluation of KMDP investments in roads. This element is elaborated in Volume B report.

7. KMDP STEERING COMMITTEE AND THE OVERALL INSTITUTIONAL FRAMEWORK

The current KMDP Steering Committee should continue to provide the primary coordinating mechanism for the program. Strategically, the essential feature of the Committee will be to nurture coordination without stifling action in the organizations represented in it. In this context, the role of the committee will be:

a) to ensure that major policy initiatives in the agricultural and rural development sectors have the widest possible cross-sectoral technical review and consensus before they are presented to the policy -makers;

b) to identify policy review needs and priorities;

c) to ensure exchange and flow of data and information between the institutions; and

d to foster collaboration between the institutions and facilitate their activities. The Committee will foster collaboration by supporting the development of mechanisms whereby, for example, CBS can provide its know-how in market data collection to the FMD staff.

The linkages to be nurtured and the overall KMDP institutional framework are schematically illustrated in the chart overleaf.

8. DISTRICT LEVEL CAPACITIES AND COORDINATION OF FMD ACTIVITIES

At the distrit level, the MOA has an establishment which has several sections representing most of the technical divisions of the ministry. These sections are headed by officers who are usually qalified in their fields at graduate and post-graduate levels. A District Agricultural Officer (DAO) is overall responsible for all MOA activities at this level.

FMD district level activities in the implementation of ARMES and MIS will be coordinated by the DAO who has a functional reporting relationship to all heads of technical divisions of the MOA.

9. PROGRAM BUDGET

Implementation of KMDP will involve the use of funds from three sources:

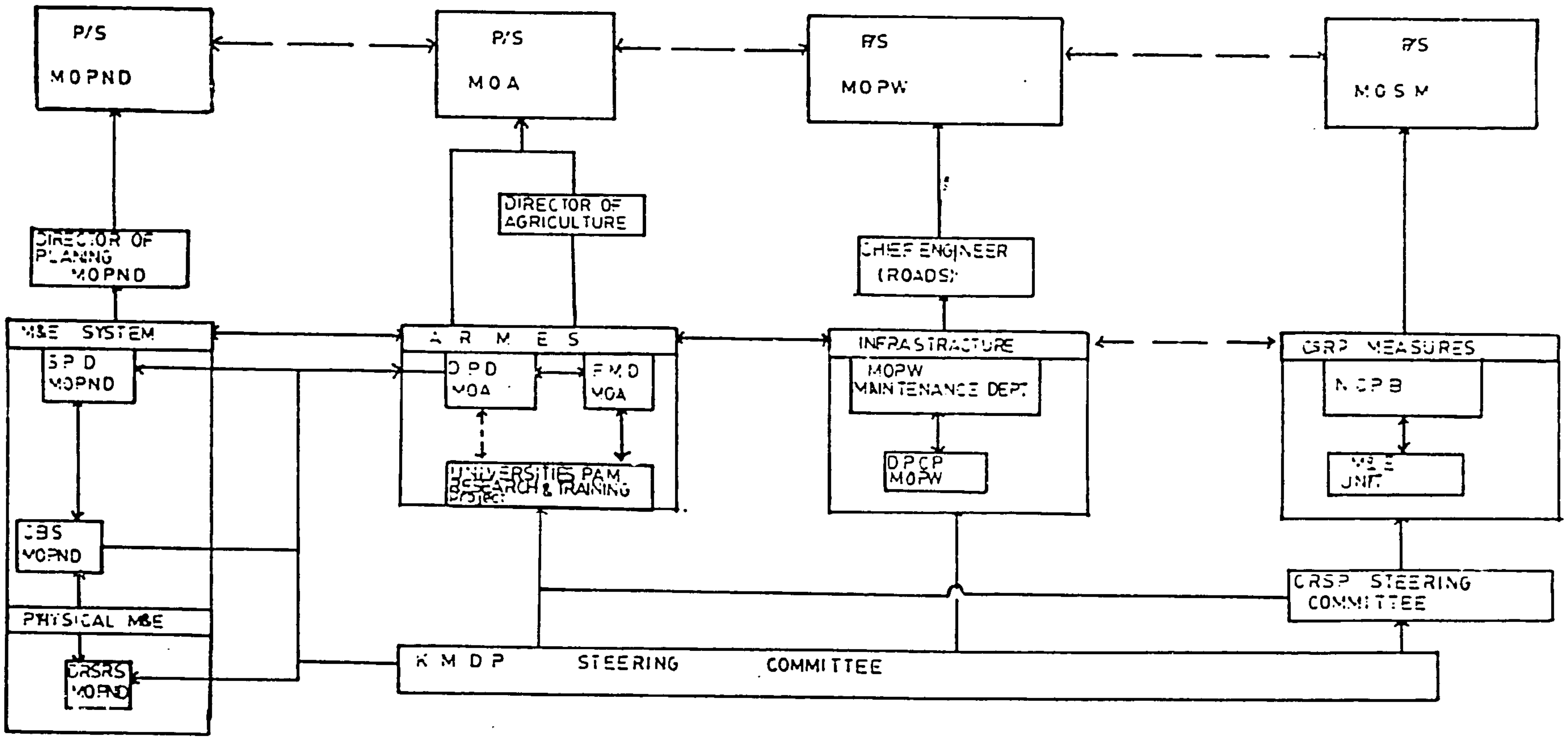
1) a DFA Sector Cash Grant of US $10 million to fund performance payments against policy measures;

2) a US$5 million DFA cash grant to fund technical assistance to address institutional constraints; and

3) U$40 million in PL-480 counterpart funds to be applied in institutional strengthening and roads development.

Total PL-480 counterpart funds and DFA program costs for the Institutional Strengthening and Roads Improvement components are estimated at US $ 36.5 million during the first three year (1991-1993) phase of KMDP. In addition, about US $ 6.8 million of counter-part funds are budgeted as KMDP support to GOK in the maintenance of roads during the period 1994 to 1999.

SCHEMATIC ILLUSTRATION OF THE OVERALL KMDP INSTITUTIONAL LINKAGES



The combined cost estimates for the two major elements of the Institutional Strengthening component (ARMES and MIS) during the first phase amounts to US $5.6 million. 70 percent of this amount is budgeted as technical assistance for ARMES. 30 percent has been budgeted to cover technical assistance requirements for the proposed MIS activities, and training and procurement of commodities for both sub-components.

10 PROGRAM FINANCIAL ARRANGEMENTS

Like all GOK projects and programs, KMDP should be introduced into the budgetary process through the Program Review and Forward budget. The size of the proposed investment in institutional strengthening activities is, however, relatively small and it is not expected to pose a significant problem for inclusion within the budget ceilings of the MOA.

US$1.5 million in KMDP resources have already been included in the 1989/90 Development Estimates. Although the allocation was placed in the budget of MoPND, it is expected that these resources can be reallocated to MOA.

The recurrent expenditure requirements to sustain KMDP institutional strengthening measures will not be substantial. These will primarily be maintenance and repair of the equipment to be procured under the program, and costs of dissemination of market information. However, FMD has in the past been constrained by lack of recurrent resources to sustain the operation of a MIS. It is, therefore, necessary to ensure that MOA will increase its budgetary allocation to DPD and FMD to meet this program's recurrent costs.

GOK accounting and financial control procedures are generally adequate to ensure that KMDP resources are properly managed and safeguarded.

There can, however, be significant bottlenecks in the Government's procurement process for some commodities. Timely and effective implementation of KMDP in this first phase will demand expeditious procurement of commodities earmarked for ARMES and MIS. It is, therefore, recommended that USAID make direct procurement of the commodities under GOK "Appropriations- in-Aid (AIA)" budgetary arrangements.

I INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

The Government of Kenya (GOK) has recently embarked on a broad based agricultural sector development program entailing significant policy and structural reforms in the sector. The GOK major policy document, Sessional Paper No. 1 of 1986, outlines significant changes in government policy objectives and stresses the importance of agriculture in near term economic development. The current National Development Plan (1989-1993) further reflects GOK commitment to significant agricultural sector policy changes. Finally, due to the Government's involvement in an IBRD/IMF supported Structural Adjustment Program, important changes in the systems, policies and institutional arrangements of key economic sectors, including agriculture, are discernible.

Last year, the Government initiated implementation of the EEC sponsored Cereals Sector Reform Program (CSRP). The five year CSRP entails policy reforms and structural changes in the grain marketing sector including a reduction in the National Cereals and Produce Board's (NCPB) marketing role. At present, NCPB occupies a near monopoly position in the formal grain market. The CSRP aims to reduce government intervention in the formal grain market while simultaneously upgrading the NCPB's capacity to assume strategic reserve management and price stabilization responsibilities.

1.2 KMDP OBJECTIVES AND SCOPE

The objective of the Kenya Market Development Program (KMDP) is to assist the GOK achieve its major goal of increased agricultural productivity through the development of more efficient marketing systems for agriculture commodities. KMDP is designed to support the implementation of policy changes in the grain marketing sector. The Program will contribute to a reduction in the real costs of agricultural marketing through investment in rural infrastructures. It will also complement GOK initiatives to strengthen the institutions responsible for the implementation of the CSRP.

KMDP is envisaged as a long-term (ten-year) program to improve the policy environment, the institutional capacities and the infrastructures of the agricultural market. There will however be a phased implementation of the program. These analyses are concerned with the first, three-year, phase of KMDP.

Following the outcome of the economic and social soundness analyses earlier commissioned by USAID, it was indicated that phase one of KMDP will comprise the following components-:

- o strengthening the institutions responsible for research, analysis of policy issues, and gathering, processing and disseminating market information;

- the construction and rehabilitation of primary and secondary roads in six districts; and

- program based support to GOK for the implementation of policy reforms in grain marketing and in the maintenance of rural roads.

In the latter component, USAID will grant GOK US $ 10 million provided that the GOK takes measures to implement the agreed policy reforms. This grant will not be tied to any specific project activities. The realization of the policy reforms will be supported by the institutional strengthening measures in the first two components mentioned above.

1.3 SCOPE OF THE ANALYSES AND REPORT

Initial indications in the statement of work (Appendix 1) were that the institutional and financial analyses would focus on the following institutions:-

a. Office of the President

b. Government Ministries

   1) Ministry of Planning and National Development and the roles of DRSRS and CBS in the Ministry;

   2) Ministry of Agriculture and the roles of the Farm Management Division and the Development Planning Division within the Ministry;

   3) Ministry of Public Works;

   4) Ministry of Supplies and Marketing and the role of NCPB;

   5) Ministry of Transportation;

c. Local Authorities and Institutions in the Six Selected Market Areas:

   1) District Development Committees in Uasin Gishu, Kakamega, Kisii, Nakuru, Nyeri and Kitui Districts;

   2) District offices of the relevant central ministries in these districts;

   3) Tender Boards in the same six districts;

   4) County Councils in the same six districts;

The statement of work, however, also indicated that these analyses should ultimately be confined only to those institutions with which KMDP will be concerned. Following the economic and social soundness analyses, it was clarified that KMDP would focus on: (a) institutional strengthening for improved monitoring and evaluation of policy reforms; and (b) investment in the development of roads. Therefore, although the institutional and financial analyses study team carried out a review of all the probable institutions identified in the previous paragraph this report focuses only on the institutions that will be involved in the implementation of the first phase of KMDP.

In order to keep the analysis and recommendations for institutional strengthening in full perspective however, this report describes the institutional capabilities for some institutions which will not be directly involved in KMDP implementation but whose functions bear upon KMDP's activities. For example, although the study team has determined that the MoSM will not be a target of KMDP institutional strengthening measures, the ministry has been analyzed and described in this report because its mandate includes regulation of grain marketing and food policies. Therefore, coordination between this ministry and KMDP implementing agencies is important.

This document (Volume A report) covers the institutional and financial analyses for the implementation of the institutional strengthening component of KMDP. As stipulated in the statement of work (Appendix 1), the analyses for the Roads Improvement component are presented in a separate document, Volume B report.

II ANALYSES OF THE EXISTING INSTITUTIONAL ARRANGEMENTS

2.1 INTRODUCTION

The institutional framework for the management of Kenya's agricultural marketing Sector has been evolving with increasing complexity during the past few years. This complexity is, to a significant extent, a reflection of political decisions which have reduced the mandate of a model Ministry of Agriculture (MOA) and thereby fragmented the institutional framework for the operation of the agricultural sector. For example, the functions of the Ministry of Livestock Development (MoLD), Ministry of Supplies and Marketing (MoSM), Ministry of Research Science and Technology (MoRST) and Ministry of Cooperatives (MoCoP) have previously been within the domain of the MOA. There is also a large number of autonomous and semi-autonomous parastatals and governmental institutions which share with the MOA and the other ministries the functional responsibilities of policy development and management of various sub-sectors. KMDP measures to strengthen institutions for agricultural policy analysis and market information processing will clearly impact on a large number of public sector institutions within and outside the agricultural sector.

The proposed Applied Research Monitoring and Evaluation System (ARMES) will provide decision-makers with the information to permit the monitoring of program impact and the assessment of the expected effects of policy decisions and infrastructural investment. ARMES is expected to strengthen the existing policy analysis particularly by catering for the timely collection of accurate and relevant data for long term research on agricultural production and market efficiency, as well as in the analysis of emerging short-term policy issues.

ARMES will also involve a broad mix of information sources. Therefore, its effective implementation will entail coordination and cooperation of the GOK institutions already involved in the dissemination of information on agricultural production and marketing, and the analysis of policies.

The three key institutions whose mandates include gathering of market information and policy analysis on food production and marketing are the Ministry of Planning and National Development (MoPND), the Ministry of Agriculture (MOA) and the Ministry of Supplies and Marketing(MoSM). The mandates, functions and capacities of these ministries are analyzed in the following sections.

2.2 MINISTRY OF PLANNING AND NATIONAL DEVELOPMENT

It is the mandate of the MoPND to undertake the analysis of economic and development issues, and to formulate strategies and plans for the implementation of development programs and projects. For this purpose, the ministry has an establishment with a relatively large number of well trained economic and policy analysts. This Ministry is the storehouse of the data and the analytical skills required for policy development, as well as monitoring and evaluating the impact of policy changes.

Conceptually, it would seem appropriate to implement ARMES at the MoPND. The need for KMDP intervention at the MoPND is however not necessary because an IBRD funded project is expected to cater for this. It is nevertheless considered important to describe and analyze the institutional set up of three departments of the MoPND whose functions involve data collection and analysis relevant to ARMES. These three departments are the Sectoral Planning Department (SPD), the Department of Resources Surveying and Remote Sensing (DRSRS) and the Central Bureau of Statistics (CBS).

2.2.1 Sectoral Planning Department

The Sectoral Planning Department (SPD) has strong formal links with the sectoral (line) ministries. There is a standing arrangement in which MoPND establishes planning units in the line ministries by providing development and economic planning staff to the ministries. According to this arrangement, economic and other policy issues are analyzed in the relevant line ministries with the support of full-time staff seconded to the ministries' planning units by the MoPND. SPD is therefore the home of analytical capabilities in the line ministries. It is also ensures overall coordination of economic planning and policy analysis.

The SPD has four functional divisions: Agricultural and Natural Resources, Trade and Industry, Basic Infrastructure, and Human Resources and Social Services divisions.The coordination of agricultural sector planning and policy analysis within the SPD is the responsibility of the Agricultural and Natural Resources Division.

At present, the Agricultural and Natural Resources Division monitors and coordinates planning and policy analysis for Ministries of Agriculture (MOA), Supplies and Marketing (MoSM), Livestock Development (MoLD), Cooperatives (MoCoP), Environment and Natural Resources (MoENR), and Tourism and Wildlife (MoTW). It is expected that the recently created Ministry of Reclamation of Arid, Semi Arid and Waste Lands (MoRASAWL) will be added to the division's portfolio of line ministries.

The Agricultural and Natural Resources Division currently has twelve development economists, including the head of the division who doubles as a deputy head of the SPD. There are four other officers from the division who are currently on post-graduate study leave. Partly because this number of staff has been inadequate in relation to the scope of its functions and partly as a reflection of the interpretation of its mandate, the division does not undertake actual policy analysis. Instead the division has primarily been involved in coordinating policy analysis. The actual analysis tasks are performed by the Development Planning Units in the line Ministries.

Support for strengthening the SPD's policy analysis capability will be met by the proposed IBRD funded Monitoring and Evaluation (M&E) project. Under the M&E project, an information-base necessary to serve the M&E needs of government policy makers will be developed, and the in-house capabilities in the MoPND for responsive, demand-driven analysis of important policy questions will be developed and expanded.

According to the design of the M&E project, the MoPND will work with line ministries to identify policies and programs whose monitoring and evaluation is of priority, to develop analyses that are useful for policy reform and to insure that the policy results are quickly and comprehensively communicated to decision makers. Therefore, the institutional logic in the implementation of ARMES for agricultural sector monitoring and evaluation will be to complement the M&E project by strengthening policy analysis capabilities in the line ministries, particularly the MOA and the MoSM.

2.2.2 Central Bureau of Statistics (CBS)

CBS is mandated to operate all the statistical programs of the GOK. Although the CBS is organizationally a department within the MoPND, it enjoys a semi-autonomous functional status in that its Director is specifically empowered by an Act of Parliament to gather any data necessary for use by other Government Departments. Some of the data regularly collected by CBS are those on market information and crop forecasting for the major food commodities. CBS has therefore the institutional status to potentially play a leading role in the implementation of ARMES.

Statistical data is collected by CBS within the framework of a National Sample of Households. The "National Sample Frame" consists of some 7500 households spread within some 768 clusters each consisting of 100-150 households. These clusters are scattered in 32 agriculturally most productive districts of the country, so that each district has 24 clusters. The sample size in each cluster is usually 10% of the households. This is the framework for a number of regular household survey conducted by the CBS on a wide range of data, including income and expenditures, employment and labor, food and nutrition, demography etc.

In each of the 32 districts covered by the "National Sample Frame", CBS has a complement of permanent staff comprising a District Statistical Officer who is usually a graduate in statistics a few statistical clerks and enumerators. There is about one enumerator for every two clusters. In all, CBS has a total establishment of about 960 staff which includes some 90 professionals in economics, statistics, demography and data processing. Generally, therefore, CBS is the GOK institutional powerhouse for all data collection and processing tasks.

The Bureau's Agricultural Statistics Section is responsible for collecting data on agricultural commodities within the framework of the "National Sample Frame". Among the regular tasks that CBS has been undertaking since 1976, is weekly collection of rural retail market prices for grains and horticultural produce from 64 rural markets. This data is collected by the enumerators who are based near the markets. The standard data collection forms completed by the emumerators are forwarded to the headquarters through the District Statistics Offices.

Until 1986, the agricultural commodities market prices data would be verified and compiled to a quarterly report, "Market Information Bulletin". This report was distributed freely to all senior Government official and public libraries. It was also on sale to any member of the public. In 1986, the Agricultural Statistics Section stopped processing the rural retail market prices data and producing the "Market Information Bulletin" due to lack of funds.

The collection of the market prices data however, continues at most of the 64 rural markets. But again, some of the enumerators do not cover their markets because of lack of the relatively simple set of equipment necessary for the methodical undertaking of the data collection. At other times the enumerators do not have the money to pay for their travel tickets. Clearly, a crucial measure in strengthening CBS is to ensure that it has sufficient recurrent resources to sustain its operations.

The Agricultural Statistic Section is also short of professional staff. To carry out its functions effectively, it has indicated the need for an extra two economists, two computer programmers, and four statistical officers. Until such support is forthcoming, CBS will be constrained to provide comprehensive data on agricultural markets.

The M & E project to be funded by IBRD at the MoPND is primarily targeted to address the above institutional constraints affecting CBS. This will include strengthening CBS's data collection and management system, by supplying vehicles, personal computers, staff training and technical assistance.

Another regular activity of the CBS is the preparation of an annual forecast of crop harvest. The crop forecast involves collection of data on maize, beans, potatoes, millet and sorghum by enumerators in a year, initially just after crop planting, and after crop harvesting. Prior to harvesting, CBS relies on the crop yield estimates of the NCPB to derive its crop forecasts.

Other GOK institutions, i.e DRSRS, NCPB and MOA, are also involved in independent crop forecasts. Nonetheless, CBS has historically played a central institutional role in the GOK crop forecasting system. The Director of CBS is the convenor of an Interministerial Committee on Crop Forecasting. Other members of the committee include representatives from the DRSRS, MOA, NCPB, Office of the President (OP) and the Metelogical Department. The role of the committee is to compare and review the crop forecasting figures from CBS, DRSRS, MOA and NCPB, and thereby provide the GOK with compromise forecasts.

The Head of the Agricultural Statistics Section at CBS is als responsible for convening an Interministerial Technical Committee on Crop Forecasting Methodologies. The role of this committee is to review the current methodologies of CBS, DRSRS, NCPB and MOA with a view to harmonizing them.

Two years ago, this Technical Committee embarked on a pilot scheme to compare the efficiency and effectiveness of the DRSRS area frame sampling method with the household frame sampling approach of the CBS. However, this initiative never took off because of lack of funds. The committee could not secure the funds (about Kshs 14 million) required to complete the pilot scheme.

It appears that the successful implementation of the pilot scheme to evaluate the CBS and DRSRS crop forecasting methodologies could in the long term have resulted in a unified crop forecasting system. In the short term, this intitiative would have given rise to a degree of integration in the system. Any institutional strengthening for the crop forecasting function should therefore be considered in the context of reviving the pilot scheme to evaluate the methodologies of the various institutions involved. In that case, the DRSRS and not CBS should be the focus of institutional strengthening, particularly because the M& E project will considerably address the problems of CBS.

2.2.3 The Department of Resource Surveys and Remote Sensing

The Kenya Rangeland Ecological Monitoring Unit (KREMU) was established in 1975 at the Ministry of Tourism and Wildlife to collect data on livestock and wildlife in the rangelands. KREMU over the years moved between the Ministry of Tourism and Wildlife and the Ministry of Environment and Natural Resources before it was ultimately placed in the MoPND.

Following the devastating effects of the severe drought the country experienced in 1984, KREMU extended its mandate to include maize and wheat crop forecasts. The first forecasts were carried out in 1986. Over time, KREMU's mandate expanded to cover data on status and changes in natural resources of the country, including mapping and classifying land use. With its expanded mandate, the unit was upgraded to a full department (DRSRS) in the MoPND.

It appears that DRSRS is fast establishing its technological superiority in crop forecasting. The department has developed rapid techniques of maize and wheat crop forecasting using sample aerial photography, digital radiometers and ground checks. DRSRS is therefore in a position to estimate maize and wheat production several months before actual harvest period, and ahead of the CBS and MOA forecasts. However, CBS and MOA, who have for the past many years provided the crop forecasts continue to undertake their own independent forecasts.

Had the initiative of the Interministerial Crop Forecasting Technical Committee to critically review and harmonize the merits of each of the crop forecasting methods not been stopped by lack of funds, significant progress may have been made toward a cost effective integrated, if not unified, crop forecastig system. In an integrated system, DRSRS would be primarily responsible for crop area and yield forecasts while the MOA field staff and CBS enumerators would undertake ground checks and verification. Therefore, strengthening DRSRS for crop forecasts should include providing funds to support the pilot scheme of the Crop Forecasting Technical Committee

As already mentioned above, the crop forecasts by the various institutions are subject to review by an Interministerial Crop Forecasting Committee convened by the Director of CBS. The fuctions of this committee is limited to a review of the forecasts provided by each institution but not the determination of what forecasts is more reliable. Until DRSRS has a track record of a few years of consistently providing reliable crop forecast figures, it is unlikely that the government can accept to abandon the crop forecasting function to the DRSRS.

The potential scope for DRSRS contribution to the realization of KMDP objectives by way of providing data is beyond its activities in crop forecasting. DRSRS aspires to be a hybrid institution in the management of agricultural and other natural resources, using an interdisciplinary ecosytem approach. Over the past ten years, it has rapidly developed substantial capabilities, including a staff establishment with some 100 professional and 90 technical staff. Many districts have apparently gained awareness of the potential use of DRSRS capability to support district development planning activities, and there is now an excess demand for DRSRS services from the districts. Other DRSRS initiatives include the design of contigency cost effective systems for distribution of famine relief food.

DRSRS is also involved in the monitoring and evaluation of programs. For example, in the new Government's program for the development of Rural Trade and Production Centres (RTPCs), DRSRS will monitor and evaluate the impact of the investments on agricultural land use. KMDP may therefore also benefit from the use of DRSRS services to monitor and evaluate the agricultural and ecological impact of the investment in roads.

DRSRS's operational capacity is, however, constrained by ashortage of resources. For example, while the department has four low flying aircrafts for aerial photography and is about to acquire another, it can afford only two pilots. These two pilots are both expatriates provided as technical assistance by the IBRD. DRSRS needs at least six pilots for the five aircraft but it does not have the resources required to hire these personnel.

The institutional status of DRSRS as a department within the civil service is also a constraint in developing its operational capacity. IBRD funding, which may terminate in 1991, has enabled DRSRS to recruit expatriate low -flying pilots who are not readily available worldwide. The civil service terms of service are far below what such pilots are likely to consider. This problem also confronts DRSRS in other cadres of staff but to a less severe degree. Therefore, it will be difficult for DRSRS to acquire a stable operational capacity without changes in institutional status.

A change in institutional status would permit DRSRS to employ permanently some categories of crucial staff on terms that are above the current civil service ceilings. The level of recurrent expenditure funding should also be increased to facilitate the recruitment of additional technical support staff and regular maintenance of its operating equipment.

In the context of Kenya's food security planning needs, DRSRS merits KMDP assistance. Previous assessments by the USDA team for an improved crop forecasting system focused its support on DRSRS, and indicated the magnitude of this support at a total of US$ 2,409,000, comprising:-

- digitalizing hardware, software and other supply and equipment items required in construction of area frame;

- spot sattelite imagery;

- costs of area photography;

- microcomputers; and .

- training and technical assistance.

DRSRS also needs more transport vehicles, more mainframe processing (CPU)capacity, technical assistance of low flying pilots, and generally resources for maintenance of its relatively expensive hardware and software.

As indicated earlier above in this report, in considering KMDP support DRSRS, it would be a priority to fund the pilot scheme activities initiated by the Interministerial Crop Forecasting Technical Committee to review the methodologies and harmonize the crop forecasting systems of MOA, CBS, NCPB and DRSRS.

However, within the budget level of non-counterpart (dollar) funds currently indicated for the KMDP (see Program Budget in chapter V below), only nominal support can be provided to DRSRS after the KMDP priority implementation of ARMES and the MIS. It is therefore recommended that additional resources under KMDP or another project be identified to provide the level of support indicated for DRSRS.

Nonetheless, the program budget as shown in Chapter V below includes limited support to DRSRS, principally a photometer and a microcomputer. Further support to DRSRS could be provided in counterpart funds to meet the costs of DRSRS contribution in monitoring and evaluating the physical impact of the KMDP investment in roads (see Volume B report).

2.2.4 Summary of the Analyses of the MoPND

The MoPND is well placed in terms of mandate, status and overall availability of staff resources to steer the implementation of KMDP. The SPD has been coordinating policy analysis by the line ministries. The functional operations of two of the other departments in the ministry, CBS and DRSRS, are exclusively in the collection and management of data for economic planning monitoring and evaluation.

However, no significant institutional strengthening measures under KMDP are recommended for the MoPND because:-

- o the implementation of the IBRD funded M & E project, to which ARMES should prove complementary , will cater for the needs of SPD and CBS; and

- o the priority and magnitude of institutional strengthening measures identified in the line ministries, and particularly in the MOA, does not leave much DFA resources for allocation to DRSRS.

2.3 MINISTRY OF SUPPLIES AND MARKETING

The MoSM was created only in March 1988. Its functions were specified to be food distribution and marketing policy, and supervision of the operations of the NCPB. These functions were previously managed by the MOA.

The MoSM is now responsible for steering the EEC sponsored Cereals Sector Reform Program (CSRP) and this is so far its single most important operation. The administrative staff in the ministry with the support of the number from NCPB have been involved in the implementation of the program. The number of staff is not large and therefore the activities revolving around the NCPB and the CSRP could be stretching the functional capacity of the ministry.

A close working relationship has been fostered with the NCPB, particularly through the CSRP steering and Technical committees where the chairmanship has been rotating between the Ministry's PS and the Managing Director of the NCPB. Since the Ministry is also represented on NCPB Board of Directors, it is intimately involved in the CSRP implementation measures for the internal reorganization of the Board.

Outside the Department of Administration, the only operational unit within MoSM is the Planning Section. Under the standing arrangements whereby the MoPND establishes planning units in the line ministries, it has posted a senior planning officer, three economists and a statistical officer to constitute the Planning Section within the MoSM.

The current priority activities of the Planning Section is the identification of the Ministry's implementation measures required in the current (1989-93) National Development Plan. This effort is a coordinated initiative of the Sectoral Planning Department (SPD) in the MoPND. This section is also involved in the current food policy analysis under the leadership of the Development Planning Division (DPD) in the MOA.

It will take some time before the MoSM will have adequate organizational capacity to build its own data base or effectively access data bases in other institutions and undertake rigorous policy analysis using such data. It is, therefore, unlikely that ARMES can be implemented at the MoSM within the time frame of the first phase of KMDP.

The MoSM is in the process of establishing a marketing section. The functions of this section will be to monitor information on food demand, supply and distribution at both national and district levels, and to coordinate with the DDCs in food supply activities at the district level. In the organization of the marketing section, there will be five regional offices, one each for Western, Nyanza, Coast, Rift Valley and Central regions, where a marketing officer will be posted. Five posts of marketing officers for the Ministry were advertised by the Public Service Commission earlier this year. Therefore the marketing section may soon be in operation. Even then, it is unlikely that the section will have as much organizational capacity as the Farm Management Division (FMD) at MOA to develop a comprehensive MIS.

Summary of the Analyses of the MoSM

In the context of the KMDP objectives for institutional strengthening the MOSM mandate and interest in policy analysis may be narrow in that it may extend only to the assessment of the impact of policies on market effectiveness in food distribution and availability.

It is likely that CSRP will in the medium term determine the organizational development and functional priorities of the MoSM. For example, the on-going EEC funded grain pricing study will identify the need or otherwise for the ministry to have a pricing function. Another EEC funded study on the development of a system for monitoring changes in the grain market is likely to give rise to measures for strengthening either the ministry's or NCPB's capacity for monitoring the grain market. However, the CSRP goals for institutional strengthening for policy reforms are narrower than those envisaged in KMDP. Therefore, the organizational climate for KMDP institutional strengthening at MoSM is not right.

Furthermore, considering the institutional constraints to organizational development in the public sector it will take time to develop any substantial capacity within the MoSM to, for example, develop and manage a comprehensive data base for policy analysis.

Nonetheless, coordination between the activities of the KMDP and CSRP will be crucial in order to ensure complementality in the context of the shared objectives and goals between the two programs. Coordination between KMDP and CSRP implementing agencies is discussed in chapter IV.

2.4 MINISTRY OF AGRICULTURE

The mandate for the development and management of the agricultural sector generally falls under the Ministry of Agriculture (MOA). However, the Ministry's span of control of the sector has over the years been gradually eroded by the transfer of some of its functions to new ministries. For example, in 1988 the MOA's operations in irrigation and grain marketing were transferred to the new Ministrie's of Regional Development (MoRD), and Supplies and Marketing (MoSM) respectively. Also, recently, a new Ministry for the Reclamation of Semi-Arid and Waste Lands has been created. Nonetheless, the MOA still retains a domineering position in the overall management of the agricultural sector.

The MOA has considerable capability and experience in policy development and implementation of programs. Its organization and operations span the full range of technical and professional activities necessary for the effective management of the sector (see Figure 2.1). In some functions, such as crop development, farming statistics, marketing, irrigation and soil conservation, the MOA shares responsibility, with other GoK institutions. Where the Ministry's span of control has reduced for some important functions, however, it has only prudently reduced its depth of involvement.

FIGURE 2.1: OVERALL ORGANIZATION STRUCTURE OF THE MOA

HON. MINISTER

- HON ASSISTANT MINISTERS

PERMENENT SECRETARY

- DIRECTOR OF AGRICULTURE
  - HEADS OF TECHNICAL DIVISIONS
- DEPUTY SECTRETARY (ADMINISTRATION)
- HEAD OF DEVELOPMENT PLANNING DIVISION

HEADS OF TECHNICAL DIVISIONS

- FARM MANAGEMENT DIVISION (incorporating branches for Farm Inputs & Marketing, Farm Systems & Statistics, and Land Use Planning).
- CROPS DEVELOPMENT DIVISION (incorporating branches for Food Crops, Industrial Crops, Horticulture and Crops Protection)
- AGRICULTURE EXTENSION DIVISION (incorporating branches for Extension Management, Home Economics, Agricultural Information Center and Library Services)
- AGRICULTURAL ENGINEERING DIVISION (incorporating branches for Irrigation and Drainage, Soil Conservation and Mechanisation)
- PROJECT MONITORING & EVALUATION DIVISION (incorporating Intergrated Agricultural Development Programs)
- TRAINING & STAFF DEVELOPMENT DIVISION
- RESEARCH LAISON UNIT.

Within the MOA, the two organizational units that should have major roles in the implementation of ARMES are the Development Planning Division (DPD) and the Farm Management Division (FMD) whose institutional capacities are discussed below.

2.3.1 Development Planning Division (DPD)

DPD is the MOA's organizational unit for policy analysis and formulation of strategies. The internal organization of the division is based on the logical grouping of functions, comprising:-

o **a commodity analysis section** which annually reviews the prices of maize, wheat, beans and rice. These reviews are presented for scrutiny and endorsement to an Interministerial committee usually chaired by the Head of the DPD on behalf of the Permanent Secretary (PS). This interministerial committee includes representatives from the OP, OVP-MOF, MoPND, MoLD, MoCom, NCPB, NIB and KNTC. Thereafter, the MOA prepares a paper for submission to the cabinet which approves the revised prices;

o an **inputs Section** which is charged with the responsibility of identifying the national requirements of fertilizer inputs, and the licensing of traders for the procurement and distribution of fertilizer. Again, DPD formally coordinates this function with the other GOK institutions, including the Farm Management and Crops Development divisions in the MOA, the OP, OVP MOF, MoCom and the Central Bank of Kenya through an interministerial committee;

o a **projects preparation section** which undertakes economic appraisal and monitoring of projects in the process of development and implementation by the ministry's technical divisions. Coordination between this section and the implementing units within the MOA is largely through informal contacts and regular correspondence between the officers involved; and

o a **strategy section** whose function is to undertake agricultural sector planning and analysis of policies. The section is also responsible for monitoring the IBRD funded Agricultural Sector Adjustment (ASA) program. The section is currently engaged in production forecasts to the year 2000 for all major agricultural commodities in the context of the goals indicated in the National Development Plan (1989-93), and the Sessional Paper No.1 of 1986, on "Economic Management for Renewed Growth".

All the local staff in the DPD are economists/planners who have been seconded by the MoPND. Therefore, while the DPD staff are on a day to day basis functionally responsible to the PS of the MOA, they are professionally responsible to the MoPND.

In the proposed IBRD funded M & E project at the MoPND, it is planned that line ministries, such as MOA, will develop their own analytical capabilities so that they can perform minor and emergency analyses and have greater understanding and appreciation for the results provided by the project. The M & E project stress a the need to strengthen such ministries as MOA to use quantitative information in their decision making processes. It is in this a context that the relevance of ARMES at MOA and the role of DPD should be perceived.

Although the current total professional staff capacity of the DPD adds up to 18 officers, its actual operating capacity is considerably lower because six officers are on study leave for post graduate training. Furthermore, the operational capacity of the division has been weakened by high staff turnover among both local and expatriate staff. Under a technical assistance arrangement, a number of donors lead by the IBRD have been providing a team of expatriates to the DPD since the 1970s. However, while the number of expatriates seconded to DPD under that arrangement has in some years exceeded 10, at present there is only one expatriate who will depart in the next seven months.

Three local professionals have just been recruited as technical assistants funded by IBRD to replace departing expatriates. These local experts are on short-term contracts, and will probably be out of DPD in three years time. Most of the other local staff are relatively new in the division because a majority of the past generation of officers quit DPD soon after obtaining their post-graduate qualifications. In the short term, there is little DPD itself can do to reduce the turnover of local professional staff. This problem of brain drain arises because of the relatively low levels of remuneration offered to professional staff in the entire civil service. Therefore, DPD is likely to continue relying on external technical assistance.

In any case, DPD has much potential for contributing exceptionally well to the development of agricultural policies. Until late last year it was guiding the grain sector reform initiatives and was specifically responsible for the formulation of the CSRP. The division has developed relatively strong formal and informal linkages with other GOK institutions in policy development.

DPD is the only organizational unit explicitly mandated to undertake strategic and policy analysis of the agricultural sector. It continues to have the respect of other GoK institutions in matters of policy analysis in that, for example, it has been recently requested to prepare a food security policy paper on behalf of an interministerial task force.

At the intra-ministerial level, DPD is well positioned to present policy issues to decision makers. The head of the division reports directly to the PS. The PS also usually passes to the Division the responsibility of reviewing policy and strategic analysis reports from other divisions and Government departments.

DPD is well positioned to obtain data information from the technical divisions of the MOA. The functional role of the division demands that it work closely with the other divisions within the MOA, either through informal contacts between officers or through such formal coordinating mechanisms as adhoc committees and task groups, and through the ministry's management meetings.

At its current level of technical capacity, DPD is not geared to effectively carry out its mandate in policy analysis. The strategy section of DPD which is specifically responsible for this function has only three full-time staff, including the Deputy Head of the Division. The Section is affected by the problem of staff turnover which faces the entire DPD. The division is also short of data processing capacity.

More significantly, DPD has no reliable data bases to support comprehensive and timely analysis of policy issues. To support the implementation of policy reforms, KMDP requires appropriate assessments of the expected effects of given policy reforms in the agricultural sector. While DPD could carry out these assessments, it would currently be confronted with a problem of lacking the necessary data.

In the past, DPD has concentrated its efforts on the analysis of crisis policy issues without the use of farm level data, which has not been readily available. It is however, realized that the development of data bases for the type of policy analysis that quantifies the impact of policy reforms on private and social profits, and demonstrates the impact of the reforms on market efficiency and agricultural production is very relevant to DPD needs. Therefore, DPD should be a primary target for KMDP institutional strengthening.

It is difficult to determine DPD staff capacity for the policy assessments envisaged in the KMDP. The department has just recruited three new technical experts, and a number of the staff out on post-graduate studies are expected back in the next year. However, the current staff may be just adequate to cope with the core functions and duties that DPD has undertaken in the past. Therefore, DPD will need some strengthening by way of technical assistance and staff training.

Assistance should also be availed to DPD under KMDP so that DPD policy and strategic analysists can easily access the high quality farm level data that ARMES will generate. Details of recommended assistance to DPD and FMD are described in the next chapter.

2.3.2 Farm Management Division (FMD)

The functional responsibilities of FMD are reflected in its internal organization structure, which comprises a Land Use Planning branch, a Farming System and Statistics branch and a Farm Inputs and Marketing branch.

A review of past FMD initiatives reveals that it should be the focus for the implementation of KMDP's applied research monitoring and evaluation system (ARMES). In this regard, two FMD initiatives are noteworthy, i.e development of its data bases and a market information system.

FMD Data Bases

The FMD has a data bank that has been described as the most expansive, organized, farm level production data in Kenya. Three main data bases were developed between 1978 and 1987. The first one which was started in mid-70's and which has been updated annually until 1987 is called "Agricultural Costs and Prices". It contains detailed information on costs of agricultural inputs and outputs for the major enterprises, and forms the only time series price data available in some organized form. The data includes road and rail transport as well as gross margin analysis for selected enterprises. It generally uses national averages and Nairobi based prices.

The data bank is however incomplete in many areas, and presentation and types of calculation chosen do not always lend the documents to easy use. Nevertheless, with regard to KMDP and the objectives for ARMES, this information can be reorganized and completed to be very useful.

The second main data at FMD was compiled in 1983, through the assistance of GTZ to Farm Management Division. The data are differentiated by four parameters - district, agroecological zone, commodity and level of production. Using input costs and production prices, it shows technical coefficients in the production function, with the bottom line being enterprises gross margin per hectare. It looks at irrigated and rainfed agriculture separately. This data covers 35 high agricultural potential districts.

The third FMD data set, developed in 1987, verifies and improves data from the 1983 data set, and has similar variables. This one, however, goes beyond individual enterprise budgets to show entire organization and profitability of the various farm types at different levels of technological advancement. These data are on computer lotus Linear Programming optimization model developed by GTZ. It covers three major regions, namely, Western, Rift Valley and Central/Eastern regions. Each of these three areas has been further divided into Agroecological zones leading up to a total of 18 different areas for which model crop and farm budgets have been established. These models represent about 83% of the estimated 2.1 million agricultural holdings in Kenya. The areas not covered are the agriculturally marginal areas in Eastern and Coast province and the coastal strip.

These FMD data bases provide a firm basis for developing the data bases required in ARMES. Through KMDP, FMD can be strengthened and supported to verify and update this data, and to institutionalize an applied research data base system for strategic planning and policy making.

The staff in the FMD appreciate that a reliable data base is crucial to effective planning, management and policy decision-making. they also acknowledge that such data is currently not available to those who need it. Since FMD is keen to organize for the collection, compilation and dissemination of data on all aspects of agricultural production, it offers an ideal institutional environment for the development of an applied research, monitoring and evaluation system (ARMES).

FMD Marketing Information System

In the mid-1980s, FMD started a Market Information System (MIS) to improve market transparency by collecting data on wholesale market prices in nine major urban centres. This information was disseminate on a weekly basis through radio broadcasts.

However, some of these MIS activities stopped last year because of lack of funds, especially for telephone and telex correspondence between the market enumerators and the head office, and the costs of the weekly radio broadcasts.

It is nonetheless, still an important goal for FMD to provide a MIS for communicating the market performance of important food commodities. Much data on rural market prices continues to be gathered for the FMD by the farm-level agricultural technical assistants (ATAs) of the ministry. ATAs are collecting farm produce prices data from some 100 rural agricultural production markets. This data is then fowarded to the District Agricultural Officers (DAOs) who compile monthly reports submitted to MOA headquarters.

During the past two years FMD has embarked on the development of an organizational capability for a comprehensive MIS. Some 80 university and diploma level graduates in agricultural marketing have been recruited and posted to the districts, and some divisions. There are also two senior agricultural marketing officers responsible for the marketing section at the headquarters, one for the domestic markets and the other for the overseas markets.

At present there is no adequate organizational capacity and recurrent resources at the FMD headquarters to systematically manage and process the data collected. If adequate resources were placed at the disposal of the FMD it could rapidly develop its MIS to provide market prices information in the system required in KMDP design. Therefore, KMDP implementation of a MIS should involve institutional strengthening of FMD. Details of this strengthening are described in the next chapter.

2.5 SUMMARY OF FINDINGS AND CONCLUSIONS

Introduction

Generally the existing institutional arrangements provide a sound framework for the implementation of the KMDP. Although a degree of institutional fragmentation exists, mandates and functions of each institution are generally clear.

KMDP institutional strengthening goals are consistent with the aspirations of the target institutions, and complementary to institutional strengthening initiatives at MoPND and MoSM.

It is in the context of the above, overall, assessment that the summary of the analyses are provided in the sections that follow.

Institutional Fragmentation

Institutional fragmentation in the agricultural sector largely reflects political decisions, to reduce the span of control of the MOA through the transfer of functions to newly created ministries. Consequently, for example, the MOA has the mandate for agricultural policy while the MoSM has the mandate for food distribution and marketing policies. In the circumstances, some degree of duplication of efforts is inevitable.

There is duplication of efforts in the collection and dissemination of information on market prices for agricultural commodities between the CBS and the MOA (FMD), and in crop forecasting efforts undertaken independently by CBS, DRSRS, MOA, and NCPB. While at the technical level it is feasible to achieve a significant degree of consensus on the need to integrate the systems and minimize the costs of duplication, it is clear that political considerations may at present be against such changes.

MoPND Coordinates Policy Analysis

The MoPND formal linkages with the planning units in the various line ministries provides a framework for coordination of all GOK policy initiatives. So far, there is no duplication of efforts in policy analyses because technical leadership of DPD is not disputed.

Towards an Integrated Crop Forecasting System

In crop forecasting, the participating institutions are formally coordinated through an Interministerial Committee chaired by the Director of CBS. An Interministerial Technical committee has also been formed to review and harmonize the crop forecasting methodologies adopted by the various institutions. The likely outcome of the initiatives of the latter committee would be an integrated crop forecasting system.

Towards a Unified MIS

In the collection and dissemination of market information on agricultural commodities, CBS and the MOA (FMD) have had separate initiatives. However, the staff in the two institutions have shown much willingness to collaborate.

CBS recognizes that the MOA has a wider and deeper organizational capacity down to the farm level which, if provided with the right statistical techniques, can provide more comprehensive and reliable coverage of commodity rural market prices. Since CBS does not collect data for its own use, it is willing to provide technical support to the MOA to develop MIS. There is, therefore, an opportunity to develop a unified market information system.

Institutional Initiatives are Constrained by Lack of Resources

Institutional initiatives to improve the market information systems for agricultural commodities have in the past been severely constrained by lack of resources. More noteworthy among these are the CBS initiative to collect and disseminate market prices data, the FMD efforts to develop micro-data bases on farm production, the FMD initiative to collect and disseminate information prices of agricultural commodities, and the initiative by the Interministerial Technical Committee on Crop Forecasting to rationalize the methodologies used by the various institutions. Therefore, the availability of resources to support these initiatives is an appropriate focus of institutional strengthening measures.

Focus Institutional Strengthening Measures on FMD and DPD

The primary goal of KMDP institutional strengthening measures is the institutionalization of an applied research, monitoring and evaluation system (ARMES). The preceeding analysis of the existing institutional arrangements indicates that institutional strengthening measures should focus on the FMD and DPD at the MOA. In summary, this conclusion is arrived at on the following basis-:

- the MoPND which coordinates policy analyses by the line ministries and has the broadest mandate for data collection will soon benefit from the proposed IBRD funded M & E project. The M & E project has broader sectoral coverage but its objectives are very similar to those of KMDP's ARMES project. Therefore, the implementation of ARMES at the MOA will be complementary to the M & E project;

- the CSRP is expected to identify the measures necessary to strengthen the MoSM and NCPB's capacity to monitor and evaluate the policy reforms by the program. At the same time, it is clear that it will be quite awhile before the MoSM can acquire the organizational capacity required to collect and manage the relevant data, and to undertake rigorous policy analysis. Therefore, within the time frame of the first phase of the KMDP, there is much better chance of successful implementation of ARMES at MOA than at the MoSM. In any case, the MoSM is currently willing to accept the leadership of the MOA in performing policy analysis tasks;

- FMD has already in place some data bases which can be verified and updated within the initial stages of implementing ARMES to provide DPD with the type of data it has previously lacked in policy analysis. Since the two institutions are housed under the same ministry, potential problems in coordinating implementation measures will be minimized;

- DPD is well placed to present the results of policy analysis conducted through ARMES to policy decision-makers in the agricultural sector. The Head of DPD is directly responsible to the PS, MOA; and

- GOK is currently encouraging the sectoral ministries to undertake policy initiatives without waiting for clearance and directives from the OP as had been the practice in recent years. Therefore, ARMES should provide a firm basis for the MOA to initiate policy reforms in the agricultural sector.

III PROPOSED INSTITUTIONAL STRENGTHENING MEASURES

3.1 ARMES AS A FRAMEWORK FOR INSTITUTIONAL STRENGTHENING

The implementation of an applied research, monitoring and evaluation system (ARMES) is KMDP's framework for strengthening institutions. ARMES will support the development of high quality baseline data on agricultural production and marketing necessary for informed investment planning and policy formulation. KMDP will thereby need to strengthen the institutions that collect, process and disseminate data.

It is recommended that ARMES will be developed on the existing FMD data bases. Therefore, the first step in the implementation of ARMES is to strengthen FMD to verify and update its data, and make them available for policy analysis.

Incorporating Policy Analysis Matrix (PAM) Project Data

During the past year, the GOK with the support of USAID launched the Policy Analysis Matrix (PAM) project in research and training which should support the development of a reliable farm management data base, provide a methodology for quantifying the impact of commodity policies on social and private profits, and provide a means for measuring the efficiency of national resource allocation. The PAM project is currently based at Egerton University.

So far, the main objective of the project has been to test the PAM methodology as a conceptual framework for using high quality commodity budgets in assessing the impact of policies and investments on enterprise profitability. The project is working in four areas of Kenya and has identified about 13 different commodity systems.

A strategy in developing ARMES is to incorporate over time the data and analysis developed under PAM into the FMD's farm management data bases with a view to making these analyses a powerful tool in understanding and formulating agricultural policies.

In the initial stages of incorporating PAM data and analyses into ARMES, it is recommended that PAM is expanded in geographical coverage to the six districts where KMDP (phase one) resources will be invested in the development of roads (see Volume B report). This will provide the PAM project with the first opportunity to focus on specific issues, relating the impact of investments and policy reforms to trends in agricultural production and the efficiency of marketing channels in these districts.

The framework for incorporating the PAM project activities into ARMES is schematically illustrated in Figure 3.1 below.

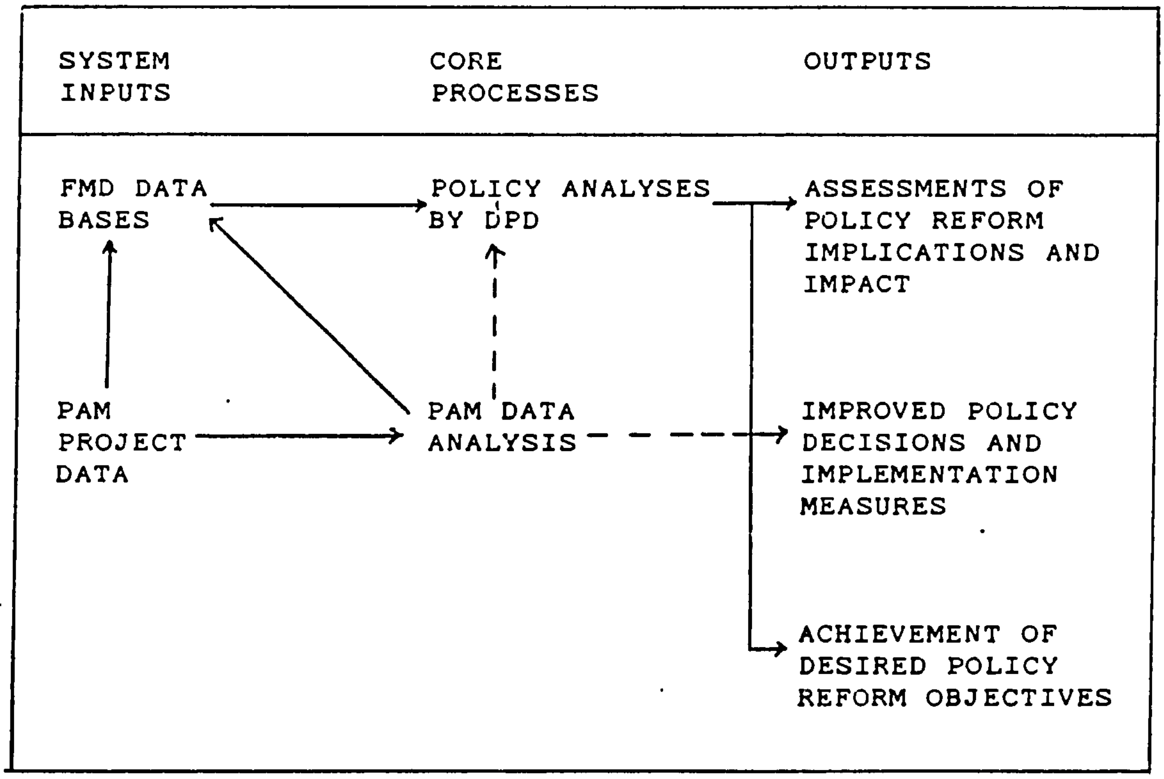
The expanded PAM project would benefit from the continued involvement of the staff of Egerton University (EU) and University of Nairobi (UON). It is not feasible that the staff at FMD and DPD can be redeployed to the field for PAM project activities. It is recommended that KMDP hire local university graduates to carry out this function.

To expand the PAM project to the six districts of KMDP (Phase One) intervention, it is proposed that-:

o three teams, each comprising two graduate research assistants, are recruited to work under the PAM project. Each of the teams will be responsible for PAM research activities in two districts; and

o two professors in agricultural economics from EU and UON are identified to supervise PAM project district teams.

Figure 3.1: SCHEMATIC ILLUSTRATION OF ARMES INCORPORATING THE PAM PROJECT



Conclusions

The priority institutional strengthening measures that will be supported by the KMDP for the implementation of ARMES will comprise-:

- support to the FMD for:

    a) updating and verifying of its existing data bases for use in strategic planning and policy analyses;

    b) incorporating the applied research data developed under the PAM project to ARMES;

- support for the extension of the PAM project activities to the six districts where phase one of the KMDP will be implemented;

- support to the DPD at the MOA for enhanced capacity to utilize the data bases of FMD in strategic planning and policy analysis. Also, since market prices will provide a key indicator of the changes arising from market reform and DPD has the GOK mandate for commodity price reviews, DPD could be supported by KMDP in this area;

- support to FMD in the development and operation of a comprehensive market information system for a select number of agricultural commodities. and

- support to the Ministry of Public Works (MoPW) for monitoring and evalaution of KMDP investments in roads. The measures to strengthen the MoPW are however described in Volume B report..

3.2 SUPPORT TO FMD IN THE IMPLEMENTATION OF ARMES

FMD needs sufficient capability to collect, process and manage data. The needs that have been identified by FMD in this respect include-:

- short-term training of provincial and district farm management officers in on-farm research methodologies and data collection procedures.

- facilities for data collection and management, including transport vehicles, personal computers and software. During the first phase, KMDP will provide four transport vehicles, four personal computers and appropriate software.

To strengthen the data collection and management skills at FMD, KMDP will provide technical assistance to FMD in the form of-:

- an agricultural policy research specialist with skills in the development and use of farm management data bases in assessing market efficiencies. This agricultural policy research specialist should be a full-time Team Leader/ Program Coordinator in the institutionalization of ARMES; and

- post-graduate training of Kenyans in applied research, monitoring and evaluation of agricultural policy reforms. Accordingly, a few post-graduate students should be funded by KMDP for this training, at both local and overseas universities.

3.3 ENHANCING DPD's OPERATIONAL CAPACITY

It has not been feasible at this stage to determine whether or not the policy analyses skills that will be available to DPD in the context of KMDP's objectives and the GOK agricultural policy reform agenda will be sufficient. Nevertheless, it is considered appropriate that KMDP should provide technical assistance to DPD comprising the following-:

- an agricultural strategy and policy analyst who will concentrate on the policy issues identified by the GOK policy reform agenda and ensure that ARMES is geared to the generation of data relevant to the priority policy issues;

- training of Kenyans in quantitative policy analyses and modelling skills at post-graduate level; and

- financial resources, to hire specialists from universities and private firms to assist in emergency policy analysis tasks. This assistance is particularly relevant because MOA has been losing its trained and experienced staff to the universities.

DPD staff have also indicated that their performance is currently constrained by lack of data processing facilities. Therefore, it is recommended that KMDP provide DPD with policy analysis modelling software and a few personal computers. In acquiring these personal computers the need for DPD to access ARMES data bases at the FMD should be recognized.

3.4 SUPPORT TO FMD IN THE DEVELOPMENT OF A MIS

FMD's planned strategy for data collection and dissemination will involve the design of a concept of data collection at district level, design of a computer software package to analyze price developments and establishing an information system about the developments of yields, costs and producer prices. To support this

FMD initiative. KMDP will provide technical assistance in the form of a market information specialist, and training of the FMD staff as outlined in the USDA report of May 1989. The commodities and equipment required to support the development of a MIS by FMD have been identified to include the following-:

- fax machines for the transmission of data from the districts to the headquarters;
- a mini-computer for data processing at the headquarters;
- microcomputers for the district market information offices;
- a motor vehicle for use by the MIS headquarters staff in program supervision; and
- motor cycles for use by the district marketing offices in the transmission of data from the markets to the district offices.

IV INSTITUTIONAL LINKAGES AND COORDINATION MECHANISMS

4.1 THE NEED AND ESSENCE OF COORDINATION

There is a need for coordination in the implementation of KMDP, the IBRD funded M&E project and the Cereals Sector Reform Program (CSRP). The CSRP is already ahead of the KMDP in addressing GOK policy reforms in grain marketing. The M & E project at the MoPND has broader policy monitoring and evaluation goals which are shared by the ARMES project of the KMDP.

However, coordination will be a challenging undertaking in the implementation of KMDP. The complex flow of information and interactions of authorities in this situation do not permit the creation of a formal hierarchical organizational unit with authority to control the other institutions. In this regard , for example, coordination through the KMDP Steering Committee cannot be routinized, regulated or formalized. Rather coordination must be viewed as an adaptive process requiring flexibility and creativity among the key participants and leadership in the institutions involved.

KMDP coordination should not degenerate to control, which by threatening the institutional autonomy of the participating organizations would result in conflict between the institutions. Technical expertise, and the lateral, upwards and downwards flow of information and authority should characterize the relationships between the institutions that need coordination. It is in this context therefore that the overall institutional linkages, and the role of the KMDP Steering Committee are described below.

4.2 THE KEY INSTITUTIONAL LINKAGES

The overall institutional linkages in KMDP implementation are schematically illustrated in Figure 4.1. Coordinating linkages are required between MOA, MoPND, MoPW and MoSM.

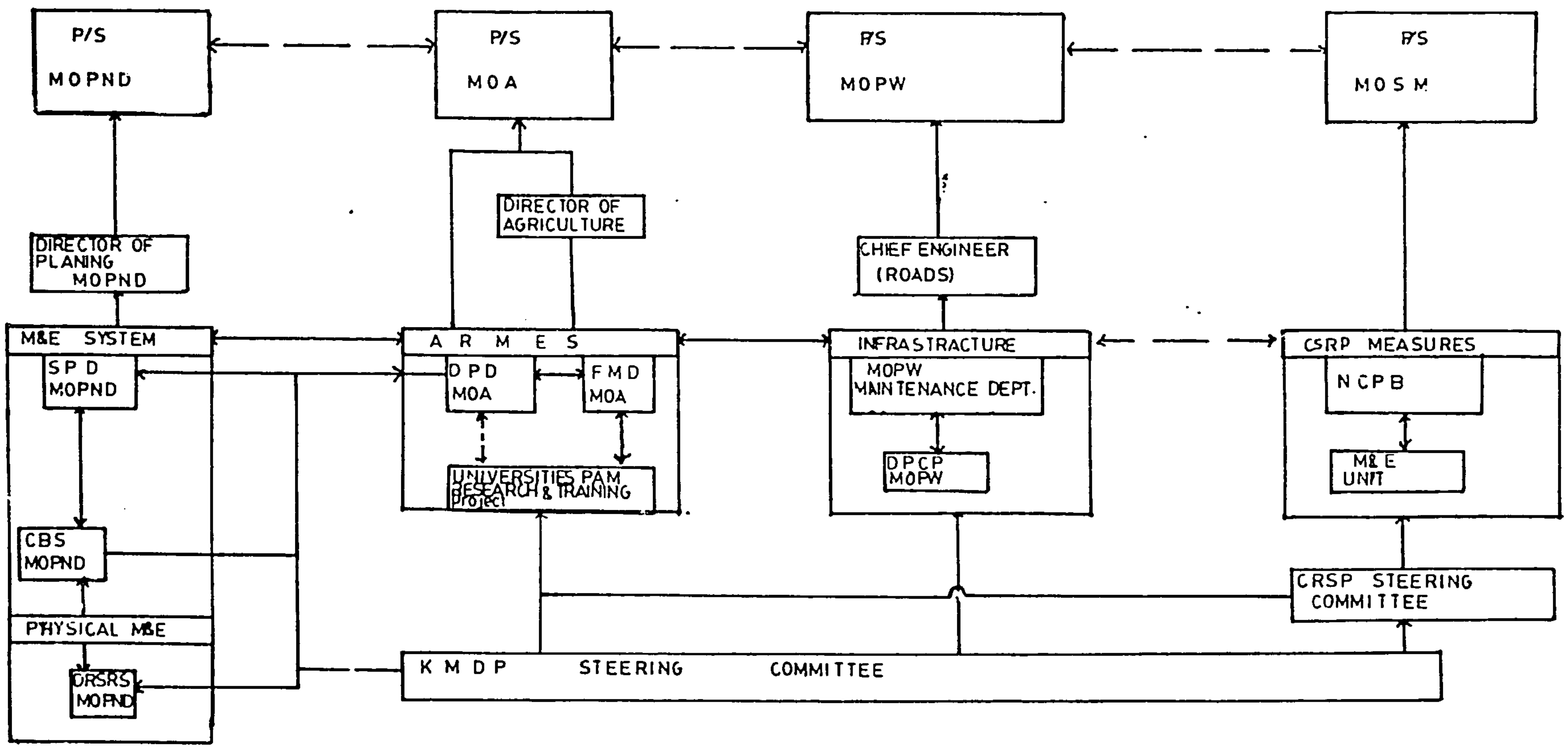
4.2.1 Coordination between MOA and MoPND

The key formal linkage already exists between the MoPND and the MOA through DPD as an extension of the MoPND/SPD capabilities in line Ministries. This linkage provides for easy coordination in the implementation of the proposed M & E system at the MoPND and ARMES.

4.2.2 Coordination of KMDP and CRSP

While the objectives and proposed activities of the KMDP are complementary to those of the CSRP, KMDP is designed to address a broader range of issues and go beyond what is currently envisioned for the CSRP. For this reason, although it appears that there will be some overlap of agenda between the KMDP and CSRP Steering

FIGURE 4.1: A SCHEMATIC ILLUSTRATION OF THE OVERALL KMDP INSTITUTIONAL LINKAGES



Committees, it is not considered appropriate to consolidate the two committees at this stage. Further, the membership of the CSRP Steering Committee is such that it will have less inclination than the present KMDP Steering Committee to delve into the technicalities of policy analysis.

Both the MoSM and NCPB are represented at a senior technical level in the KMDP Steering Committee. On the other hand, DPD is represented on both KMDP and CSRP Steering Committees. These representations should provide for formal communication between the two programs.

Regular donor (USAID/EEC/IBRD) consultations should also enhance the development of effective coordination between KMDP and the CSRP.

4.2.3 Coordination of ARMES and MIS Implementation Activities

fAlthough ARMES and MIS contribute to the policy reform process from different perspectives, their implementation are complementary, and important in assessing the success of KMDP. Therefore, there should be coordination between ARMES and MIS implementation activities.

The realization of effective coordination between ARMES and MIS will be facilitated through the existing formal and informal contacts between DPD and FMD staff as organizational units in the same ministry. There will also be efforts in this direction by USAID project officers and the technical assistance specialists that will be seconded to the program.

It is recommended that the specialist responsible for the overall development of ARMES at the FMD shall be appointed Program Coordinator. In that role, the specialist's job description will involve fostering coordination among the institutions and individual staff involved in the implementation of ARMES.

If USAID can ensure that all the four technical assistance specialists funded by KMDP, i.e two at the FMD, one at DPD and one at MoPW see Volume B report, and the PAM project teams are procured through a single contract with US and/or Kenyan organization(s), the Program Coordinator should be designated KMDP Team Leader. Then it will be easy to foster a formalar coordination mechanisms for all KMDP activities activities through regular meetings of a KMDP technical assistance team.

4.2.4 Other Coordinating Mechanisms

In describing the existing institutional arrangements (chapter I above), it was indicated that many of the institutions involved in the agricultural sector have coordination through interministerial committees and task groups whose functions relate to issues of agricultural produciton and market efficiency. Such committees include those for crop forecasting, farm inputs and annual commodities prices review. At present, there is also an interministerial task group deliberating on food security. Such committees and task groups will therefore reinforce the coordinating mechanisms outlined above for KMDP.

Another important direct linkage which has to be fostered early during the implementation of KMDP will be those between ARMES and the Development Planning and Coordination Division (DPCD) of the MoPW. This linkage is described in Volume B report.

4.3 THE ROLE OF THE KMDP STEERING COMMITTEE

The KMDP Steering Committee will provide the primary coordinating mechanism for the program. Strategically, the essential feature of the KMDP Steering Committee will be to nurture coordination without stifling action in the organizations represented in the committee. Accordingly, the role of the KMDP steering committee will be-:

a) to insure that major policy initiatives in the agricultural and rural development sectors have the widest possible cross-sectoral technical review and consensus before they are presented to the policy makers;

b) to identify policy review needs;

c) to ensure exchange and flow of data and information between the institutions;

d) to foster collaboration between the institutions and facilitate the activities of the collaborating agencies.

e) to foster policy reform changes consistent with the KMDP objectives.

4.4 FMD AND CBS COLLABORATION IN THE DEVELOPMENT OF MIS

It will be cost-effective for the GOK to have a unified MIS through collaboration between FMD and CBS. FMD has the superior field organizational capacity while CBS has a more scientific approach in data collection. The development of MIS for agricultural commodities should therefore take advantage of the opportunity offered by the willingness of CBS to support the FMD efforts in developing a MIS.

KMDP should foster collaboration by supporting the development of mechanisms whereby CBS can provide its know-how in market data collection to the FMD staff. It is therefore recommended that KMDP will sponsor the participation of CBS staff in the workshops organized to train the FMD staff in data collection and management.

4.5 DISTRICT LEVEL COORDINATION OF FMD ACTIVITIES

At the District level, FMD activities in the implementation of ARMES and MIS will be coordinated by the District Agricultural Officer (DAO). The DAO has a functional reporting relationship to all heads of technical divisions of the MOA. Therefore, no significant problem is anticipated in the communication between the district level establishments and the FMD headquarters.

Nonetheless, it is important that coordination of the FMD bactivities at the District level is planned for during the initial stages of the implementation of ARMES and MIS. It is therefore recommended that workshops will be conducted to explain the MOA district level staff the objectives of KMDP, ARMES and MIS projects. The DAOs and their staff will also need training on the district level operations of the PAM project, and the role and level of support required of them in the implementation of KMDP.

V FINANCIAL ANALYSIS

5.1 INTRODUCTION

The broad objectives of financial analysis were outlined in the statement of work (Appendix 1) as:

- o to describe the relevant budgetary and expenditure procedures for each of the proposed implementing institutions;
- o to identify the actual and potential financial problems related to the implementation of KMDP;
- o to assess the financial implications of the proposed investment;
- o to determine the degree to which KMDP funds should be tracked; and
- o to assess GOK's capability to account for KMDP resources.

5.2 PROGRAM BUDGET AND FINANCIAL ARRANGEMENTS

The financial summaries in Tables 5.1 and 5.2 below show how KMDP resources for each of the four sub-components will be disaggregated. The projections assume a ten year implementation period for recurrent costs although it is understood that, for now, funding commitments by USAID will only be made for the initial three year phase of the program.

Implementation of KMDP will involve the use of funds from three sources:

1) a DFA Sector Cash Grant of $10 million to fund performance payments against policy measures;

2) a US$5 million DFA cash grant to fund technical assistance to address institutional constraints; and

3) $40 million in PL-480 counterpart funds to be applied in institutional strengthening and roads development.

Under the terms of the US$10 million DFA Sector Grant, AID will disburse dollars as a contribution to GOK's general foreign exchange reserves if GOK successfully undertakes the policy reforms agreed upon by the two Governments.

Total PL-480 counterpart funds and DFA program cost for the Institutional Strengthening and Roads Improvement components is

TABLE 5.1: KMDPPHASE ONE PROGRAM COSTS 1991-1993
(Amounts in US Dollars)

	FY 1991	FY 1992	FY 1993	TOTAL
I. Applied Research, Monitoring and Evaluation (ARMES)				
A. Technical Assistance (DFA)	953,804	923,804	815,020	2,692,628
B. TA to FMD (Counterpart)	200,000	200,000	200,000	600,000
C. TA to DPD (Counterpart)	100,000	100,000	100,000	300,000
D. Training (DFA)	212,500	187,500	165,000	565,000
E. Commodities (DFA)	210,000	0	0	210,000
Subtotal	1,676,304	1,411,304	1,280,020	4,367,628
II. Market Information Systems				
A. TA (DFA)	111,521	111,521	92,934	315,976
B. Training (DFA)	135,000	42,300	74,550	251,850
C. Commodities (DFA)	167,000	27,500	27,500	222,000
D. TA (Counterpart)	200,000	200,000	200,000	600,000
Subtotal	613,521	381,321	394,984	1,389,826
III. Rural Market Roads Development				
A. Short-term TA	100,000	100,000	100,000	300,000
B. Training	75,000	75,000	75,000	225,000
C. Road Construction & Rehab.	2,000,000	10,000,000	13,000,000	25,000,000
D. Road Maint. -- Counterpart	500,000	1,400,000	3,000,000	4,900,000
Subtotal	2,675,000	11,575,000	16,175,000	0 30,425,000
IV. Program Evaluation (external)	0	0	321,273	321,273
TOTAL KMDP RESOURCES	4,964,825	13,688,898	17,850,004	36,503,727
GOK Recurrent Costs				
Road Maintenance	200,000	400,000	600,000	1,200,000
TOTAL PROGRAM COSTS	5,164,825 0	14,088,898	18,450,004	37,703,727

TABLE 5.2 : KMDP PHASE ONE PROGRAM BUDGET, 1991-1999

	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1999	FY 1999	TOTAL
I. Applied Research, Monitoring and Evaluation (ARMES)										
A. Technical Assistance (DFA)	953,804	923,804	815,020	0	0	0	0	0	0	2.692.628
B. TA to FMD (Counterpart)	200,000	200,000	200,000	0	0	0	0	0	0	600,000
C. TA to DPD (Counterpart)	100,000	100,000	100.000	0	0	0	0	0	0	300.000
D. Training (DFA)	212.500	187,500	165,000	50.000	50,000	0	0	0	0	665,000
E. Commodities (DFA)	210,000	0	0	0	0	0	0	0	0	210.000
Subtotal	1,676,304	1,411,304	1,280,020	50,000	50,000	0	0	0	0	4.467.628
II. Market Information Systems										
A. TA (DFA)	111,521	111,521	92.934	0	0	0	0	0	0	315,976
B. Training (DFA)	135.000	42.300	74.550	0	0	0	0	0	0	251,850
C. Commodities (DFA)	167,000	27,500	27,500	0	0	0	0	0	0	222.000
D. TA (Counterpart)	200,000	200,000	200.000	0	0	0	0	0	0	600.000
Subtotal	613.521	381.321	394.984	0	0	0	0	0	0	1.389.826
III. Rural Market Roads Development										
A. Short-term TA	100.000	100,000	100.000	0	0	0	0	0	0	300,000
B. Training	75.000	75,000	75,000	0	0	0	0	0	0	225.000
C. Road Construction & Rehab.	2,000,000	10,000,000	13,000,000	0	0	0	0	0	0	25.000.000
D. Road Maintenance	500,000	1,400,000	3,000,000	2,310,000	1,403.060	1,080.356	831,874	640,543	493.218	11.659,052
Subtotal	2.675.000	11.575.000	16,175,000	2,310,000	1,403,060	1,080,356	831.874	640,543	493.218	37,184,052
IV. Program Evaluation (DFA)	0	0	321.273	0	0	0	0	321.273	0	642.546
TOTAL KMDP RESOURCES	4.964.825	13.688.898	17.650,004	2.360,000	1.453,060	1,080.356	831.874	961.816	493.218	43.684.052
GOK Recurrent Costs										
Road Maintenance	200.000	400,000	600,000	1.483.500	2.526.481	2,897.590	3.193.345	3,403.375	3.572.799	18.267,090
TOTAL PROGRAM COSTS	5.164.825	14.088.898	18.450.004	3.843.500 0	3.979.541	3.977.947	4.015.219	4.365.192	4.066.017	61.951.142

estimated at US $ 36.5 million during the first three year (1991-1993) phased of KMDP (see Table 5.1). In addition, about US $ 6.8 million counter-part funds are budgeted as KMDP support to GOK in the maintenance of roads during the period 1994 to 1999 (Table 5.2). Discussion on the financial issues related to the use and accountability is incorporated of funds budgeted for the Roads Component is incorporated in in Volume B Report.

The combined cost estimates for the two sub -components of the Institutional Strengthening component (ARMES and MIS) during the first phase amounts to US $5.8 million (Table 5.1). 70 percent of this amount is budgeted to go toward providing technical assistance for ARMES during this phase. The remaining 30 percent has been budgeted to cover technical assistance requirements for the proposed MIS activities as well as all training and procurement of commodities under both subcomponents.

5.3 THE GOK BUDGETARY AND FINANCING ARRANGEMENTS

5.3.1 Introduction

The institutional strengthening measures of KMDP will be implemented within the framework of the existing GOK budgetary and financing arrangements. The following discussion outlines the financial management system and analyzes the implications for KMDP.

The Annual Estimates'(or budgets) essentially form the Government's financial framework for any given financial year. Three types of estimates are published for the start of each financial year which runs from 1st July through 30th June: Estimates of Revenue, Development Estimates and Recurrent Estimates.

As a general rule, Recurrent Estimates are intended to fund all personnel costs, maintenance, ordinary supplies and equipment, and other routine operating costs. The Development Estimates, on the other hand, cover all major capital expenditures including all costs of investments in major equipment, buildings, constructions and land, loans and purchases of equity.

There are three phases in the GOK budgetary and financial system, namely:

- the ministerial ceiling preparation process;
- the estimates preparation process; and
- the expenditure cycle.

5.3.2 The Ceilings Preparation Process

The Development Plan contains guidelines for Government participation in the development process and includes estimates of resource availability, appropriate public sector activities, and priorities. Based on these guidelines the Treasury determines and issues the spending limits or "ceilings" to limit ministerial estimates.

The ceilings, are prepared for the Recurrent and Development Budgets. Each ministry is expected to keep within its given ceiling when preparing its annual expenditure budget.

The ceilings which are set for each ministry are for gross expenditures. the implication in this is that, donor financing, whether in the form of loans, grants or Appropriations-in Aid (direct payments), must be included within the ceiling. Thus, under this system, if the total number of development projects and activities proposed by a ministry exceeds its ceiling, the ministry would have to cut back this total to the ceiling level, even if the difference between the given ceiling and the original total were to be completely financed by donors.

GOK Budget Rationalization Program

There has been rapid increases in GOK Expenditure in the past. Table 5.3 below indicates the levels of both the recurrent and development expenditures at three intervals over the past two and a half decades.

Table 5.3: GOK Expenditure Trend
(K Pounds - million)

	1964/65	1984/85	1988/89
Recurrent Expenditures	36.9	740.1	1,494.3
Development Expenditures	16.0	353.7	806.1

Source: GOK Printed Estimates

Domestically generated revenue and donor grants have generally been insufficient to cover all of the estimated recurrent and development expenditures. The Government has therefore been concerned with limiting its budget deficit and borrowing from the banking system.

The GOK 1984-88 national development plan, sought to address the problem of recurring budget deficits. So the plan put forward a five point program (Budget Rationalization Program) to reduce the cost to the budget of government services. This involved:

a) a sharp curtailment of non-essential government investments and services, which would in some cases be left entirely to the private sector;

b) the supplementing of government's provision of selected essential services by voluntary agencies and "the individual and collective efforts of the people";

c) a shift in the focus of planning to the level of the district;

d) improvement in the efficiency of planning and delivering government services and in the productivity and discipline of the civil service; and

e) the shifting of more of the burden of the cost of government services to those who benefit from them, through fees and other charges.

The Budget Rationalization Program has brought a number of significant improvements in the budgetary processes during the last few years. These improvements include not only process and procedure changes but also changes in the composition of Government expenditures in accordance with the priorities established in the program.

GOK Absorption capacity for Donor Funds

One of the important elements in the implementation of the Budget Rationalization program has been the more effective absorption of available donor commitments for project and program financing and the direction of these commitments to priority projects and programs already included in the Program Review and Forward Budget. The Government has also succeeded in obtaining more program assistance, which has alleviated the problem of deficit financing.

GOK is however not yet able to absorb all of the available donor commitments within its development budgets. It is significant that in the current financial year, the Government is able to absorb only 62 percent of total available donor commitments. The Ministry of Agriculture will absorb 73 percent of the external resources available to it.

Because of the relatively low level of financing planned for the Institutional Strengthening component, the implications of the problems related to the budgetary ceilings and GOK absorption capacity will not be as significant as, for example, the proposed Roads Improvement component (see Volume B report). Already, US $1.5 million for KMDP was included in the 1989/90 Development Estimates under the Ministry of Planning and National Development (MoPND). Therefore although there would be some bureaucratic procedures to be followed in the reallocation of these funds to the institutions specifically targeted for institutional strengthening (see Chapter III above) no major difficulties are anticipated in obtaining GOK budgetary allocations for this component of KMDP.

5.3.3 Estimates Preparation Process

Following the ceiling preparation process, the second important process in the GOK budgetary cycle is the preparation of budget estimates by the individual ministries. The ministerial estimates preparation goes through the following three different but interrelated stages:

- the Program Review and Forward Budget (commonly called "The Forward Budget"),
- the Revised and Supplementary Estimates; and
- the Draft Annual Estimates.

Forward Budget: The annual Forward Budget is the means for translating the pattern of development in the Development Plan into planned expenditures, and scheduling the implementation of projects, program and activities. The Forward Budget exercise takes place in July and August for all ministries. It generally covers three forward years except when a Development Plan is being prepared when it is extended to cover the period of the Plan. In this exercise, ministries are required to prepare program briefs indicating program changes since publication of the National Development Plan and any program adjustments in response to new economic guidelines from the Treasury. The introduction of new projects or programs should occur only through the Forward Budget.

Revised and Supplementary Estimates: After the publication of the Estimates in July, it often becomes necessary to alter the original allocation levels. In some cases and under stringent conditions, funds are reallocated between the various budget elements without any increase in the overall level of the budget. In other cases, additional funds are needed before the end of the financial year over and above the amounts initially specified. The former case leads to the publication of the Revised Estimates, while the latter case requires approval in the form of Supplementary Estimates which are often completed and published together in one exercise between October and March of the financial year. Revised and Supplementary Estimates are not intended to be used for the purpose of introducing new projects or previously rejected projects into the current budget.

<u>Draft Annual Estimates:</u> The third stage is the preparation of the Draft Annual Estimates for the following financial year. Ministries submit their draft annual budgets for the next financial year by the end of January. The submissions include detailed program descriptions and statements on program objectives, and explanations of changes in expenditure on an itemized basis. The Estimates should go to print in May/June and should be presented to Parliament by the Minister for Finance on Budget Day, usually about two weeks before the start of the new financial year.

5.3.4 GOK Expenditure Cycle

Government departments begin to incur expenditure in a new financial year before Parliament gives formal approval to the Estimates. Parliament usually passes a "Vote-on-Account" prior to 1st July for the new fiscal year which in effect allocates funds for the purpose of meeting necessary expenditures until the Appropriation Act for that year comes into effect.

After the parliamentary approval, Treasury issues by a circular to each Accounting Officer the authority to incur expenditures (AIE). The Accounting Officers within each ministry in turn issue AIEs to their respective district heads and other vote holders not later than 15th July of each year.

5.3.5 Accounting And Financial Accountability

The Government has a centralized and computerized accounting system. Ministries, and provincial and district establishments make weekly returns of expenditure incurred and payments to the computer center in Nairobi. Monthly expenditure reports, covering each AIE holder are then centrally prepared and disbursed to the AIE holders. This GOK system appears sound and effective.

Conclusions

The reviews carried out on the Government financial management and accountability systems indicated that the Government's internal accounting and administrative controls were adequate to ensure that KMDP resources will be safeguarded and properly managed.

The GOK has instituted fairly strict internal control checks whereby expenditures must be independently authorized and reviewed for propriety prior to being approved and processed for payment.

With respect to actual accountability for expenditures, monthly expenditure reports are prepared routinely within two weeks of the end of a given month.

5.4 FINANCIAL TRENDS

In recent years, the budgetary allocations in both recurrent and development expenditures for the agricultural sector have decreased steadily in relation to the overall national budgets. Table 5.4 shows these downward trends in percentage terms. Summaries of the recurrent and development expenditures for the past four years are presented in Tables 5.5 and 5.6 respectively.

Table 5.4: Budgetary Allocations To The Agricultural Sector Expressed As A Percentage Of Total National Budget

	1985/86	1986/87	1987/88	1988/89
Recurrent	4.96%	9.29%	2.75%	1.81%
Development	17.18%	15.04%	13.26%	14.58%
Overall	8.85%	11.19%	6.23%	4.88%

The significant drop in the recurrent expenditures for 1986/87 and 1987/88 is due to substantial subsidies to NCPB totaling K Pounds 77.5 million allocated in the two financial years 1985/86 and 1986/87. Apart from these subsidies, the annual increases in both the recurrent and development budgets in absolute terms for this sector has not been consistent over the past four years. The range has been between 1.08% and 16.6% for the recurrent expenditures, and between 2.26% and 23.9% for the development expenditures.

With the exception of DPD, the cost of salaries and other personal emoluments for all divisions within MOA including FMD have been grouped together in the recurrent budget under the two headings of Headquarters General Administration, and Provincial and District Administration. The individual amounts indicated in the expenditure summary below for these divisions, therefore, represent operating costs other than salaries for the respective divisions.

For DPD, the amounts indicated in the budget are for total operating costs within the division including personal emoluments which make up approximately 80 percent of its total operating costs.

The budget tables indicate that the budgetary allocations for DPD and FMD which are the focus for KMDP institutional strengthening have remained essentially unchanged over the four year period ended 1988/89.

TABLE 5.5: AGRICULTURAL SECTOR RECURRENT BUDGET, 1985/86- 1988-1989

(Amounts in Kenya Pounds)

	1985/86	1986/87	1987/88	1988/89	Forward Budget 1989/90
GENERAL ADMINISTR TION & PLANNING					
Headquarters General Administration	4,388,406	2,644,313	2,440,808	3,269,337	3,273,637
Provincial & District Administration	2,219,708	8,470,753	6,425,821	5,833,020	6,144,214
Planning Division	110,193	113,595	103,335	108,100	134,443
Crop Development Division	10,123,040	67,626,520	137,663	165,469	269,105
Agricultural Engineering Division	0	0	0	0	23,800
Farm Management Division	73,139	9,030	9,030	11,400	17,900
Agricultural Extension Division	96,827	197,420	215,373	243,119	256,067
Subtotal	17,011,313	79,061,631	9,332,030	9,630,445	10,119,166
CROP DEVELOPMENT					
Crop Research	6,576,524	6,686,284	5,678,663	5,904,591	0
Other	6,589,154	2,328,333	2,858,353	2,647,086	3,263,643
Subtotal	13,165,678	9,014,617	8,537,016	8,551,677	3,263,643
LAND & FARM DEVELOPMENT					
Soil & Water Conserv. & Mgmt.	1,839,597	711,044	464,941	473,958	142,940
Irrigation Development	292,669	348,447	395,781	371,728	399,870
Extension Services	3,229,874	9,908,566	12,707,091	14,833,326	17,647,950
Other	1,698,595	292,658	1,062,730	1,186,034	1,454,123
Subtotal	7,059,735	11,260,715	14,630,543	16,865,046	19,644,883
AGRICULTURAL EDUCATION	5,514,610	1,468,382	1,552,048	1,986,721	2,755,921
OTHER - MOA	676,416	481,774	528,365	608,980	655,290
GROSS TOTAL-MOA	43,427,752	101,287,119	34,580,002	37,642,869	36,438,903
OTHER MINISTRIES					
M o S & M (Grain Storage)	0	0	0	45,734	73,105
M o Regional Development (Irrigation)	0	0	0	2,408,900	2,425,000
M o Resch., Sci.,& Technology (Research)	0	0	0	0	5,805,952
GROSS TOTAL-Agricultral Sector	43,427,752	101,287,119	34,580,002	40,097,503	44,742,960
GROSS TOTAL-NATIONAL BUDGET	876,215,520	1,090,470,039	1,258,343,679	1,606,463,873	1,495,005,323
Ag. Sector as % of Nat. Budget	4.96%	9.29%	2.75%	2.50%	2.99%

TABLE 5.6: AGRICULTURAL SECTOR DEVELOPMENT BUDGET, 1985/86 = 1988/89

(Amounts in Kenya Pounds)

	1985/86	1986/87	1987/88	1988/89	1989/90
GENERAL ADMINISTRATION					
Planning	1,023,700	704,480	1,225,120	1,809,100	909,350
Other	5,085,100	421,660	218,000	417,000	151,828
Subtotal	6,108,800	1,126,140	1,443,120	2,226,100	1,061,178
CROP DEVELOPMENT					
Crop Research	2,303,184	1,763,251	6,115,034	0	0
Other	15,235,165	15,529,908	10,057,868	4,199,456	8,238,353
Subtotal	17,538,349	17,293,159	16,172,902	4,199,456	8,238,353
LAND & FARM DEVELOPMENT					
Soil & Water Management	2,685,077	3,299,120	6,214,666	4,200,600	6,559,445
Irrigation Development	8,572,010	7,368,230	6,651,700	4,451,704	6,381,700
Intergrated Agrl. Dev. Proj.	1,786,120	1,474,034	2,142,247	830,970	1,073,519
Ntnl. Extension prjct	2,186,238	1,836,360	1,221,950	3,036,400	2,906,372
Subtotal	15,229,445	13,977,744	16,230,563	12,519,674	16,921,036
AGRICULTURAL EDUCATION	2,945,140	1,038,589	2,927,394	3,148,470	3,472,586
GRAIN STORAGE AND HANDLING	25,171,040	34,409,010	40,855,517	0	0
OTHER	3,421,175	13,017,300	5,060,850	9,179,700	4,087,529
GROSS TOTAL-MOA	70,413,949	80,861,942	82,690,346	31,273,400	33,840,682
OTHER MINISTRIES					
M o S & M (Grain Storage)	0	0	0	68,426,174	70,150,374
M o Regional Development	0	0	0	2,744,000	4,623,900
M o Resch., Sci.,& Technology	0	0	0	0	15,616,861
GROSS TOTAL-Agricultral Sector	70,413,949	80,861,942	82,690,346	102,443,574	124,231,817
GROSS TOTAL-NATIONAL BUDGET	409,798,033	537,478,208	623,807,185	702,448,940	922,079,201
Ag. Sector as % of Nat. Budget	17.18%	15.04%	13.26%	14.58%	13.47%

5.5 SUMMARY OF FINANCIAL ANALYSIS

Like all GOK projects and programs, KMDP should be introduced into the GOK budgetary process through the Program Review and Forward budget process.

The size of the proposed investment in institutional strengthening activities is relatively small, and it is not expected to pose a serious problem for inclusion within the budget ceilings of the MOA.

US$ 1.5 million have been already included in the 1989/90 Development Estimates for KMDP. Although the allocation was included in the budget for MoPND, it is expected that reallocation of these resources to the appropriate institutions (DPD and FMD) will not be problematic.

GOK accounting and financial control procedures are generally adequate to ensure that KMDP resources are properly managed and safeguarded.

There can be significant bottlenecks in the Government's procurement process. Timely implementation of KMDP elements in this first phase will demand expeditious procurement of commodities earmarked for ARMES and MIS. It is, therefore, recommended that USAID make direct procurement of the required items under GOK Appropriations in-Aid (AIA) budgetary arrangements.

The recurrent expenditure requirements to sustain KMDP institutional strengthening measures will not be substantial. These will primarily be maintenance and repair of the equipment to be procured under the Program, and costs of dissemination of market information. However, FMD has in the past been constrained by lack of recurrent resources to sustain the operation of a MIS. It is therefore necessary to ensure that MOA will increase its budgetary allocation to DPD and FMD to accommodate this programs recurrent costs.

APPENDIX 1

STATEMENT OF WORK

(TERMS OF REFERENCE)

STATEMENT OF WORK

Background

During the next several months, USAID/Kenya will be preparing a Program Assistance Approval Document (PAAD) for the proposed Kenya Marketing Development Program (KMDP). The principal objectives of the program are:

Goal: To assist the Government of Kenya to achieve its goal of increased agricultural productivity through the development of a more efficient market system.

Purpose: To develop a more efficient national market system through improvements in the policy environment and physical infrastructure.

The objectives are to be served by a program which supports the evolutionary reform program develcped by the GOK with regard to market policies; the development of rural market infrastucture; and the strengthening of institutional capacity to guide policy and investment decisions.

The policy and institutional strengthening initiatives regarding agricultural marketing will require the coordinated effort of four institutions: 1) the Office of the President; 2) the Ministry of Planning and National Development (including the roles and contributions of DRSRS and CBS); 3) the Ministry of Agriculture; and 4) the Ministry of Supplies and Marketing. These initiatives include both policy reform and the implementation of the proposed institutional strengthening component (the Applied Research, Monitoring and Evaluation and Market Information System). The development of rehabilitation of rural market infrastucture will also require the coordinated efforts of four institutions: 1) the Ministry of Transportation (for planning); 2) the Ministry of Public works; 3) District Development Committees; and 4) Local Tender Boards. The institutional and financial analyses contained in the PAAD will focus on these various institutions, analyzing their capability to implement the program components.

Scope of Work

The study funded under this contract consists of development and support activities required for the design of the proposed KMDP. The purpose of the study is to conduct a series of institutional and financial analyses necessary for the development of PAAD for the KMDP. The work will focus on the institutional and financial capabilities of those organizationals which will be involved in the program. The study will result in two reports: a) one related to the institutional and financial aspects of the proposed policy and institutional strengthening initiatives, and b) a second focused on institutional and financial concerns on rural infrastuctive initiatives. From these reports the consultants will prepare draft institutional and financial sections of the PAAD.

Six geographical areas have been chosen for KMDP interventions: 1) Uasin Gishu, 2) Kakamega, 3)Kisii, 4) Nakuru, 5) Nyeri and 6) Kitui. The relevant institutional and financial relationships of the four institutions involved in roads and the four involved in marketing will be studied at both the national level and at local levels in the six geographical AREAS.

The analyses, as noted, will include those institutions identified above which will potentially be involved in implementing the initial phase of the KMDP. The analyses will, however, be confined only to those activities of the institutions with which the KMDP will be concerned. That is, to the extent that a ministry or local institution is charged with activities beyond those dealt with in the market program, they will not be studied in detail (though to the extent that they bear upon KMDP activities they will require some analysis). Likewise, to the extent that certain activitiesare likely to be undertaken in some but not all geographical areas under study, the institutions in those areas where the interventions are likely to occur will be analyzed, but not institutions in areas where such activities are unlikely. For example, if rural road construction is to be a dominant activity in one area but not in another, the capability of the Ministry of Public Works and local tender boards will be analyzed in detail in the former but less rigorouslay in the latter. An understanding of what institutions and which of their activities will be important in which geographical areas will be obtained from the findings of the Economic and Social Analyses (which will be undertaken by Development Alternatives, Inc. prior to the present study). Through this approach both the number of institutions to be analyzed and the types of activities each undertakes will be narrowed and will make the present analyses manageable within the timeframe required.

After completing the above "narrowing process" to determine which institutions and activities in each area need analysis, the followng issues will be addressed to determine the institutional and financial capabilities to implement the KMDP.

Organizational Characteristics

a. Determine each organisation's mandate to carry out the activities under consideration. The contractor will determine if there are important unofficial organizational agendas that vary from the stated mandate, and if these have implications for implementing the proposed program.

b. Assess who in reality carries out the functions or activities under consideration, i.e., who the actual decision -makers are (irrespective of their mandate).

c. Analyze each relevant organisation's structure to determine its capability to carry out the activities under consideration.

d. Analyze the personnel composition for each organization and their capability to carry out the proposed activities.

e. Assess the non-personnel resources available to the relevant organizations to carry out the proposed activities.

f. Identify potential constraints related to the relevant institutions' mandates, structures, personnel and non-personnel resources which may affect program implementation, and determine what problems need to be addressed in order for the activities to be carried out.

Organizational Dynamics

a. Determine within each organization what departments, positions and individuals have the authority to and actually make decisions relevant to the implementation of the proposed activities; it will analyze the decision making process within each organization.

b. Analyze the formal and informal processes of communication between or among departments positions and indivisuals within the respective organisations to determine the implications for effective decision making and implementation of the proposed program. This will include an assessment of what and how information from what source is utilized for decision making (including information flows).

Inter-Organizational Dynamics

a. Determine that Ministries, Offices, department, positions and individuals have the authority to and actually make decisions relevant to the implementation of the proposed activities and analyze how the decision process is carried-out. The contractor will distinguish between policy and infra-structure investment decisions. The contractor will also examine the relationshp between decision makers in central Government and the district level officers and the decision process between these levels.

b. Analyze the formal and informal process of communication between or among individuals between the respective organizations to determine the implications for effective decision making and implementation of the proposed program. This will include an assessment of what and how information from what sources is utilized for decision making (including information flows).

c. In the context of communication flow, the decision making process, and the implementation of decision made, the contractor will identify potential constraints and determine the degree of coordination needed among organizations for effective implementation of the proposed program. The contractor will also advise the Government and USAID as to what organizational restructuring or new procedures may be required to effectively implement the proposed program.

Financial Characteristics

a. Identify relevant budget planning, allocating, and expeding procedures for each institution at each level identified in the section above.

b. Describe the steps and timing of each phase in the financial process. This will include a description of the organization's budget categories and its allocation processes.

c. Analyze the financial implications of the investments contemplated by the program and their impact on both the development and recurrent budgets.

d. Identify actual and potential problems related to (i) the incorporation of the proposed USAID funding levels in relation to GOK budget ceilings; (ii) the ability of the institutions to allocate and expend the available resources, and (iii) the ability to sustain program activities (recurent cost issues).

Organizational Arrangements to Implement the KMDP

a. Assess the proposed organizational arrangements for implementing the KMDP, e.g., the proposed coordinating body, the steering committees, the relationships between and roles of the relevant ministries, etc., and will make recommendations related to appropriate/optimal organizational arrangements.

b. Recommend program interventions related to institutional and organizational arrangements (i.e., institutional strengthening initiatives) which need to be undertaken to make the program work. This incudes recommendations related to needed information and information flows for effective decision making to take place.

Institutions to be Studied

Both the institutions to be studied and the aspects of those institutions will be, to a large extent, influenced by the "narrowing process" described at the beginning of the precedig scope-of-work. As summarized earlier, the probable institutions to be included are:

a. Office of the President

b. Government Ministries

1) Ministry of Planning and National Development and the roles of DRSRS and CBS in the Ministry;

2) Ministry of Agriculture and the roles of the Farm Management Division and the Development Planning Division within the Ministry;

3) Ministry of Public Works;

4) Ministry of Supplies and Marketing and the role of NCPB;

5) Ministry of Transportation.

Local Authorities and Institutions in the Six Selected Market Areas:

1) District Development Committees in Uasin Gishu, Kakamega, Kisii, Nakuru, Nyeri and Kitui Districts;

2) District offices of the relevant central ministries in these districts;

3) Tender Boards in the same six districts;

4) County Councils in the six districts;

Level of Effort and Timing

The contract period will be six work weeks. The work will commence near the time that the Economic and Social Soundness Analysis for the PAAD is completed (on or about June 30).

Requirements and Skills

USAID/Kenya will contract with a Kenyan consulting firm which will be required to assemble a team of experienced consultants to carry out the scope-of-work. The specialties to be provided will include: three financial analysts experienced in the analyses of the types of issues specificied in the scope-of-work related to public bodies (e.g. ministries), parastatals, and private institutions involved in the Kenya market system. Each of these experts will have a masters degree (or equivalent professional training) in the areas for which they will be responsible. One expert will act as team leader, and will be responsible for finalizing the drafts of each of the studies.

It is intended that these experts will be organized into three teams, two to undertake the analysis in the six geographical areas in which the KMDP will focus (one team for each of two areas), and the third to carry out he analyses of the institutions located in Nairobi.

The following specialists will be provided by the Contractor:

InstitutionalAnalyst/Team Leader - Central Headquarters;

Financial Analyst - Central Headquarters;

Financial Analyst - Uasin Gishu, Kakamega, Kisii;

Institutional Analyst - Uasin Gishu, Kakamega, Kisii;

Financial Analyst - Nyeri, Kitui, Nakuru.

Institutional Analyst - Nyeri, Kitui, Nakuru

REPUBLIC OF KENYA

GOVERNMENT OF KENYA
MINISTRY OF PLANNING & NATIONAL DEVELOPMENT

in collaboration with

UNITED STATES OF AMERICA

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT U.S.A.I.D.
MISSION TO KENYA

INSTITUTIONAL AND FINANCIAL ANALYSES
for the
KENYA MARKET DEVELOPMENT PROGRAM

VOLUME B: INFRASTRUCTURE DEVELOPMENT COMPONENT

September 1989

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GLOSSARY OF TERMS

ARMES	Applied Research, Monitoring and Evaluation System
ATA	Agricultural Technical Assistant (Extension workers)
CBS	Central Bureau of Statistics
DAO	District Agricultural Officer
DFA	Development Fund for Africa
DOA	Director of Agriculture (MOA)
DC	District Commissioner
DDC	District Development Committee
DPD	Development Planning Division (Ministry of Agriculture)
DPCD	Development Planning and Coordination Division (Ministry of Public Works)
EEC	European Economic Community
EU	Egerton University
FMD	Farm Management Division (Ministry of Agriculture)
GOK	Government of Kenya
GTZ	German Fund for Technical Assistance
IBRD	International Bank for Reconstruction and Development
KMDP	Kenya Market Development Program
KNTC	Kenya National Trading Corporation
Kshs	Kenya Shillings
MIS	Market Information System
MOA	Ministry of Agriculture
MoCoM	Ministry of Commerce
MoCoP	Ministry of Cooperatives
MoENR	Ministry of Environment and Natural Resources

MoLD	Ministry of Livestock Development
MoTC	Ministry of Transport and Communication
MoT	Ministry of Tourism
MoPND	Ministry of Planning and National Development
MoPW	Ministry of Public Works
MoSM	Ministry of Supplies and Marketing
MRP	Minor Roads Program
NIB	National Irrigation Board
NCPB	National Cereals and Produce Board
OP	Office of the President
OVP-MOF	Office of the Vice President and Ministry of Finance
PAM	Policy Analysis Matrix
P S	Permanent Secretary
PSC	Public Service Commission
RARP	Rural Access Roads Program
RTPCs	Rural Trade and Production Centres
SPD	Sectoral Planning Department, MOPND
UON	University of Nairobi
USDA	United States Department of Agriculture

CURRENCIES

Kenya Sh	=	approximately US $ 0.045
Kenya Pound	=	Kshs 20

EXECUTIVE SUMMARY

1. KMDP OBJECTIVES AND SCOPE

The objective of the Kenya Marketing Development Program (KMDP) is to assist the Government of Kenya (GOK) achieve its major goal of increased agricultural productivity. The Program will support improvements in the systems for the implementation of policy changes and a reduction in the real costs of agricultural marketing through investment in rural infrastructures. The program will also complement other GOK programs for the reform of the agricultural sector, and particularly the EEC sponsored Cereals Sector Reform Program (CSRP).

KMDP is envisaged as a long-term (ten-years) program. There will however be a phased implementation of the program. These analyses concerns the first, three-year, phase of KMDP.

Economic and social soundness analyses of the program indicated that phase one of the program should comprise the following components-:

- o strengthening the institutions responsible for research and analysis of policy issues, and gathering, processing and disseminating market information on major food commodities;
- o construction and rehabilitation of roads in the six districts of Kisii, Kakamega, Uasin Gishu, Nakuru, Nyeri and Kitui.
- o program based support to GOK for the implementation of policy reforms in grain marketing and in the development and maintenance of rural roads. In this component, USAID will grant GOK US $10 million provided that GOK takes measures to implement the agreed policy reforms. This grant will not be tied to any specific project activities. Institutional strengthening measures under the other two components will support the realization of the third component.

Volume A report covered the institutional and financial analyses for the institutional strengthening and policy reform components of KMDP. This document, Volume B report, separately presents the institutional and financial analyses for the implementation of the roads development component as stipulated in terms of reference.

2. MOPW'S PERFORMANCE IN THE IMPLEMENTATION OF ROADS PROGRAMS

The Ministry of Public Works (MoPW) has the responsibility of developing and maintaining the country's classified road network. About half of MoPW's staff is engaged in the Roads

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Department. This department accounts for about 65% and 90% of the Ministry's recurrent and development budgets respectively.

The Roads Department has traditionally relied on private construction firms for the construction and maintenance of bitumen roads. For non-bitumen roads, the MoPW has, over the past 15 years, launched three major programs, namely:

a) the Graveling, Bridging and Culverting Program (GBCP),

b) the Rural Access Roads Program (RARP), and

c) the Minor Roads Program (MRP).

The GBCP was somewhat similar to the proposed road development component of KMDP. The program was launched in the 1970s to improve the conditions of more than 13,000 kms of the roads that link the rural access roads to the more heavily trafficked, primary and secondary roads. After a few years, however, the program could not be sustained because GOK did not have the funds for the maintenance, replacement and operation of the equipment procured with substantial donor support in the beginning of the program.

The GOK launched the RARP in 1975 with the primary goal of constructing 14,000 kms of rural access roads in 22 districts over a period of eight years. RARP was designed to adopt labor-based technologies because of a concern that capital intensive technologies in the development of rural infrastructure were not consistent with the then rising high rates of population growth and unemployment in the country. Although the RARP never achieved anywhere near the original target of 14,000 kms of roads, it has been evaluated as one of the most successful donor-financed programs in Kenya, and one of the best organized labor-intensive road construction programs anywhere.

RARP was an extensive and technically ambitious program. Consequently, in successfully implementing the RARP, the Ministry significantly strengthened its organizational, technical and operating capacity. Organizational structures and systems for the improvement and maintenance of roads using labor-intensive methods were established. Many Kenyan engineers and technicians received training in labor-based road improvement and maintenance. In many ways, therefore, the institutional impact of the program was far more pronounced than that of any other program implemented by the MoPW.

In the mid-1980s, however, the RARP had to be phased out because serious concerns emerged regarding the apparent difficulties for the GOK to allocate adequate funds for the maintenance of the roads constructed under the program. The potential impact of the RARP projects was also considerably reduced by poor condition of the primary and secondary roads that connected the rural access roads to the major trading centers.

The Minor Roads Program (MRP) evolved out of the RARP. MRP was designed to vertically integrate the rural access roads into the country's road transport network by improving some 5,000 kms of class D and E roads between 1986 and 1991.

The RARP/MRP organizational and operational structures and systems are impressive. However, it is not appropriate for the KMDP roads development projects to be placed under the the supervision of the current MRP establishment; for the following reasons:

- the MRP operational, planning, administrative and supervisory capabilities are stretched at district and MoPW's headquarters levels;

- the proposed private road contracting mode of implementation for the KMDP road projects is not consistent with the MRP mode of operation; and

- the Road Maintenance Branch of the MoPW has some capacity that can be used in the implementation of the KMDP road component.

3. THE ROAD MAINTENANCE BRANCH OF THE MOPW

The Road Maintenance Branch of the MoPW is directly responsible for the maintenance of all classified roads in the country, with the exception of those roads that have been assimilated into the MRP. It is recommended that the Branch be the primary implementing agency within MoPW for the KMDP road component.

The Road Maintenance Branch has, however, not been entirely effective in the maintenance of the road network. The primary reason for this failure has been the insufficiency of funds allocated by GOK for its maintenance operations.

Maintenance of bitumen roads has been moderately successful. The introduction of a "Road Toll Fund" and the use of private road contractors have provided the Road Maintenance Branch with full and sustainable capacity to ensure the maintenance of the country's trunk roads. Therefore, the Branch remains significantly weak only in the routine maintenance of graveling and regraveling of non-bitumen roads.

The Branch has nonetheless a countrywide organization and operating capacity which can be mobilized to support the implementation of the KMDP roads component. Also, the Branch has had considerable experience over the years in the employment of private road contractors. Furthermore, it has District Roads Engineers (DREs) who are well placed to supervise the KMDP roads activities at the district level.

4. MOPW WEAKNESS IN MONITORING AND EVALUATION

The MoPW has in the past performed poorly in data collection, monitoring and economic evaluation of road projects. For example, during the implementation of the RARP, it resisted the efforts by some donors to conduct economic evaluation of individual road projects. Furthermore, the MoPW need to collect and analyze data for policy analysis and long-range planning of rural roads disappeared with the phasing out of the RARP and its monitoring and evaluation project. Generally, the Ministry does not have transport economics skills to undertake economic evaluation of roads projects.

The Development Planning and Coordination Division (DPCD) of the MoPW has the responsibility but not the organizational and technical capacity for collection and analysis of data required for monitoring and evaluation of KMDP road projects. There is, therefore, need to strengthen DPCD to develop the systems and capability for monitoring and evaluation of road improvement projects within the framework of the KMDP applied research, monitoring and evaluation system (ARMES).

5. DISTRICT LEVEL INSTITUTIONAL CAPACITIES

The advent of the GOK District Focus Strategy for Rural Development has rapidly broadened and strengthened the role of the district level institutions in the management of programs and projects. It is within the institutional set up of the district focus strategy that KMDP roads will be developed.

GOK has elaborate district level institutional arrangements suitable for implementation of the KMDP roads component. The set-up at the district level provides for accounting and financial control, the procurement and payment for services, and accounting and reporting on expenditure on a monthly basis.

The MoPW has a fairly strong organizational structure at the district level. District Roads Engineers (DRE) who fall under the Ministry's Road Maintenance Branch have the potential to play an effective role in the supervision of the KMDP road improvement activities which in the main will be executed by private road contractors.

Open project tenders will be issued by the District Supplies Officers for road project contracts in accordance with the district procurement regulations.

KMDP will fund refresher courses for the DREs and the road maintenance inspectors on the supervision of road contract works.

6. OVERALL ORGANIZATIONAL ARRANGEMENTS

To ensure effective coordination within MoPW, it is recommended that a Senior Roads Engineer in the Road Maintenance Branch is appointed a full-time KMDP Road Project Coordinator. Another experienced engineer should be appointed a Deputy Project Coordinator. These two engineers and a transport economist at DPCD will be the core staff within the MoPW directly responsible for the day-to-day coordination of implementation activities. The Project Coordinator will also provide liaison with other offices in the MoPW.

The Headquarters will monitor the contract management performance of every district with a view to intervening in the case of those districts not seen to adhere to strictly competitive bidding procedures. KMDP should also fund the services of a firm of local consulting engineers to make regular inspections of KMDP road projects.

To ensure the availability of appropriate level of skills for economic appraisal of roads projects and the development of a monitoring and evaluation system, DPCD will be provided with technical assistance through KMDP to employ a transport economist.

7. PROGRAM FUNDING AND FINANCIAL ARRANGEMENTS

The costs of rehabilitating and maintaining roads will be funded entirely by local currency funds to be generated from PL-480 commodities. Under the PL-480 program, approximately $40 million in local currency will be generated of which US $25 million will fund the first KMDP phase of road development.

MoPW must specifically include the program within the list of its priorities to ensure that adequate budgetary allocations are made for its implementation. The trend over the past five years has been that Treasury allocations to the Ministry have been decreasing while the Ministry's requirements have been on the rise. Therefore, MoPW will be constrained to absorb the KMDP resources.

Once the construction and rehabilitation of the selected roads is complete, the total annual cost of maintaining these roads will be approximately US $3.6 million.

There is a large gap between the real need and budgetary allocations for maintenance of non-major roads. It is, therefore, recommended that GOK contributions toward maintenance of the KMDP roads be phased-in gradually over a ten year period. It is further recommended that KMDP counterpart funds be utilized in part to finance maintenance on a gradually declining basis.

Implementation of the KMDP roads projects will be carried out within the framework of the existing GOK financial management mechanisms. The analysis of GOK's financial procedures at the central and district levels indicates that the existing administrative and accounting controls are adequate to ensure proper accountability of the program's resources.

Most KMDP resources for road projects will be budgeted and controlled at the district level. The District Roads Engineers will control the Authority to incur Expenditures (AIE) for KMDP funds. The program funds will be budgeted, managed and accounted for separate from other MoPW funds held at the district level.

Procurement for the KMDP road projects will be through District Tender Board regulations. The proposed KMDP roads Project Coordinator will ensure that procurement will be on an open tender basis. Also, as earlier indicated, a local firm of consulting engineers will be engaged to make regular and independent inspections of the road contracts.

I. INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

The Government of Kenya (GOK) has recently embarked on a broad program entailing significant policy and structural reforms for the development of the agricultural sector. The GOK major policy document, Sessional Paper No.1 of 1986 on "Economic Management for Renewed Growth" outlines significant changes in Government policy objectives and stresses the importance of agriculture in the near term economic development. The current, National Development Plan (1989-1993) further reflects the GOK commitment to significant policy changes. The Government is also involved in an IBRD/IMF supported Structural Adjustment Program which has given impetus to important changes in the systems, policies and institutional arrangements in key sectors of the economy, including agriculture.

Last year, the Government initiated the implementation of a Cereals Sector Reform Program (CSRP). The five year CSRP entails policy reforms and structural changes in the grain marketing sector, including a reduction in the National Cereals and Produce Board's (NCPB) marketing role at present. NCPB has a near monopoly status in the formal grain market. The CSRP therefore aims to reduce Government intervention in the formal grain market while at the same time improving NCPB's capacity to assume strategic reserve management and price stabilization responsibilities.

1.2 KMDP OBJECTIVES AND SCOPE

The objective of KMDP is to assist the GOK achieve its major goal of increased agricultural productivity through the development of more efficient and lower cost marketing systems for agriculture commodities. The Program is designed to support improvements in the systems and conditions for the implementation of policy changes in the grain marketing sector. It will contribute to a reduction in the real costs of agricultural marketing through investment in rural infrastructures. The program will also complement other GOK initiatives to strengthen the institutions responsible for the implementation of the CSRP.

KMDP is envisaged as a long-term (ten-years) program to improve the policy environment, the institutional capacities and the infrastructures necessary for improving the efficiency of the agricultural market. There will however be a phased implementation of the program. These analyses concerns the first, three-year, phase of KMDP.

Following the outcome of the economic and social soundness analyses, earlier commissioned by USAID, it was indicated that phase one of KMDP will comprise the following components-:

- o strengthening the institutions responsible for research and analysis of policy issues, and gathering, processing and disseminating market information on commodities. In the context of this Program's goals, USAID and GOK will agree on the key policy changes in agricultural marketing and in the development and maintenance of rural roads infrastructure which will be supported under the program. For this reason, KMDP is concerned about the institutional capacities for the assessment of policy reforms, and the development of reliable data bases necessary to monitor and evaluate these reforms; and

- o the construction and rehabilitation of roads in the six districts of Kisii, Kakamega, Uasin Gishu, Nakuru, Nyeri and Kitui. At present, it is planned that this program element will involve the construction of primary and secondary roads in the six districts. It will also seek to support improvements in the capacity of the Ministry of Public Works (MOPW) in the maintenance of the primary and secondary road network; and

- o program based support to GOK for the implementation of policy reforms in grain marketing and in the development and maintenance of rural roads. In this component, USAID will grant GOK US $10 million provided that GOK takes measures to implement the agreed policy reforms. This grant will not be tied to any specific project activities. Institutional strengthening measures under the first component will support the realization of this component.

1.3 SCOPE OF ANALYSES AND REPORT

The statement of work for these analyses, (Appendix 1) provided the initial indications of the institutions to be covered in the analyses, as the following:

(a) Office of the President;

(b) Government Ministries:

- o Ministry of Planning and National Development and the roles of DRSRS and CBS in the Ministry;

- o Ministry of Agriculture and the roles of the Farm Management Division and the Development Planning Division within the Ministry;

- o Ministry of Public Works;

- o Ministry of Supplies and Marketing and the role of NCPB;

- o Ministry of Transportation;

(c) Local Authorities and Institutions in Six Selected Market Areas:

- o District Development Committee in Uasin Gishu, Kakamega, Kisii, Nakuru, Nyeri and Kitui Districts;

- o District offices of the relevant central ministries in these districts;

- o Tender Boards in the same six districts;

- o County Councils in the same six districts;

However, the terms of reference indicated that these analyses should ultimately be confined only to those institutions with which the KMDP will be concerned. Following the economic and social soundness analyses, it was clarified that KMDP implementation measures would focus on: (a) institutional strengthening for monitoring and evaluation of policy reforms; and (b) investment in the development of market roads. Therefore, although the institutional and financial analyses study team carried out a review of all the probable institutions identified in the previous paragraph, this report focuses only at the institutions that will be involved in the implementation of KMDP.

Volume A report covered the institutional and financial analyses for the implementation of the institutional strengthening and policy reform components of KMDP. This document (Volume B report), as stipulated in terms of reference, separately presents the institutional and financial analyses for the implementation of the roads development component.

II ANALYSIS OF THE EXISTING INSTITUTIONAL CAPACITIES

2.1 INTRODUCTION

The Ministry of Public Works (MoPW) has the responsibility of developing, maintaining and improving the country's classified and unclassified road networks which measure 62,000 kms and 80,000 kms respectively. The functions of the Ministry include all architectural, quantity surveying and engineering services related to the development and maintenance of public buildings, maintaining inventory of Government property and providing mechanical services to Government departments. In addition, the Ministry is charged with the responsibility for public sector training of technicians in building, construction and mechanical trades.

About half of MoPW's staff is engaged in the Roads Department. This department accounts for about 65% and 90% of the Ministry's recurrent and development budgets respectively (see chapter on Financial Analyses).

2.2 MOPW'S PAST PERFORMANCE

At the time of Kenya's independence in 1963, less than 2,000 kms of the country's roads had bitumen surfaces while less than 10,000 kms had gravel surfaces. The situation has improved considerably since then and, currently, about 8,000 kms or 10% of the existing roads have bitumen surfaces. Gravel surfaced roads have been increased to about 25,000 kms or approximately 30% of the total network.

For the construction and maintenance of bitumen roads, the Roads Department has traditionally relied on private construction firms. Consequently, the Ministry's efforts to strengthen its capabilities for the execution of major bitumen works have emphasized the development of its technical capacity to supervise the operations of the private contractors.

For non-bitumen roads, the MoPW has relied less on private contractors. Over the past 15 years, the Ministry has launched three major programs for the development of non-bitumen roads, namely:

a) the Graveling, Bridging and Culverting Program (GBCP),

b) the Rural Access Roads Program (RARP), and

c) the Minor Roads Program (MRP).

The experience gained in implementing these three programs is relevant to the current assessment of institutional capacity of MoPW to successfully implement the proposed KMDP roads component.

The Graveling Bridging and Culverting Program (GBCP)

The objective of the Graveling, Bridging and Culverting Program (GBCP), which was inaugurated in 1976, was to improve the heavily trafficked primary and secondary roads throughout the country. The program defined a "heavily trafficked" road as one having over 70 vehicles per day.

The GBCP was somewhat similar to the proposed road development component of KMDP. The program set out to improve the conditions of at least 13,000 kms of the roads that link the rural access roads to the more heavily trafficked roads.

Although GBCP is still an on-going program of the MoPW, it is a much weaker program today than in its initial years. At the beginning of the program, a number of donors, including IBRD, KFW, CIDA and USAID provided the necessary support for procuring and maintaining the equipment for the program. In the process, the Ministry's staff were trained on how to handle and maintain this equipment. Over the years, however, the program could not be sustained because GOK did not have the funds for the maintenance, replacement and operation of the equipment. Most of the original donors also cut back their support to the program. Compared to the Rural Access Roads Program, implementation of the GBCP by the MoPW has not been a success case.

The Rural Access Roads Program

The Rural Access Roads Program (RARP) grew out of a common concern shared by the Government and several major donors in the early 1970's over the general direction of the country's development policy. In brief, the RARP was conceptualized in the context of supporting a strategy for Kenya's second decade of development. The strategy required that the country should seek greater efficiency in resource utilization through a planned shift in the structure of growth, placing greater emphasis on the development of the agricultural sector.

In conceptualizing the new agricultural sector strategy, it was realized that most rural roads in Kenya had until then received little or no maintenance since independence. Many of the less developed roads had virtually disappeared. It was against that background that RARP was designed to:

(a) stimulate increased cash crop and livestock production and to bring more persons into market economy through provision of all-weather access to markets;

(b) provide rural employment through use of labor-intensive construction and maintenance methods;

(c) improve access to social facilitate and services; and

(d) increase local participation in development planning through selection at district level of roads for improvement.

When the GOK launched the RARP in 1975, the primary goal was to construct 14,000 km of rural access roads in 22 districts over a period of eight years. It was decided that RARP would adopt labor-based technologies because of a concern that capital intensive technologies in the development of rural infrastructure were not consistent with the then rising high rates of population growth and unemployment in the country.

Over the years, RARP attracted funding from a large number of donors, including USAID, SIDA, Swiss, British ODA, NORAD, Netherlands, KFW, ILO, IBRD, EEC and CIDA. At present however, only CIDA is still funding the RARP because in the mid-1980s, as explained in the section on MRP below, GOK and most of the donors decided to stop further development of the rural access roads and switched to funding the new MRP. At the time this latter decision was taken, the program had constructed some 8000 kms of roads in 26 districts of high agricultural potential.

Although the RARP never achieved anywhere near the original target of 14,000 kms of roads, it has been evaluated as one of the most successful donor-financed programs in Kenya, and one of the best organized labor-intensive road construction programs anywhere. Reasons quoted for the program's success include that:

- the organizational structure planned for the ministry's headquarters, district and construction units proved to be effective and was successfully implemented in virtually all the target districts; and

- construction units developed roads in full compliance with the required standards even though there was a low supply of skilled technical staff to provide continuous guidance in important aspects of the construction process.

Implementing the RARP was a real challenge to the GOK and the donors. Major difficulties had to be overcome at every stage in the implementation process. For example, at the time of launching the RARP, none of the existing operational units of the MoPW had the experience in the use of labor-based technologies in road construction. As a matter of fact, few countries anywhere in the world, and none in Africa, had adopted labor intensive methods in the construction of roads.

MoPW had to overcome not only its own technical shortcomings in carrying out the ambitious RARP, but also a significant degree of skepticism and resistance to labor based technologies among the professional and technical staff. Launching the RARP also presented an organizational challenge because the program was to be implemented in a large number of districts. It was the most extensive program ever implemented by the MoPW.

To overcome these difficulties, the MoPW with donor support developed an elaborate independent organizational and operational structure for the RARP at the ministry's headquarters and at the regional, district and constructions site levels. A training unit, now the Kisii Training School, was also launched to train Kenyan technicians in labor-intensive road construction. In addition, the donors provided much technical assistance to the program by seconding expatriate engineers to support the program implementation at the headquarters, provincial and district levels, and to provide hands-on training for Kenyans in labor-based road improvement technologies.

In addition to the above challenges, MoPW had to overcome political influences in the project selection process while at the same time providing an opportunity for district level participation in project identification. It was necessary for the MoPW to specify the criteria and systems for selection and evaluation of the project roads.

The Ministry was also faced with intermittent disruptions in the program arising from insufficient GOK budgetary allocations to the program. This resulted in cash shortages for district level disbursements to suppliers to the program. To get around this problem, many donors insisted on direct payment (A-i-A) arrangements for channeling their funds into the program. In due course, experience in the RARP persuaded the GOK to improve its district funding arrangements for program implementation. These funding arrangements are discussed in chapter IV below.

Finally, MoPW had to implement the program amidst various demands from different donors for accounting and reporting on program expenditures. MoPW's accounting and reporting systems for program funds had to improve at least in order to satisfy the regular needs of the various donors.

In overcoming all of these challenges, implementing the RARP significantly strengthened the organizational, technical and operating capacity of MoPW. As a result of implementing the program, an organizational structure and systems for the improvement and maintenance of rural roads using labor-intensive methods are firmly in place. The level of expatriate technical assistance needed in implementation of the program was considerably reduced through the years as many Kenya engineers received training and gained experience in labor-based road construction.

The MoPW, through this program, gained much experience in collaborating and coordinating with other GOK departments and donors. The ministry also developed systems and procedures that can provide internal tracking and external accountability for funds. The institutional impact of the program was far more pronounced than that of any other program implemented by the MoPW.

In the mid 1980s, however, the RARP had to be phased out because serious concerns emerged regarding the apparent difficulties for the GOK to allocate adequate funds for the maintenance of the roads constructed under the program. Several donors decided to terminate their support as they recognized that roads in which they had invested their funds were rapidly deteriorating due to lack of maintenance.

A second factor which influenced the termination of the RARP was the absence of a correspondingly extensive GOK program for the improvement and maintenance of the primary and secondary roads network. There was poor access between the rural access roads and the country's primary and trunk roads network which lead to the ultimate markets of much of the economically traded agricultural commodities. This gap in the road network significantly reduced the potential impact of the investment in the rural access roads.

The Minor Roads Program

The Minor Roads Program (MRP) evolved out of the RARP. The primary objective of this program was to improve access between the roads developed under the RARP with the country's major road network. Several donors expressed a wish to support GOK in funding the MRP only on the condition that the MRP would continue the process of institutionalizing labor-based technologies in the improvement and maintenance of low traffic roads. The MRP was, therefore, designed to vertically integrate the rural access roads into the country's road transport network by improving some 5,000 kms of low trafficked class D and E roads between 1986 and 1991.

The team which carried out the Economic and Social Soundness Analyses for KMDP was generally impressed with the operations of the MRP. In outlining the organization and administration arrangements for implementing the KMDP road development activities, the team recommended that at the district level the program should be supervised by the MRP's District Improvement and Maintenance Engineer (DIME).

A closer analysis of the organizational structures and the overall operating capacity of the MoPW at the central and district level, however, shows that it is not appropriate for the KMDP roads development projects to be placed under the the supervision of the current MRP establishment; for the following reasons:

- the MRP operational, planning, administrative and supervisory capabilities are stretched at both district and MoPW's headquarters (Special Projects Branch) level; and

- the proposed private road contracting mode of implementation for the KMDP road projects is not consistent with the direct ministry implementation approach of the MRP. Except for haulage of gravel, MRP has had no other experience in contracting out road construction operations.

Both the RARP and the MRP had been designed to operate within MoPW as semi-autonomous units. Consequently, maintenance activities under the two programs were developed to exist parallel to the mainstream Road Maintenance Branch operations. This design feature gave rise to a degree of institutional fragmentation in MOPW's road maintenance operations.

As an alternative to the MRP structures, the Road Maintenance Branch has significant organizational strengths to offer to a new program for the improvement and maintenance of primary and secondary roads. The following section analyzes the capacity of the Branch to implement the KMDP roads component.

2.3 THE ROAD MAINTENANCE BRANCH OF THE MOPW

The Road Maintenance Branch of the MoPW is directly responsible for the maintenance of all classified roads in the country with the exception of those roads that have been assimilated into the MRP. The total length of roads under the care of the Road Maintenance Branch is about 62,000 kms (see Table 2.1)

TABLE 2.1: ROAD LENGTH OF ALL CLASSIFIED ROADS BY SURFACE LENGTH

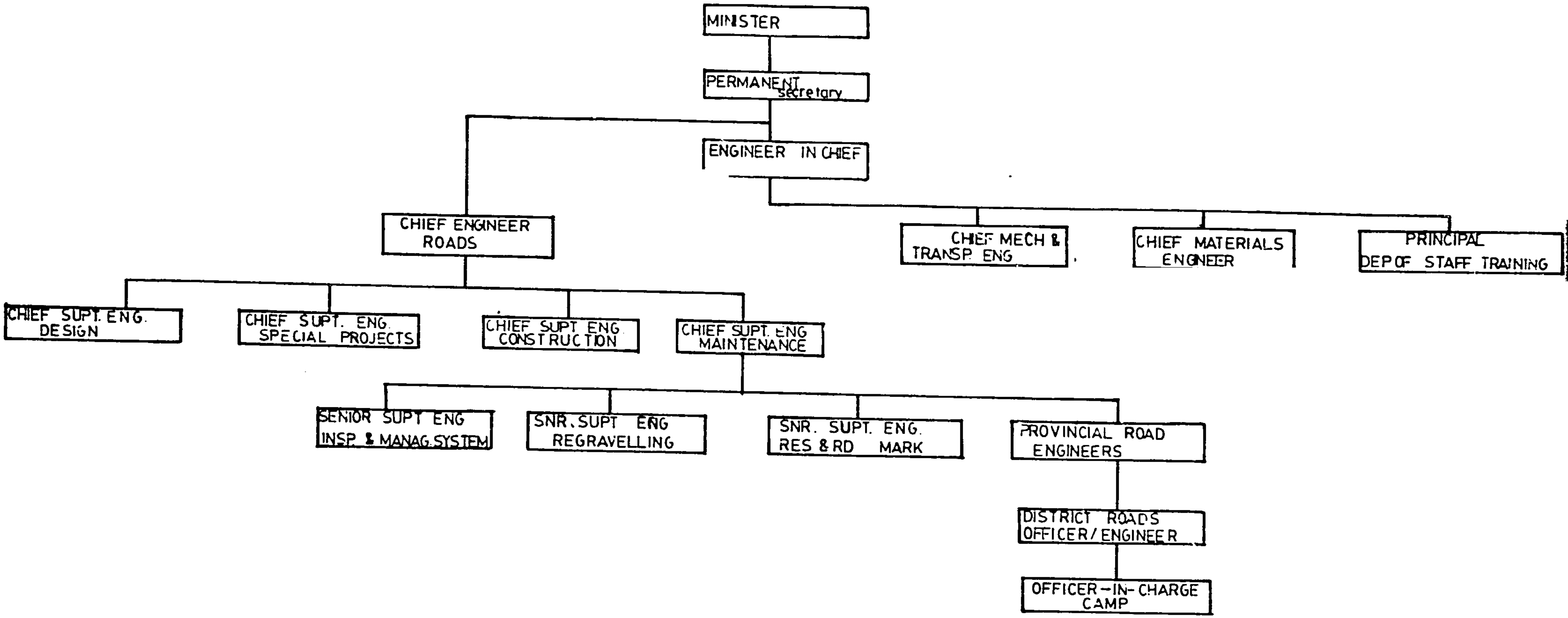
CLASS OF ROADS	ROAD LENGTH (Kms) SURFACE TYPE			TOTAL
	Bitumen	Gravel	Earth	
International Trunk Roads (Class A)	2607.9	644.3	326.7	3,578.9
National Truck Roads (Class B)	1171.2	928.3	641.0	2,740.5
Primary Roads (Class C)	2242.9	3255.0	2279.7	7,7777.6
Secondary Roads(Class D)	986.6	61334.6	3892.9	10,996.1
Minor Roads (Class E)	696.2	14304.0	21594.4	33,594.6
TOTAL ALL CLASSES	7686.8	25,266.2	28734.7	61,687.7

Source: MoPW

An organizational chart illustrating the extensive structure of the Branch is contained in Figure 2.1. The core staffing of the Road Maintenance comprises:

- the Chief Superintending Engineer who is the Head of the Branch;

FIGURE 2.1 ORGANSATION CHART OF THE MAINTENANCE BRANCH



- Senior Superintending Engineers, one each in charge of-:

  - Inspection and Management Systems Division;

  - Regraveling Division; and

  - Resealing and Road Marking Division;

- Provincial Roads Engineers, each in charge of the country's seven provinces, excluding Nairobi;

- District Roads Officers/Engineers for each of the country's 41 districts; and

- Officers-In-Charge of maintenance camps which number about 275. These camps are scattered all over the country.

At each of the 275 Maintenance camps, there is an establishment of full-time employees under an officer-in-charge, including a plant operator, a driver, and some foremen, who are responsible for routine maintenance of roads within each camp's zone. The District Roads Engineer is charged with direct responsibilities for routine road maintenance at the district level which includes procurement of supplies for use by the camps.

While the organizational arrangements of the Roads Maintenance Branch appear to be adequate for carrying out routine maintenance, the Branch has not been operationally effective primarily because of insufficiency of funds for procurement of maintenance materials, equipment, and other operating supplies. The Government's annual budget allocation for maintenance of class D and E roads, other than those under the MRP improvement and maintenance program, is Kshs. 1,200 and Kshs 300 per kilometer respectively. Clearly this is very low compared to the estimated annual maintenance cost of Kshs 5,000 per km of earth roads as estimated in the KMDP Economic and Social Soundness Analyses report.

The Economic Analyses report further indicates that the annual maintenance cost for gravel roads is Kshs 38,720 per km. Considering that some of the class D and E roads, such as those previously improved under the GBCP, have a gravel surface, then it is obvious that the funds allocated for the operations of the Road Maintenance Branch are grossly inadequate. Chapter IV of this report discusses this problem in greater detail and provides an option for KMDP.

Supervision of field staff, especially at the camp level has been very lax. This weakness, along with the funding constraints discussed above, have led to idle capacity of staff and, sometimes, equipment at the maintenance camps.

The problems of idle organizational capacity of the Road Maintenance Branch at the field level is further exercabated by the following conditions-:

(a) Centralized planning and procurement of private road contractors for the resealing and Regraveling operations; although most of the funds budgeted for the Branch are currently earmarked for resealing of trunk roads and Regraveling of class C roads, the provincial and district roads engineers are generally not involved in the planning and management of these resealing and Regraveling operations; and

(b) Traditionally, the organization of the maintenance operations, contrasted for example with those of the MRP, are equipment-intensive. This equipment is expensive to operate, maintain and replace. Most districts have easy access to the equipment but not the funds required to operate and maintain it. Unfortunately, the field staff have been trained and oriented to maintain roads generally when the equipment is available. Therefore when the equipment is not available, most maintenance activities are at a standstill.

It is noteworthy that due to insufficiency of funds, the Branch is able to accomplish only about 12 % of the regraveling output that it is capable of achieving. The target regraveling output of the Branch is 5000 kms per year but currently only about 600 kms are regravelled.

Maintenance of bitumen roads, on the other hand, has been moderately successful. Efforts by the Road Maintenance Branch in resealing the country's major roads has been aided in recent years by increased donor support as well as the introduction of a "Road Toll Fund" for the trunk roads which commenced in 1984. Initially, donor (mainly IBRD) support toward major road resealing program that began about 1983 was provided on condition that GOK would erect road toll stations on bitumized class A and B roads. The introduction of the tolls on these roads is on-going.

The "Road Toll Fund" is currently generating sufficient funds for the ministry's annual resealing targets. Nevertheless, a backlog of 2,500 kms which accumulated in the earlier years as a result of budgetary constraints still exists.

The introduction of the "Road Toll Fund" and the use of private road contractors have, therefore, provided the Road Maintenance Branch with full and sustainable capacity to ensure the maintenance of the country's trunk roads. Therefore, the Branch remains operationally weak only in the routine maintenance of graveling and regraveling of non-bitumen roads.

Conclusion

There is considerable merit in choosing the Road Maintenance Branch of the MoPW to be the principal implementing agency for the KMDP roads development component. First, the primary (class C) and secondary (class D) roads targeted for improvement and maintenance under KMDP are currently within the mandate of the Road Maintenance Branch.

Second, the strictly labor-based orientation of the MRP reduces its scope in that technologically it can only be appropriate for certain types of class D and E roads. In the six districts of Kisii, Kakamega, Uasin Gishu, Kitui, Nyeri and Nakuru where the first phase of the KMDP roads program will be implemented, the total length of the secondary (class D) and minor (class E) roads is 908 kms, 656 kms, 539 kms, 1925 kms, 1154 kms and 1058 kms respectively. Therefore, the MRP, whose road improvement output is about 30 kms per year per district is too inadequate an intervention for the improvement of the secondary and minor roads to justify its exclusive operation within the six districts. There is a need for an intervention to complement the MRP in the improvement of class D and E roads, and this is a functional mandate for the Road Maintenance Branch.

The Branch has a countrywide organization and some idle operating capacity which can be mobilized to support the implementation of the KMDP roads component. The Branch has had considerable experience over the years in the employment of private road contractors. Furthermore, its District Roads Engineers (DREs) are better placed than the MRP's District Improvement and Maintenance Engineers (DIMEs) to supervise the KMDP roads activities at the district level. This latter aspect is elaborated in the section on District Level institutional arrangements outlined in a separate section below.

Using the Road Maintenance Branch as the implementing agency for the KMDP intervention will avoid further fragmentation of the MoPW maintenance operations. Already, some institutional fragmentation in this regard has resulted from the development of the parallel structure and operations of the GBCP and the RARP/MRP.

A primary goal in launching the MRP was the introduction and eventual institutionalization of the use of labor-based technologies in the maintenance of secondary and minor roads. The achievement of the goal of institutionalization of labor-based maintenance now appears to be remote unless the Road Maintenance Branch benefits from an intervention such as the proposed KMDP roads component.

2.3.1 Development Planning and Coordination Department

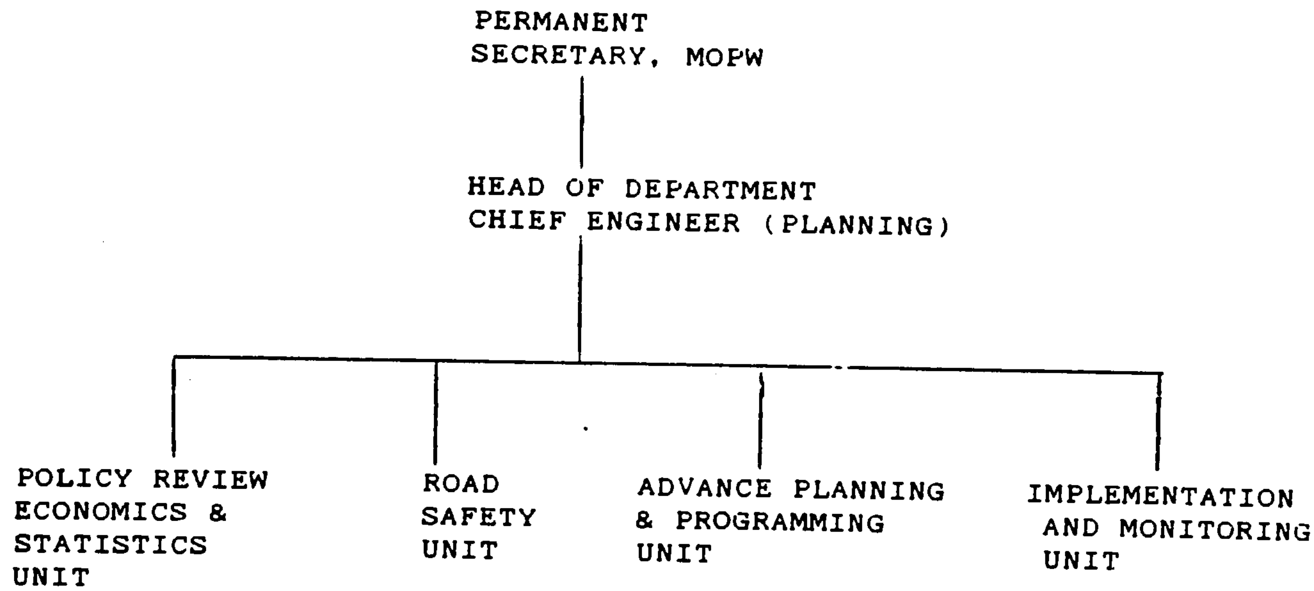
The KMDP Economic and Social Soundness Analyses team recommended that the Development Planning and Coordination Department (Planning Unit) of the MoPW will perform the following functions:

(a) guiding the districts in the selection of roads for improvement; and

(b) collection and analyses of transport sector data under KMDP's applied research monitoring and evaluation system (ARMES). ARMES is described in Volume A report.

Figure 2.2 shows the overall organizational structure of the Department which is headed by the Chief Engineer (Planning). The operating units of the department comprise a Road Safety Unit, a (Projects) Implementation and Monitoring Unit, a (Projects) Advance Planning and Programming Unit and a Policy Review, Economics and Statistics Unit. With the exception of the latter unit, all the units are headed and staffed with civil engineers.

FIGURE 2.2: OVERALL ORGANIZATION STRUCTURE OF DPCD



The Policy Review, Economics and Statistics Unit of the MoPW is staffed by about three development economists who have been seconded to the MoPW by the Sectoral Planning Division (SPD) in the MoPND (see Volume A Report on the institutional analysis of the SPD). This unit is busy collecting information for use in national road transport planning and road projects feasibility studies. It is however not yet geared to the assessment of policies and impact of investment in roads.

The Policies Review, Economics and Statistics Unit would be the appropriate organization unit to make responsible for ensuring an economic criteria in the selection of road projects and collection of data for monitoring and evaluation as required in KMDP. However, since the implementation of the RARP, no other program has required the Division to undertake economic monitoring and evaluation of rural road projects.

The MoPW has in the past performed poorly in data collection, monitoring and economic evaluation of road projects. For example, during the implementation of the RARP, GOK with, tacit support of some donors, resisted the efforts by some donors, particularly USAID and IBRD, to conduct economic evaluation of each individual road project proposed for the program. One of the important factors in this was the GOK wish to accommodate some social and political considerations in the selection of road projects. It is also significant that the Ministry did not have transport economics skills to undertake economic evaluation of the roads.

In the comprehensive monitoring and evaluation system designed for the RARP, MoPW reporting systems could not provide disaggregated data on costs for specific roads. However, the Road Maintenance Branch of the MoPW has in recent years developed an apparently elegant system for costing, budgeting and monitoring expenditure on road maintenance.

Also, in the RARP monitoring and evaluation systems, the MoPW relied on the MOA to obtain data at the district level and CBS to carry out or manage specific surveys. Therefore, the only MoPW's data collection activity was traffic counts. The MoPW has since not needed to develop any stronger capability for data collection.

Conclusions

The MoPW need to collect and analyze data for policy analysis and long-range planning of rural roads disappeared with the phasing out of the RARP and its monitoring and evaluation project.

The DPCD (Planning Unit) of the MoPW does not have the organizational and technical capacity for collection and analysis of primary and secondary transport sector data required for monitoring and evaluation of KMDP road projects. The development economists at DPCD have been relying on secondary data in their transport planning activities. The department also does not have a field level establishment for data collection. There is, therefore, need to strengthen DPCD to develop the systems and capability for collection and analysis of transport sector data.

2.4. DISTRICT LEVEL INSTITUTIONAL ARRANGEMENTS

2.4.1 Introduction - The GOK District Strategy Focus for Rural Development

The GOK formally launched a District Focus Strategy for Rural Development in 1983. However, the Government had already since the mid-1970s decided in favor of decentralization of some project planning and implementation functions to a District Development Committee (DDC) in every district. Thus, for example, when the implementation of the RARP commenced, around 1975, it provided for the participation of the DDCs in the identification of the roads selected for improvement.

The district focus strategy allows full participation of the local communities in identifying their development needs, and encourages community and government officers at local levels to communicate freely. The strategy also integrates projects planning and implementation activity of various departments within the district. Through this strategy, each DDC is given responsibility to manage and coordinate district specific projects.

The advent of the district focus strategy has rapidly broadened and strengthened the role of the district level institutions in the management of GOK programs and projects. It is within the institutional set up of the district focus strategy that KMDP roads will be developed.

The accounting and financial systems and procedures under the district focus strategy are described in the section on Financial Analysis (Chapter IV). This section analyzes the key district level institutions that will be involved in the implementation of KMDP.

2.4.2 The District Development Committee

The DDC is the main institution responsible for coordinating and endorsing development projects within the district. The DDC's role is to establish local development priorities, monitor the technical work of its Executive Committee and other sub-committees, and monitor the progress of all rural development activities. The DDC functions are:-

(a) to review progress of development activities and to ensure that current projects are implemented and effectively operated and maintained;

(b) to consider new project proposals submitted by the subordinate Divisional Development Committee;

(c) to establish future project priorities for the District Development Plan;

(d) to endorse the districts annual project proposals to ministries' headquarters; and

(e) to review and endorse project proposals of local authorities, parastatals, regional development authorities and NGOs.

The membership of the DDC includes the following:

- o District Commissioner (Chairman);
- o District Development Officer (Secretary);
- o Departmental Heads of the Ministries represented in the district;
- o Members of Parliament;
- o District KANU (ruling party) Chairman;
- o Local Authorities Chairmen
- o Clerks of Local Authorities;
- o Chairmen of Divisional Development Committees;
- o Representatives of Development related parastatals; and
- o Invited representatives of NGOs and self-help groups.

The DDC meets at least four times in a year. All the departmental heads are required to attend the DDC meetings. Some of the advantages associated with the role and functions of DDCs include:

(a) it provides a forum for several district departmental heads to communicate with each other regarding progress and problems which affect their operations;

(b) influential participants, particularly politicians, can take issues further up the hierarchy of GOK administrative systems without following the usual bureaucratic channels;

(c) since project progress reports are provided to the representatives of beneficiaries in the DDC, project implementors are under some direct pressure to finish the projects on time; and

(d) the DDC is a coordinating institution where different departments and disciplines meet. Duplication of projects is minimized.

Significant disadvantages can also arise in the role of the DDCs in program implementation, including:-

(a) the DDC offers the more influential leaders the forum to compete unfairly for resources. There is also the potential for conflict of interest which is not easily contained; and

(b) projects may be delayed when members demand to scrutinize technical documents rather than receive reports and explanations. For example, the start of a Kshs. 200 million donor project in one of the KMDP districts was deferred twice by the failure of DDC members to grasp the technical aspects of the project.

The District Executive Committee

The District Executive Committee (DEC) is the technical arm of the DDC. It is made up of all the GOK departmental heads within the district and is chaired by the DC or his deputy, District Officer I. The DEC facilitates inter-ministerial coordination of development activities within a forum that is narrower and more technically oriented than the DDC.

Specific functions of the DEC are:-

- to make operational decisions within the guidelines of the DDC;
- to co-ordinate and monitor implementations of all projects and activities in the district;
- to prepare draft district development plans; and
- to prepare briefing notes on all proposals and reports to be submitted to the DDC.

2.4.3 The District Tender Board (DTB)

The District Tender Board (DTB) is responsible for procurement of goods and services in the district. It adjudicates tenders for goods and services with expenditures between Kshs. 10,000 and Kshs 10 million. For amounts in excess of Kshs 10 million, the DTB is obliged to make recommendations for final decision making by the ministry responsible for project implementation. The GOK procurement procedures and regulations within which the DTBs operate are described in Chapter IV below.

The District Supplies Officer is the Secretary to the DTB and is charged with the responsibility of advertising tenders and preparing documents ready for presentation to the DTB.

The head of the ministerial department responsible for the implementation of a specific project usually undertakes the technical and financial evaluation of tenders. On large contracts, however, a sub-committee of the DTB is usually charged with the responsibility of evaluating the tenders and presenting its recommendations. The DSO is nevertheless finally responsible for inspecting and ensuring that supplies are delivered by contractors awarded the tenders.

2.4.4 District Treasury

The District Treasury is responsible for financial control and accounting for expenditure by the GOK district level institutions. According to this arrangement no GOK officer can issue a valid local purchase order for goods or services at the district level without an endorsement by the District Treasury staff. The District Treasury confirms the provision of the funds in the GOK budget, and that the budgeted amounts have not been exhausted. An extended description of the District Treasury arrangements is provided in Chapter IV (Financial Analysis).

2.4.5 The MoPW's Establishment at the District Level

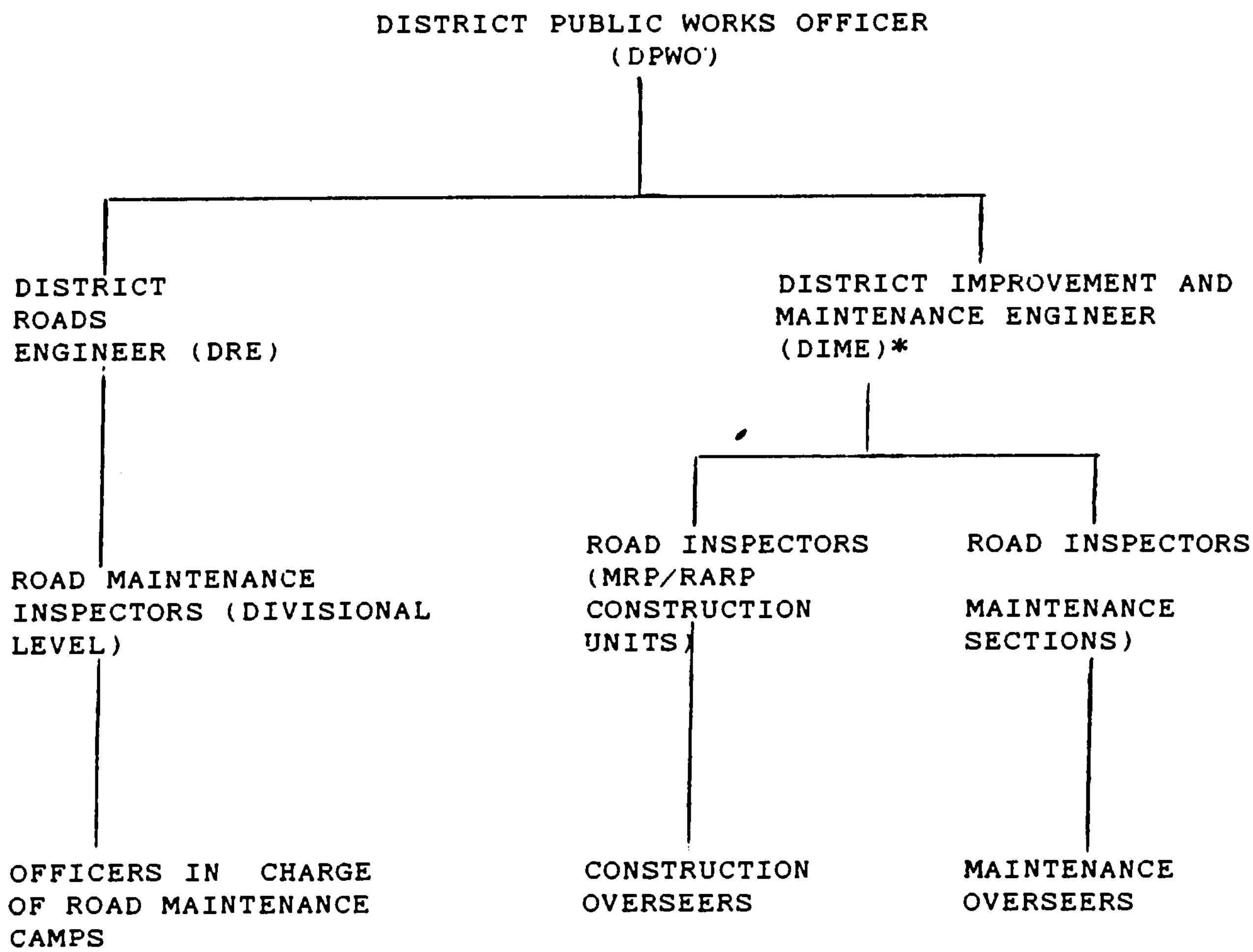
The MoPW's district establishment is headed by a District Public Works Officer (DPWO) who will usually be professionally qualified and experienced as either a civil engineer, or an electrical engineer or an architect or a quantity surveyor. At present, about 50% of all the DPWOs in the country are roads engineers.

In most districts, a DPWO is supported by a team comprising roads and structural engineers, an architect and a quantity surveyor. All districts have a District Roads Engineer (see Figure 2.1 above) who is either a university graduate or an experienced diploma level technician. The District Roads Engineer (DRE) is responsible for the maintenance of all district classified roads except those covered by the MRP.

In the districts where MRP or RARP is under implementation, there is a District Improvement and Maintenance Engineer (DIME) who is exclusively responsible for improvement and maintenance of the roads covered by the two special programs. The MoPW currently provides a separate budget allocation and authority to incur expenditures (AIE) for use by the DIMEs.

The current organizational set-up of the MoPW for the functions relating to roads improvement in the districts is schematically illustrated in Figure 2.3 below.

FIGURE 2.3: MOPW's DISTRICT ORGANIZATIONAL SET UP FOR ROADS IMPROVEMENT AND MAINTENANCE



* Note: DIMEs are posted only in those districts with RARP/MRP projects.

While the DRE and the DIME report on a day-to-day basis to the DPWO, they functionally report to separate heads of branches at the MoPW head office; the DRE to the Chief Superintending Engineer/Head of the Road Maintenance Branch, and the DIME to the Chief Superintending Engineer/Head of Special Projects Branch through the RARP/MRP Programs Coordinator.

So far, there is no trace of conflict between the DREs and the DIMEs in the performance of their functions. Each has separate establishments and resources to use. There is, however, a degree of collaboration often fostered by the DPWO who is interested in the improvement and maintenance of all roads within the district.

A significant contradictory feature in the current MoPW's operational set-up for roads at the district level is that the DIMEs have at their disposal disproportionately more financial resources for maintenance than the DREs although the latter have a larger network to look after. In the circumstances the DIMEs are much more operationally involved, and somewhat stretched, compared to the DREs. It is therefore partly for this reason that it is recommended that the DREs should be responsible for the implementation of the KMDP roads projects.

Conclusions

GOK has elaborate district level institutional arrangements suitable for implementation of the KMDP roads component. These institutions have been rapidly strengthened under the District Focus Strategy for Rural Development.

The institutional set-up at the district level provides for accounting and financial control, the procurement and payment for services, and accounting and reporting on expenditure on a monthly basis. It is therefore within this institutional framework that KMDP will be implemented.

The MoPW has a fairly strong organizational set-up at the district level. The Roads Maintenance Branch under a District Roads Engineer (DRE) has the potential to play an effective role in the supervision of the KMDP road improvement activities.

2.5 PRIVATE ROAD CONTRACTORS CAPACITY

The terms of reference for these analyses (Appendix 1) did not require the analyses of the institutional capacity of private road contractors. However, it was strongly recommended by the KMDP Economic and Social Soundness Analyses team that the roads will be developed through the employment of private road contractors. In the circumstances, the following cursory observations on the capacities of private road contractors are pertinent.

First, the MoPW has a long tradition in the employment of private contractors for virtually all its major road projects. It has employed large, mainly international, contracting firms in major bitumen works. In periodic maintenance (resealing) of the trunk roads, the MoPW has been contracting out to what it regards as medium sized contractors. For regraveling works, usually in the primary (Class C) and secondary (Class D) roads, there has been extensive involvement of small domestic contractors for a number of years.

Second, a few years back, the MoPW and IBRD launched a project to strengthen domestic contractors, which are the small firms usually owned by Kenyan nationals. The concern then was that these contractors generally lacked the technical skills in both competitive bidding for roads contracts as well as in the management and control of contract execution. The project therefore provided virtually free training and on-site guidance to volunteering Kenyan contractors in the missing technical skills. This project is however considered by the MoPW officials not have been successfully implemented. Therefore, indegenously owned firms are still regarded by MoPW officials to be weak in road contracting.

Third, under the District Focus Strategy for Rural Development, tender adjudication procedures provide for a discriminating criteria in favour of local contractors who would be the kind of small contractors that the MoPW/IBRD project apparently failed to adequately strengthen. In this context, DDCs will need guidance in adjudicating competitive bids for KMDP road contracts.

Fourth, in the evaluation of labor-based technologies in the RARP it was shown that, in many cases, the direct application of these technologies by the program units was more cost-effective than the hire of private road contractors. High overheads are associated with the cost of equipment and the relocation of the large contractors from outside the regions of their regular operation. Therefore there would probably be merit in conducting a study to determine in what road projects labor-based technologies are more cost-effective than employment of equipment-oriented private contractors.

Finally, the use of private road contractors appears to be more readily feasible in the improvement and periodic maintenance of roads, but may not be easily applicable in regular maintenance. Therefore, it may be necessary to strengthen MoPW's internal capacities for the sustained maintenance of the roads improved under KMDP. In the latter context also, it will be useful for the KMDP roads component to borrow from the RARP and the MRP the strategy for the organization of labor-based private contractor maintenance of rural roads. Fortunately, the Road Maintenance Branch appears to be keen to study and experiment in labor-based technologies in road maintenance.

III SUMMARY OF INSTITUTIONAL ARRANGEMENTS AND STRENGTHENING

3.1 INTRODUCTION: OVERALL KMDP INSTITUTIONAL LINKAGES

KMDP improvement of primary and secondary roads is part of a number of measures for improving the grain marketing sector. Implementation of this component therefore requires that the road projects selected are economically justifiable and that there is a monitoring and evaluation system for the projects in the context of KMDP objectives.

The system for monitoring and evaluation of the roads component will however be a sub-system of a broader applied research, monitoring and evaluation system (ARMES). The purpose of ARMES is to create an improved environment for policy reforms in the agricultural sector by providing information on changes in the market and impact of investments in the sector. (see also volumes A report).

Monitoring and evaluation of road projects will be implemented within the overall framework of the KMDP institutional linkages as schematically illustrated in Figure 3.1 below.

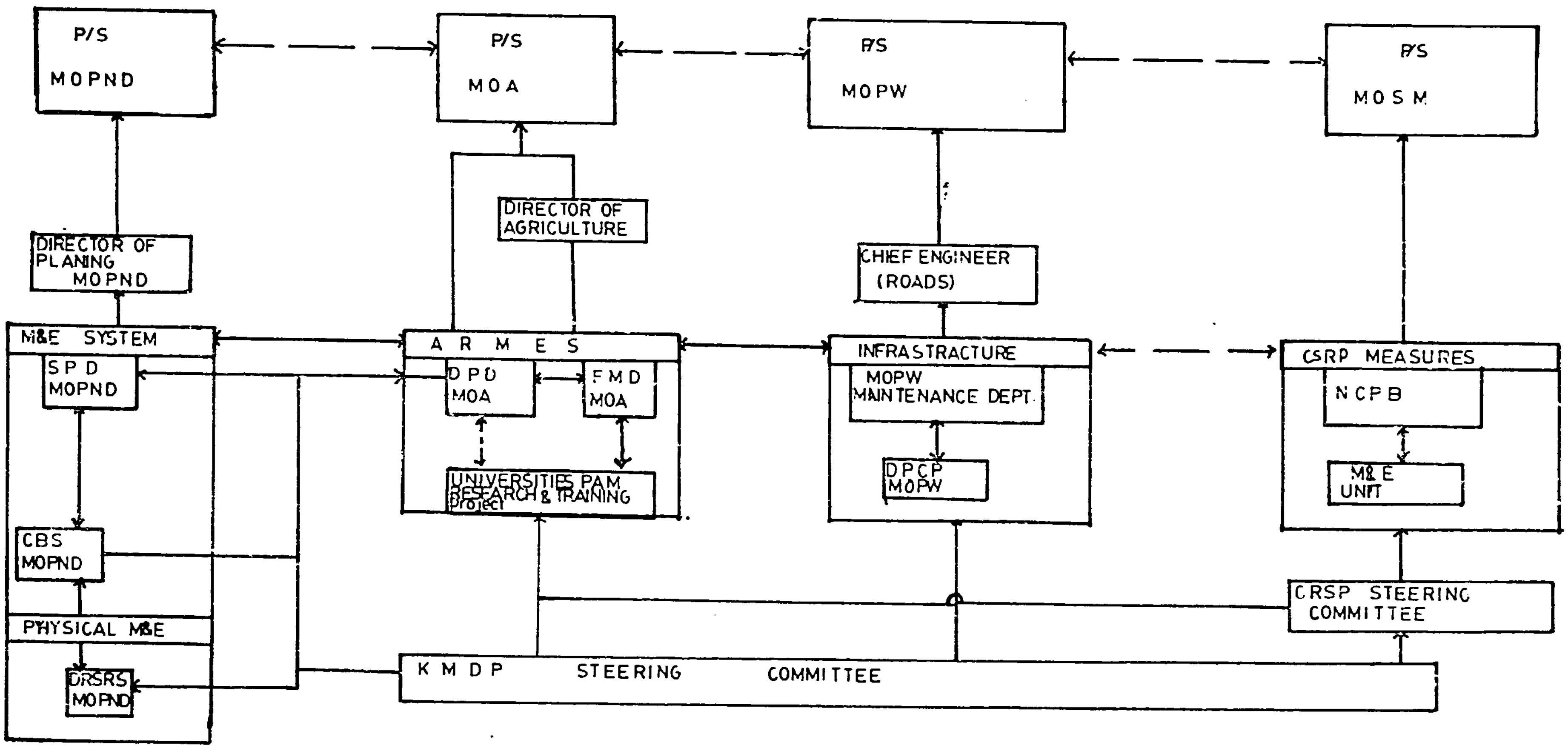
The linkages to be fostered between institutions specifically concerned with the implementation of the road component and the other KMDP implementing agencies are described below in the context of the institutional arrangements recommended for the implementation of the component. These institutional arrangements are presented under the following headings-:

- Selection of Roads Projects;
- Monitoring and Evaluation Arrangements;
- Tendering and Contracting Arrangements;
- Supervision of Contractors' Operations; and
- Coordination of Implementation within MoPW.

3.2 SELECTION OF ROAD PROJECTS

The process of identifying, evaluating and selecting the roads for inclusion will involve a bottom-up process within the framework of District Focus Strategy for Rural Development. Economic appraisal of each road project will be carried out by the DPCD staff, and particularly the staff of the Policy Review, Economics and Statistics Unit of DCPD.

FIGURE 3.1: A SCHEMATIC ILLUSTRATION OF THE OVERALL KMDP INSTITUTIONAL LINKAGES



DPCD will have to provide the districts with clear guidelines for screening projects so that only those roads that have relatively high probability of satisfying the KMDP economic criteria are forwarded from the DDC to the DPCD for economic appraisal.

To ensure the availability of appropriate level of skills for economic appraisal of roads projects submitted by DDCs, DPCD will be provided with technical assistance by KMDP to employ a transport economist.

In preparing the guidelines for use by the districts for identification of roads, a useful starting point for KMDP will be the guidelines issued for the RARP road projects. It will also be a specific task for the transport economist to be seconded to the DPCD under KMDP to support the MoPW staff in the development of the guidelines.

3.3 MONITORING AND EVALUATION ARRANGEMENTS

It is recommended that the transport economist seconded to this unit will assist in setting up a monitoring and evaluation function in the Policy Review, Economics and Statistic Unit of DPCD.

The monitoring and evaluation activities of the roads component will be integrated into ARMES in the following ways:-

(a) District level data collection needs for monitoring and evaluating the roads component will be defined by the Policy Analysis Matrix (PAM) Research and Training Project staff (see volume A report) in collaboration with the transport economist and other staff of the Policy Review, Economics and Statistics Unit of the MoPW;

(b) at the districts level, the PAM Project staff will share data collection tasks with-:

- MoPW's (DRE) staff who will at least provide traffic data;

- MOA staff who will provide farm level data relating to transportation of farm inputs and produce; and

(c) the specialist staff responsible for the implementation of ARMEs at the MOA (FMD) will hold both formal and informal consultations with the MoPW's (DPCD) staff to determine the needs and the mechanisms for exchange of data and information for monitoring and evaluation at program and projects levels.

3.4 TENDERING AND CONTRACTING ARRANGEMENTS

Technical capacity for the preparation of contract specifications and bid documents may at present be limited at the district levels, where only the DPWOs and DREs would be the only staff with the relevant training and experience. It is therefore recommended that a task group of three appropriately experienced engineers at the Road Maintenance Branch headquarters is constituted to prepare contract specifications for the initial set of roads selected for implementation. Further, KMDP resources should be utilized to mount a few workshops to train DREs, particularly from the districts covered by the KMDP, in the procedures for preparation of competitive contract specifications for the road projects.

Open project tenders will be issued by the District Supplies Officers for road project contracts in accordance with the district procurement regulations (see Chapter IV). KMDP project funds, whose AIE shall be held by the DRE will be utilized to advertise the tenders in the local press.

District Supplies Officers will receive the Contractors' bids and keep custody of these until the bid opening is carried out by the District Tender Board (DTB). The DTB will pass the bids to the DPWO for evaluation by a team comprising the DPWO, the DRE and DSO who will submit their recommendations to the DTB for a final decision.

A copy of each contractor's bid will be sent by the contractor directly to the Road Maintenance Branch headquarters. The Headquarters will monitor the contract management performance of every district with a view to intervening in the case of those districts not seen to adhere to strictly competitive bidding procedures.

3.5 SUPERVISION OF CONTRACTORS' OPERATIONS

It will be the role of the DRE in each district to supervise the activities of the private road contractors. In order to ensure the competence and uniform application of contract information by DREs in the different districts, KMDP will fund refresher courses for the DREs and the road maintenance inspectors on the supervision of road contract works.

Regular and independent counter-checking on the performance of the MOPW staff is also recommended. For this purpose, KMDP should fund the services of a firm of local consulting engineers to make regular inspections of KMDP road projects.

3.6 COORDINATION OF IMPLEMENTATION WITHIN MOPW

To ensure effective coordination within MoPW, it is recommended that a Senior Roads Engineer in the Road Maintenance Branch is appointed a full-time KMDP Road Project Coordinator. Another experienced engineer should be appointed a Deputy Project Coordinator.

These two senior engineers and the transport economist seconded to the DPCD will be the core staff within the MoPW directly responsible for the day-to-day coordination of implementation activities. They will therefore hold regular informal and formal coordination meetings to review implementation progress.

There will be need for coordination between districts where a road project transverses two districts. In that case, while the DDC in the KMDP target district will be responsible for the implementation tasks for the entire length of the road, the DRE in that district will prepare a project brief for transmission to his counterpart in the neighboring district. A copy of such a brief will also be forwarded to the Project Coordinator.

The DREs will make their regular reports to the Project Coordinator, who will also provide liaison with other offices in the MoPW. This will ensure coordination between the districts and the ministry's headquarters.

IV FINANCIAL ANALYSIS

4.1 INTRODUCTION

This chapter deals with the financial issues and concerns related to the implementation of the proposed market roads development component of KMDP. The analysis was conducted with the primary aims of establishing:

- the financial framework within which the roads component will be implemented;

- the financial constraints and problems of the proposed implementing institutions;

- the budgetary implications of the proposed investment for the Ministry of Public Works (MoPW) ; and

- the adequacy of the existing financial systems and procedures to effectively manage the invested resources toward the achievement of the Program's objectives.

4.2 PROGRAM BUDGET AND FINANCING ARRANGEMENTS

The road development component of KMDP is intended to upgrade to gravel standards between 1,860 and 1,960 kilometers of Class C and longer Class D roads over the first three year phase of the Program. Although KMDP is to be implemented over a ten year period, funding commitments by USAID for of the program will initially be only for the first three year phase. Preliminary projections of Program costs for the first phase and for the entire KMDP are presented in **Tables 4.1. Table 4.2** shows the Program Budget including the recurrent costs up to the year 1999.

The costs of constructing and rehabilitating roads under the component will be funded entirely by local currency funds to be generated from PL-480 commodities. Under the PL-480 program, approximately $40 million in local currency will be generated of which $20 - 25 million will go toward funding the initial phase of the road development activities.

It is anticipated that the first year will be spent on area-specific assessments in each of the six proposed districts to determine the particular roads to be developed as well as the level of investment to be made in each district. Accordingly, a relatively small portion of the total three year capital investment has been included in the projections for year one. The total expected capital expenditure for road rehabilitation over the three years is $ 25 million.

TABLE 4.1: PROGRAM COSTS FOR KMDP PHASE ONE

	FY 1991	FY 1992	FY 1993	TOTAL
I. Applied Research. Monitoring and Evaluation (ARMES)				
A. Technical Assistance (DFA)	953,804	923,804	815,020	2,692,628
B. TA to FMD (Counterpart)	200,000	200,000	200,000	600,000
C. TA to DPD (Counterpart)	100,000	100,000	100,000	300,000
D. Training (DFA)	212,500	187,500	165,000	565,000
E. Commodities (DFA)	210,000	0	0	210,000
Subtotal	1,676,304	1,411,304	1,280,020	4,367,628
II. Market Information Systems				
A. TA (DFA)	111,521	111,521	92,934	315,976
B. Training (DFA)	135,000	42,300	74,550	251,850
C. Commodities (DFA)	167,000	27,500	27,500	222,000
D. TA (Counterpart)	200,000	200,000	200,000	600,000
Subtotal	613,521	381,321	394,984	1,389,826
III. Rural Market Roads Development				
A. Short-term TA	100,000	100,000	100,000	300,000
B. Training	75,000	75,000	75,000	225,000
C. Road Construction & Rehab.	2,000,000	10,000,000	13,000,000	25,000,000
D. Road Maint. -- Counterpart	500,000	1,400,000	3,000,000	4,900,000
Subtotal	2,675,000	11,575,000	16,175,000	0 30,425,000
IV. Program Evaluation (external)	0	0	321,273	321,273
TOTAL KMDP RESOURCES	4,964,825	13,688,898	17,850,004	36,503,727
GOK Recurrent Costs				
Road Maintenance	200,000	400,000	600,000	1,200,000
TOTAL PROGRAM COSTS	5,164,825 0	14,088,898	18,450,004	37,703,727

TABLE 4.2: PROGRAM BUDGET, 1991 - 1999

	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	TOTAL
I. Applied Research, Monitoring and Evaluation (ARMES)										
A. Technical Assistance (DFA)	953,804	923,804	815,020	0	0	0	0	0	0	2,692,628
B. TA to FMD (Counterpart)	200,000	200,000	200,000	0	0	0	0	0	0	600,000
C. TA to DPD (Counterpart)	100,000	100,000	100,000	0	0	0	0	0	0	300,000
D. Training (DFA)	212,500	187,500	165,000	50,000	50,000	0	0	0	0	665,000
E. Commodities (DFA)	210,000	0	0	0	0	0	0	0	0	210,000
Subtotal	1,676,304	1,411,304	1,280,020	50,000	50,000	0	0	0	0	4,467,628
II. Market Information Systems										
A. TA (DFA)	111,521	111,521	92,934	0	0	0	0	0	0	315,976
B. Training (DFA)	135,000	42,300	74,550	0	0	0	0	0	0	251,850
C. Commodities (DFA)	167,000	27,500	27,500	0	0	0	0	0	0	222,000
D. TA (Counterpart)	200,000	200,000	200,000	0	0	0	0	0	0	600,000
Subtotal	613,521	381,321	394,984	0	0	0	0	0	0	1,389,826
III. Rural Market Roads Development										
A. Short-term TA	100,000	100,000	100,000	0	0	0	0	0	0	300,000
B. Training	75,000	75,000	75,000	0	0	0	0	0	0	225,000
C. Road Construction & Rehab.	2,000,000	10,000,000	13,000,000	0	0	0	0	0	0	25,000,000
D. Road Maintenance	500,000	1,400,000	3,000,000	2,310,000	1,403,060	1,080,356	831,874	640,543	493,218	11,659,052
Subtotal	2,675,000	11,575,000	16,175,000	2,310,000	1,403,060	1,080,356	831,874	640,543	493,218	37,184,052
IV. Program Evaluation (DFA)	0	0	321,273	0	0	0	0	321,273	0	642,546
TOTAL KMDP RESOURCES	4,964,825	13,688,898	17,850,004	2,360,000	1,453,060	1,080,356	831,874	961,816	493,218	43,684,052
GOK Recurrent Costs										
Road Maintenance	200,000	400,000	600,000	1,483,500	2,526,481	2,897,590	3,133,345	3,403,375	3,572,799	18,267,090
TOTAL PROGRAM COSTS	5,164,825	14,088,898	18,450,004	3,843,500 0	3,979,541	3,977,947	4,015,219	4,365,192	4,066,017	61,951,142

Once the construction and rehabilitation of the selected roads is complete, the total annual cost of maintaining these roads will be approximately Kshs. 76 million ($3.6 million). This amount is based on an estimated annual maintenance requirement of Kshs. 38,720 per kilometer (see the Economic Analysis report).

A subsequent section of this report recommends that a portion of the available KMDP counterpart funds should be set aside to complement expected GOK contributions toward maintenance of the KMDP developed roads. Accordingly, two line items are included in the budget summary for maintenance:

a. Road maintenance -- counterpart funds

b. Road maintenance -- "other" GOK resources

Over the projected ten year period, "other" GOK contributions toward maintenance increase as the funding from the counterpart funds decreases. Over the entire Program period, the ratio of total GOK recurrent contributions for maintenance to counterpart funds allocated to maintenance is approximately 3:2.

As indicated in **Table 4.1**, the financial projections include a minimal allocation for maintenance costs in the first year. In year two and three, an allocation is made of $1.8 and $3.6 million respectively. The assumption is that by the third year, the Program will require the estimated $3.6 million in total for regular maintenance. Except for the effects of a built in compounded inflation factor of 10%, the projections for maintenance are held constant at this level during years 4 to 10.

A provision of US $ 100,000 is made in each of the first three years of the program for technical assistance to the Policy Review, Economics and Statistics Unit of MOPW. In addition, a total of US $ 225,000 has been budgeted for staff training over the initial three years.

4.3 MOPW FINANCIAL PERFORMANCE AND CAPACITY

A detailed analysis of the past and projected expenditures of MoPW as indicated in the official printed estimates is presented in the Annex **Tables A.1** to **A.9** at the end of this report. The analysis was carried out for the Ministry's recurrent and development budgets for the years 1985/86 to 1991/92.

4.3.1 Development Expenditure Trends

Annex table A.1 shows the Government's total investment in the various categories of roads over the past five years. Investment in the major roads category has increased significantly over the past three years, rising from K Pounds 17.9 million in 1987/88 to K Pounds 52.2 million in the current financial year. In contrast, the other roads category which represents the class C and D roads has basically remained at the same level since 1986/87.

A significant departure from the historical trends is indicated in the 1990/91 and 1991/92 forward budget allocations for major roads and other roads categories. While the past five years have seen a generally greater investment in the major roads category, the forward budgets indicate that remarkably higher investments will be made in other roads over the next few years.

4.3.2 District Allocations of Road Development Funds

Annex **tables A.4** to **A.9** provide a breakdown of district by district investment in non-major roads in the six KMDP target districts over past four years. As indicated in the tables, investment under the Rural Access Roads Program (RARP) had effectively ceased by 1986/87 for all of the six districts except for Uasin Gishu where the final investment was to be made in the current year. There are budget allocations for the Minor Roads Program (MRP) up to 1991/92 for all of the target districts except for Kakamega which will have no MRP investment beyond the current year when the present donor commitment expires. The following are brief summaries of activities undertaken in each of the six districts over the past five years.

Kisii

In absolute terms, as shown in Annex Table A.4, Kisii District has received a higher level of investment for non-major roads than the other five KMDP districts during the past five years. Forward budget projections show that this trend will continue over the next two years. Two road projects have continued to receive a steady flow of funds over the period.

Kitui

Annex Table A.5 indicates that Kitui District has had only K Pounds 200,000 invested in one non-major road project during the past five years. It is, however, one of two districts among the six for which a steady flow of funds has been allocated under the Graveling, Bridging and Culverting Program (GBCP).

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Kakamega

Like Kitui, Kakamega has had only one non-major road constructed since 1985/86. As shown in Annex Table A.6, the forward budget indicates that some investment will be made in two other roads beginning next year.

Nyeri

Since 1985/86, one road and one bridge have received a steady allocation of investment funds in this District. Based on the forward budget (see Annex Table A.7), no other road projects are planned for at least the next two years.

Uasin Gishu

Uasin Gishu has had a steady flow of funds from the GBCP. Two non-major road projects were initiated in the district approximately a year ago. As shown in Annex Table A.8, no other substantial investment has been made in the District for this category of roads since the 1985/86 financial year.

Nakuru

Annex Table A.9 shows that investment in two roads in Nakuru was initiated in 1987/88. The forward budget indicates that the construction of these two roads will continue into the next two years.

4.3.3 Recurrent Expenditures

A trend analysis of MoPW recurrent expenditures is included in Annex Table A.2. As indicated in the table, the gross budgetary allocations for recurrent expenditures of the Roads Department within the Ministry have increased gradually since 1985/86. Despite this general increase in the overall recurrent budget allocations to the Department, however, the funds earmarked for road maintenance have decreased significantly in the past years.

The allocation for administrative costs at the Ministry's head office increased by 60%, 34%, and 45% respectively during the three years from 1985/86 to 1988/89 before a slight decline in the current year. This steady increase was due primarily to rising personnel costs. Personal emoluments grow automatically each year as civil servants move from one salary grade to another or get their annual raises. An estimated 60% of the Ministry's overall recurrent expenditures goes to pay for personal emoluments, which include housing, allowances, and passages and leave. Much of the increases in recurrent expenditures are therefore accounted for by staff costs.

The Treasury, although rather stringent in budgetary allocations has at times contributed to unnecessary increases in the budgeted staff costs. An example was given in which, because of an erroneous assumption by Treasury, a provision was made for 5,279 mechanical personnel in the Ministry of Public Works' 1988/89 budget although a head count showed only 1,065 people in that job category. In spite of requests by MOPW for a reduction in the budgeted amount, the results of the 1989/90 budget review by Treasury was a further increase in the estimates to 6,653 mechanical personnel although no new recruitment for mechanical staff was carried out during the year.

Road Maintenance

In absolute terms, expenditures for road maintenance has dropped from K Pounds 8.9 million in 1985/86 to K Pounds 6.9 million in the current year (1989/90). In percentage terms, the biggest decrease tock place between 1986/87 and 1987/88. In that one year, the maintenance budget dropped from K Pounds 7.3 million to K Pounds 3.9 million. The percentage increases in the ensuing two years have not been significant enough to compensate for this sharp decline.

An estimated K Pounds 35 million is required by the Ministry annually to maintain its total existing network of roads. In the approved Government budget for the current year, only K Pounds 6.9 million has been allocated for maintenance of all classes of roads. To supplement this budgetary allocation, MOPW expects to generate approximately K Pounds 10 million from public road toll collection. This leaves a shortfall of K Pounds 18.1 million, equivalent to over fifty percent of the overall requirement. There is, therefore, a need to identify a reliable source of funds to maintain the roads that will be developed under KMDP. Several alternative sources of maintenance funds were explored in the recently concluded Economic Analysis including the use of tolls stations and other special user charges.

The road toll collection system has been reasonably successful in generating funds for routine maintenance of major roads. The amounts collected have increased significantly over the recent years as indicated in **Table 4.3** below:

Table 4.3 ROAD TOLL COLLECTIONS

Year	Gross Toll Collections (Kshs)
1985/86	69,021,130
1986/87	95,705,458
1987/88	119,407,153
1988/89	130,628,319
1989/90 (expected)	201,450,000

The use of road tolls have to date been limited to resealing of major (Class A and B) trunk roads throughout the country. The controls within MOPW on the use of toll funds is quite effective. Funds collected from toll stations are used only for maintenance of trunk roads from which the funds are collected.

There is a general perception within the Ministry that toll charges, especially for heavy transport vehicles, are too low. However, a proposal which was sent to the Treasury last year seeking approval for an increase in toll charges was rejected.

For the target class C and D roads, toll collection is not feasible. It has been determined by MOPW that a minimum of 5,000 vehicles using a road on a daily basis are required before toll collection can be considered economical. Class C and D roads generally do not meet this criteria.

The Government's allocation of recurrent costs to the MoPW budget has been clearly constraining. Discussions with Ministry officials both in the field and at the head office reveal that the need as well as the capacity for additional funds for road maintenance is a long standing issue that is raised year after year.

4.4 GOK Budget Rationalization Program

Table 4.4 below illustrates the rapid increases in GOK expenditures over the past two decades. The GOK 1984-88 National Development Plan, the theme of which was "mobilising domestic resources for equitable development", was primarily concerned with limiting the Government's budget deficit and borrowing from the banking system and with restoring financial balance.

Table 4.4: GOK Expenditure Trends
(k Pounds - million)

	1964/64	1984/85	1988/89
Recurrent Expenditures	36.9	740.1	1,494.3
Development Expenditures	16.0	353.7	806.1

Source: GOK Printed Estimates

The Development Plan put forward a five point program to reduce the budget of public sector services, comprising:

a. a sharp curtailment of non-essential government investments and services;

b. supplementing of government's provision of selected essential services by voluntary agencies and "the individual and collective efforts of the people";

c. a shift in the focus of planning to the level of the district;

d. improvement in the efficiency of planning and delivering government services and in the productivity and discipline of the civil service; and

e. shifting of more of the burden of the cost of government services to those who benefit from them, through fees and other charges.

One of the important effects of this Budget Rationalization Program has been the more effective absorption of available donor commitments for project and program financing. The Government has succeeded in obtaining more program assistance which has alleviated the problem of deficit financing of public expenditure.

Nonetheless, because of monetary policy restrictions, GOK has not been able to absorb all of the available donor commitments within its development budgets. In the current financial year, the Government was able to absorb only 62 percent of total available donor commitments. MOPW absorbed about 75 percent of the external resources available to it. Therefore, while the Budget Rationalization Program enhances the opportunity for KMDP resources to be absorbed in the GOK budget, it will not be easy for the MoPW to include the program resources in its budget.

4.5 The GOK Budgetary Process

4.5.1 Ministerial Budget Ceiling Process

On the basis of the goals and priorities indicated in the Development Plan, the Treasury determines and issues the spending limits or "ceilings" to limit the ministerial estimates submissions. These ceilings, which are disagregated to all ministries, are prepared for both the Recurrent and Development Budgets. Each ministry is expected to keep within its given ceiling when preparing its annual expenditure budgets.

The ceilings go through two stages. The more difficult stage is the calculation of the total projected revenue and expenditures for a given financial year. This first step involves predicting the "recurrent revenue" for the ensuing year. From this revenue are subtracted the estimated <u>recurrent expenditure</u> and Consolidated Fund <u>debt service charges</u>, which normally yields a <u>current Surplus.</u> This surplus is supplemented with grant and loan funds and applied toward the estimated development expenditures.

The second stage in the ceiling preparation process involves the allocation of proposed expenditures amongst all of the ministries, parastatals and other "vote-holders". The allocation process is usually guided and influenced by the development plan priorities as well as past expenditure trends and implementation rates of the various ministry projects over time.

It is important to note that ceilings set for each ministry are for <u>gross</u> expenditures. In other words, donor financing must be included within the ceiling whether the assistance is in the form of loan, grants or "Appropriations - In - Aid" (direct payment). The implication for KMDP is that if, for example, the total number of development projects and activities proposed by MOPW exceeded its ceiling as is usually the case, the Ministry must reprioritize and cut back this total to the ceiling level.

Treasury Circular No. 4 dated July 3, 1989 reiterates that each ministry must absorb the currently existing donor commitments for grants and loans within the given expenditure ceilings before new programs/projects can be considered. This may be a difficult condition for the MoPW to satisfy for the purpose of including KMDP in its budget. However, if the Ministry cuts down its commitments on locally funded projects, its budget can easily accommodate KMDP.

Implications for KMDP

It is currently difficult for MOPW to effectively operate within the current (1989/90) ceilings as given. It is estimated that actual expenditure commitments within the Ministry for the current year exceed the allowed allocation by approximately 50%. For the Ministry to cut back its ongoing operations to the given ceiling levels would mean terminating several ongoing projects and "sacking" contractors.

Even with the budgetary constraints that the MoPW is already experiencing, the GOK forward budgets for the next two years indicate that the overall ceiling of the Ministry will be cut by another 30 percent. As indicated in **Table 4.5**, the ceiling will drop from the 1989/90 level of K Pounds 123 million to K Pounds 86 million for the 1990/91 financial year. Presumably, GOK would be willing to expand the Ministry's Development ceiling to accommodate a high potential program like the roads component of KMDP.

Table 4.5 MOPW 1989/90 AND 1990/91 CEILING AGGREGATIONS

Funding Source	1989/90 (Pounds)	1990/91 (Pounds)
Grants	36,572,455	13,646,975
Loans	48,516,000	34,164,000
GOK	38,004,140	38,384,181
GROSS	123,092,595	86,195,156

Source: Treasury Circular No. 4, July 3, 1989

The Government's ability to avail additional resources in MOPW's recurrent budget for road maintenance is an open question in light of the existing fiscal constraints. It is recommended here that during the joint programming of counterpart funds for specific uses, USAID and GOK consider the use of a portion of the funds for road maintenance on an annual declining basis. GOK's commitment to maintenance of the KMDP developed roads would be manifested in its agreeing to contribute other resources to maintenance of the subject roads on a gradually increasing basis. By the tenth year, the program's maintenance costs should be largely financed by other (non-counterpart) GOK resources.

4.5.2 Estimates Preparation Process

The second important process in the GOK budgetary cycle is the preparation of budget estimates by the individual ministries. The ministerial estimates preparation goes through three different but interrelated stages:

a) the Program Review and Forward Budget (commonly called "The Forward Budget");

b) the Revised and Supplementary Estimates; and

c) the Draft Annual Estimates.

Forward Budget: The annual Forward Budget is the means for translating the pattern of development in the Development Plan into prospective expenditures, and scheduling the implementation of projects, program and activities. The Forward Budget exercise takes place in July and August for all ministries. It generally covers three forward years except when a Development Plan is being prepared when it is extended to cover the period of the Plan. In this exercise, ministries are required to prepare program briefs indicating program changes since publication of the National Development Plan and any program adjustments in response to new economic guidelines from the Treasury. The introduction of new projects or programs should occur only through the Forward Budget.

Revised Estimates: The purpose of the annual estimates revision is to enable the operating ministries and the Treasury to revise the budget of the current financial year. Reallocation of funds between line items can done during this stage on the basis of progress in physical implementation, the rate at which actual expenditures are being incurred, and collection of revenue. Revised Estimates are important to the Government for identifying trends of actual costs, expenditures, and revenue, for readjusting priorities, and for forecasting the future impact of on-going commitments.

Operating ministries are usually required to submit their Revised Estimates, together with explanatory notes, in November/December for the purpose of screening by Treasury. Supplementary funds above and beyond those reallocated may then be voted by parliament early in the calendar year. Revised Estimates are not intended to be used for the purpose of introducing new projects or previously rejected projects into the current budget.

Draft Annual Estimates: The third stage of annual estimates preparation cycle is concerned with the Draft Annual Estimates for the following financial year. Normally, ministries submit their draft annual budgets for the next financial year by the end of January. The submissions include detailed program descriptions and statements on program objectives, and explanations of changes in expenditure on an itemized basis. The

Estimates should go to print in May/June and should be presented to Parliament by the Minister for Finance on Budget Day before the start of the new financial year.

Two problem areas in estimates preparation common to many ministries deserve special mention. The first problem is that the estimates are usually prepared under pressure of deadlines and often in too short a time. Part of this "estimates rush" is due to the fact that during the last decade the sheer number of projects and activities has grown considerably.

A second problem faced by most ministries in preparing their estimates is that they submit to Treasury estimates that are considerably higher than their ceilings for Recurrent and Development Budgets. There are two major contributing factors:

a) low ceiling levels due to insufficient revenue relative to perceived ministry needs, and

b) the tendency of a ministry to let Treasury bear the responsibility of deciding which projects get the scarce resources available.

MOPW has consistently submitted estimates that are above its allocated ceiling. The 1989/90 draft estimates exercise is a clear example of this problem. **Table 4.6** illustrates the variance between the "gross" estimates submitted by MOPW's Roads Department to Treasury in April 1989 for its <u>development</u> budget and the actual Treasury ceiling allocation.

Table 4.6: Comparison of MOPW Budget Submission to Approved Treasury Ceilings

Head	Category	Treasury Ceiling Allocation	MOPW 89/90 gross Estimates (K Pounds)	Difference
384	Major Roads	52,255,000	60,855,750	(8,600,750)
385	Other Roads*	22,071,146	48,706,197	(26,635,051)
386	Rd. Markings & signs	150,000	150,000	0
488	Planning & design	360,000	1,420,000	(1,060,000)
489	Misc. (RARP & GBCP)	19,821,100	49,486,600	(29,665,500)
TOTAL	Sub-vote 136 (Rds)	94,839,246	160,618,547	(65,779,301)

* This category represents the Class C & D roads which are targeted for KMDP intervention.

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Similarly, the figures submitted to Treasury for MOPW estimates for 1989/90 were based on what the Ministry ideally needed. Within the recurrent budget, the total amount requested for all road maintenance was K. Pounds 35.3 million compared to a ceiling of K. Pounds 6.49 million (approximately 20% of the amount requested).

4.5.3 The Expenditure Cycle

Expenditure for a new financial year begins before Parliament gives formal approval to the Estimates. Parliament passes a "Vote-on-Account" prior to the new fiscal year which in effect earmarks for allocation a specified amount of the funds included in the new year's Estimates.

After the Appropriations Act is passed, Treasury issues by circular to each Accounting Officer (usually the Permanent Secretary) the authority to incur expenditures as needed. Upon receiving this authority, the Accounting Officers forward AIEs to their respective departmental and district heads no later than 15th July of each year.

4.6 DISTRICT FINANCIAL AND PROCUREMENT ARRANGEMENTS

4.6.1 District Budgeting

The District Focus Strategy requires that the are fully involved in every stage of the budgetary process. Conceptually, the process begins with project identification at locational and sub-locational level. After being discussed and agreed upon locally, the project suggestions are forwarded to the Divisional Development Committee which in turn reviews and prioritizes the proposals before submitting them to the District Development Committee (DDC).

During June and July the districts prepare their annual Annexes to the District Development Plan, giving their project priorities for each sector. These priorities are drawn from the District Development Plan, from previous Annexes and from recent Divisional Development Committee meetings. In the case where districts feel that the ceiling which it has been allocated is not sufficient, the district can add an additional project to the annex together with a careful justification as to why they feel their ceiling should be raised.

The DDC's role is to review project proposals in the context of the prevalent national and sectorial policies passed down from the various ministry headquarters. The reviews are also conducted within the confines of district specific ceilings that are set by each ministry represented.

A common weakness in the process noted in the six KMDP districts was that the locational and sub-locational levels of the district hierarchies lack the technical capacity to provide meaningful input into the process. However, since the selection of specific roads to be rehabilitated under KMDP will be carried by DDCs under guidance of the MOPW headquarters this limitation in the districts' budget planning process has no significant implications for the program.

4.6.2 District Procurement Procedures

It is a standing policy of the Government that all procurement of goods and services, including road construction works, must be undertaken through open competitive tenders or quotations and is subject to the approval of the appropriate tender board before orders are placed.

Each district department head is responsible for arranging for comprehensive specifications and tender documents as well as co-ordinating the technical evaluations of the tenders. Advertising of tenders, however, are processed centrally by the District Supplies Officers. Project tenders which are district-specific are advertised at the district-level by the District Commissioners, while tenders for multi-district and national projects are advertised at the ministerial level with the cost apportioned between the departments concerned.

Within the Ministry of Public Works, the open tender system is not always applied. In 1970, the Government introduced a fixed cost system to facilitate the utilization of local small, unsophisticated contractors for local road construction and maintenance. The concern of the Government in reaching that decision was that a high percentage of small indigenous contractors were unable to compete for contracts on the same footing with other more sophisticated contractors due to their limited education or lack of experience in tendering. Under the fixed cost system, the Government would compute the cost of a job and invite registered candidates to express an interest and indicate their capabilities and availability.

To help address the concern which led to the institution of the fixed system, the World Bank introduced a training project aimed at local contractors on how to tender. The project which was a component of the Highway Sector Loan II Program. Impressions obtained from MOPW officials are that the project was not particularly successful.

The fixed cost system, which obviously lends itself to possible abuses by people in authority, was officially scrapped in 1983. Therefore, compliance with standing GOK regulations should ensure competitive bidding for the KMDP road projects.

4.6.3 District Payment and Accounting Procedures

Prior to the introduction of the district focus strategy for rural development, all payments in the country were made from Nairobi. Under the new set-up, most of the accounting services have been decentralized to the District Treasury.

Funds are allocated for spending at the districts through the issuance of Authorities to Incur Expenditure (AIEs) by the various ministry headquarters to their respective district heads. The decision to expend funds on a particular item is the responsibility of each AIE holder who receives a separate AIE for recurrent and development expenditures. In MOPW, the district AIE holders are the District Public Works Officers (DPWO) and the MRP District Maintenance and Improvement EngineerS (DIME).

The district accountants is the senior most person in the district treasury and is charged with the responsibility for financial management of all Government funds at the district. When an AIE holder needs to incur expenditure, the District Accountant has to certify the local purchase order confirming that the AIE holder has not exhausted the approved budget for the item.

The AIE holders receive and approve all invoices and bills to be paid before they are submitted to the District Treasury for processing. Payment vouchers are prepared at the District Treasury and then sent back to the responsible AIE holders for his/her certification.

Once the AIE holder has certified the payment voucher, the voucher is sent to the examination section of the District Treasury to ascertain:

- the propriety of the payment;
- that the expenditure has been incurred on proper authority and is charged to the right budget item;
- that prices or rates charged are according to regulations, and that they are fair and reasonable;
- that appropriate certificates have been signed by the AIE holder or officers authorized by the AIE holder in writing;
- that the computations have been verified and are arithmetically correct; and
- that the persons named in the payment vouchers are those entitled to receive the payment.

The voucher is then sent to the Internal Audit Section for review before it finally goes to the District Accountant to be authorized for payment. Once the District Accountant is satisfied that proper procedures have been followed, he authorizes for payment to be made.

Each District Treasury has been provided with a cash float fund from which payments for all AIEs are honored. Payments from the cash float fund are regularly reimbursed on an imprest basis by the Paymaster General.

The District cash float payment system is not entirely effective. Generally, bills processed in the early part of the year can be paid within a reasonable time period since replenishments of the cash floats by the Treasury is usually timely during this period. Toward year-end, however, the process begins to slow down as the Treasury begins to experience liquidity problems.

The reviews carried out in the six districts as well as that at the Head office of the Ministry of Public Works indicated that the Government's internal administrative controls are sound and can be relied on to safeguard and properly manage KMDP resources. In keeping with the basic principles of internal control, the Government's accounting system is set up to ensure that duties are fully segregated between organizational units and staff. For example, the GOK has instituted a strict internal audit system where payment vouchers must be reviewed for propriety before being processed for payment by the District Treasury.

The Government has also reliable centralized and computerized system of collecting the accounting data. Monthly expenditure reports are prepared routinely within two weeks of the end of a given month.

4.7 SUMMARY OF FINDINGS AND CONCLUSIONS

Implementation of the roads component of KMDP will be carried out within the framework of the existing GOK financial management mechanisms. The inclusion of the Program in the agenda of the implementing ministry must first take place at the forward budget stage of the GOK budgetary process.

MoPW must specifically include the program within the list of its priorities to ensure that adequate budgetary allocations are made for its implementation. A real concern is that MoPW's current financial requirements for its capital development and recurrent expenditures are significantly higher than the budgetary allocations that have been given to the Ministry in recent years. The trend over the past five years has been that Treasury allocations to the ministry have been decreasing while the Ministry's requirements have been on the rise. Consequently, MoPW will be constrained to absorb the KMDP resources.

In view of the large gap between the real need and budgetary allocations for maintenance of non-major roads, it is recommended that GOK contributions toward maintenance for the KMDP roads be phased in gradually over a ten year period. It is further recommended that KMDP counterpart funds be utilized in part to finance maintenance on a gradually declining basis.

The analyses of GOK's financial procedures both at the central level and at the district level indicate that the existing administrative and accounting controls are adequate to ensure proper accountability of the program's resources. Most KMDP resources for road projects will be budgeted and controlled at the district level. The District Roads Engineers will be the AIE holders for KMDP funds. This will ensure that the Program Funds are budgeted, managed and accounted for separate from other MoPW funds for which DPWOs are the AIE holders.

Procurement for the KMDP road projects will be through District Tender Board regulations. In any case, the Project Coordinator at the MoPW Headquarters will ensure that procurement will be on an open tender basis. Also, as indicated in Chapter III, a local firm of consulting engineers will be engaged to make regular and independent inspections of the road contracts.

ANNEX TABLES

ANNEX TABLE A.1

MINISTRY OF PUBLIC WORKS
Development Expenditures 85/86 to 91/92
with Annual Percentge Increases

GOK Budget Subhead		1985/86	1986/87	1987/88	1988/89	Current Year 1989/90	Forward Budget 1990/91	Forward Budget 1991/92
445	Major Roads	17,480,000	13,050,000 -25%	17,932,000 37%	35,482,169 98%	52,255,000 47%	43,225,000 -17%	41,650,000 -4%
446	Other Roads							
	Kitui	1,000,010	100,000	50,000	100,000	50,000	400,000	1,000,000
	Kisii	200,000	1,500,000	4,700,000	1,371,700	1,600,000	2,950,000	950,000
	Nyeri	1,110,000	650,000	200,000	80,000	250,000	1,700,000	2,000,000
	Kakamega	1,260,000	1,200,000	200,000	254,210	491,700	2,000,000	1,500,000
	Uasin Ngishu	300,000	---	300,000	2,065,000	1,300,000	1,400,000	---
	Nakuru	900,000	---	400,000	300,000	200,000	300,000	500,000
	Other Districts	13,879,990	18,068,000	15,375,000	35,345,961	18,179,446	35,350,000	45,550,000
	Total Other Rds.	18,650,000	21,518,000 15%	21,225,000 -1%	39,516,871 86%	22,071,146 -44%	44,100,000 100%	51,500,000 17%
465	Miscellaneous Roads							
	Rural Access Rds. Prog	1,040,000	700,000	3,237,250	2,441,900	179,800	1,762,500	1,962,500
	Minor Rds Prog	400,000	1,168,750	5,490,000	4,995,200	5,431,000	3,480,000	1,950,000
	Other Misc. Rds	10,806,010	12,975,000	17,594,450	26,518,162	14,210,300	11,300,000	11,150,000
	Total Misc.	12,246,010	14,843,750 21%	26,321,700 77%	33,955,262 29%	19,821,100 -42%	16,542,500 17%	15,062,500 9%
449	Road Markings & Signs	270,000	200,000	150,000	150,000	150,000	150,000	150,000
454	Planning & Design	1,490,000	1,360,000	1,110,000	1,360,000	360,000	960,000	1,010,000
452	Admin. & Tech. Services	--	--	--	697,000	182,000	217,000	217,000
	GROSS TOTAL	50,136,010	50,971,750 2%	66,738,700 31%	111,161,302 67%	94,839,246 -15%	105,194,500 11%	109,589,500 4%

ANNEX TABLE A.2

MINISTRY OF PUBLIC WORKS
Recurrent Expenditures' 85/86 to 91/92
with Annual Percentage Increases

GOK Budget Subhead									Current Year (MOPW)		Forward Budget			
		1985/86	1986/87		1987/88		1988/89		1989/90		1990/91		1991/92	
445	MAJOR ROADS (Maint)	1,800,010	1,609,772	-11%	700,000	-57%	1,601,356	129%	1,800,000	12%	1,900,000	6%	2,500,000	
446	OTHER ROADS (Maint)													
	Maint. of Primary Rds	6,664,608	1,549,364		807,513	-48%	1,124,410	39%	1,241,262	10%	1,500,000	21%	1,800,000	20%
	Maint. of Secondary Rds		1,464,636		728,649	-50%	1,080,670	48%	1,000,000	-7%	1,300,000	30%	1,800,000	38%
	Maint of Minor Rds		1,380,125		896,809	-35%	1,120,550	25%	1,200,000	7%	1,850,000	54%	2,550,000	38%
	Maint of Service Rds		270,000		128,212	-53%	266,060	108%	300,000	13%	350,000	17%	550,000	57%
	Maint of Rural Access Rd		270,000		167,350	-38%	313,480	87%	500,000	59%	650,000	30%	750,000	15%
	Maint of Spcl purpose Rd		340,930		214,732	-37%	369,830	72%	450,000	22%	550,000	22%	650,000	18%
	Extraordinary Rd. Maint.	370,000	370,000		220,000	-41%	557,519	153%	330,000	-41%	350,000	6%	410,000	17%
	Rd Markings & Signs (Maint)	100,000	100,000		100,000	0%	110,000	10%	150,000	36%	300,000	100%	400,000	33%
	SUB TOTAL MAINTENANCE	8,934,618	7,354,827	-18%	3,963,265	-46%	6,543,875	65%	6,971,262	7%	8,750,000	26%	11,410,000	30%
	Ferries	310,000	310,000		250,000		298,150		298,150		291,250		320,280	
	Grants to Municipalities	250,000	250,000		150,000		220,000		220,000		250,000		300,000	
	HQ Road Branch	1,190,696	1,899,246	60%	2,542,430	34%	3,689,657	45%	2,970,527	19%	3,105,968	5%	3,223,659	
	Admin. & Tech. Services	12,217,477	13,087,943	7%	14,240,942	9%	13,664,333	-4%	15,563,731	14%	16,109,923	4%	16,688,456	
	GROSS RECUR. EXP (ROADS)	22,902,791	22,902,016	-0%	21,146,637	-8%	24,416,015	15%	26,023,670	7%	28,507,141	10%	31,942,395	
	OTHER MINISTRY ACTIVITIES	23,135,734	24,969,754	8%	29,579,212	18%	36,836,795	25%	40,539,160	10%	44,507,277	10%	47,590,762	
	GROSS TOTAL MINISTRY	46,038,525	47,871,770	4%	50,725,849	6%	61,252,810	21%	66,562,830	9%	73,014,418	10%	79,533,157	
	LESS: TOTAL AIA	324,620	552,200		565,421		183,600		379,053		389,153		398,053	
	NET TL PER MINISTRY BDGT	45,713,905	47,319,570		50,160,428		61,069,210		66,183,777		72,625,265		79,135,104	

ANNEX TABLE A.3

MINISTRY OF PUBLIC WORKS
District Administrative Costs

1986/87 to 1991/92

	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
KAKAMEGA	286,917	308,726	493,882	278,076	644,571	669,359
KITUI	286,346	317,800	332,804	271,588	450,917	467,129
KISII	221,853	260,546	248,744	181,561	361,557	374,898
NAKURU	559,436	692,296	697,154	458,261	907,943	935,830
NAIVASHA	----	----	----	----	----	----
NYERI	425,949	424,657	592,982	325,891	776,767	804,284
UASIN GISHU	234,483	280,643	309,794	213,800	401,122	416,073
OTHER	11,072,959	11,956,274	10,988,973	13,834,554	12,567,046	13,020,883
	13,087,943	14,240,942	13,664,333	15,563,731	16,109,923	16,688,456

ANNEX TABLE A.4

KISII DISTRICT
Development Expenditures
(Non-major Roads)
1985/86 to 1991/92

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
Kisii - Chemosit	200,000	1,500,000	2,000,000	1,121,700	600,000	2,750,000	750,000
Kisii - Isebania	-----	-----	2,700,000	250,000	1,000,000	200,000	200,000
Rural Access Roads Program	275,000	-----	-----	-----	-----	-----	-----
Gravelling, Cultivating & Bridges	200,000	-----	-----	-----	-----	-----	-----
Minor Roads Program	-----	-----	250,000	250,000	250,000	200,000	200,000
TOTAL NON-MAJOR ROADS	675,000	1,500,000	4,950,000	1,621,700	1,850,000	3,150,000	1,150,000

ANNEX TABLE A.5

KAKAMEGA DISTRICT
Development Expenditures
(Non-major Roads)
1985/86 to 1991/91

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
Kakamega - Mumias	1,260,000	1,200,000	200,000	254,210	254,210	-----	-----
Busia - Yala	-----	-----	-----	-----	-----	1,000,000	1,500,000
Mumias - Yala	-----	-----	-----	-----	-----	1,000,000	-----
Rural Access Roads Program	200,000	250,000	-----	-----	-----	-----	-----
Minor Roads Program	-----	-----	215,000	175,000	200,000	-----	-----
Gravelling, Cultivating and Bridges	200,000	-----	-----	-----	-----	-----	-----
TOTAL NON-MAJOR ROADS	1,660,000	1,450,000	415,000	429,210	454,210	2,000,000	1,500,000

ANNEX TABLE A.6

UASIN GISHU DISTRICT
Development Expenditures
(Non-major Roads)
1985/86 to 1991/92

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
Moi University Access	300,000	-----	-----	-----	-----	500,000	-----
Moi University -Olessos	-----	-----	300,000	1,000,000	700,000	900,000	-----
Sergoit - Kitale	-----	-----	-----	1,065,000	600,000	-----	-----
Rural Access Roads Program	100,000	-----	-----	90,000	50,000	-----	-----
Graveling, Cultivating & Bridges	-----	-----	200,000	200,000	200,000	200,000	200,000
Minor Roads Program	-----	-----	200,000	225,000	250,000	200,000	200,000
TOTAL NON-MAJOR ROADS	400,000	0	700,000	2,580,000	1,800,000	1,800,000	400,000

TANNEX TABLE A.7

KITUI DISTRICT
Development Expenditures
(Non-major Roads)
1985/86 to 1991/92

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
sueni Bridge	100,000	100,000	-----	-----	-----	-----	-----
angodo	10	-----	-----	-----	-----	-----	-----
zetu Hill - Useni	-----	-----	50,000	100,000	50,000	100,000	-----
ridges in Kitui						300,000	1,000,000
ural Access Roads Program	200,000	200,000	-----	-----	-----	-----	-----
ravelling, Cultivating and Bridges	175,000	300,000	300,000	100,000	99,996	200,000	200,000
inor Roads Program	-----	-----	430,000	500,000	500,000	400,000	400,000
OTAL NON-MAJOR ROADS	475,010	600,000	780,000	700,000	649,996	1,000,000	1,600,000

ANNEX TABLE A.8

NAKURU DISTRICT
Development Expenditures
(Non-major Roads)
1985/86 to 1991/92

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
Njoro - Kabarak	900,000	-----	-----	-----	-----	-----	-----
Olenguruone/Sibibwel	-----	-----	200,000	100,000	100,000	100,000	-----
Molo-Olenguruone - Kapkoros	-----	-----	200,000	200,000	100,000	200,000	500,000
Rural Access Roads Program	100,000	-----	-----	-----	-----	-----	-----
Gravelling, Cultivating, & Bridges	-----	-----	-----	-----	200,000	-----	-----
Minor Roads Program	-----	-----	250,000	225,000	275,000	200,000	200,000
TOTAL NON-MAJOR ROADS	900,000	0	650,000	525,000	675,000	500,000	700,000

ANNEX TABLE A.9

NYERI DISTRICT
Development Expenditures
(Non-major Roads)
1985/86 to 1991/92

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
Access to Sagana State Lodge	10,000	-----	-----	-----	-----	-----	-----
Ngururu Bridge	100,000	50,000	100,000	25,000	50,000	700,000	-----
Kagumo-Mukurweini-Gakonya	1,000,000	600,000	100,000	55,000	200,000	1,000,000	2,000,000
Rural Access Roads Program	150,000	100,000	-----	-----	-----	-----	-----
Minor Roads Program	-----	-----	426,000	250,000	250,000	200,000	200,000
TOTAL NON-MAJOR ROADS	1,260,000	750,000	626,000	330,000	500,000	1,900,000	2,200,000

APPENDIX 1

STATEMENT OF WORK

(TERMS OF REFERENCE)

Appendix 1

STATEMENT OF WORK

Background

During the next several months, USAID/Kenya will be preparing a Program Assistance Approval Document (PAAD) for the proposed Kenya Marketing Development Program (KMDP). The principal objectives of the program are:

Goal: To assist the Government of Kenya to achieve its goal of increased agricultural productivity through the development of a more efficient market system.

Purpose: To develop a more efficient national market system through improvements in the policy environment and physical infrastructure.

The objectives are to be served by a program which supports the evolutionary reform program developed by the GOK with regard to market policies; the development of rural market infrastucture; and the strengthening of institutional capacity to guide policy and investment decisions.

The policy and institutional strengthening initiatives regarding agricultural marketing will require the coordinated effort of four institutions: 1) the Office of the President; 2) the Ministry of Planning and National Development (including the roles and contributions of DRSRS and CBS); 3) the Ministry of Agriculture; and 4) the Ministry of Supplies and Marketing. These initiatives include both policy reform and the implementation of the proposed institutional strengthening component (the Applied Research, Monitoring and Evaluation and Market Information System). The development of rehabilitation of rural market infrastucture will also require the coordinated efforts of four institutions: 1) the Ministry of Transportation (for planning); 2) the Ministry of Public works; 3) District Development Committees; and 4) Local Tender Boards. The institutional and financial analyses contained in the PAAD will focus on these various institutions, analyzing their capability to implement the program components.

Scope of Work

The study funded under this contract consists of development and support activities required for the design of the proposed KMDP. The purpose of the study is to conduct a series of institutional and financial analyses necessary for the development of PAAD for the KMDP. The work will focus on the institutional and financial capabilities of those organizationals which will be involved in the program. The study will result in two reports: a) one related to the institutional and financial aspects of the proposed policy and institutional strengthening initiatives, and b) a second focused on institutional and financial concerns on rural infrastuctive initiatives. From these reports the consultants will prepare draft institutional and financial sections of the PAAD.

Six geographical areas have been chosen for KMDP interventions: 1) Uasin Gishu, 2) Kakamega, 3)Kisii, 4) Nakuru, 5) Nyeri and 6) Kitui. The relevant institutional and financial relationships of the four institutions involved in roads and the four involved in marketing will be studied at both the national level and at local levels in the six geographical AREAS.

The analyses, as noted, will include those institutions identified above which will potentially be involved in implementing the initial phase of the KMDP. The analyses will, however, be confined only to those activities of the institutions with which the KMDP will be concerned. That is, to the extent that a ministry or local institution is charged with activities beyond those dealt with in the market program, they will not be studied in detail (though to the extent that they bear upon KMDP activities they will require some analysis). Likewise, to the extent that certain activities are likely to be undertaken in some but not all geographical areas under study, the institutions in those areas where the interventions are likely to occur will be analyzed, but not institutions in areas where such activities are unlikely. For example, if rural road construction is to be a dominant activity in one area but not in another, the capability of the Ministry of Public Works and local tender boards will be analyzed in detail in the former but less rigorouslay in the latter. An understanding of what institutions and which of their activities will be important in which geographical areas will be obtained from the findings of the Economic and Social Analyses (which will be undertaken by Development Alternatives, Inc. prior to the present study). Through this approach both the number of institutions to be analyzed and the types of activities each undertakes will be narrowed and will make the present analyses manageable within the timeframe required.

After completing the above "narrowing process" to determine which institutions and activities in each area need analysis, the followng issues will be addressed to determine the institutional and financial capabilities to implement the KMDP.

Organizational Characteristics

a. Determine each organisation's mandate to carry out the activities under consideration. The contractor will determine if there are important unofficial organizational agendas that vary from the stated mandate, and if these have implications for implementing the proposed program.

b. Assess who in reality carries out the functions or activities under consideration, i.e., who the actual decision -makers are (irrespective of their mandate).

c. Analyze each relevant organisation's structure to determine its capability to carry out the activities under consideration.

d. Analyze the personnel composition for each organization and their capability to carry out the proposed activities.

e. Assess the non-personnel resources available to the relevant organizations to carry out the proposed activities.

f. Identify potential constraints related to the relevant institutions' mandates, structures, personnel and non-personnel resources which may affect program implementation, and determine what problems need to be addressed in order for the activities to be carried out.

Organizational Dynamics

a. Determine within each organization what departments, positions and individuals have the authority to and actually make decisions relevant to the implementation of the proposed activities; it will analyze the decision making process within each organization.

b. Analyze the formal and informal processes of communication between or among departments positions and indivisuals within the respective organisations to determine the implications for effective decision making and implementation of the proposed program. This will include an assessment of what and how information from what source is utilized for decision making (including information flows).

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Inter-Organizational Dynamics

a. Determine that Ministries, Offices, department, positions and individuals have the authority to and actually make decisions relevant to the implementation of the proposed activities and analyze how the decision process is carried-out. The contractor will distinguish between policy and infra-structure investment decisions. The contractor will also examine the relationshp between decision makers in central Government and the district level officers and the decision process between these levels.

b. Analyze the formal and informal process of communication between or among individuals between the respective organizations to determine the implications for effective decision making and implementation of the proposed program. This will include an assessment of what and how information from what sources is utilized for decision making (including information flows).

c. In the context of communication flow, the decision making process, and the implementation of decision made, the contractor will identify potential constraints and determine the degree of coordination needed among organizations for effective implementation of the proposed program. The contractor will also advise the Government and USAID as to what organizational restructuring or new procedures may be required to effectively implement the proposed program.

Financial Characteristics

a. Identify relevant budget planning, allocating, and expeding procedures for each institution at each level identified in the section above.

b. Describe the steps and timing of each phase in the financial process. This will include a description of the organization's budget categories and its allocation processes.

c. Analyze the financial implications of the investments contemplated by the program and their impact on both the development and recurrent budgets.

d. Identify actual and potential problems related to (i) the incorporation of the proposed USAID funding levels in relation to GOK budget ceilings; (ii) the ability of the institutions to allocate and expend the available resources, and (iii) the ability to sustain program activities (recurent cost issues).

Organizational Arrangements to Implement the KMDP

a. Assess the proposed organizational arrangements for implementing the KMDP, e.g., the proposed coordinating body, the steering committees, the relationships between and roles of the relevant ministries, etc., and will make recommendations related to appropriate/optimal organizational arrangements.

b. Recommend program interventions related to institutional and organizational arrangements (i.e., institutional strengthening initiatives) which need to be undertaken to make the program work. This incudes recommendations related to needed information and information flows for effective decision making to take place.

Institutions to be Studied

Both the institutions to be studied and the aspects of those institutions will be, to a large extent, influenced by the "narrowing process" described at the beginning of the precedig scope-of-work. As summarized earlier, the probable institutions to be included are:

a. Office of the President

b. Government Ministries

1) Ministry of Planning and National Development and the roles of DRSRS and CBS in the Ministry;

2) Ministry of Agriculture and the roles of the Farm Management Division and the Development Planning Division within the Ministry;

3) Ministry of Public Works;

4) Ministry of Supplies and Marketing and the role of NCPB;

5) Ministry of Transportation.

Local Authorities and Institutions in the Six Selected Market Areas:

1) District Development Committees in Uasin Gishu, Kakamega, Kisii, Nakuru, Nyeri and Kitui Districts;

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2) District offices of the relevant central ministries in these districts;

3) Tender Boards in the same six districts;

4) County Councils in the six districts;

Level of Effort and Timing

The contract period will be sx work weeks. The work will commence near the time that the Economic and Social Soundness Analysis for the PAAD is completed (on or about June 30).

Requirements and Skills

USAID/Kenya will contract with a Kenyan consulting firm which will be required to assemble a team of experienced consultants to carry out the scope-of-work. The specialties to be provided will include: three financial analysts experienced in the analyses of the types of issues specificied in the scope-of-work related to public bodies (e.g. ministries), parastatals, and private institutions involved in the Kenya market system. Each of these experts will have a masters degree (or equivalent professional training) in the areas for which they will be responsible. One expert will act as team leader, and will be responsible for finalizing the drafts of each of the studies.

It is intended that these experts will be organized into three teams, two to undertake the analysis in the six geographical areas in which the KMDP will focus (one team for each of two areas), and the third to carry out the analyses of the institutions located in Nairobi.

The following specialists will be provided by the Contractor:

Institutional Analyst/Team Leader - Central Headquarters;

Financial Analyst - Central Headquarters;

Financial Analyst - Uasin Gishu, Kakamega, Kisii;

Institutional Analyst - Uasin Gishu, Kakamega, Kisii;

Financial Analyst - Nyeri, Kitui, Nakuru.

Institutional Analyst - Nyeri, Kitui, Nakuru

Reports

Within the paramenters set forth above the contractor will prepare two reports and produce a final Institutional/Financial Analysis section for inclusion in the KMDP PAAD.

a. Institutional/Financial Analysis relating to infrastructure development. This study will analyze national and sub-national institutions to be involved in implementation of the infrastructure component of the KMDP. The general objectives of this study are to determine the organizational, managerial and and financial capabilities of the relevant institutions.

b. Instutional/Financial Analysis relating to agriculture marketing. This study will analyze institutions which are involved in setting and implementing pricing and marketing policies for important agricultural goods and in implementing the Applied Research, Monitoring and Evaluation and Market Information Systems.

c. The Institutional/Financial Analysis section of the KMDP PAAD will combine the two analyses into one document in accordance with the guidelines in AID Handbook 4.

The contractor will maintain close contact with the project manager, and will give an oral progress report on findings and preliminary conclusions to the core program team and other interested parties midway through the contract period. Upon completion the contractor will deliver ten (10) copies of the final report to USAID/Nairobi.

The GOK provide some in-kind support for the study. This will include: three staff from the Ministry of Planning, one financial and two institutional experts; two vehicles (inclusing petrol and per diem for the staff, secretarial services, one office and needed office equipment. Regarding in-country transportation and secretarial services, part will be providd by the GOK and part by the contractor.

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