USAID/KENYA

TRIENNIAL REVIEW OF STRATEGIC PLAN

May 2003

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A. Introduction

Kenya's general elections in December 2002 brought an end to 24 years of President Moi in power and a new socioeconomic and political environment. The peaceful and democratic transition promises to lead to reforms resulting in:

- first, re-establishing government credibility in order to restore the business, investor, and donor confidence that will help bring Kenya to a higher growth path of 6-8 percent annually; and

- second, taking actions to fight corruption and strengthen governance institutions, which were weakened under the Moi regime and undermined management of public resources, the effectiveness of public services, the rule of law, and accountability.

The purpose of this paper is three-fold. First, it outlines the measures – particularly, governance issues – that have been taken to date by the new government in responding to the promises and challenges and an emerging broad policy environment. Second, it examines the current USAID/Kenya strategic plan in light of the new Kenya Government's Economic Recovery Strategy and Poverty Reduction Strategy. Third, it proposes possible options for refinement of the USAID/Kenya Strategic Plan.

B. Measures on Governance Issues and Economic Reform

The new government has not only addressed pending governance issues, especially in the areas of concern to the donor community (such as, the passage of two anti-corruption bills, a conditionality in the past IMF program); it has also shown commitment to further reforms in other areas in the medium to long term. The two Bills, *The Anti Corruption and Economic Crimes Bill, 2003* and *The Public Officer Ethics Bill, 2003,* were passed with Presidential ascent. The Ethics Bill paves the way for declaration of wealth by all Kenyan public servants. The Kenya Anti-corruption Commission will be established.

Other governance measures taken or announced by the government are:

- The government has publicly placed the fight against corruption and the completion of the constitutional review process at the top of its agenda.

- The National Constitutional Conference on enactment of a new constitution for Kenya gets underway on April 28. 2003 and a new Constitution is expected to he in place before the end of the year.

- The government has established a Ministry of Justice and Constitutional Affairs, which is spearheading government efforts in the governance area.

- The Ministry of Justice and Constitutional Affairs has just completed a five-year strategic plan prepared in collaboration with both civil society and development partners.

- Other transparency and accountability related legislation on privatization, procurement, financial management and audit and control would shortly go to parliament after cabinet approval.

- The government has established a Department of Governance and Ethics in the Office of the President, primarily to advise the President on governance matters and among other more specific duties, oversee the implementation of the proposed Public Officers Ethics Bill providing guidance to public servants on possible conflict of' interest and ethical matters in the execution of' their duties. The former head of Transparency International-Kenya, who is experienced in such matters and is widely respected, heads the Department.

- The Ministry of Justice and Constitutional Affairs and the Office of the President (Department, of Governance Ethics) on May 4, 2003, launched a collaborative organ, the Public Complaints Office. The Office will receive, process and act on public complaints of mal-administration, abuse of office and corruption and act as the government's clearinghouse for such complaints. It is a precursor to the anticipated Ombudsman office to be established via the constitutiona1 review process.

- The government has formed an Economic Reform Implementation and Coordination Task Force to oversee the fulfillment of the prior actions for negotiating a new IMF arrangement (Poverty Reduction and Growth Facility) and the outstanding measures under the current IDA credit.

- All sales of public assets including housing have been suspended because of concerns about corruption. The government plans to establish a policy framework for privatization to be approved by parliament - providing a transparent process to determine which public assets are to be sold and how privatization should be undertaken. A draft bill is to be presented to parliament shortly.

- All payments of pending bills have been suspended, pending a thorough audit of the outstanding stock, because of concerns about corruption. Task Forces have been established by the government and the Minister for Finance and Minister for Roads, Public Works and housing are reviewing all contracts relating to undertaken for the government and for which payments are pending.

- The reform of the Kenyan judiciary since Independence is underway. The Chief Justice resigned recently following appointment of a tribunal to inquire into his conduct. Another Judge of the High Court also resigned after being charged with corruption.

- With assistance from donors, the government is developing an action program to strengthen the judiciary. The Ministry of Justice and Constitutional Affairs leads this reform program.

- Committee on "Reform and Development" of the Judiciary was appointed by the new Chief Justice in March 2003 with a sub-committee on `Integrity and Anti-Corruption' to deal with corruption in the judiciary.

- All senior public officials under serious investigation for corruption have now been suspended. Prosecution of former other 'untouchables' is already underway.

- Senior Civil Servants and Chief Executives of state enterprises who irregularly deposited funds in a distressed private bank have been charged in Court with abuse of office.

- Major reshuffle of the entire police force has been undertaken and a new Police Commissioner appointed. Discussions are underway to transform the Kenya Police Force into the Kenya Police Service.

- The Anti-corruption Police Unit is currently investigating over 280 cases.

- Seminars and workshops on corruption prevention for civil servants including at the local level are being continued under the auspices of the Public Service Integrity Program of the Directorate of Personnel Management of the Office of the President. There are about 40 such seminars and workshops being conducted countrywide before end of June 2003.

- Infamous "Nyayo House" chambers that were used by the security. services to torture dissidents in the 1980s, marking one of the lowest points in Kenya's history vis-à-vis governance, have been opened to the public and turned into "monuments of shame."

- Program to decongest Kenyan prisons has been started. Human rights groups and the media are now regularly allowed into prisons. Plans are also underway to grant prisoners access to reading materials, TV and radio facilities.

An Economic Reform Program that complements the PRSP process is being proposed, with the elements of reforms that would aim at improving the business environment, facilitate enhanced growth and accelerate poverty reduction. There is also an acute awareness that the government must manage its limited resources more effectively. This awareness has led to the renewal of the Public Expenditure Review process and the Medium Term Expenditure Framework (MTEF).

While planning and management systems remain weak, the Mission is encouraged that the Kenya Government is implementing these tools after a lengthy delay (since the late 1990s) and believes that there is commitment to rationalize expenditures in a fashion that is consistent with national priorities. Although several important steps have been taken in the right direction, many challenges remain, including: the raised expectations of Kenyans and the ability of the government to deliver on its election promises; and critical structural reforms in the financial sector, privatization and civil service reform. The ability of the government to implement successfully the outstanding economic and social reforms is constrained by financial resources and limited human and institutional capacity.

C. Assessment of USAID/Kenya Strategic Plan Implementation and Direction in Light of the December 2002 Elections

As discussed in the USAID/Kenya Annual Report, the Mission's performance show that we have exceed performance expectations in the area of Democracy/Governance (SO6) and have performed acceptably well in the areas of Agriculture (SO7), Natural Resource Management (SO5) and Health (SO3). The more relevant question, however, is whether USAID is maximizing our developmental impact and contribution to the USG's national interests in Kenya. To make this determination, the Mission has conducted internal Portfolio Reviews, held a Mission Retreat (March 2003), and financed an external review assessment by Harris Mule and Associates. The principal conclusions of both these assessments are as follows:

<u>Mission Assessment: Portfolio Review</u>

During the Mission's Annual Report and Portfolio Reviews, we have concluded that overall our current portfolio is contributing to the achievement of the Strategic Objectives. That said, we do recognize that we have the potential to increase our programmatic impact by: improving our resource management, and working more as true partners with the donors and GOK. The area of greatest current concern at this time is our Pipeline Management. This is an area of Mission responsibility. However, the Mission has encountered a number of externalities that are outside of our immediate control that must be recognized. First, due to difficulties in concluding bilateral agreements with the former government, the Mission followed the pattern of unilateral agreements, which limit the Mission's ability to transfer resources from slower-disbursing partners to faster-disbursing partners. Second, given funding uncertainties the Mission has tended to receive funding offered from the G Bureau, the Africa Bureau and State (ESF). Given future year uncertainty, as well as the desire by Central Bureaus to obligate and reduce bureaucratic paper work, the tendency has been that such transfers cover multiple-year expenditures and increase the Mission's pipeline. Inasmuch as these transfers complement our core program, but count against our pipeline, they have the effect of squeezing out our core implementation activities and reducing program impact.

External Review by Harris Mule and Associates

Overall, the assessment, which was undertaken by a group of influential advisors to the current government, found that the current USAID program with modest adjustments was consistent with and supportive of the GOK efforts as indicated in the following table.

In addition to this validation, the review found seven key issues which emerged from their review:

1. Governance Issues and Balance of Power. In the part, USAID activities in this area tended to concentrate on efforts to redress the balance of power between a strong executive, a weakened legislative, and a largely moribund and corrupt judiciary. Because the executive under the previous regime was largely deaf to the vehement message of reform from the strong domestic civil society and a patiently persuasive diplomatic community; USAID's activities were delivered largely through non-governmental agencies and the private sector (largely the media). However, now that there has been a change of regime that is committed to reform, the USAID should take this opportunity to reorient its strategy in this area by working more closely with GOK institutions and machinery for delivery of services.

2. Strengthening the private sector to play a more prominent role in redressing market failures in the productive sectors, particularly agriculture and Micro and Small Enterprises (MSEs). It was noted that restoring the growth capacity of the Kenyan economy would require urgent attention to the problems facing the agricultural sector and the MSEs. These two sectors are not only structurally interlinked; but they are critical to income generation for the vast majority (80%) of the Kenyan population. Policy reforms in this area (market liberation) have left the poorest of the poor vulnerable to persistent market failures that require further support from the GOK/USAID activities. But most critical in this area is the need to build and enhance capacity of the private sector to deliver services, market information, improved market facilities, improved seeds, technology etc more effectively in order to turn the terms of trade in favor of small scale farmers whether in export production or domestic production. In addition, it was noted that there is need for the USAID to enhance its activities in support of farmer organizations to enable the latter to benefit from various trade agreements that open the possibilities of more effective market participation by farmers, particularly in horticulture and the dairy sectors.

3. Enhanced policy dialogue with stake holders in agriculture and the manufacturing sectors. It was noted that even though a lot has been accomplished in terms of policy reforms under the previous regime, the agenda for reforms in the productive sectors is largely unfinished. Much remains to be done o streamline/harmonize the more than 100 pieces of legislative delivery with agriculture; while there is urgent need to come up to with an integrated MSE strategy in Kenya. Equally, the Ministry of Trade needs to be strengthened in order to offer leadership and guidance in trade matters that Kenya is likely to encounter in the globalization process. The capacity of the many nascent private sector organizations in these sectors needs to be strengthened for the private sector to

play a more proactive role in the recovery efforts. USAID's ISP goals and intervention in this area therefore remain valid and need to be strengthened.

4. Infrastructure. In many of its policy papers – the PRSP, ERP – the GoK has identified the collapse of infrastructure as the major constraint to economic recovery efforts. Everywhere one turns, be it the state of roads, water, sanitation, power or telecommunication, the story is the same – collapsed physical facilities; the inefficient and often corrupt management; insufficient capital funds to undertake basic maintenance and repairs. Indeed, the task is so huge that even the USAID has side stepped this area in its ISP. Yet, for meaningful recovery prospects, there is need to address problems in this area, particularly Rural Access roads, for only then will it be possible to create the necessary backward and forward linkages between agriculture and the manufacturing sectors. The report therefore urges the USAID to reconsider its stance in this matter.

5. Education. As in the case of infrastructure, this is an area that does not feature under any of the strategic objectives of the ISP. After considerable involvement in this sector in the early years of independence, the USAID has gradually withdrawn from activities in this area. In the meantime, GOK policies have seen the deterioration of the sector with many of the tertiary training and technical institutions converted into public universities and colleges such that there is now a conspicuous skill gap in the labour markets. Not only is the skill threshold requirement visible amidst rising unemployment; but there is need to cater for the ever increasing output of students from primary schools who crave to enter into such technical training schools. But the problem is not merely one of quantity. Questions about the relevance and quality of education need addressing urgently. Problems about access to education particularly for girls, women and pupils from Arid and Semi-Arid Land (ASAL) areas need to be addressed. Financing of free primary education has also become an urgent policy issue. Lastly, the whole question of priority between primary and post secondary schooling needs to be resolved. Support to policy reforms and institutional capacity building in this sector is identified as one area that the USAID could assist.

6. Natural Resource Management and ASAL. There was a critical interface between NRM issues and problems in agriculture and ASAL areas. Because of rapid population growth, agricultural activities are fast encroaching on marginal areas creating conflict between agriculturalist and pastoralist, not to mention the inevitable conflict between man and animals that such developments generate. In addition, the whole issue of food security is subsumed in this conflict to the extent that these dynamic forces will increase in the future, there is need to maintain USAID engagement in this area.

7. Health. As Kenya makes a successful demographic transition from a total fertility rate of about 8.2 to 4.7 in the space of twenty years, there is need to strengthen MOH's capacity to manage the health system in order to sustain gains made elsewhere in the health delivery systems. One such strategy for USAID would be the support of rehabilitation of health facilities. Another strategy is the expansion of USAID's support for policy analysis and reform.

GOK Economic Recovery Program (ERP) and USAID ISP Interface[1]

Objective	ERP Priority	ISP Priority	Comments
Accountable Governance	Very High	Very High	Should Continue, Expand Efforts with GOK to improve supply of as well as demand for good governance.
Increased Rural Household Incomes	High	Very High	Should Continue, but expand focus from a narrow definition of agriculture to assist in the improvement of the overall economy. Mission is encouraged to examine feasibility of infrastructure (especially roads) as a critical constraint.
Health and HIV/ AIDS	Very High	Very High	Should Continue, but improve coordination with GOK and other donors to ensure the implementation of a national program.
Natural Resource Management	High	Very High	The ERP does not focus on Natural Resources Management due to its short-term economic recovery focus. The SO, however, is consistent with sustainability and rural empowerment that are implicit within the ERP.
Education	Very High	None	2-levels of education activities merit consideration by USAID. The US is recognized as having a comparative advantage in tertiary education. The US may also have an important role to play in terms of assisting the GOK with primary education policy (cost-effectiveness and planning), community mobilization, information, communication technology, and girls' scholarships.

[1] Derived from Mule and Associates Report (Page 19). Comment Section modified to summarize text.

D. Options for Refinement of USAID/Kenya Strategic Plan and Implementation.

As discussed above, the Mission does not believe that significant changes to the Strategic Plan are required. The USAID/Kenya program is currently meeting or exceeding performance targets. We, however, believe that we should examine, make necessary refinements, and be more engaged in working with the new government. The following recommendations are presented in this context. Some recommendations are Mission-specific while others have shared responsibilities with USAID/W.

Recommendations to Improve Mission Performance and Effectiveness within Existing Parameters:

(a) Improve our resource management (pipeline) by;

  (1) Obligating via bilateral agreements rather than unilateral agreements;
  (2) Only requesting funding that can realistically be disbursed within an estimated 12-15 months of obligation;
  (3) Encouraging more proactive hands-on program management by CTOs to ensure appropriate decisions are made.

(b) Better integrating performance measures in our commitment agreements (contracts, grants, and cooperative agreements;

(c) More effectively engage the GOK as a development partner;

(d) Assume a greater leadership role vis-à-vis other donors in the respective donor coordination, Poverty Reduction Strategic Plan/Economic Recovery Plan, and sectoral working groups; and

(e) Providing appropriate CTO and Financial Management Training opportunities.

Recommendations to Improve Mission Performance by Expanding Available Resources

  (1) Program resources to facilitate Kenya meeting the criteria to participate within the Millenium Challenge Account (MCA) Initiative. As the Mission reads the MCA Initiative, we believe that Kenya is poised to participate. We believe, however, that first the Government may need to strengthen its track record, particularly in the area anti-corruption under "Ruling Justly" and trade and economic policy under "Economic Freedom". It is the Mission's view that once Kenya qualifies for MCA funding, it is likely to reduce the demand by the Mission for discretionary resources in the out years.

  (2) We therefore propose that as highest priority the Mission, Bureau and Agency consider the allocation of sufficient resources to permit the Mission and GOK to responsibly address anti-corruption and economic trade and investment constraints. The input requirements from all sources (Bilateral, Presidential Iniative, and ESF are currently

estimated to be some $5 million annual for D/G and $5-10 million for trade and investment.

(3) Formalize and Expand Global Development Alliance (GDA) or Public-Private Partnership Opportunities. Such efforts will permit both the leveraging of funding as well as the injection of new ideas and approaches that will enable the Mission to expand its impact.

(4) Undertake inter-agency transfers to support Development Credit Authority opportunities to ensure adequate capital availability for Microenterprise and other sectors as appropriate.

(5) The USG has a unique opportunity to support the GOK renewed commitment to basic education. Shortly after taking office a new policy was put into effect for universal primary education. In early May, the Minister of Education visited USAID/W to appeal for support for the new government education reform program. Coincidentally, Kenya has been identified to receive $4 million ($2 million if FY 03, and $2 million in FY 04) under the Anti-Corruption/Islamic Education Initiative. USAID/Kenya sees the confluence of events as a strategic opportunity to both support the GOK education reform program and develop activities to address the education needs for marginalized Kenyans in the Northeast and Coastal (mostly Islamic) areas.

E. Mission Issues for Discussion.

(1) Harmonizing the Life of the Strategic Plan. The current ISP clearly needs to be extended. The Completion Date of the ISP is 2005, but includes funding during that year. The HIV/AIDS Strategy will be fully integrated within the SO3 and Mission Portfolio but is projected to continue through 2008. The Mission requests that the Completion Date of the ISP and the HIV/AIDS Strategy coincide. Given that the HIV/AIDS Strategy is just being reviewed this summer, we would recommend that a 2007 or 2008 date be approved for both. Once the completion date is determined the Mission will update both the Results Framework and Performance Monitoring Plan to be consistent with the new date.

(2) Funding Parameters. The Mission would appreciate guidance with regard to the establishment of funding parameters for all sectors.

(3) Structure of the Strategic Plan/Results Framework. Currently the Mission has four Strategic Objectives and one Special Objective. The Special Objective (Bomb Response) will end September 30, 2003. The Mission is proposing two new areas: trade and investment, and primary education. The Mission would appreciate guidance with regard to current Agency thinking in terms of the number of objectives.

(4) Design of new objectives. Mission requests advice on availability of assistance from G and AFR/SD in the design of any new activities approved.

(5) Staffing and OE implications. In support of the new program areas, the Mission will require additional staff, particularly, a Trade and Investment program specialist and manager, and an Education advisor and program manager. It is anticipated that these positions will be PSC positions. While it is anticipated that they will eventually be program funded, initial OE funding may be needed.

Annex: A Review of the 2001-05 Integrated Strategic Plan

Goal: A Well-Governed and More Prosperous Kenya

The current goal statement is very broad and ambitious. Each of the Strategic Objectives contributes to the achievement of the goal. The strategy is conceived in such fashion to encourage cross-sectoral synergies and enable the goal to be greater than the sum of the Strategic Objectives. The Mission argues that additional objectives or SO components in the areas of Trade and Education will enable the Mission to better address the goal than the current strategic objective formulation.

SO3: Reduce Fertility and the Risk of HIV/AIDS Transmission through Sustainable. Integrated Family Planning and Health Services.

IR 3.1 Improved enabling environment for the provision of health services;
IR 3.2 Increased use of proven, effective interventions to decrease risk of transmission and mitigate the impact of HIV/AIDS;
IR 3.3 Increased customer use of FP/RH/CS services.

(1) *Development Hypothesis*:

The Intermediate Results are logically linked and consistent with funding at the planned $15 million per year level. Improvements in the enabling environment for health services (IR3.1) facilitate the achievement of both IR3.2 and IR3.3. IR 3.2 and 3.3 will expand the availablity of services and improve service delivery programs through applied research. They will also increase the demand for these services through community-level and interpersonal communications as well as mass media campaign.

(2) *Assumptions*:

The assumptions of the necessary strategic objective remain valid but must be updated in light of the December 2002 elections and aftermath that have shown increased GOK ownership, commitment, and engagement in the areas of health and population policy and programs. Specific assumptions include:

(a) Additional staff are employed;
(b) Special efforts to ensure complementary program areas, e.g. family planning, child survival, health are not lost;
(c) Donor coordination in programming and institutional capacity building is achieved;
(d) GOK will remain committed and supportive partner in population and health sector.
(e) Environment that promotes freedom of information to people of all ages will prevail; and
(f) Customer demand for family planning will not be adversely affected by either the deterioration of the economy or child survival rates.

(3) Progress Towards these Goals:

USAID continues to be Kenya's leading population and health donor, providing technical, commodity, and financial assistance to programs in family planning, HIV/AIDS, and child survival. Major health challenges remain, however. HIV sero-prevalence among adults rose from under 5% in 1990 to 13% in 2001. Over two million HIV-positive Kenyans, and almost one million HIV/AIDS orphans, require care and support. Despite Kenya's rapid fertility decline, large numbers of women are entering their reproductive years and will need family planning services. Under-five mortality rates increased by 25% from the late 1980s to the mid-1990s.

The Mission's health and population program continued to achieve results. Preliminary data show that Kenya's HIV/AIDS efforts are paying off, with HIV prevalence among antenatal women leveling off and falling to an estimated 11% in 2002. USAID efforts contributed to this success. Sales of socially-marketed Trust condoms increased 15% over FY 2001, to 17 million. USAID projects established 26 new voluntary counseling and testing (VCT) centers, bringing the total to 56 public and private sector sites. These provided services to over 57,000 people in FY 2002.

(4) Future Prognosis:

USAID/Kenya estimates that the future prognosis of this Strategic Objective is excellent. As indicated above, performance to date has met or exceeded all performance expectations. We anticipate that this progress will be reinforced by: (1) increased GOK ownership and commitment to work as a development partner with USAID in addressing the country's health issues; (2) an environment that is more conducive to information exchanges; (3) an economy that is expected to improve in the medium-term due to the GOK's emphases on anti-corruption, trade and investment; (4) improved donor coordination; (5) the development of the Mission's HIV/AIDS strategy; and (6) additional HIV/AIDS funding. The draft HIV/AIDS strategy more effectively integrates HIV/AIDS activities within the SO as well as strengthening the contribution of the nutrition component and supporting activities to enhance and link livelihood opportunities for HIV/AIDS affected families through non-health, but essential activities such as micro-enterprise finance, land use rights, education, and democracy and governance.

SO5: Improved Natural Resources Management (NRM) in Targeted Biodiverse Areas by and for Stakeholders.

IR 5.1 Site specific initiative for NRM implemented outside protected areas;
IR 5.2 Encroachment and subdivision reduced;
IR 5.3 Improved management of protected areas; and
IR 5.4 Environmental advocacy strengthened.

(1) Development Hypothesis:

The important relationship is in the interaction between causes and effect that occur between the protected and the surrounding areas. The primary assumption of this hypothesis is the availability and awareness of incentives (access, user rights, financial and social benefits) favorable to improved NRM practices. Incentives will attract and motivate local communities and individuals to change their behavior regarding natural resources. Behavior changes require that communities and individuals have access to appropriate tools, technologies, information, and training as well as incentives to use these means to change their behavior. Initiatives will be tailored to meet local needs within each target area. Focusing only on behavioral change within targeted areas was believed insufficient to achieve the SO. Broader engagement of environmental advocates on the national and local level is required to ensure broad support for NRM initiatives and the institutional changes necessary for long-term conservation of Kenya's vital biodiversity.

(2) Assumptions:

Critical assumptions to achieve SO5 are:

(a) Disruptions from internal or regional conflict in priority areas or adjacent to protected areas will not be so extreme as to fundamentally undermine the program.

(b) That political will for policy reform and collaboration within the NRM sector will not deteriorate.

(c) That Kenya's macroeconomic policies and the political climate remain essentially supportive of the proposed objective. A stable and healthy macroeconomic environment is required to provide the government with resources to invest in development, public services, and infrastructure essential to the tourism sector, including roads and telecommunications. A stable economic environment also promotes lower interest rates and encourages the domestic and foreign investment that helps economic growth.

(3) Progress Towards these Goals:

USAID's NRM program works to reverse, halt or lessen the unsustainable use of natural resources outside protected forests and wildlife and marine areas through a community-based approach that effects positive behavioral change toward the management of these resources. Due to USAID support, eight site-specific initiatives secured 11,150 hectares for conservation in 2002, bringing the total to 668,090 hectares in community/private conservation areas to date. In collaboration with the private sector, our program created the first conservation lease scheme, with 77 landowners bordering the Nairobi National Park agreeing not to sell, fence, subdivide or carry out illegal wildlife practices on 2,546 hectares under the terms of an annual lease valued at $7,792. Nature-based enterprises generated $143,000, created 97 jobs and 1,647 new business shareholders, providing wages, cash dividends and critical infrastructure improvements such as schools, clinics and water supplies.

(4) Future Prognosis:

The Mission's assessment is that with the NARC government's leadership in the environment sector, the future for Natural Resource Management is brighter in Kenya than it has been in the past. The development hypothesis and underlying assumptions remain valid. The new Government has clearly articulated its desire to preserve the environment and benefit its citizens peoples, including those in arid and semi-arid lands (ASALs) who are perceived to have been marginalized over the years. We believe that a broader engagement of environmental advocates on the national and local level will facilitate expanded support for NRM initiatives and the institutional changes necessary for long-term conservation of Kenya's vital biodiversity. Already, the implementation of the Water Act and Environmental Management and Coordination Act has begun in earnest while the Forest Bill is being reviewed and consultations started to review the Wildlife Act. These reforms are critical to creating an enabling environment for enhanced natural resource management by stakeholders through provision of suitable development incentives, providing legal user rights and ownership over resources and sustainability. SO 5 will likely have improved impact by taking advantage of the new government's priorities and it will focus on providing relevant government decision-makers with crucial data to create awareness and sustain their interest towards supporting community based natural resources management systems.

Improvements in the economic climate in the medium-term are expected to result from the Economic Recovery Program. Once these improvements occur, we anticipate an increase in GOK resources to invest in development, public services, and infrastructure essential to the tourism sector, including roads and telecommunications. This too, should increase the awareness and provide incentives for the Strategic Objective to achieve the expected impact.

Additionally in order improve the effectiveness the program will:

- Continue building the capacity of national and regional forums and networks that represent the broader community of interest in conservation and natural resource management in Kenya. The strategy will be to empower local and regional forums to be transparent and capable organizations to forward their constituents issues on NRM governance at national level forums such as the Kenya Marine Forum and the Kenya Wildlife Working Group;

- Replicate and scale up the number of innovative community-based enterprise activities that address defined problems and can deliver tangible economic and social benefits by identifying public-private partnerships towards Global Development Alliance objectives. Although the program has done very well in attracting local private sector investments and forging viable partnerships, there is room for up scaling and bringing on board international private sector investment partnerships. These partnerships would significantly increase resources for investment and increase the number of beneficiaries at lowers cost to the Mission. The Mission is also exploring using the DCA to provide guaranteed loans to private sector to support investments in NRM (via eco-tourism, non-timber forest product development, for example).

SO6: Sustainable Reforms and Accountable Governance Strengthened to Improve the Balance of Power among the Institutions of Governance

IR 6.1 Civil Society Organizations (CSOs effectively demand or lobby for reforms and monitor government activities.

IR 6.2 Increased independence of select government institutions.
IR 6.3 More transparent and competitive electoral processes.

(1) *Development Hypothesis:*

The Intermediate Results are logically linked. The 1996-2000 CSP had a two-prong approach: (a) the development of civil society organizations to generate information and advocate for reforms, and more transparent electoral processes. In the current ISP, the Mission added a third prong: support for selected government institutions to promote their independence. The hypothesis is that – with more independent government institutions – not only will reforms be sustainable, but that mechanisms for both elections and government accountability will also be strengthened. These two elements will work to improve the balance of power among the institutions of governance.

The Mission's assessment is that the development hypotheses remain valid. As demonstrated by the recent elections the IRs related to CSOs lobbying for reforms and more transparent and competitive electoral processes are sufficient to initiate reform. They, however, are not sufficient to achieve the SO of "sustainable reforms and accountable governance strengthened". The successful elections are the starting point, not the finish line for successful achievement of the Mission's democratic governance strategic objective.

(2) *Assumptions*:

The assumptions of the necessary strategic objective remain valid.

- Liberalization of the political environment continues and does not revert to the pre-1992 repressive period.

- Economic conditions do not deteriorate to such a degree that the program would be fundamentally undermined.

(3) *Progress Towards these Goals*

As discussed in the 2003 Annual Report, the SO is well into the second year of implementation, the overall program is exceeding its targets. In the area of transparent and competitive elections key results include improvements in the electoral enabling environment, monitoring of electoral related violence and intimidation, and election administration. In the parliamentary strengthening program one indicator did fall short of the target, however, all other target were exceeded. Parliament is more independent and committees are stronger. Civil society organizations continue to be fundamental in the pursuit for good governance and exceeded all indicator targets. CSOs not only effectively lobbied for reforms, they foresaw the challenges of working with parliamentarians increasingly focused on elections, changed tactics and targeted the constitutional review process. Consequently, the draft constitution enshrines fundamental provisions including a stronger system of checks and balances, more transparent governance, and gender equity.

(4) Future Prognosis

The future prognosis for this SO is directly related to resource availability. The DG SO Team and our GOK partners' best estimate is that to achieve the objective of "Sustainable Reforms and Accountable Governance Strengthened to Improve the Balance of Power among the Institutions of Governance" it will cost an estimated $ 5.0 million per annum for the FY 2004-06 period from DA, ESF, and Presidential Initiative Funding. Given the guidance on distinctions between DA and ESF, we estimate that a minimum of $3 Million in DA is required. This scale-up is due to the institutional strengthening required within GOK to improve transparency, good governance, anti-corruption, and the rule of law that are implicit within the SO. Experience to date has been that both DA and ESF funding has been somewhat unreliable. The current FY 2004 level of $1.0 M DA is insufficient to permit the Mission to constructively engage and support the GOK in these issues that have domestic, regional, and international implications. Should the necessary funding be made available, the Mission is optimistic that Kenya will not only be on the cutting edge with regard to a democratic electoral processes, but will be able to serve a leadership role in the area of good governance. The impact will also be felt in the areas of economic growth, trade, investment and to some extent tourism. It is the Mission's assessment that increasing the DG program funding to reasonable levels should be the Mission and Agency's highest priority.

SO 7: Increase Rural Household Incomes.

IR 7.1 Increased productivity of targeted agricultural sub-sectors;
IR 7.2 Increased agricultural trade;
IR 7.3 Increased access to business support services for micro-and small enterprises; and
IR 7.4 Increased effectiveness of smallholder organizations to provide business services to their members and represent their business interests.

(1) Development Hypothesis:

(a) Producers are economically rational. Both men and women must be able to choose the production options that will provide them the highest returns. In the high and medium potential agro-ecological zones (AEZs), producers have a wider choice of alternative cropping/livestock systems while producers in the more marginal areas have fewer choices available.

(b) The SO supports marketing and trade, since increased productivity alone will not guarantee increased incomes. Without market outlets and demand for products, farmers will have no incentive to invest in production-enhancing technologies. Regional and international markets are increasingly important as a source of demand.

(c) Micro and Small Enterprises (MSEs) are critical to increasing incomes in rural and urban households in that they are a source of capital for investment in other profitable activities that often support agriculture and the agricultural sector. They also provide anywhere from 12 – 80% of rural household incomes, depending on the agro-ecological zone.

(d) Smallholders can benefit from forming business-based groups (cooperatives, companies, associations or others) for a common set of objectives, including by and for women. These groups can increase members' power to negotiate in markets, take advantage of economies of scale, and improve members' access to/ or provide services at lower costs than alternative mechanisms.

(2) Assumptions:

Critical assumptions to activities undertaken to achieve SO 7 include:

(a) That security will not deteriorate to a degree that would fundamentally undermine the activities proposed to achieve the objective;

(b) That Kenya's macroeconomic policies and the political climate remain essentially supportive of the proposed objective. A stable and healthy macroeconomic environment is required to provide the government with resources to invest in development, public services, and infrastructure essential to the agricultural sector, including roads, telecommunications, and research. A stable economic environment also promotes lower interest rates and encourages the domestic and foreign investment that helps the economy grow.

(c) That market-distorting insecurity in several areas of Kenya remains localized. For example, livestock movements from the north to markets in the south are frequently inhibited by insecurity along major market routes. Insecurity results in higher prices, as risk factors are added to traders' costs. Potential investors, domestic and foreign, are reluctant to invest if security is a concern. Violence related to the 1997 elections resulted in marked declines in tourism, decreased investment in areas of unrest, and an extremely long economic recovery period. Many micro- and small enterprises were burned, and most had no insurance to cover such losses.

(3) Progress Towards these Goals:

Agriculture and Microenterprise Development: This objective aims to increase rural household incomes in Kenya from both agriculture and microenterprise activities since 80 percent of Kenya's population live in the rural areas and 75 percent are involved in agriculture. USAID-supported activities increased the production of improved, certified maize seed by 430 percent above its target in 2001/2002, and there was a 30 percent increase of farmers in the project area using improved, certified seed, against a target of 20 percent. In the dairy sector, USAID projects have reduced milk loses by $701,912 over the past year. By the end of September 2002, a cumulative total of $42 million in loans had been provided to 86,750 micro and small business loans, and approximately $25 million had been mobilized in savings accounts through USAID-supported microfinance institutions. PL 480 Title II assistance continued achieving sustainable improvements in food security and increases in rural household incomes in the ASAL areas of Kenya via funding program activities in agricultural/livestock production, marketing of produce, and water, sanitation, health, nutrition, and rural infrastructure development.

(4) Future Prognosis:

The prognosis for this Strategic Objective is believed to be sound and is likely to improve as Kenya begins to experience the benefits of the Economic Recovery Program which is expected to encourage profit-maximization behavior in rural areas.

The basic assumptions remain valid, but in recent years the stagnant economy compounded by drought has limited the impact. Another observation is that while farmers are economically rational, the focus is generally on welfare maximization, i.e. either profit maximization or risk minimization. This is particularly true in cases of prolonged economic down-turns.

It should be noted that this SO may give the appearance of being a slow-starter. This appearance is deceiving. To implement the current program, the Mission has had to develop five new programs (maize, dairy, horticulture, business development services and biotechnology), issue Requests for Assistance/Proposals and award grants/contracts in 2002. While the program is the logical descendent of previous USAID/Kenya investments, it is nonetheless new. Implementation was delayed because two of these awards had to be retroactively modified to ensure that linkages with the business development services were incorporated, and all had to meet USAID environmental compliance requirements. Almost all new projects are currently in public-private partnerships, and are looking to expand these towards the Global Development Alliance goals.

Early indications are that the dairy and maize programs will provide excellent results in increasing productivity, decreasing costs of production to make these products more competitive within Kenya and outside. Both groups are just starting on the BDS paradigm that in many cases will greatly increase the sustainability of USAID investments even after the USAID funding has expired. The SO is working on private sector systems to provide a wide range of services to farmers from input provision, marketing, financial services, business services, technology transfer, transport, etc. The latest development is the use of the DCA to leverage up to $20 million in guaranteed loans to micro, small and medium enterprises, including those directly in the agricultural sector. Rural credit has been a major challenge both for USAID and for Kenya.

In spite of the lengthy "birthing process", the Mission is confident that the SO is on the right track and will achieve the desired results.

(5) Gaps: While the SO is valid and very well placed to achieve its objectives, there are gaps in the strategy. USAID supports agricultural policy research and dissemination activities via Tegemeo Institute, but due to the previous government's lack of political will, we did not support government ministries to develop their capacity for policy analysis and implementation. With the NARC government, this could change, albeit more slowly in agriculture than perhaps in other sectors due to the large and moribund institutions involved.

Trade capacity: The SO deals with trade at a producer and trader level, but does not deal with the higher level capacity issues in the government nor the private sector, both of which are weak regarding trade policy, negotiations and analysis.

General capacity in agriculture: The first 2 points are rather specific, but there is a general erosion of capacity in Kenya's agriculture sector. Many US trained officials have left the public sector or are soon to retire. This affects agriculture research, agricultural policy analysis and implementation, and agricultural economics in key institutions: government, university and private sector.