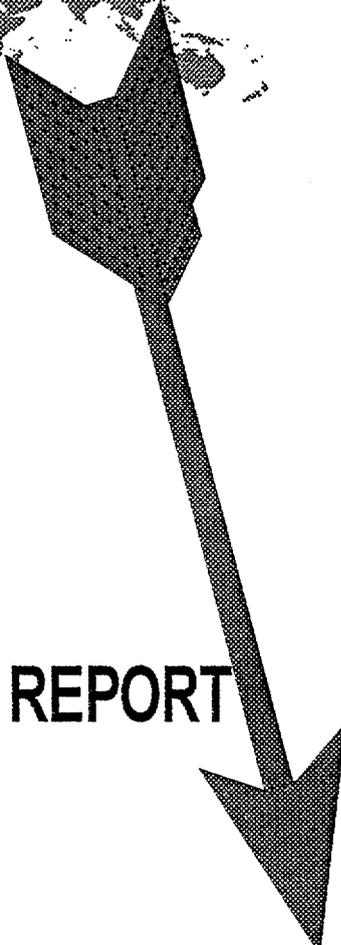
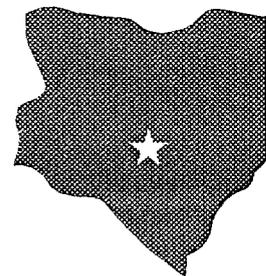


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USAID/KENYA RESULTS REPORT

"MANAGING FOR RESULTS"



MARCH 1, 1996

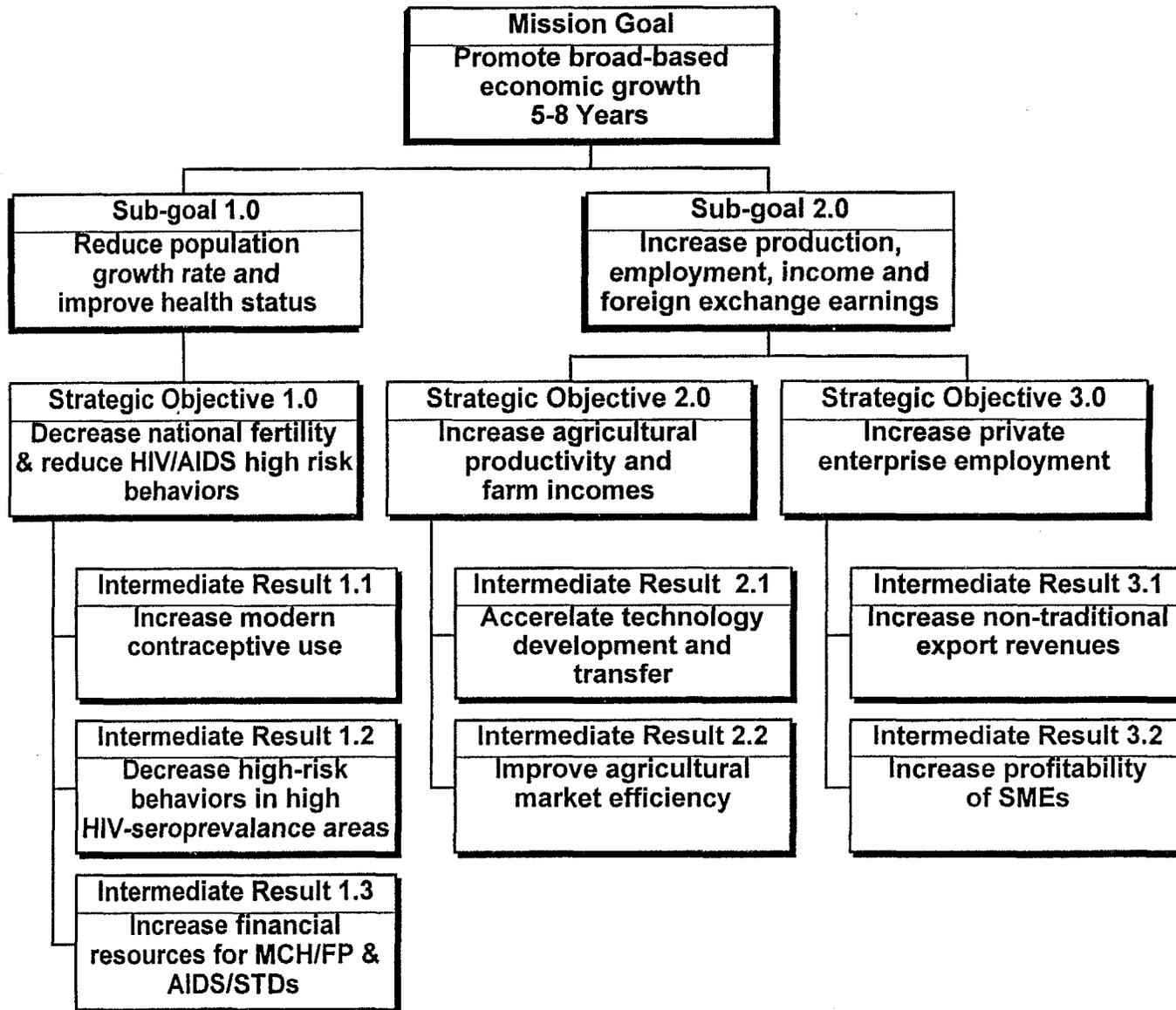
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ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
AIDSCAP	AIDS Control and Prevention Project
AVSC	Association for Voluntary and Safe Contraception
CBS	Central Bureau of Statistics
CIF	Cost, Insurance, Freight
CPR	Contraceptive Prevalence Rate
CRS	catholic Relief Services
CSM	Contraceptive Social Marketing
DAP	Diamonium Phosphate
DRSRS	Department of Resource Surveys & Remote Sensing
EEC	European Economic Community
FP	Family Planning
FY	Fiscal Year
GDP	Gross Domestic Product
GOK	Government of Kenya
HCDA	Horticultural Crops Development Authority
HIS	Health Information System
HIV	Human Immunodeficiency Virus
HYV	High Yielding Variety
IMF	International Monetary Fund
IUCD	Intra-Uterine Contraceptive Device
KARI	Kenya Agricultural Research Institute
KCPS	Kenya Contraceptive Prevalence Survey
KDHS	Kenya Demographic & Health Survey
KEDS	Kenya Export Development Support Project
KHCF	Kenya Health Care Financing Program
KMAP	Kenya Management Assistance Program
KMDP	Kenya Market Development Program
KREP	Kenya Rural Enterprise Program
KSHS	Kenya Shilling
MCH	Maternal Child Health
NGO	Non-governmental Organization
NTE	Non-Traditional Export
P/PHC	Primary/Preventive Health Care
PSI	Population Services International
OYB	Operational Year Budget
SME	Small and Medium Enterprise
STD	Sexually Transmitted Disease
TFR	Total Fertility Rate
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
VSC	Voluntary Surgical Contraception

USAID/Keny Strategic Framework, 1990-1995



III

INTRODUCTION

USAID Kenya is pleased to submit its Results Report for 1995 which highlights the theme of impact over time. The Kenya program has amassed an impressive record of program impact, a product of concentrated, sustained investment, together with strong donor coordination and a dedication to results. The program is a mature, results-producing effort which has had an impact on the well-being of the Kenyan people. Its lasting effect spreads beyond the nation's borders as the work done here, especially in agricultural research, family planning, and microenterprise, provides lessons for other countries in the region to define and solve their development problems.

Despite inevitable transitional ups and downs, Kenya is making excellent progress in economic reform and remains a stable island in the sea of crises that is the Greater Horn of Africa. However, like many other sub-Saharan African countries, Kenya faces many long-term developmental challenges and near-term constraints. It must continue to make further progress in political liberalization and democratization, while maintaining stability and sustaining improvement in the living standards of its people. The challenge now must be how best to assist Kenya to manage its on-going economic and political transition peacefully and orderly, while making progress towards addressing its development constraints.

The Kenya Family Planning Program is a success story for Africa. The country's population growth rate has fallen from one of the highest on the continent to one of the lowest in just over 15 years, in large part due to USAID's sustained technical, financial and commodity assistance. The Kenya Health Care Financing Program has set an example that nine other African countries are emulating as they design or modify their own strategies to cope with health care financing issues.

Mission programs in the economic growth area are models in the region. The Kenya Agriculture Research Institute is recognized as one of the best research institutes on the continent. Nearly 80 percent of the maize area of the country is now planted with improved varieties which are sold throughout the region. This combined with successful agriculture policy reform has had major impacts on the food security of the poor. The Research Institute provides critical leadership on regional agriculture research issues. Egerton University, a long term mission partner, is the leading agriculture training institution in the region. In private sector development, the Mission has broken new ground in venture capital and microenterprise lending, and is preparing to assist a local non-governmental organization in its transition to a self-sustaining bank modeled on ones in Asia and Latin America.

These successes are successes in which USAID has played a key role, and in an era when Congress is demanding results for its foreign assistance, Kenya can and has delivered. But these gains are fragile and will need continued support to protect them. In addition, other issues, such as the HIV/AIDS epidemic and slow pace of democratization, need to be addressed if Kenya is to achieve sustainable development. And, above it all, one can not avoid the reality that Kenya's economic development is central to development of this region.

SPECIAL FACTORS AFFECTING THE USAID/KENYA PROGRAM PERFORMANCE

Last year, the program was affected by a number of special factors as analyzed below:

A Major Leap in Economic Reform: Kenya has done remarkably well in implementing economic and structural reforms. With a reform minded team headed by the Minister of Finance and the Governor of Central Bank of Kenya, Kenya has implemented in the last two years, an ambitious, AND essential, economic reform program. As a result, Kenya's macroeconomic environment is now stable. The government budget deficit (commitment basis) which was 10.4 percent and 7.4 percent of GDP in FY 1993 and FY 1994 respectively, stood at 2 percent of GDP in FY 1995, a significant drop. Inflation, which reached the highest level in the 1993 (over 100 percent), was brought down to single digits last year. Correspondingly, money supply growth has been brought under control, from a high of 34 percent in 1991/92 period to 15 percent in 1995. The exchange rate, which is market determined, has appreciated and stabilized around KShs. 55 per dollar. Fiscal policy has been tightened resulting in a substantial reduction in the budget deficit. All these factors led to a resumption of economic growth in Kenya. Real GDP growth recorded an impressive 5 percent in 1995 up from a respectable 3.3 percent in 1994. For the second year running, GDP growth has surpassed population growth. Thus, it is not surprising that the government has set a 7% GDP growth rate as its target for 1996.

Last year, the GOK made significant strides in implementing necessary structural reforms. The Exchange Control Act was repealed and the exchange rate is now market determined. Import licensing and virtually all trade restrictions (except for a short list of products essentially controlled because of health and environment reasons) have been abolished. Price controls, including controls on important commodities such as maize and petroleum products, have been lifted. These reforms have resulted in improved trading opportunities for foreign investors.

With respect to privatization of public enterprises and parastatal reform, some progress was made in the former, but only halting progress in the latter. To date only 72 enterprises and 39 tea factories have been privatized out of 207 that were earmarked for sale by GOK. In addition, transparency of transactions completed so far remains questionable. Another difficulty in privatization relates to parastatal reform. The problem is more evident in a few key parastatals, especially the National Cereals and Produce Board and the Kenya Posts and Telecommunications Corporation. On the civil service reform, the process of reducing staff and restructuring of some government ministries last year was progressing rather slowly, but the pace has thus far picked up and is moving on well.

Political and Democratic Trends: Although Kenya completed multiparty elections in 1992, the GOK, has not fully embraced democratic reform. The process of transition to multiparty democracy has faced serious setbacks. Opposition members of parliament are denied meeting licenses, two civil society organizations were deregistered last year, while non-governmental

organizations (NGOs) have been denied registration. Notwithstanding these problems, civil society in Kenya is vibrant and strong and the independent press continues to publish information critical of the government without reprisals. The opposition is recognized by the government and its presence in parliament serves to some extent as a major counter-balancing force against excesses by the government. In the realm of public accountability, the GOK made progress in closing significant loopholes for rent-seeking behavior by repealing the Foreign Exchange Control Act, eliminating all price controls, abolishing maize movement controls and removing import and export licensing. The presence of a strong opposition representation in Public Investment and Public Accounts Committees, two parliamentary powerful committees that vet government projects and accounts has improved accountability and transparency and reduced political corruption. Currently, governance issues are increasingly becoming critical and visible. The GOK took a bold step last year to prosecute several high ranking officers implicated in major public financial scandals. During this year of reporting, the anti-corruption unit, a special police unit charged with investigating and prosecuting corrupt civil servants was given more powers and this resulted in the arrest and suspension of senior Kenya Ports Authority and custom officials, including a permanent secretary.

USAID is addressing some of these key problems that are halting Kenya's transition to multiparty democracy. The Embassy and USAID are working together to enhance the process of transition to multiparty democracy through both policy dialogue and funding democracy/governance project activities. The Mission is currently managing 12 grants to local and international NGOs working on the area of democracy and human rights. USAID has been instrumental in influencing other donors to press the government to make changes in the democracy and governance sector. In addition, several of the key Ambassadors have started a series of consultations and dialogue with the key GOK officials on non-economic issues.

Good Rains: The severe drought that affected Kenya for three consecutive years since 1991, and which, at its peak affected over two million people ended last year. The country received substantial rainfall last year. The intensity and spatial coverage of the rain led to good agricultural conditions and above average production. Generally, heavy rain in the high agricultural potential zones in the southwest, to the central highlands around Mt. Kenya, and to the arid pastoral districts in North Eastern Province areas resulted in good harvests. Consequently, significant stocks of grains were maintained by the cereals monopoly, the National Cereals and Produce Board, as strategic reserves. As a result, the Mission supported emergency and rehabilitation efforts and the drought monitoring unit closed last year.

Ethnic Clashes: The 1991-94 Rift Valley and Western Kenya ethnic clashes which affected mainly subsistence farmers, small businesses and women and children subsided in 1994. In 1995 there were minor isolated cases of ethnic violence which were a product of a calculated political strategy, rather than of ancient tribal hatreds. While the clashes subsided in the last two years, the results of the clashes and the tensions that certainly do exist with respect to various ethnic groups, continue to have a negative effect on USAID/Kenya's development activities in Western and Rift Valley Provinces. Last year, the Mission, using Office of Foreign

Disaster Assistance and Food for Peace resources, contributed to reconciliation efforts in Kenya. Though the Mission support focused primarily on emergency relief and rehabilitation, these efforts have also fostered an environment more conducive to ethnic reconciliation. Risks for ethnic tensions to flare up again around the 1997 general elections remain a reality.

Budget: Budget availabilities have become a major problem for USAID/Kenya. A cap of \$18 million per year has been imposed on all AID sources of funding for USAID/Kenya in FY 96. USAID/Kenya's total funds in FY 95 were \$38.8 million, including \$18.2 million in OYB, \$16.2 million from the Global Bureau and \$4.4 million in Title II resources. The Title II program has been suspended in FY 96 until such time as USAID reaches an agreement with the GOK on the issue of taxation of monetized food aid.

Latest estimates for USAID Kenya show an allocation of \$17 million for FY 96. If this budget allocation holds with the earmarks and directives indicated in February 1996, the population and health portfolio will suffer an 18 percent cut from its FY 95 levels while the agriculture and private sector portfolio will suffer a devastating 83 percent cut. The democracy and governance special objective will suffer a 66 percent cut.

These cuts will have profound implications for USAID/Kenya's ability to produce results in the future. The Mission's ability to provide lessons for the region will obviously diminish as will be the Mission's ability to contribute meaningfully to the Greater Horn of Africa Initiative.

Overview of progress in reaching program goal and sub-goals: USAID and other donors are contributing to achievement of the Mission's program goal of promoting broad-based economic growth in Kenya. In 1995 real GDP growth is estimated at 5.0 percent and has surpassed population growth rate. Life expectancy at birth is currently over 60 years, higher than the Sub-Saharan average of 51 years. Nonetheless, AIDS mortality is projected to shorten significantly the average Kenya's life expectancy from 56 to 40 years by the year 2010. In addition, USAID and other donors are contributing to reduction of population growth rate and improvement of health status of Kenyans, our first sub-goal. Population growth rate decreased from 4.1 percent in 1980-85, which was one of the highest in the world, to an estimated 2.7 percent in 1995. After steady declines beginning in 1960, both infant and mortality rates have stagnated.

Both the agricultural and private sector portfolios are contributing to achievement of results on USAID sub-goal of increasing production, income, and employment growth. Although the performance of agriculture was affected severely by drought in 1993-94 period, the sector continues to be an important sector in Kenya's economy, contributing about 25 percent of the GDP, employing about 70 percent of the work force and providing 60 percent of export earnings. The World Bank estimates that the private sector accounts for roughly three-quarters of total output and nearly 90 percent of total employment. An analysis of how USAID is contributing to achievement of the goal and sub-goals is found in the following section.

STRATEGIC OBJECTIVE 1: *Decrease National Fertility and Reduce HIV/AIDS High Risk Behaviors.*

The 1994 USAID/Kenya reported a dramatic drop in Kenya's Total Fertility Rate from 6.7 (1984-1989) to 5.4 (1990-1993) -- one of the most precipitous declines ever recorded, with profound implications for the health and welfare of Kenyan women. Further analysis based on the 1993 Kenya Demographic and Health Survey indicate that the total fertility rate has fallen to the 5.0 level in which case the USAID 1995 target has been attained. USAID has been the key donor contributing to this success. For over 20 years, USAID has been a reliable provider of technical, financial, and commodity assistance to the family planning program, and for 10 years has been a lead donor to the HIV/AIDS prevention and health care financing programs. USAID has also made important contributions to child survival in Kenya by focussing on increasing access to family planning, reducing HIV transmission, and increasing local funding for health and family planning programs, including child survival programs, through the national cost-sharing program.

The AIDS epidemic continues unabated in Kenya. HIV prevalence among adults increased

Highlights

- Analysis based on the 1993 Kenya Demographic and Health Survey indicate that total fertility rate has fallen from 6.7 in 1984-89 period to the 5.0 level in 1995, meeting the USAID target.
- Modern contraceptive prevalence rate among all women of reproductive age increased to 25 percent in 1995 from 9 percent in 1984, meeting the USAID target.
- Total fertility rate fell from one of the highest in the world (8.1 in 1977-78) to one of the lowest in Sub-saharan Africa (5.0 in 1995), meeting the USAID target.
- The population growth rate decreased from 4.1 percent in 1980-85, which was one of the highest in the world, to an estimated 2.7 percent in 1995, surpassing the USAID target.

from 3.5 percent in 1990 to 5.7 percent in 1993 and had reached 6.7 percent at the end of 1994 (the latest year for which national surveillance data/analysis are available). This means that approximately 890,000 adults and 60,000 children were living with HIV as 1995 began. Should HIV sero-prevalence increase to 10 percent by the year 2000 (a conservative estimate), we would expect a quarter of a million people to develop AIDS every year in Kenya.

SUMMARY OF DATA FOR STRATEGIC OBJECTIVE NO. 1

	Baseline	Actual				Performance Target	Data
		1989	1993	1994	1995	1995	Source
STRATEGIC OBJECTIVE 1							
DECREASE NATIONAL FERTILITY AND REDUCE HIV/AIDS HIGH RISK BEHAVIORS							
Total Fertility Rate (TFR)	7.7 (1984)	6.7	5.4	5.0	5.0	5.0	KCPS/DHS
Percentage of men reporting 2+ sexual partners in the previous six months	31.7 (1993)	-	-	-	-	-	AIDSCAP
Intermediate Target							
INCREASE MODERN CONTRACEPTIVE USE Modern Contraceptive Prevalence*							
	9% (1984)	14.7%	20.8%	21.7	25%	25%	KCPS/DHS
Intermediate Result 1.1							
IMPROVE AVAILABILITY OF FAMILY PLANNING SERVICES							
Number of USAID-supported sites offering voluntary surgical contraception	4 (1984)	49	65	100	124	76	AVSC/DFH
Percentage of district stores maintaining adequate stock (3+ months) of: a) low-dose oral contraceptives; b) condoms	a) 35.5 b) 18.9 (1989-1990)	70.6 34 (1991-1992)	74 70	70 63	80 75	80 80	LMIS/HIS LMIS/HIS
Number of public sector facilities offering family planning services	577 (1984)	750	1004	1088	1,200	2,404	LMIS/HIS
Number of private sector/NGO sites offering family planning services	181 (1984)	-	800	838	1,000	1,000	LMIS/HIS
Intermediate Result 1.2							
REDUCE UNMET DEMAND FOR CONTRACEPTIVES							
Discrepancy between actual and desired total fertility rate	-	2.7	1.6	1.3	1.0	1.0	KCPS/DHS
Intermediate Result 2.0							
DECREASE HIGH-RISK BEHAVIORS IN HIGH HIV-SEROPREVALENCE AREAS							
Proportion of people who can identify at least 2 acceptable means of preventing sexually transmitted HIV/AIDS	67% (1995)	-	-	-	67%	67%	AIDSCAP
Increase in proportion of people (15-49) reporting having used a condom during most recent sexual encounter with a non-regular sexual partner	52% (1995)	-	-	-	52%	52%	AIDSCAP
Increase contraceptive social marketing sales of TRUST condoms	0	319,000 (1994)	2.1 million	4.8 million (Dec. '94)	6.0 million	7 million	PSI/CSM
Intermediate Result 3.0							
INCREASE FINANCIAL RESOURCES FOR family planning/maternal child health and AIDS/sexually transmitted diseases							
Increase in cost-sharing revenue available at district-level for primary/preventive health care services (Kenya Shilling)	6.8 million (1990-1991)	8.4 million (1991-1992)	14.5 million (1992-1993)	32.7 million (1993-1994)	48.4 million (1994-1995)	> 40 million	KHCF Secretariat
Percentage increase in Ministry of Health expenditures allocated to Rural and preventive/promotive health services	13.7% (1984)	22.5%	28.6%	25%	-	30%	MOH/KHCF Secretariat

* For All Women of Reproductive Age (15-49)

- Data not available at the time of reporting

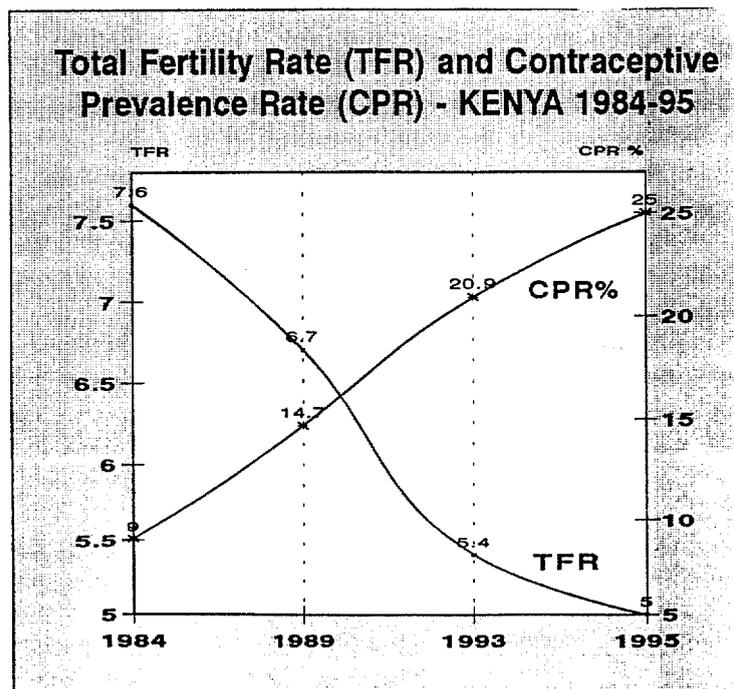
Deaths of young adults (15 - 49) are projected to double - reaching 300,000 a year by 2005.¹ AIDS could soon become the major cause of child death, worse than other major causes such as measles and malaria. For example, the annual number of child deaths due to measles and malaria is expected to range between 5,000 and 10,000 through the year 2005.² The annual number of deaths due to AIDS could reach 40,000 to 50,000 over the same time period.

There are some hopeful indications that the AIDS epidemic can be slowed with donor assistance. Latest data shows that knowledge and attitudes critical to HIV prevention are widespread. The 1993 Kenya Demographic and Health Survey showed that 99 percent of men and 98 percent of women said they had heard of AIDS, and 66 percent of men and 46 percent of women believed themselves to be at personal risk from the disease. Protective behaviors are being adopted, albeit slowly.

INTERMEDIATE RESULT 1.0: *Increase Modern Contraceptive Use*

USAID support for family planning has made a major difference in the lives of millions of Kenyan women, men, and children. USAID has been the lead donor to the Kenyan national family planning program, accounting for over one-half of annual program expenditures. Projections based on the 1993 Kenya and Demographic and Health Survey and the 1995 national contraceptive distribution system suggest that the 1995 contraceptive prevalence rate among all women of reproductive age increased from 20.9 percent in 1993 to 25 percent in 1995. The continued pattern in overall use and shift to modern methods demonstrates that the Mission's strategy to broaden access to a full range of methods and emphasize high quality of services has been successful.

Availability of family planning services at the national level has been greatly improved through USAID/Kenya's assistance. The availability of family planning services has improved, as reflected by steady increases in the numbers of public and private sector sites



¹GOK, "AIDS in Kenya", Draft Report, February, 1996.

² UNICEF Report, 1992.

offering family planning services. Notably, by 1995 sites offering voluntary surgical contraception had exceeded USAID targets by 60%, and contraceptive stocks were readily available at all levels of the services delivery system. Kenya has one of the strongest and most vibrant family planning programs in sub-Saharan Africa. In part due to the magnitude, duration, and dependability of USAID support, Kenya offers one of sub-Saharan Africa's few emerging family planning success stories.

Kenya is well-positioned to reap the full benefits of such a successful family planning program. As women are empowered to exercise their right to plan families and control their fertility, they are increasingly able to participate in Kenya's political and economic development. As economic and population growth rates come into alignment, sustainable per capita gains in income will become more likely.

The Mission, using the FAMPLAN model and Kenya Demographic and Health Survey data, has been monitoring and reporting annually trends in contraceptive usage in Kenya between 1989 and 1995. The table below shows that there have been steady increases in use of pills, injectables, and voluntary surgical contraception, and that both non-use and use of traditional methods has declined.

KENYA - METHOD SPECIFIC CONTRACEPTIVE USE

	1989 KDHS (%)	1993 KDHS (%)	1995 Projections ³ (%)
Oral Pills	4.6	7.5	9.2
IUCDs	3.0	2.9	3.6
Injectables	2.7	5.5	6.8
Norplant	0.0	<0.5	0.6
VSC	3.6	3.9	4.8
Traditional/Other	9.2	6.5	6.5
Non-Use	76.9	73.5	68.5

³ Based on FAMPLAN Model, contraceptive distribution data and the 1993 KDHS.

INTERMEDIATE RESULT 2.0: *Decrease High-Risk Behaviors in High HIV-Seroprevalence Areas*

Increasing condom use is a key intervention supported by USAID in Kenya in order to prevent HIV transmission. USAID accounts for roughly one-quarter of the annual national HIV/AIDS prevention program expenditures. Condoms sold in the private sector through the USAID social marketing program increased from 26,000 per month in 1990 to 500,000 per month in 1995. The number of men using condoms regularly more than doubled between 1989 and 1993 (from 3 percent to 7 percent), while the percentage of men who have used a condom at least once increased from 17 to 27 percent during the same period. USAID interventions have led to these initial changes in behavior and the attendant benefits - large numbers of STD cases and HIV infections averted. USAID/Kenya estimates that as many as 110,000 HIV infections and 1,300,000 sexually-transmitted disease cases were averted through 1993, the latest year for which analysis is available.

USAID has led the way in integrating HIV/AIDS and family planning services by creating a forum for the private voluntary organization involved in the delivery of family planning and health services. Kenyan organizations now share experiences and adapt programs targeted at AIDS prevention education and counselling through integrated service delivery programs aimed at the work place, family planning and maternal and child health clinics and outreach programs.

USAID support for HIV/AIDS education and communication activities in the media and arts has helped to usher in an environment which is much more conducive to discussing prevention of HIV infection and care of AIDS infected individuals. HIV sentinel surveillance sites are in place throughout the country and the information is used to regularly plan appropriate interventions. In addition, USAID, through support to multisectoral policy presentations and publications about the socio-economic impact of HIV/AIDS, continues to play a key role in framing and encouraging more open policy dialogue. For example, public awareness and political will have evolved to the extent that in 1994/95, the GOK, for the first time included a chapter on HIV/AIDS in its development plan. The plan, among other guidance, directs each district to prepare a long-range plan to address HIV/AIDS-related problems.

Recent studies conducted among 2,085 employees in six urban work sites where HIV prevalence is high, indicate that while awareness of AIDS as a disease is nearly universal, knowledge as to how to protect oneself and the actual use of condoms with non-regular sexual partners needs to be improved. Only 67 percent of those surveyed could identify at least two acceptable means of preventing sexually transmitted HIV. These studies provide valuable baseline information and will guide the Mission's future HIV/AIDS prevention program.

INTERMEDIATE RESULT 3.0: *Increase Financial Resources for Family Planning/Maternal Child Health and HIV/AIDS/STD Services*

USAID is the lead donor and the single largest source of financial and technical support to Kenya's national health care financing program. Primarily due to USAID support under the Kenya Health Care Financing Program, the Ministry of Health national cost-sharing program has generated over \$12 million in local revenue since 1990 for curative and preventive health services. Twenty five percent of these funds are targeted for primary and preventive health care at the district level. The Mission surpassed its 1995 cost sharing revenue target by KShs.8 million (\$550,000) with the result that cost sharing revenue now provides nearly \$1 million per year in additive funding to support maternal/child health services and control of infectious diseases. Under the same program, USAID/Kenya has helped to create Kenya's first private sector managed-care programs (i.e., health maintenance organizations) in sub-Saharan Africa. These alternative health care arrangements will help to improve coverage and efficiency of health and family planning services and provide an important means towards improving the financial viability of missionary and non-governmental health and family planning services in Kenya

Revenue from the cost sharing program is a key source of financial resources for Kenya's public sector health and family planning services, particularly as chronic shortages in recurrent financing for health services have become the norm. Despite such shortages, careful programming of cost sharing revenue has resulted in tangible improvements in quality of care and is critical to maintaining the most basic of services in many facilities across the country. Resources generated through the cost sharing program are used for a wide range of purposes including putting surgical theaters back into service; procuring emergency drug supplies; renovating inpatient wards; maintaining lab and x-ray equipment; training traditional birth attendants; fighting disease outbreaks; and supporting World AIDS Day events.

In addition to increasing financial resources and promoting more efficient use of existing resources in Ministry of Health facilities, the health care financing program has served as an important catalyst and a role model for broader health reforms being proposed by the Ministry of Health, particularly with regard to decentralizing key Ministry of Health functions to the district and provincial levels. The 1992 mid-term evaluation of USAID support to Kenya's health care financing efforts identified the program as "an effective means to promote and develop the GOK's capacity to review, reform and implement health sector reform.

The reform process and its results have put Kenya in the forefront of health finance reform efforts in sub-Saharan Africa." In 1995, the Ministry of Health's health care financing program is still consistently referred to as one of sub-Sahara's most successful cost sharing programs, and has served as an important model for several countries in the region, including Ethiopia, Tanzania, Uganda, and Mozambique. Experiences gained and lessons learned thus far by the GOK and USAID in introducing one of Kenya's most successful health reform initiatives will form the basis of more extensive reforms planned for the next fifteen years.

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

USAID has consistently supported Kenya's agricultural development for over three decades. This support has resulted in substantial impact in Kenya and in the region. USAID interventions have focused mainly on technology development and transfer, and agricultural market reforms and development. As a direct result of this long-term USAID investment and commitment, Kenyan farmers are currently using improved seed varieties, production has increased, and markets have become more competitive.

Highlights

- Agricultural value added per worker increased from KShs.2932 in 1991 to KShs. 4,856 in 1995, exceeding the target.
- More than 22 new seed varieties were released to farmers by Kenya Agricultural Research Institute within the last 5 years exceeding the target of 15.
- The ratio of maize farm gate price as a percent of retail market price has increased from 69 percent to more than 85 percent due to competitiveness in marketing, meeting our target.

USAID/Kenya's interventions have had tremendous impact over the last five years despite setbacks by drought and weak reform implementation in the initial years. Over the long term, agricultural productivity has continued to grow though slowly, averaging over 0.6 per year between 1971 and 1995. This is a notable achievement when compared an average of 0.38 percent per year for sub-saharan Africa. Agricultural productivity between 1991 and 1994 declined mainly due to poor rainfall and an erosion of producer incentives through payment delays. There was a turn around in 1995, for most of the major crops, as rains improved and the policy and marketing environments improved due to reform. Agricultural value added per hectare has increased from Kenya shillings 482 in 1991 to 590 in 1995, while value added per worker increased from Kenya shillings 2,932 in 1991 to 4,856 in 1995.

INTERMEDIATE RESULT 1.0: *Accelerate Technology Development and Transfer*

USAID support for technology development has been channeled through the multi-donor funded National Agricultural Research Program and focussed on varietal development and transfer for maize, sorghum, and horticulture. Through direct USAID support, 15 varieties of hybrid maize seed, 7 new varieties of sorghum, 17 new cultivars of fruits, and 48 new

Section II: USAID/Kenya 1996 Results Report

Strategic Objective 2: Increase Agricultural Productivity and Farm Incomes

SUMMARY DATA FOR STRATEGIC OBJECTIVE No. 2

	Baseline	Actual				Performance Target	Data
		1992***	1993***	1994***	1995	1995	Sources
STRATEGIC OBJECTIVE 2							
INCREASE AGRICULTURAL PRODUCTIVITY AND FARM INCOME:							
Agricultural Value Added / Hectare*	24.1 (1985)	29.1 (1991)	27.7 (1992)	28.82* (1992)	29.51	34.66	Economic Survey
Agricultural Value Added / Worker*	146.6 (1985)	150.1 (1991)	140.2 (1992)	235.42* (1992)	242.6	161.94	Economic Survey/FAO
Agricultural Sector Value Added, Annual Growth	4.0 (1988-89)	-1.1 (1991)	-4.2 (1992)	-4.1 (1992)	3.14	4	Economic Survey/FAO
Maize Yields (MT/Hectare)	2.20 (1985-89)	2.0	1.8*	2.4**	2.3	3.3	MOA/DRSRS
INTERMEDIATE RESULT 1.0							
ACCELERATE TECHNOLOGY DEVELOPMENT AND TRANSFER							
INTERMEDIATE RESULT 1.1							
INCREASE ADOPTION OF NEW TECHNOLOGIES							
HYV Maize Seed Sales (tons/year)	18,516 (1985-89)	21,608	-	17,859	18,542	22,225	KSC
% Maize Production Area Under HYV Maize	63 (1985-89)	60	71	60	70	65	KARI/KSC/USAID
% HYV Maize Area Under Smallholder Production	80 (1989/90)	82	77 West 95 Rift	77 West 95 Rift	90 West	85 %	KSC/KARI
% New Horticulture Cultivar Sales	Establish 1993	-	-	200,000 flower Spikes-Gladi 300,000 flower Spikes-Gladioli	-	-	-
INTERMEDIATE RESULT 1.2							
INCREASE DEVELOPMENT & TRANSFER OF TECHNOLOGIES							
Number of Seed Varieties & Cultivars Disseminated *****	9	11	11	13	23	15	KSC/NARC - Kitale
o maize	7	8	8	9	15	11	
o sorghum	2	3	3	4	7	4	
o horticulture	Establish 1994	-	-	1	1	-	
INTERMEDIATE RESULT 2.0							
IMPROVE AGRICULTURAL MARKET EFFICIENCY							
INTERMEDIATE RESULT 2.1							
IMPROVE FERTILIZER MARKET EFFICIENCY							
Percent Over CIF/Mombasa Price Paid by Farmers	60 (1986)	28	33	37.68	33.17	30	USAID
INTERMEDIATE RESULT 2.2							
IMPROVE GRAIN MARKET EFFICIENCY							
Marketing Costs for Maize	.62	.62	1.7	.99	.99	-	KMDP
o Average marketing costs of maize (Ksh/Kg)	69 (1991/92)	69	66	82.4	85.7	85	
o Farmgate Price as a % of Retail Market Price	38	39	-	13.1	6.25	10	USAID
Variation In Seasonal and Regional Maize Prices	31 (1990)	45	-	15.3	7.7	10	USAID
o Seasonal average price differentials - surplus markets (%)	29	36	-	14.0	11.5	10	USAID
o Seasonal average price differentials - deficit markets (%)	36 (1990)	48	-	14.7	17.1	10	USAID
o Regional average price differentials - western Kenya (%)							
o Regional average price differentials - eastern Kenya (%)							

* Constant 1992 Kenya Pounds

** Yield, long rains average

*** Actual Values

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

- Data not available

cultivars of vegetable are being tested on farmers fields by Kenya Agricultural Research Institute researchers. Adoption of hybrid maize seeds by farmers has contributed directly to a more than 100 percent increase in maize yields since independence. Maize area planted with improved seeds has increased from below 60 percent in late eighties to about 80 percent currently. Further, a 1992 survey showed that over 75 percent of Western Kenya's subsistence farmers used hybrids. This densely populated area holds 25 percent of Kenya's population and contributes almost 40 percent of national maize area. In the Rift Valley with 20 percent of the population and nearly 30 percent of the national maize area, 95 percent of smallholders use hybrids. These improved seed varieties are also used in Uganda, Rwanda, and Tanzania. Adoption of improved horticultural varietal material has had a direct impact on incomes and food security for small-scale farmers especially around the central highlands. Rapid market surveys have shown increased marketing activity for sorghum implying an increase in the production and use of sorghum especially in food deficit areas. In addition to supporting these commodity programs, USAID has supported the development of a Research Planning and Management System in the Kenya Agricultural Research Institute that has led the Institute to be rated by a recent World Bank evaluation as the best national agricultural research institute in the sub-Saharan Africa region. Our support has also enabled KARI to play a leading role in regional agriculture research issues and initiatives.

A recent USAID supported study found that public investments in maize research in Kenya yielded an average economic rate of return of 68 percent, quite a remarkable return on investment. During the period 1958 to 1988, maize yields and area more than doubled and total national output increased fivefold. The high rate of return to investments in Kenya maize research is comparable with similar studies in other countries and indicates, at least for Kenya, the critical role that research has played in raising agricultural productivity as measured by yield per land area.

A 1993/94 USAID study demonstrated that there is greater gender differentiation in technology adoption between high and medium potential areas. For example, while 83 percent of male farmers, and 80 percent of female farmers in high potential maize growing zones use hybrid seeds; only 38 percent of females in comparison to 51 percent of males do so in medium potential areas. However, more female farmers use open pollinated varieties than do male farmers in the medium potential zones. For example, 11 percent of female farmers reported using open pollinated varieties compared to only 3 percent of male farmers. Open pollinated varieties yields are much lower than those of hybrids, but users do not need to purchase seed every year or apply large amounts of fertilizer and therefore such varieties are most attractive to female farmers.

To augment efforts in technology development and transfer, USAID has supported training in agriculture research and extension at Egerton University since the 1960's. The University has become a center of excellence in training students from east, central, and southern Africa. A total of 602 students from the region have trained in various agriculture subjects since the early 1970s, including the Vice President of Tanzania. Many of these students have returned to their countries and become part of their government's team analyzing agriculture policy

issues, developing improved food crop varieties, and acting as extension agents. In addition, Kenyan graduates are productively employed by research institutions and agribusinesses throughout the country.

USAID/Kenya's long-term investments in technology development and transfer has improved Kenyan living standards. Improved maize productivity has increased household and national food security, improved rural incomes, and decreased Kenyan dependence on large and expensive grain imports. This has led to higher farmer incomes, increased on and off-farm employment, and the release of land and labor for higher value crops, such as horticulture.

INTERMEDIATE RESULT 2.0 *Increased Agricultural Market Efficiency*

INTERMEDIATE RESULT 2.1 *Improve Fertilizer Marketing*

USAID/Kenya has been involved in Kenya's fertilizer market since 1980. USAID's Fertilizer Pricing and Marketing Reform Program increased fertilizer use by small farmers through improved efficiency in marketing. Reforms resulted in fertilizer price decontrol in 1990. The program successfully took the marketing of fertilizer completely out of the hands of the GOK and placed it in the hands of the private sector traders. Because of the growing demand for Diammonium Phosphate (DAP) fertilizer created by the project, private traders have imported approximately 60,000 metric tons of DAP from the U.S. annually since 1993. The percentage of the CIF Mombasa price paid by Kenyan farmers for imported fertilizer has gone down from 60 percent in 1986 to 33 percent in 1995 even though world prices had minimal fluctuations over the period, indicating an increase in fertilizer market efficiency. During this year of reporting, prices of DAP fell from over KShs. 1350 per tonne to KShs. 950 by mid 1995.

A recently completed agricultural sector review found, using 1994 prices and without costing family labor, an average value cost ratio (VCR) of 2.5 to 2.6 for fertilizer application by Kenyan smallholders in medium potential areas. This is just above the minimum value cost ratio of 2 required to make the introduction of a new technology attractive to farmers. USAID will continue to work on the policy regime to ensure that market forces send the right signals to farmers. Despite Fertilizer Pricing Project achieving all its project goals in terms of reforming the fertilizer market in Kenya and inducing some increase in intensity of on-farm fertilizer application, there are still problems in overall fertilizer use by smallholder farmers in the country. The Mission estimates indicate that less than half of Kenya's smallholder maize farmers use fertilizer regularly. Nearly a third of the 71 percent of the smallholders using hybrid maize seed do not apply any fertilizer; ignoring the fact that hybrid seed requires it to achieve optimum yield. High fertilizers prices relative to maize prices are the main reason for this practice.

INTERMEDIATE RESULT 2.2: *Improve Grain Market Efficiency*

USAID support for agricultural market reform and development through the Kenya Market Development Program has had significant impacts on improving marketing efficiency for maize and cereals in general. As a result of the USAID's collaboration with other donors, the GOK removed all price and movement controls on the domestic marketing of all cereals. In addition, 500 km of rural access roads have been rehabilitated under the project. These changes have resulted in increased competition and efficiency in cereal markets, a reduction in marketing costs, and consequently a higher proportion of the market price being received by the farmer. Farmers in the surplus areas of western Kenya received **90 percent** (the project's target was 85 percent) of the maize retail market price in 1995 in their major retail market compared to **69 percent** in 1991. The seasonal and regional maize price differentials have been reduced from more than **35 percent** in 1990 to **below 10 percent** in 1995 (the target was **10 percent**), leading to greater stability and reliability in the markets.

Reform in fertilizer marketing has increased competition and reduced marketing costs, especially at the wholesale and retail levels of the marketing chain. The majority of rural fertilizer retailers are women. They have benefitted from greater retail margins and greater access to wholesale fertilizer.

Consumers, especially the urban poor, benefitted greatly from maize market reforms pursued by USAID. For example, as movement controls were lifted, small-scale maize millers producing cheaper and more nutritious maize meal sprung up in large numbers in the cities. These mills supply maize meal to consumers at **two-thirds** the price charged by the large-scale millers that were favored under the controlled maize marketing system. Within 18 months, these small maize millers control about **three quarters** of Nairobi's maize meal market compared to less than a third in 1990. Market reform thus provided low income urban consumers a wider choice of lower-cost nutritious food products. Small-scale maize traders, most of whom are women, are now able to move maize freely through the country and improve their household incomes and food security. Due to improvements in marketing brought about by reforms under the Kenya Market Development Project, 1994 was the first year in the history of droughts in Kenya when the country experienced a severe drought situation without food queues and/or hoarding complaints. Indeed the food situation in the country has improved drastically since the government adopted (with assistance from USAID) full blown cereal market reforms in December 1993. Part of these improvements in Kenya's food situation can be attributed to an increase in regional trade. Liberalization has stimulated maize imports from

As a result of policy changes, the number of registered small-scale maize mills increased from about 10 in early 1980s to close to 100 in 1995, making cheaper and more nutritious food available.

Uganda to Kenya, improving Kenya's food security situation while earning income for Ugandan farmers.

SUMMARY OF LESSONS LEARNED

1. Technology development is a long-term process that must be stuck with if results are to be achieved and sustained.
2. If government doesn't own marketing reforms, the reforms won't work.
3. Policy reform requires independent analytical research which can be viewed by government policy makers as neutral. Results from such analysis foster public/private sector dialogue and lead to policy change which the government can claim ownership.
4. Policy and market reforms have improved food access for poor household in deficit areas, especially urban households, who were otherwise penalized by state controlled marketing systems.

Strategic Objective 3: Increase Private Enterprise Employment

USAID/Kenya's third strategic objective--to increase private enterprise employment-- addresses the need to create jobs for the 500,000 people that enter the Kenyan labor force each year. The private sector in Kenya, which accounts for about 70 percent of the country's GDP, offers the best hope for sustaining economic growth, growth that will alleviate poverty, increase per capita income and create employment opportunities.

Despite the poor economic environment brought about by macro-economic weaknesses and the drought during much of the period, the areas we chose for focusing USAID's attention and

Highlights

- New findings indicate that during 1994 and 1995, 70% of the new jobs in micro and small enterprises came from the expansion of existing firms. In the earlier two-year period, when overall economic growth was lower, most new jobs came from the start-up of new businesses. In general, expansion jobs appear to be better paying jobs than "new-starts" jobs.
 - Average annual revenue per small and medium enterprise was estimated at about KShs. 62,000 (\$1,100) in 1994/95. Returns per worker were twice as much for those in firms that expanded versus those employed in new starts.
 - Of the estimated 6 million non-farm labor force, 1.2 million are employed in micro and small enterprises and account for about 13% of Kenya's GNP.
 - Non-traditional exports continued their impressive growth in 1995, registering \$833 million, once again, surpassing the \$600 million/year target. Cut flower exports saw another record-breaking year with exports up about 20%.
 - For every \$1 of USAID investment on export development programs directly with private sector firms, \$70 of additional exports were generated. The cost per job created by USAID assisted firms is approximately \$750 (compared with more than \$5,000 per job in our other programs working with formal firms).
-

resources to meet our strategic objective--non-traditional exports and micro/small/medium enterprise development--were winners. Non-traditional exports increased each year, particularly in horticulture products, creating many new and productive jobs. Micro, small, and medium enterprises absorbed many of the new entrants to the labor force. The microenterprise sector in particular, a recent GEMINI study shows, acted as a "shock absorber" and grew by over 20% annually during the initial part of our five-year strategy period when the economy was at its worst. Although these jobs were not the best, the 240,000 people that found jobs in this sector in 1993 (compared to only 20,000 in the formal sector), were able to withstand an otherwise further slide into poverty. The resumption in GDP growth over the last two years has enabled Kenya's private enterprise employment to grow by an estimated 6.5%, almost meeting the Mission's performance target of 7%. Kenya's major assets--its relatively well-trained human resource base and its resilient and dynamic private sector--have served it well in the last five years.

Section II: USAID/Kenya 1996 Results Report

Strategic Objective 1: Decrease National Fertility and HIV/AIDS High Risk Behaviors

SUMMARY DATA FOR STRATEGIC OBJECTIVE No. 3

	Baseline	Actual	Actual	Actual	Performance Target	Data
		1992	1994	1995	1995	Sources
STRATEGIC OBJECTIVE 3						
INCREASE PRIVATE ENTERPRISE EMPLOYMENT Private Sector Annual Employment Growth Rate	5.2% (1985)	6.5	6.5 % (1992)	6.5	7.0 %	Economic Survey
INTERMEDIATE RESULT 1.0						
INCREASE NON-TRADITIONAL EXPORT REVENUES						
Non-traditional Export Revenues	\$486* mil.	\$485	\$615 mil.	833mil	\$600 mil.	Economic Survey
Number of NTE Enterprises	1488	-	1946	2636	2000	USAID
Total Employment in NTE Enterprises	122,264*	-	163,831	179,994	179,846	Survey
Annual Increase	-	-	10% (1993)	10%	8%	
INTERMEDIATE RESULT 1.1						
IMPROVE POLICY ENVIRONMENT FOR EXPORTS						
A. Taxes and Tariffs: Number of Tariff Bands Highest Tariff	25 100% (June '90)	8 40% (Jase '93)	6 45% (June '94)	6 40% (June '95)	3 40%	Budget Speech and KEDS Policy Matrix
B. Foreign Exchange: Overvaluation of Currency	18% (June '91)	19%	0% (Oct '93)	0%	0%	
C. Regulatory Policy: Percent Imports Requiring Licenses	100% (June '92)	0%	0% (June '93)	0%	0%	
D. Infrastructure: Jet Fuel Charges	\$1.75 (June 92)	0.95% 0.9 (Jase '93)	Price Decontrolled (Oct '94)	Price Decontrolled	Price Decontrolled	
INTERMEDIATE RESULT 2.0						
INCREASE PROFITABILITY OF SMALL & MEDIUM ENTERPRISES						
Average Annual Real Revenues per SME						
Formal/modern sector	Ksh 24.4 mil.	-	-		Ksh 31 mil.	CBS/USAID Study
Urban informal sector	Ksh 99,000 (1990)	-		Ksh 62,000	Ksh 126,000	
Total Employment in SMEs						
Formal/modern sector						
Annual Increase	-	-	-1.5%	2.1	5.0%	Statistical Abstract/ Economic Survey
Number employed	221,829 (1985)	-	271,873 (1991)	1,562,700 (1994)	381,338	
Informal sector						
Annual Increase	-	14%	14%	10%	11%	Economic Survey
Number employed	254,457 (1985)	566,000 (1992)	558,028 (1992)	1,200,000 (1995)	722,510	
INTERMEDIATE RESULT 2.1						
IMPROVE ENABLING ENVIRONMENT FOR SMEs						
A. Regulatory Policy: Number goods under Price Control	81 (1985)	3 (Jase '93)	0 (1994)	0	0	Budget Speech
B. Financial Policy: Interest Rates	Controlled (1985)	2.7 (1992)	Decontrolled (1991)	Decontrolled (1991)	Decontrolled	
C. Infrastructure: Percent GOK expenditure on Infrastructure	21.4% (June '88)	6.83 (Jase '93)	17% (1993/94)	17% (1994/95)	25%	GOK Budget
D. Tax: Corporate Tax Rate	45.0% (June '89)	37.5 (Jase '90)	37.5% (June '91)	35% (June 1994)	35.0%	Budget Speech
INTERMEDIATE RESULT 2.2						
EXPAND SUPPORT SERVICES FOR SMEs						
Number of Organizations with Support Programs for SMEs	58 (1990)	20 (1990)	74 (1992)	105	80	USAID Survey
Number of Loans Disbursed to SMEs	2,200 (1990)	-	8,900 (1992)	23,661	15,000	
Number of Individuals in SMEs Trained or Counseled	4,040 (1990)	-	9,500 (1992)	-**	12,000	

- Data not available

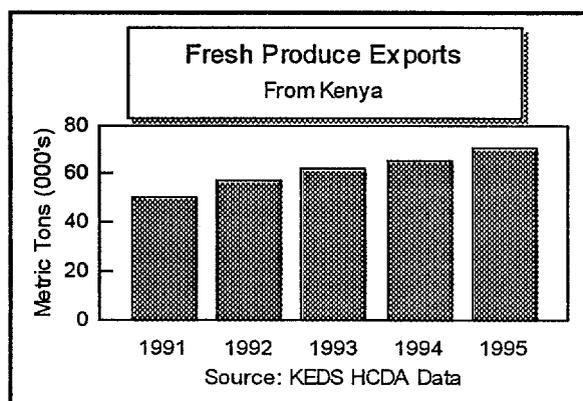
* Data revised from 1992 API.

** No study was carried out during this year of reporting to update this data

Intermediate Result 1.0: Increase Non-Traditional Exports Revenues:

Non-traditional exports (all exports except coffee, tea and petroleum products) shot up by 35% in 1995, making last year the biggest jump in non-traditional exports since USAID reports on exports began. Horticultural exports, alone, contributed 7% to total exports in 1994 and the industry has been growing at an average rate of 10% per year, making it the third largest export earner after tea and coffee.

The Mission's Kenya Export Development Support Project (KEDS) has been instrumental in the growth of non-traditional export revenues and employment. Since 1992, the project has provided technical assistance on two fronts: one to the Government of Kenya in order to improve the export policy environment, and the other, to the private sector in order to enhance export competitiveness. For instance, under the project, \$450,000 of the Export Development Fund was disbursed to 54 exporting firms on a cost-sharing basis to encourage firms to undertake risky export activities, such as market and product development. Approximately 87% of the Export Development Fund grant beneficiaries are small and medium scale firms with fewer than 100 employees. Of the firms assisted, 40% are engaged in agricultural exports, primarily cut-flowers, fruits and vegetables, while 60% are in manufacturing. A recent survey of all Fund-assisted firms reveal that their export revenues increased by \$33 million between 1993 and 1995, or \$70 for every \$1 USAID invested in the Fund.



Studies indicate that employment in non-traditional export enterprises is estimated to have been increasing at the rate of 10% per year, a rate that surpasses the USAID target of 8% annually. In floriculture alone, only 8,000 people were employed in 1991; today, an estimated 23,500 people are employed in this subsector. The horticulture industry also offers some of the best opportunities for women, who comprise about 50% of this sector's labor force. In addition, geographical diversification of non-traditional export markets has reduced Kenya's overdependence on the European Union, the traditional destination of Kenyan exports, from 44% in 1990 to 32% in 1994. The regional market, Common Market of Eastern and Southern Africa, has become the most important market for Kenya's manufactured exports while the European Union continues to be the most important destination for the fresh horticultural exports.

The labor-intensive nature of non-traditional exports, especially horticulture, cannot be ignored. In a recent USAID study, it was found that approximately 70% of Kenya's green beans and snow peas are grown by small, micro-enterprise growers on plots ranging from 0.5 to 1.0 acre which are scattered all over the country. Moreover, the small-scale farmers are better equipped to produce these delicate export crops than large-scale farmers. This "Green Bean Revolution" in which thousands of small-scale farmers produce for the export markets is responsible for the ongoing transformation of smallholder agriculture in Kenya. It is a revolution where small-scale farmers form groups and negotiate forward contracts with exporters for mutual benefits. Both farmers and exporters are working as partners to their mutual benefit, making Kenya's horticulture contract farming a model for the world.

Perhaps the most important factor contributing to the non-traditional export growth has been the conducive policy environment for exports. In particular, the Government of Kenya has maintained a stable macroeconomic policy environment under the Structural Adjustment Program with the World Bank and IMF. In addition, the Government has fully liberalized the foreign exchange and trade regimes. The Government of Kenya, with USAID assistance, has also implemented an export incentive program, a duty and value-added tax remission scheme (a refund to exporters of the duties and taxes paid on imported inputs used for export production), in order to make such goods more price-competitive in the international markets.

KEDS Firm-level Assistance:

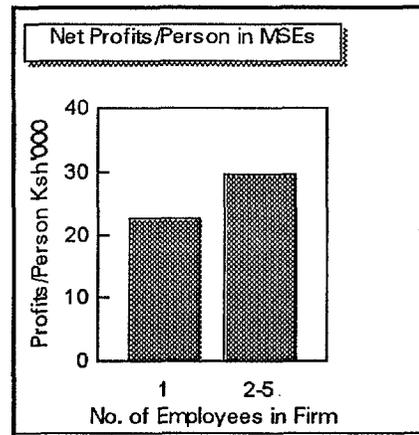
Mboga Exports Limited, a small Kenyan firm, was established in 1992. The firm exports green beans and avocados to Europe and the Middle East. These crops are grown by 600 smallholders through contract farming. With a small cost sharing Export Development Fund assistance of \$3,400, the firm was able to create 8 new jobs in 1995 in addition to supporting 600 small scale farmers. The firm also generated \$128,000 in foreign exchange earnings in the same year.

Kenyan Export Policy Environment:

In a recent mid-term evaluation, Kenya Export Development Support has learned that project funded policy advisors cannot be effective unless they are highly placed within the government hierarchy in order to influence policy-makers. The other lesson learned is that the long-term sustainability of the policy environment lies in the business associations' capacity to continuously lobby for policy and regulatory changes.

Intermediate Result 2.0: Increase Profitability of Micro, Small and Medium Enterprises:

Micro, small and medium enterprises continue to be a dynamic force in Kenya, employing the majority of new entrants into the labor force. USAID, through the AID/W centrally-funded GEMINI Project, financed the second nationwide survey of micro and small enterprises in 1995. The study estimated that about 250,000 new jobs were created in this sector in 1994. However, these were offset by 150,000 jobs lost through existing businesses that ceased operations, leaving a net increase of about 100,000 workers in micro and small enterprises and indicating the dynamic nature of microenterprises. In 1994, when overall growth in the economy was low, about 70% of the new jobs came from new business being created. In 1995, when the economy was in a more dynamic phase, most of the jobs came from more economic growth-type expansions in existing enterprises. In general, these expansion-type jobs generated better-paying jobs and higher incomes that those just getting started. Such expansion, going from one employee to multiple employees, had an increase of 30% more profits per employee and demonstrate how significant such small changes in expansion size can be.



Furthermore, it was estimated in the study, for the first time ever in Kenya, that non-farm micro and small enterprises account for about 13% of Kenya's GDP. Such information gives the Government concrete evidence of microenterprises' role in economic growth, evidence that can highlight the need for policy changes USAID and others are pursuing in this sector. When examined in terms of income generated per person employed, the data suggest that about two-thirds of the enterprises were generating income equal to or below the minimum wage. For the remaining third of the enterprises that generated returns equal to or above the minimum wage, micro and small enterprises constitute an important growth dynamic that can move households well above the

A recent impact study on Kenya Rural Enterprise Program's clients shows that their average sales increased from about KShs 22,500 (\$400) to Kshs 28,200 (\$500) per month over a period of three years. An evaluation of another USAID partner, Kenya Management Assistance Program (K-MAP), indicates their annual sales increased by 87% in 1995 over those of the previous year as a result of training and management counselling. It is clear in the K-MAP's experience that non-financial assistance—training in this case—is an integral part of enterprise assistance. This lesson-learned has helped shape our subsector component under the new Micro-PED project.

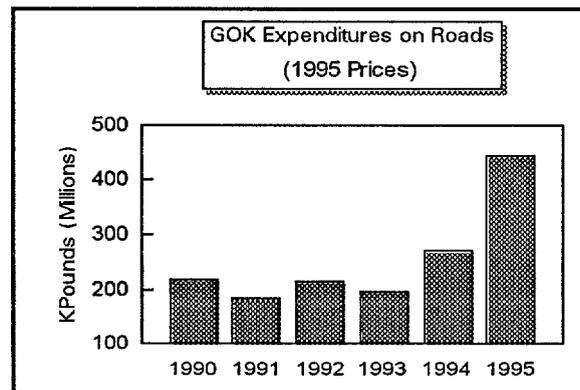
poverty threshold. This evidence supports USAID's new 1996-2000 strategy in which micro and small enterprises are seen as an important growth dynamic with close linkages and synergies for commercializing smallholder agriculture.

This evidence is corroborated by USAID experience on the ground. In our work with the Kenya Management Assistance Program, for example, volunteer executives from larger firms, having advised smaller firms, has had a big payoff. In these cases 80% of the new project client firms survive at least five years, compared to the national average of 80% of the new firms failing after just two years.

Intermediate Result 2.1: *Improve Enabling Environment for Small and Medium Enterprises:*

It has been recognized for some time that a large gap exists between stated policy towards microenterprises and what is actually practiced. Despite Government's renewed commitment towards closing this gap, much more remains to be done. The lack of a conducive legal and regulatory framework, including difficulty in registering and licensing a business, harassment, and insecure land title, are serious constraints facing enterprises. Getting inflation down, harnessing a burgeoning budget deficit, stabilizing the exchange rate, decontrolling interest rates and other macroeconomic measures have all contributed toward the improvement of Kenya's enabling environment. The Kenya Association of Manufacturers, with USAID/Kenya assistance, has been particularly successful in advocating for the elimination of price controls, which has been virtually achieved. Interest rates, now decontrolled, are now much more responsive to market forces. With our support to associations, such as Kenya Association of Manufacturers and Fresh Producers Association of Kenya, as well as through policy work at Egerton University, USAID, and other donors, have played an important part in the improved enabling environment we see in Kenya today.

Infrastructure, the deterioration of which has been a drag on the economy, continues to be a problem. The lack of power investments has meant frequent power outages, precluding many plants from running multiple shifts. Studies in Kenya and elsewhere have shown that an efficient road network is a precondition for agriculture growth. With concerted donor involvement, the investments going into the road network have continued to rise. This has resulted in lowering the cost of distribution as reflected by reduced marketing margins.



Intermediate Result 2.2: Expand Support Services for Micro, Small and Medium Enterprises:

USAID/Kenya continues to play a leading role in the development of the micro and small enterprise sector in Kenya. The Mission's strategy of strengthening Kenyan institutions to provide support services to micro, small and medium enterprises resulted in significant increase in the number of such enterprises receiving loans. During the year, 23,661 loans were disbursed by USAID-assisted NGOs, surpassing a target of 15,000 loans. Fiscal year 1995 also marked the end of the Mission's initiatives in micro-enterprise development efforts under the Private Enterprise Development Project. Based on the experience gained from this project, the Mission will continue to build the capacity of Kenyan institutions to promote micro-enterprise development by improving the policy and regulatory environment, increase sustainable delivery of credit to micro-enterprises, and increase the cost-effective delivery of non-financial assistance to targeted sub-sectors. These initiatives will seek to catalyze major increase in the scale of services provided to the micro, small and medium enterprises.

Kenya's successful approaches to microenterprise development are also providing lessons to other countries in the region. Kenya is on the cutting edge of microenterprise development. USAID-supported NGOs have used their operations in Kenya as learning laboratories for expansion to other countries in the region. Kenya Rural Enterprise Program, the leading microenterprise NGO in Kenya, hosts increasing numbers of visitors from surrounding countries to learn from their successful model. In 1995, for example, the Rural Enterprise Program hosted nearly 100 exchange visitors from Zimbabwe, Uganda, Eritrea, Sudan, Ethiopia, Tanzania, and South Africa to find out about the efficacy of the Kenya program. PRIDE/Africa, another microenterprise lending NGO, is now expanding to Tanzania and Uganda after six years of perfecting their methodology in Kenya. Food for the Hungry, another NGO, is expanding its microenterprise lending operations to Ethiopia and Uganda.

But USAID/Kenya and the NGOs are also learning from successful models elsewhere. The Mission plans to follow the successes in Asia and Latin America by assisting the Rural Enterprise Program, which USAID helped create over 10 years ago, make the transition to a bank. In so doing, this will be the first such case on the continent. If successful, the Rural Enterprise Program will become a powerful example to other African countries, many of whom are emphasizing microenterprise in their own economic development, about how to reach a greater number of people and achieve sustainability of microenterprise lending.

Special Objective One: *Protecting the Environment*

The Conservation of Bio-diverse Resource Area (COBRA) Project aims to increase the socio-economic benefits to communities living adjacent to parks and reserves from conservation and sustainable management of wildlife and natural resources. This project is truly democracy in action. It has assisted local community groups to organize themselves, take control of their economic assets, and use these assets for the common good of the group. As a result, the groups have been empowered to effectively deal with government and the private sector to negotiate improved management arrangements and economic benefits from their natural resources. In the process, civil society has been strengthened through the formation of the community-based organizations and the training of the communities in group formation and leadership.

A recent evaluation⁴ reported that significant benefits have been generated for communities through revenue sharing, and to a more limited extent, from enterprise development. Roughly Kshs. 80 million, or \$1.6 million has been disbursed to communities, local associations, and local governments. Almost 300 projects were approved and financed with revenue sharing funds provided by the Kenya Wildlife Service and USAID. This constitutes a very substantial investment for communities who had heretofore only suffered the costs of living with wildlife such as crop damage, loss of human life, loss of livestock, and the benefits provided to date have resulted in positive changes in attitudes toward wildlife conservation.

The evaluation also reported that the Wildlife Service has successfully reoriented the behavior and attitudes of the career wildlife officers from an enforcement mentality to community conservation as the Service's main objective. Perhaps more important, community attitudes toward the Wildlife Service as the steward of the nation's wildlife resources have positively changed as the communities now regard the Service as a helpful development partner.

An excellent example of the Kenya Wildlife Service's approach is work being supported by the COBRA project with communities on five group ranches neighboring Amboseli National Park. About 75 percent of the Amboseli game is found dispersed on these group ranches at certain times of the year. Of this, nearly 50 percent is found on one group ranch--the

On a project monitoring trip to Samburu in September 1995, a Samburu elder told the USAID team that "I am an old man. I remember when I was a boy, camels came to Samburu. We had to learn how to milk the camel. I am now ready to learn how to milk the elephant". The Project Mid-term Review of February 1996 had this to say on changing community attitudes: "The Community Wildlife Service has succeeded in changing the way communities view wildlife by raising awareness as to the tangible value of this resource. In doing so, the service has provided tentative support to the COBRA design hypothesis"-- that increased community benefits from wildlife will result in improved conservation behavior.

⁴USAID, COBRA Mid-Term Evaluation Report, February 1996

Kimana/Tikondon Group ranch. The Kimana/Tikondon Group Ranches has 843 members and represents a critical wildlife dispersal area for Amboseli Park and a natural wildlife migratory corridor between Amboseli and Tsavo National Parks. As a direct result of the Community Wildlife Program, the Kimana/Tikondon communities developed approximately 40km² of their land into a community sanctuary. The sanctuary is now earning income for the community by charging entrance fees, operating campsites, and selling handicrafts. The project outreach program initiated the dialogue with communities by conducting a series of mobilization meetings where issues of wildlife/human conflict, conservation, and tourism were discussed. All members of the communities discussed their problems and reviewed solutions in Participatory Rural Appraisal workshops held in March 1995. The communities themselves developed a "Village Resource Management Plan" which is socially and economically feasible to implement with minimum support from outside agencies.

An indication of the democratic principles being promoted under the project is the method the Kimana/Tikondon communities used to elect their board and the stipulations they wanted in their constitution. To ensure the project is properly managed, a Board of Trustees (largely young turks) was elected with each member of the group ranch participating in the election. The committee was given a five year mandate to manage the project and other commercial activities of the ranch. The committee prepared a draft constitution which discusses at length the election of members of the board, distribution of the earned revenue and sanctuary management. The democratic operation of the board has enabled the community to control their rich heritage of natural resources, generate income, and create employment for their communities.

In sum, the COBRA Project has been working with the communities in areas neighboring Kenya's national parks and reserves since 1992 and has had major impacts on the communities at the grassroots level:

- Communities have been able to develop grassroots democratic institutions. They are able to dialogue and lobby with Government, NGO's, and private entrepreneurs on their needs and desires of their communities;
- Communities now participate in planning of their development projects;
- Local groups now have control over their resources and plan their use;
- Communities are developing projects that raise income and generate employment for their members; and
- Revenue sharing funds from the national parks are being used by communities to pay school fees, construct schools and install water projects for people and livestock.

Special Objective Two: *Building Democracy and Good Governance in Kenya*

Since the advent of multi-partyism in 1991, USAID has been supporting the development of a democratic culture, pluralistic politics and good governance in Kenya. The Mission's support is geared toward building and strengthening civic and public sector institutions in Kenya.

The Mission has supported activities in areas of election monitoring, paralegal training, civic education, legal aid to women, conflict resolution and public interest litigation. Since 1994 when a new democracy and governance project was authorized, the Mission has expanded the scope of support to include policy analysis and research and journalists training. A brief analysis of the impact of some of the democracy and governance activities is presented below.

USAID trained 50 magistrates representing different areas of the country in 1995. The Mission trained senior judicial staff to improve the effectiveness of the courts and the quality of justice. The magistrates were trained and sensitized on the need to gain some semblance of uniformity in the way courts operate, professional ethics, civil procedure, and the role of a magistrate as a public servant. As a result of the training, a prominent member of the opposition was released and an Act of Parliament was amendment to allow drug offenders to be bailable.

Quotes from Magistrates training

Magistrates accused the police of "either bringing to court poorly investigated cases, frequent disappearance of police files, absence of witnesses and other charges which resulted in indefinite adjournments"; A high court judge accused magistrates for delays in court "lack of commitment and poor work organization by some magistrates is the cause of a huge backlog of pending cases in courts"; A senior police officer admitted that "police investigation machinery in force had gone out of hand"

Nairobi Law Monthly Trust. A grant to the Nairobi Law Monthly supported the reemergence of the alternative and independent press in Kenya. For years, Kenya's independent press has been under close government scrutiny. As a result of government interference and pressure, at least five publications, including the Nairobi Law Monthly, were forced to close their operations. With assistance from USAID, the Nairobi Law Monthly has published 7 issues which covered a range of topics, including issues on the Model Constitution, Tanzanian Multi-party election, Kenyan Judiciary, Corruption, Democracy and Human Rights in Central & Eastern Africa, Safina Party and the Administration of Justice in Kenya. Presently, this monthly has a circulation of 5000 copies. Despite USAID funding of this grant ending in December 1993, the magazine continues to publish.

Gender Sensitive Initiatives (GSI). This grant financed a conference on democracy and conflict

resolution in a multi-party society. This five-day conference was attended by more than 80 participants, including teachers, journalists, lawyers and church leaders. The conference focused on ethnicity and the origins of tribal clashes in Kenya which concluded that some of Kenya's leading politicians were responsible for inciting violence for personal political gains. This conference was the first national forum which openly discussed the issue of tribal clashes in Kenya and helped to diffuse the growing national tension over the situation.

Kenya Human Rights Commission Rights Awareness Project. USAID financed publication of paralegal training manuals, interactive materials, and the production of two drama series, entitled "You the Judge" and "Diamino, a Community's Struggle for Justice". Both plays raised the issues of governance and justice at the grassroots level. Both plays have been broadcast on national radio which has a wide national audience; and performed at the grassroots and national level for large audience.

Civic Resource and Information Center. With USAID's funding, this organization has financed civic education workshops for rural based communities. These workshops have focused on such topics as good governance, development of good leadership skills, the power of the ballot box, and the mechanics of how to vote. In 1995, the center held three workshops in Kisumu District (a rural highly populated area and an opposition zone) focusing on legal reform and constitutional issues. As a result, rural based development groups have

The Private Sector Family planning (an activity supported by USAID) staff recently attended a meeting of human rights organizations interested in improving civil education in Kenya. Why? They came to share with democracy and governance organizations the lessons they had learned in using puppetry as an educational medium for family planning. They pointed out that the puppets were both highly effective and inexpensive -- you don't need to feed the puppets!

emerged to address and develop organizational and leadership skills. These groups have become a fora for openly discussing accountability and democracy issues.

Democracy and governance issues are deeply embedded into USAID/Kenya's programs in health and population and agricultural sectors. There is great deal of synergy between all the three strategic objectives in the USAID/Kenya portfolio. Examples: USAID support for family planning and reproductive health extends to women the basic human right of fertility control and family planning. In addition, this support facilitates women's participation in the political process. USAID's active engagement in the public health sector has resulted in efficiency of the sector's resource allocation and better governance.

In the agriculture, business and environment portfolio, the Mission has incorporated elements of democratic participation, advocacy, and the pursuit of greater accountability. For example, USAID's support to the Kenya Association of Manufacturers and the Fresh Producers Export Association of Kenya has made them leading advocates for legislation and policy reforms for

their members. These associations have influenced major policy decisions in the Government budget such as corporate taxes, duties, and export incentives. USAID's roads rehabilitation program with GOK has introduced transparent tendering and construction procedures. GOK staff have been trained on professional contract administration and construction supervision. Because of this support, new systems and tendering procedures are spreading to other government-sponsored construction contracts, thus reducing rent-seeking behaviors.

PL 480 TITLE II PROGRAM IN KENYA

Since the early 1960's, USAID has been a leader in providing food aid assistance to Kenya through PL 480 to improve the food security status of the poorest of the poor and food insecure communities. This assistance is aimed at alleviating both short-term and long-term food needs.

USAID PL 480 Title II development assistance is channelled through three non-governmental organizations: Catholic Relief Services, Food for the Hungry International, and World Vision Kenya. The following is a summary of the activities and cumulative achievements of the Title II projects to date.

Catholic Relief Services: The CRS program consists of four main components; Maternal and Child Health, Family Life Training Centers, Food For Work and General Relief. In addition to these, other complementary development projects like, water/health, agricultural production, small group enterprise, and community-based health care are initiated among the target communities. These complementary projects are designed to achieve long-term food security.

The maternal and child health component aims at reaching annually 35,000 children below 36 months of age through a targeted growth monitoring program providing a food ration of 15 kg per month per child/mother and to bring about behavioral change in health and nutrition practices. The program has reached 68 per cent of the targeted beneficiaries in 78 centers where all the beneficiaries have been immunized against preventable diseases. Health and nutrition education has also been provided in the centers. The food for work program is designed to improve food security and economic well-being of communities in food deficit areas by providing food in daily rations to workers. In the last 2 years, 57 per cent of the targeted workers have been reached and assisted by making 20 million liters of potable water available to the affected communities. At the same time, 426 hectares of land have been improved by terracing, manuring and healing of gullies in the target areas.

Food for the Hungry International/Kenya: The primary goal of Food for the Hungry International's Marsabit Food Security program has been to improve long-term food security in one division of the semi-arid and low endowed Marsabit District by increasing food production while maintaining the land base and raising women's welfare in three communities on Marsabit mountain. The following are the specific program activities that have been carried out in order to achieve the program goal:

- The Marsabit food security program has introduced drought tolerant/resistant crops, established demonstration and seed bulking plots for these crops, trained farmers in crop husbandry and provided the farmers with agricultural extension services. So far, three new crops - irish potatoes, pigeon peas and sorghum have been adopted by a number of pastoral farmers in Marsabit. The farmers now know and are using efficient land preparation practices and improved farming methods.

- Non-traditional livestock practices such as poultry, dairy goats and bee-keeping have been introduced and farmers appropriately trained.
- The Food for the Hungry's International's program targets women. Women have been trained in agricultural practices, income generation activities, nutrition, food preparation and how to effectively disseminate knowledge acquired to other members of the community.
- A 40-km elephant fence has been constructed in order to keep away elephants and other wild animals in a nearby park from damaging cultivated crops.

The major achievements of the Marsabit food security program have been introduction of farming to pastoralists in Marsabit, reduction in food insecurity in the target area, availability of water, the training of over 600 pastoral farmers and the planting of over 13,000 trees.

World Vision Kenya: The primary goal of World Vision's Morulem Irrigation Scheme program has been to develop an effective, efficient and sustainable irrigation scheme on 614 acres in Samburu District. The Morulem project provides 1228 farmers with a minimum of 1/2 acre of irrigated plot. This plot of land is expected to yield a minimum of 450 kilograms of maize or 720 kilograms of sorghum per year thereby meeting 80-100 per cent of annual family cereal needs. Achievements of Morulem irrigation project are impressive. Already the program has rehabilitated the original 150 acreage and expanded the scheme to 307 acres with each farmer holding an average of 1/4 acre plot. An additional 100 acres last year were cleared of bush and basins and the conveyance system is currently in the process of being constructed.

The program provides agricultural extension through on-farm visits by program technical staff, training and demonstrations to farmers and visits by farmers to agricultural trade shows in Kenya. A one-acre demonstration plot has been established and demonstrations are being done on maize and sorghum spacing, and growing of tomatoes, papaws and kales. The GOK is leveraging USAID resources and is key a partner in this project. For example, in 1994, GOK assisted the Morulem farmers with 20 metric tones of fertilizer through the Ministry of Agriculture and coordinated training in basic home economics to Morulem Women's Group through the Ministry of Health.

Promoting environmental conservation and agroforestry practices through training of farmers, planting of trees, and protection of the scheme's canals is also embedded in this program. A tree nursery was established on which 5000 tree seedlings have been raised. Farmers have been trained on agroforestry practices and soil conservation while women were trained on the use of wood-saving stoves. Over 2000 trees have been planted and the entire scheme area fenced to keep off animals.

A: SECTION III: STATUS OF THE MANAGEMENT CONTRACT**STRATEGIC OBJECTIVE CHANGES OR REFINEMENTS**

In this final year of reporting under the current Country Program Strategic Plan, no revisions were done to the Mission's Program Logframe. However, in 1994, the Mission revised Strategic Objective One to integrate HIV/AIDS into the Mission's portfolio. Based on USAID/W guidance and approval, the Mission in 1994 revised the strategic objective from "...reduce HIV incidence" to "reduce HIV/AIDS high risk behaviors". This revision clarifies the principal focus of the Mission's population and health portfolio, without altering the original intent of the objective or its supporting investments. Strategic Objective One now becomes decrease national fertility and reduce HIV/AIDS high risk behaviors. This change reflects USAID/Kenya's confidence that it has sufficient leverage to directly influence fertility on a national scale, as well as high risk sexual behaviors.

REVISION OF INDICATORS AND EXPECTED LEVELS OF ACHIEVEMENT

The following provides a description of revisions made to elements of strategic indicators presented in the 1995. Changes in indicators were based on research which demonstrated the original indicators did not capture impact of related programs activities or were not operational in terms of data availability or quality.

Program Goal: Increase Sustainable, Broad-Based Economic Growth: No revisions made.

Sub-Program Goal 1 and 2: No revisions made.

Sub-Program Goal 2: Increase Production, Employment, Income and Foreign Exchange Earnings: No revisions made

Strategic Objective 1: Decrease National Fertility and Reduce HIV/AIDS High Risk Behaviors

Based on analyses of HIV/AIDS' projected toll on the nation's health and development, an HIV/AIDS component was added to Strategic Objective 1 in 1994. Based on USAID/W guidance, the Mission revised the strategic objective from "... reduce HIV incidence" to "reduce HIV/AIDS high risk behaviors". In the 1995 Assessment of Program Impact we expect to report progress against this benchmark.

Intermediate Result 1.0: Increase Modern Contraceptive Use. No revisions made.

Intermediate Result 2.0: Decrease High-risk Behaviors in HIV-seroprevalence Areas. No revisions made.

Intermediate Result 3.0: Increase Financial Resources for FP/MCH/AIDS/STDs. No revisions.

Strategic Objective 2: No revisions made to this strategic objective and associated intermediate results.

Strategic Objective 3: Increase Private Enterprise Employment

Due to the completion of a new National Baseline Survey in Kenya in 1993, the GOK has revised its estimates of total employment and employment growth rates. The new rates are not comparable to the 1985 baseline and the 1995 targets, so the old 1992 data was reported again.

Intermediate Result 1.0: Increase Non-Traditional Export Revenues.

Total Employment in Non-Traditional Export Enterprises: A 1994 survey revealed that data provided by the National Social Security Fund grossly underestimates employment, presumably due to under-reporting for tax reasons. A new survey was conducted using data reported by firms to an independent researcher. This established a new baseline and current figure. The survey also attempted to estimate indirect employment, which is reported in the text.

Intermediate Result 1.1: Improve the Policy Environment for Exports. A more defined policy matrix was developed for improving the export environment. It is a qualitative tool for tracking policies in the major categories listed in the table. This matrix is too long for inclusion in the Results Report, but serves as a management tool and reliable source of information for the Assessment of Program Impact text. The table reports key ne policy targets that broadly reflect policy changes in the important categories of the matrix.

Intermediate Result 1.2: Expand Support Services for Non-Traditional Exports Enterprises. This intermediate result was removed in 1994. USAID/Kenya's firm-level assistance program only plans on targeting some 50 firms and 2 associations. While this is loosely expressed as "increasing support services", the measure of increasing the number of associations in Kenya and the number of firms receiving assistance was not reflective of the level of investment of USAID/Kenya resources and is not in USAID/Kenya's manageable interest at this time. It cannot be compared to the approach used in reaching the similar target for micro, small and medium enterprises where USAID/Kenya initiated the establishment of an umbrella organization to increase the capacity of numerous organizations who are now reaching thousands of firms using methods developed by the umbrella organization. The evaluation of the export project is examining the potential for the project to have a wider impact in its firm-level assistance.

Intermediate Result 2.0: Increase Profitability of Micro, Small and Medium Enterprises. The word "Micro" was added to reflect the Mission's increasing recognition that the smallest firms, those employing fewer than ten employees, are providing the bulk of private enterprise employment in Kenya. Regarding the measurement of employment, the GOK has revised its estimates of informal sector employment and employment growth rates. The new rates are not comparable to the 1985 baseline and the 1995 targets, so the old 1992 data was

reported again. The 1995 series will be used to establish a 1995 baseline and 2000 target for the new strategy.

Intermediate Result 2.1: Improve the Enabling Environment for Micro, Small and Medium Enterprises. The goal of a key policy indicator - interest rates - was changed from "positive" to "decontrolled". This reflects two issues. First, the method the GOK used in reporting interest rates favored the calculation of a positive real interest rate despite the fact that real interest rates were largely negative in 1993 due to irregularly high inflation rates. Because the GOK reported the highest rate charged by banks, instead of an average rate, this fact is not revealed in the national statistics. Second, the actual goal is for interest rates to be decontrolled and market driven, a goal which was achieved in 1991.

Intermediate Result 2.2. Expand Support Services for Small and Medium Enterprises. No revisions made

B: SPECIAL CONCERNS OR ISSUES

The Mission has no special issues or concerns or actions for AID/W

C: ENVIRONMENTAL ISSUES AND SCHEDULE

We have no environmental issues related to the implementation of requirements under 22 CFR 216.