USAID/Kenya

Annual Report

FY 2005

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Related document information can be obtained from:
USAID Development Experience Clearinghouse
8403 Colesville Road, Suite 210
Silver Spring, MD 20910
Telephone: (301) 562-0641
Fax: (301) 588-7787
Email: docorder@dec.cdie.org
Internet: http://www.dec.org

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Kenya

Performance:

The new government's economic reform strategy underlines economic growth within the framework of low inflation, low fiscal imbalances, declining net domestic borrowing and health balance of payments as the primary objective of a stable macroeconomic policy. As a result, since 2002 election, the government has made it clear that a key to the economic recovery strategy is in the restoration of the confidence of the business sectors which would give a fresh impetus to private investments. The GOK has launched reforms on several fronts ranging from macroeconomic stability restoration to anti-corruption, and from legal justice reforms to key economic reforms. All this has generated high expectations among investors and the general public for a fresh impetus, which would reverse the trend of the last decade of economic decline, increased poverty and governance deterioration.

Although Kenya's economic growth has been stagnating since the mid 1990s, this began to reverse in 2000. The economy grew marginally from 1.2% in 2000 to 1.8% in 2003. In 2004, GDP is estimated to have grown by 2.3%. Although agriculture still dominates the economy, its recovery remained poor declining from 1.1% in 2002 to 0.7% in 2003. Manufacturing sector recorded impressive upturn and grew by 5% in 2003 from 1.6% in 2002. This was mainly due to opportunities availed by African Growth and Opportunity Act. Thanks to AGOA, Kenyan textile exports to the US soared again in 2003, generating thousands of new jobs. The services sector grew marginally by 1.8% in 2003 from 1.4% in 2002. Despite poor business environment, gross investments as a percentage of GDP grew from 13.1% in 2002 to 16.5% in 2003. Savings as a percentage of GDP also rose from 13.6% to 14.9% over the same period.

This positive growth in the economy also reflects the benefits of a stable macro-economic environment. This was characterized by low inflation and interest rates as well as by the maintenance of a competitively market-determined exchange rate for the Kenya Shilling (Ks.). The nominal and real exchange rate of Ks./US dollar has stabilized in recent years. Since late 2000 to 2004, the nominal exchange rate ranged from Ks. 76.2 to Ks. 80.6 per $1.00. In the past the GOK has pursued a Monetary Policy geared toward keeping inflation below 5%, while maintaining a competitive exchange rates for the Ks. Inflation, measured in terms of the annual percent change in the consumer price index, was relatively stable and even declined during the past several years owing to the GOK's tight Monetary Policy. Inflation, excluding food, declined to 2.7% in 2003 from 4.6% in 2002, a significant change from the high inflation rates of 1997 and 2000. The interest rate on treasury bills also decreased from the 15.2% in 1997 to 6.4% and 3.0% respectively in 2002 and 2003.

The most recent comparisons of foreign direct investment performance, produced by the United Nations Conference on Trade and Development (UNCTAD), Kenya ranked in position 118 among 140 countries, slipping from 90th place at the end of the 1980s. During the period of 1997-2001, FDI was about 0.6% of GDP which was below the Sub-Saharan African average of 1.9% per annum. Kenya's relatively poor performance in attracting increased rates of foreign direct investment reflects the continued cautious attitude of foreign investors. Investors seem to have adopted a 'wait and see' attitude which nonetheless holds promise for the future, if the NARC government policies and implementation record continues to be positive and reforms can be institutionalized and solidified in the coming years.

In 2002, Kenya's total external debt was about $5.1 billion, including arrears, or 49% of GDP. Of this, 57.5% was owed to official multilateral creditors, while debt to bilateral and commercial creditors accounted for 32.2% and 8.5%, respectively. During the last decade the GOK continued to service its external debt, bringing down debt service payments from 34% of the cost of export of goods and services in 1990 to 14% in 2001. During the same period, Kenya had several debts rescheduled by both the Paris and London Clubs. Kenya's external debt is low by international standards and sustainable according to the criteria of the ‘Highly Indebted Poor Countries’ (HIPC) initiative. According to the new debt-sustainability analysis by IMF, in 2002, the net present value of the debt to exports ratio was 111% and the debt service to export ratio was 11%.

Last year saw the passage of landmark anti-corruption legislation, a housecleaning of suspected corrupt judges, and the implementation of the Governance, Justice, Law and Order Sector (GJLOS) reform program, which includes the GOK’s strategy for promoting ethics, integrity, and anti-corruption. The new government removed 5 heads of parastatals amidst allegations of graft, suspended all government procurement officers suspected of improper conduct, and initiated Goldenberg Commission (investigating major Moi-era graft). The government also hired Kroll International to investigate billions in looted assets from the Moi regime. Inter-communal and politically motivated violence declined dramatically throughout the country in 2003 and 2004. While these are important developments, there is nonetheless mounting concern that the Kibaki government is moving too slowly to realize its reformist promises. Rivalries and jockeying for power within the governing coalition have slowed the pace of legislation and undermined effective governance. Finalization of a new constitution has been repeatedly delayed. Because effective governance and respect for the rule of law are critical to virtually all the reforms Kenya must undertake, USAID/Kenya will continue its advocacy with political actors and its support for programs to strengthen parliament, the judiciary, the civil service, Kenyan’s anti-corruption administration and selected civil society shareholders.

On paper, the government’s commitment to economic reform is impeccable. However, performance has yet to fully match intentions. Working with other donors, USAID will push for implementation of private-sector led growth strategies, including the creation of a climate more amenable to foreign investment and divestiture of loss-making parastatals. We will also continue to re-emphasize poverty reduction through enhancing rural incomes.

U.S. Interests and Goals: U.S. goals in Kenya are to assist Kenya in countering the terrorist threat, to support the processes of political and economic reform, to help combat the health crisis, especially HIV/AIDS, and to protect Kenya’s natural resource base. Likewise, it is in the interests of the United States to provide strong diplomatic counsel and material support as Kenya continues to lead regional efforts to end the war in Sudan and to rebuild a shattered Somali state.

Over the past year, Kenya and its allies have made significant progress against the terrorist threat in Kenya. Kenyan security services have re-organized internally to be able to confront more effectively the terrorist menace. Security at airports, public buildings, hotels and sites frequented by tourists has improved. Over a dozen Al-Qaida-related suspects have been taken into custody. Terrorist planning and possible operations appear to have been disrupted. Importantly, key government figures have spoken out for the first time about the indigenous nature of the threat. More, however, must be done. Kenya lacks effective anti-terrorist legislation. Police and prosecutors need better training, direction and coordination to be effective against terrorist targets. Weaknesses in aviation security must be addressed. Specific mission programs will address each of these problem areas, and others as they arise, in 2004. Confronting the terrorist threat in all its aspects and assuring the protection and welfare of American citizens and interests in Kenya will remain the Mission’s highest priority.

Donor Relations: USAID is the leading bilateral donor in Kenya and chairs several donor meetings which meet once a month. Overall development assistance to Kenya total about $ 700 million per year. The United States and United Kingdom (UK) are Kenya’s first and second largest bilateral donors respectively. The United States is the leading donor in the democracy and governance sector. Other donors are the UK’s Department for International Development (DFID), European Union (EU), Netherlands, Denmark, Sweden, Germany, and Canada. The World Bank, EU, DFID and USAID work together to support the GOK in developing appropriate policies and macroeconomic and fiscal expenditure frameworks. USAID, the EU, and the World Bank have been instrumental in encouraging the development of an enabling policy environment for agriculture and natural resources management. The World Bank works closely with USAID to provide support to Kenya’s agricultural research institutes, while the EU, World Bank, African Development Bank, and USAID support livestock development. In the natural resources management sector, the major donors are the United States, the Netherlands, the UK, Japan, Sweden, Belgium, Finland, Germany, Denmark, the EU, the World Bank, and the United Nations Environment Program. The United States is the leading bilateral donor to Kenya's population and health sector. USAID and DFID both support work in HIV/AIDS, family planning, and malaria. Finally, USAID is a member of the Sector Working Group on Education which includes DFID, the World Bank, Canada, Japan, and the United Nations organizations.

Challenges: Kenya, by most measures, continues to face a daunting array of developmental constraints. Sustained economic growth and the alleviation of poverty are still significant challenges in Kenya. The NARC government will have to carefully reallocate public spending to fund its pro-poor programs, while striving to continue to eliminate systemic obstacles to the full participation of women and other groups in the economy and in the political system. Kenya must also continue the struggle to meet the challenges of increasing rates of population growth and disease, particularly malaria and HIV/AIDS.

Although several important steps have already been taken by the new government, continued progress in a number of key areas must be made if popular support is to be maintained. Areas of concern include: that the Kenyan population has an elevated expectation of the government's ability to deliver results linked to election promises; the investor and donor community expect the institutionalization of critical structural reforms in the financial sector, i.e., privatization and civil service reform; and the government must focus on public service reform, human resource development and institutional capacity strengthening.

The new NARC government is made up of a rather fragile coalition of disparate parties, which have not as yet been able to fully agree on a comprehensive national agenda. Parliament, where all these parties are represented, is one arena where these differences are being played out in public. Unless these elites can agree on the most contentious issues including how to share power in a new constitution, there will be a continuing delay in passing critical pieces of legislation and in the implementation of the legal and judicial reforms that are essential to the long-term stability and growth of Kenya.

Much remains to be done to strengthen democratic institutions and the Rule of Law in Kenya, but a solid foundation now exists to tackle these perennial weaknesses. Even with strong domestic and international backing, it will still take time for the new government to reverse decades of economic and social decline. Huge investments are needed to repair crumbling infrastructure and restore non-existent social services. Kenya's irreplaceable natural resource base and environment is rapidly deteriorating in the face of over-exploitation of soils, inefficient and poor management of watersheds, forests, coastal areas and wildlife. In addition to the need to make progress on the goals of democratic transition and economic recovery, the country faces a number of significant social challenges such as widening poverty, HIV/AIDS which cannot be ignored.

HIV prevalence is declining, due both to fewer new infections and to increasing deaths. The latest modeling, using DHS and surveillance data, suggests that prevalence among adults 15-49 years old peaked in the late 1990s at about 10% and is now 7%. There are still, however, about 1,400,000 Kenyans infected with HIV, 140,000 adults dying from AIDS every year, and 1,700,000 orphans, many of whom lost parents to AIDS. The 2003 DHS survey, released this year, shows that fertility increased over the past 5 years, the first reversal in this successful family planning program. This survey also showed that child mortality rates again increased, with 114 children dying before age five for every 1,000 births.

The Kenyan educational system is also facing significant challenges; the most important of these being the high direct costs of schooling that have kept a significant proportion of the poorer segments of the populations out of the school systems. Another challenge is low levels of internal efficiency of this system. This is evidenced by high drop-out rates of between 5-6% and repetition rates of between 15-16% at primary school levels. The nation also continues to struggle with significant regional disparities in the rate of growth and investment as well as with a prevalence of gender issues.

Kenya Achievements: The Mission self-assessment is that the Kenya Program exceeded performance expectations in the area of Democracy and Governance (SO6) and Rural Household Income (SO7) and met expectations in 2004 in the areas of Natural Resources Management (SO5), and Health, HIV/AIDS, Population and Nutrition (SO3). The USAID program this reporting year achieved impressive results through a sustained, concentrated investments and strong donor coordination. The USAID program is a results-oriented effort that has improved the well-being of the Kenyan people and had lasting effects well beyond Kenyan borders as the activities we support has provided lessons and models in the region.

HIV/AIDS, Population, and Health: USAID/Kenya's health program focuses on reducing fertility and the risk of HIV/AIDS through efforts to reform the health care sector, to prevent HIV transmission, to provide treatment, care, and support for those already infected, and to deliver family planning and child survival services. Since Kenya is focus country within the President's Emergency Plan for AIDS Relief, USAID is working with the USG country team to manage a major expansion of HIV/AIDS programs, with special attention on care and treatment. The program achieved significant results in FY2004. Sales of socially marketed condoms, targeting those who are already sexually active, increased by over 35% over FY 2003 to almost 27 million, meeting the FY 2004 target. USAID's reproductive health project reported increases in the number of family planning clients at the 96 health facilities it supports. While there were problems in GOK procurement of commodities in FY2004, the USAID-supported logistics system delivered these commodities nationally when they were available. Couple years of protection actually increased, meeting the target, showing that when contraceptives were available (as they were in early FY2004) there is a large demand for them. Cost sharing revenue collected by one USAID-supported health facility, Thika District Hospital, increased by over 40% in FY 2004.

Natural Resources Management: USAID’s program to improve the natural resources management focuses on the provision of conservation incentives, capacity building of community based organizations (CBOs), protected area management support and provision of technical assistance to government agencies. USAID support this reporting year has increased the land area put under improved management, enhanced the organization capacity of CBOs to better manage natural resources and distribute conservation benefits equitably, raised income to local communities that has led to improved livelihoods and advanced policy reform and environmental governance to secure the gains made in the environment sector. Communities and landowners in USAID target areas put a total of 44,945 hectares of land under improved use. In the forestry program 11,294 hectares was put under improved forest management initiatives including the establishment of 22 hectares of woodlots as a buffer zone along a coastal forest, establishment of 25 community nurseries, planting of 46,040 tree seedlings and acquisition of 8,000 Aloe suckers for multiplication by participating communities. Through the coastal management program a total of 44 hectares were dedicated to improve marine area conservation.

Democracy and Governance: Strengthening civil society organizations (CSOs) continues to be a fundamental strategic component, with USAID-funded CSOs engaged in identifying and advocating for improvements in the legal and policy environment while continuing to monitor government’s performance. USAID-supported CSOs have facilitated dialogue at the community level, assisted in the formation of peace building structures, strengthened existing peace committees, organized peace rallies and highlighted problems facing conflict prone communities. USAID support has also been pivotal to strengthening Kenya’s Parliament. Kenya’s legislature can no longer be characterized as a rubber stamp for Executive decisions. Parliament is independent and assertive and routinely subjects Executive proposed legislation to serious scrutiny. During this reporting period, 49 private members motions and four private members Bills were tabled in Parliament, and 11 out of the 16 Bills tabled by the Executive were subjected to rigorous debate, including the rejection of an Executive driven Forestry Bill.

Rural Income Expansion: This SO focuses on increasing incomes for rural households in the smallholder agriculture and the Micro and Small Enterprise (MSE) sectors. The two sectors are interlinked as most rural households rely on farm and off-farm activities for incomes. Women own 47% of MSEs and provide 80% of the agricultural labor force. Title II program is fully integrated into the SO and focuses on increasing capacity of vulnerable communities in Arid and Semi Arid Lands to prevent and mitigate effects of weather-related disasters on their livelihoods. To date, as a result of USAID support and collaboration with the private sector and the government, about 1,500 maize farmers and 4,000 horticultural farmers adopted new improved technologies and agronomic practices including high yield seed varieties, conservation tillage, liming, herbicide weed control, optimum plant spacing, fertilizer placement and soil improvement. The SOs market-based, private-sector approach, using experiential learning, farming as a business and farmer field school methodologies proved effective in strengthening agribusiness development and increasing adoption of improved technologies, leading to increased agricultural productivity, trade and rural incomes in USAID program areas. The 2004 household income survey shows that in the high and medium potential areas, rural household incomes increased by 12% to $2,151 in 2004 from $1,922 in 2002, exceeding our 10% target. However, in the some districts household incomes were significantly greater for farmers who adopted USAID-promoted improved practices, at $2,382. The increase applied to both female and male households, although incomes of female-headed households were about one-half the male-headed household in all the sectors, except in livestock, where they were higher.

Gender: USAID/Kenya is committed to ensuring equality of incomes and ownership of resources by promoting equal access to opportunities and benefits to women and men receiving our development assistance. USAID/Kenya has mainstreamed gender in our programs because we are convinced that it is important and beneficial to target this group and that it will add value into our program results. USAID/Kenya teams determine actions that need to be taken to ensure gender issues are optimally integrated into projects. We periodically assess the circumstances that may affect the different participation of females and males in the project; the contribution that females and males make to achieving results and mechanisms for monitoring the different impacts of the project on females and males. These assessments enables the Mission to ensure that future stages of activity implementation will include gender considerations, by demonstrating successes, missed opportunities, and lower returns on results, due to the absence of a strategic approach in mainstreaming gender. Within the population and health program, gender mainstreaming efforts are focused on the elimination of gender disparities related to the participation of women and men in Reproductive Health (RH) and sexual decision-making. The SO activities bring women, men, youth, elders, and health care providers together to define gender in their own terms and within their local context. The new basic education SO will pay special attention to supporting an education program for girls in marginalized areas.

Results Framework

615-001 Effective Demand for Sustainable Political, Constitutional and Legal Reform Created

SO Level Indicator(s):

Annual Sales of Trust Condoms
Contraceptive Prevalence Rate (any modern method for women 15-49)
Couple years of protection
HIV Prevalence among women 15-24
HIV Prevalence in the general population
Number of HIV+ receiving ART using USAID support
Total Fertility Rate (number of children per woman)

615-002 Increased Commercialization of Smallholder Agriculture and Natural Resources Management

615-003 Reduce Fertility and the Risk of HIV/AIDS Transmission Through Sustainable, Integrated Family Planning and Health Services

SO Level Indicator(s):

HIV prevalence, adults (15-49 years)

IR1 Improved sustainable management of the health sector (public/private)
IR2 Increased use of proven, effective interventions to decrease risk of transmission and mitigate the impacts of HIV/AIDS
IR3 Increased customer use of FP/RH/CS services

615-004 Meet critical needs of Kenyans affected by the Nairobi bomb blast and build capacity to address future disasters

615-005 Improved Natural Resources Management in Targeted Biodiverse Areas by and for the Stakeholders

SO Level Indicator(s):

Land use change in target areas (ha)
Number of stakeholders benefiting from the program

5.1 Site-specific initiatives for NRM implemented outside protected areas
5.2 Encroachment and subdivision reduced
5.3 Improved management of protected areas
5.4 NRM and environmental advocacy strengthened

615-006 Sustainable Reforms and Accountable Governance Strengthened to Improve the Balance of Power Among the Institutions of Governance

SO Level Indicator(s):

Number of issues that are reflected in the Finance Act which were advocated for by USAID partners

6.1 CSOs effectively demand reforms and monitor government activities
6.2 Increased effectiveness of selected GOK institutions
6.3 More transparent and competitive electoral processes

615-007 Increased Rural Household Incomes

SO Level Indicator(s):

Percentage change in rural household incomes

7.1 Increased productivity of smallholders in target agricultural sub-sectors
7.2 Increased agricultural trade
7.3 Increased access to business support services for micro and small enterprises
7.4 Increased effectiveness of smallholder organizations to provide business services to their members

615-008 Education Support for Children of Marginalized Populations

SO Level Indicator(s):

Percentage of children residng in marginalized areas attending school (disagregated by gender and region)

8.1 Community, school and district partnerships strengthened
8.2 Teacher practices/competencis improved
8.3 Improved policy and investment framework within the education sector

615-YYY Trade and Investment Development Program