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African Development Fund

KENYA

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Country Strategy Paper

Country and Regional Department - East A (OREA)

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List of Abbreviations

ADF	- African Development Fund
AGOA	- Africa Growth Opportunity Act
APRM	- African Peer Review Mechanism
ASAL	- Arid and Semi Arid Lands
COMESA	- Common Market for Eastern and Southern Africa
CSP	- Country Strategy Paper
DCG	- Donor Coordination Group
DFID	- Department for International Development
DRC	- Democratic Republic of the Congo
EAC	- East African Community
EASSy	- Eastern and Southern Africa Submarine Cable System
EPA	- Economic Partnership Agreement
ESW	- Economic Sector Work
EU	- European Union
FDI	- Foreign Direct Investment
GCG	- Grand Coalition Government
GDP	- Gross Domestic Product
GNI	- Gross Net Income
GOK	- Government of Kenya
HAC	- Harmonization, Alignment and Coordination
HDI	- Human Development Index
HIV/AIDS	- Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
ICT	- Information Communication Technology
IMF	- International Monetary Fund
IGAD	- Intergovernmental Authority for Development
IPO	- Initial Public Offer
KANU	- Kenya African National Union
KEFO	- Kenya Field Office
KJAS	- Kenya Joint Assistance Strategy
MDG	- Millennium Development Goal
MTEF	- Medium Term Expenditure Framework
MTP	- Medium Term Plan
NIMES	- National Integrated Monitoring and Evaluation System
ODA	- Overseas Development Assistance
ODM	- Orange Democratic Movement
OECD	- Organization for Economic Cooperation and Development
PAC	- Parliamentary Accounts Committee
PBA	- Performance Based Allocation
PEFA	- Public Expenditure and Financial Accountability
PFM	- Public Financial Management
PIU	- Project Implementation Unit
PNU	- Party of National Unity
PPOA	- Public Procurement Oversight Authority
PPP	- Public Private Partnership
PSDS	- Private Sector Development Strategy
ROSC	- Report on the Observance of Standards and Codes
SADC	- Southern African Development Community
SME	- Small and Medium Enterprise
SSA	- Sub Saharan Africa
SWAP	- Sector Wide Approach
TEAMs	- The East African Marine Systems
TIVET	- Technical, Industrial and Vocational Entrepreneurship Training
UA	- Unit of Account
VAT	- Value Added Tax
WTO	- World Trade Organization

I. INTRODUCTION

1.1 The previous Bank Group's CSP for Kenya ended in 2007. The plan, moving forward, was to replace it with the Kenya Joint Assistance Strategy (KJAS) drafted by the Government and development partners with a view to greater harmonization, alignment and coordination of development assistance. Its pillars are threefold: (i) encouraging economic growth; (ii) investing in people and reducing poverty; and (iii) strengthening institutions and improving governance.

1.2 The Bank Group and other development partners committed to fully adopt the KJAS framework as their common country strategy by 2008 and the Bank made plans to draft a memorandum to accompany the KJAS to the Board in the first quarter of 2008. Kenya's post-election crisis in early 2008 meant that the KJAS could not be adopted as planned.

1.3 In June 2008, the Government formally launched the long-term development strategy, Vision 2030, and its first five-year Medium Term Plan (MTP) for 2008-2012. Since the KJAS requires revision to align it with the MTP, the Government requested the Bank Group to prepare a full country strategy.

1.4 This Country Strategy Paper (2008-2012) is a result of discussions with the Government, development partners and other stakeholders during visits to Kenya in July and September 2008. It is aligned with the MTP, focusing on economic growth and employment creation as the basis for poverty reduction and shared prosperity. It also considers the lessons of the post-election crisis of 2008 to be important: (i) economic growth, such as that generated during the past five years, could unravel if not accompanied by measures to address income disparities among households and regions, and (ii) good governance and institutional strengthening are crucial for policy sustainability.

1.5 The Bank Group will continue to work with the Government and development partners to revise the KJAS. On completion, the revised KJAS will be presented to the Board as the Bank's country strategy for Kenya.

II. COUNTRY CONTEXT AND PROSPECTS

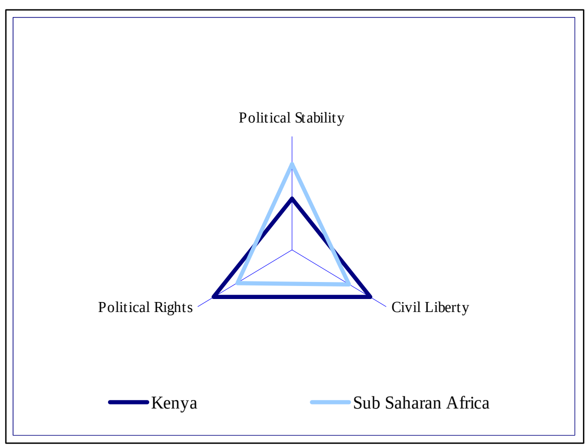
2.1 Political, Economic and Social Context

<u>Political Context</u>

2.1.1 Since independence in 1963, Kenya has remained reasonably stable despite political and economic turmoil in the region. The party of Independence, the Kenya African National Union (KANU), came under increasing pressure over the decades to introduce more pluralistic national politics. The reintroduction of multiparty democracy in the early 1990s heightened political competition, with a dozen political parties represented in Parliament, beginning with the 1992 elections.

2.1.2 In 2002, Mwai Kibaki became the third president of Kenya in close to 40 years of Independence. The change strengthened effectiveness of government and widened political space for the media and civil society. Although previous Governments had initiated some constitutional reforms, it was under Kibaki's first term of office that the national conference called to debate a new constitution was concluded. The resulting draft constitution, the so-called Bomas draft, was, however, subjected to further, and largely controversial, review by Parliament. The draft that emerged from this process was put to a referendum in 2005 and defeated. This presaged the political acrimony of the years to come (Graph 1).

Graph 1: Political Context



Source: Compiled by AfDB Statistics Department, 2008

2.1.3 The contested results of the 2007 general elections brought the country to the brink of civil war, starkly illustrating its economic and political fragility. High-level international mediation led to the formation of a Grand Coalition Government (GCG) in early 2008 (see Box 1). This helped halt the slide toward further fractionalization and presented an opportunity for the Government to forge ahead on a number of national issues. High expectations have been vested in the GCG. It is expected to deliver stability, a new constitution, land reforms, peace and security and national reconciliation. Coalitions call for much perseverance, especially in view of the fractious politics of the past. A collapse of the coalition would complicate Kenya's political future and hamper the implementation of the MTP and Vision 2030. However, the absence of parliamentary opposition might weaken policy implementation. Kenya is the gateway to East Africa. Its political stability and economic prosperity have important implications for its neighbors. Kenya's post-election crisis had debilitating impacts on regional transport, trade and tourism, and economies more generally.

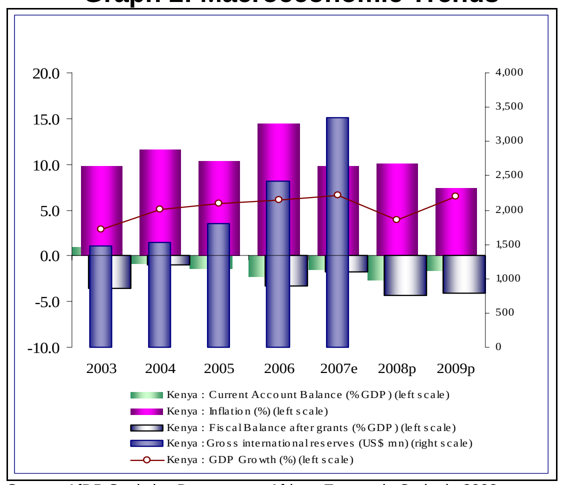
Box 1: December 2007 Elections and Aftermath

- The Party of National Unity (PNU) and the Orange Democratic Movement (ODM) were the main contestants of the elections. The unclear result led to widespread violence, with about 1,000 deaths and over 300,000 people displaced.
- The crisis disrupted economic activity and eroded business confidence. Tourism, a major source of foreign exchange and employment, declined sharply. In February 2008, Kenya's sovereign credit rating was downgraded by the major rating agencies from B+ to B.
- Following a national accord, a Grand Coalition Government, with Mwai Kibaki as the President and Raila Odinga as Prime Minister, was formed in April 2008.
- The GCG has resumed institutional reforms and commissions have been set up to investigate the election malpractices, post-election violence and to address truth, justice and reconciliation. Dialogue with development partners has resumed in earnest.
- Thanks to a quick political resolution, the damage to the economy was less than feared. Economic activity has rebounded in recent months with the return of business confidence, also a reflection of the resilience of Kenya's private sector.

Economic Context

2.1.4 Kenya's economy is one of the largest in the region, and the rest of Sub-Saharan Africa (SSA). Economic growth increased in the 2000s, despite external shocks and public sector inefficiency (Graph 2). The private sector's ability to identify and exploit new niches, such as horticulture and ICT, has been important for the performance of the economy. However, Government has emphasized that public-private partnerships will be required to implement Vision 2030 and the MTP, including the planned infrastructure projects to transform Kenya into a middle income economy.

Graph 2: Macroeconomic Trends

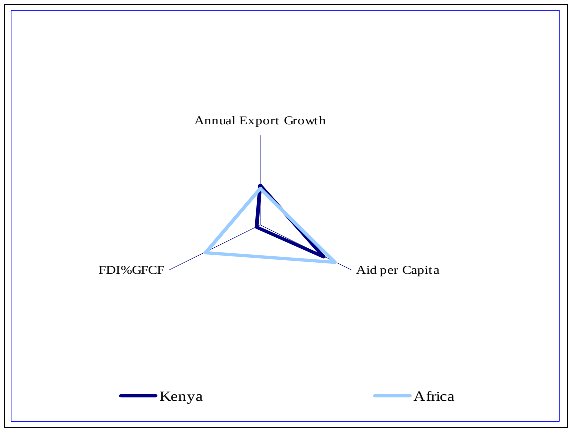


Source: AfDB Statistics Department, African Economic Outlook, 2008

Growth and Growth Drivers

2.1.5 Investment has averaged about 20 percent of GDP per year in the 2000s, which is about the average for SSA but lower than for Middle Income Countries, whose investment is 3 points higher. Kenya's position as the most important FDI destination in East Africa was eroded by slow structural and regulatory reforms. Its neighbors, Tanzania and Uganda, have surpassed it in attracting foreign investment—much of it from Kenya—in recent years. Aid is an important factor, but flows in per capita terms were much lower (Graph 3) than for its neighbors for much of the past decade. Although aid to Kenya finances only about 6 percent of the total budget, it accounts for more than half of the development budget. Remittances have increased in importance, now above US$1 billion per year.

Graph 3: Key Growth Drivers, 2007

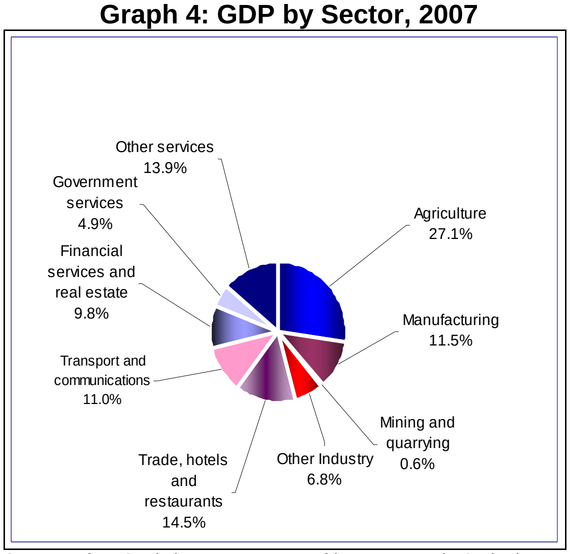


Source: AfDB Statistics Department, 2008.

2.1.6 Exports to the region have increased with the recovery of regional economies. They have become the fastest growing component of domestic demand, 8 percent per year during the 2000s.

2.1.7 With regard to sectors, Kenya is more diversified than other economies in the region. Agriculture, accounted for 27 percent of the GDP (see Graph 4) in 2007. It grew by 4 percent on average during 2003-2007. Significant factors are the Government's support to the coffee, dairy, and livestock sectors through the elimination of VAT on farm machinery and inputs for mainly commercial producers, and the re-opening of the Kenya Meat Commission.

Graph 4: GDP by Sector, 2007



Source: AfDB Statistics Department, African Economic Outlook, 2008.

2.1.8 The manufacturing sector's share of GDP is about 11.5 percent. The sector is segmented, comprising large multinationals on the upper end and SMEs and informal manufacturing activities on the other. The range of products has increased markedly in past decades but the food and metals sub-sectors remain the most important.

2.1.9 Services, including banking and finance, tourism, transport and communications, account for over 50 percent of GDP. They are mainly produced by the private sector and employ a large segment of the urban population. The Government's plan to expand economic infrastructure is partly aimed at boosting private sector service production further.

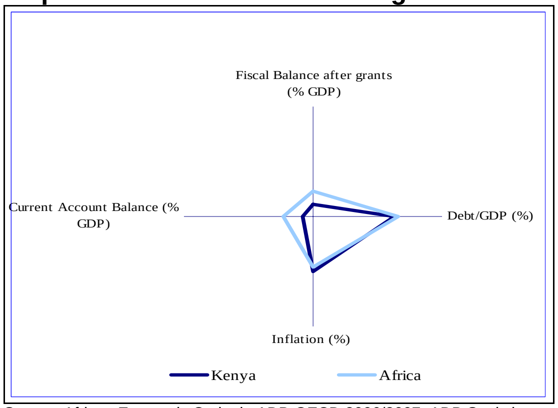
2.1.10 The Government projects that by 2012, total investment will have risen to over 30 percent of GDP, buttressed by a substantial inflow of FDI. By then, growth will be in double digits, with services and industry as the most significant contributors. These scenarios are similar to those pursued earlier by the Asian Tigers and will equally require relentless policy oversight and attention to detail.

Macroeconomic Management

2.1.11 In recent years, macroeconomic policies have been prudent, geared at supporting growth. Tax revenues have been consistently over 20 percent of GDP for decades, an important factor in Kenya's relatively low dependence on aid. Budget deficits after grants averaged 2 percent of GDP over 2003-2006 (Graph 5). However, relative to the size of the economy, the development budget remains small, less than 10 percent of the total budget. In 2007, Kenya embarked on plans to issue a global bond for US$514 million to finance development projects. However due to rating downgrades in early 2008 and the subsequent turmoil in the international financial markets, issuance has been postponed.

2.1.12 Domestic inflation has risen recently, reaching 30 percent in early 2008, in response to higher food and fuel prices and to domestic political uncertainties. However, underlying inflation has remained at about 5 percent for much of the past five years. The current account deficit has been about 1 percent of GDP in recent years, compared to inflows of remittances of close to $1.3 billion, about 5 percent of GDP, in 2007.[1]

Graph 5: Macroeconomic Management



Source: African Economic Outlook, ADB-OECD 2006/2007; ADB Statistics

2.1.13 Public debt, both domestic and external, has been well managed. The IMF estimated that the country's debt will remain sustainable up to the end of the Vision 2030 period. This is significant considering that the country has not benefited from the multilateral debt reduction operations of recent years.

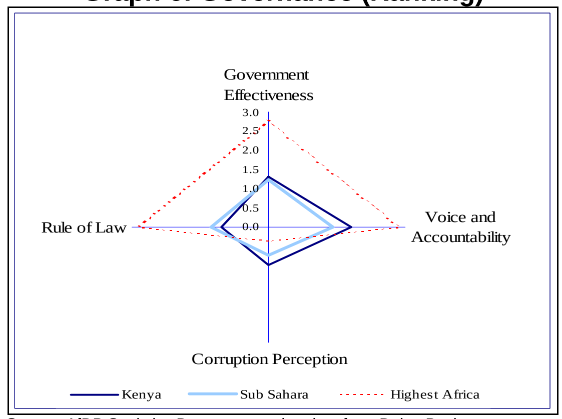
2.1.14 In a recent assessment (July 2008), the IMF noted that the Kenyan economy had regained its footing and is expected to grow by about 4 percent in 2008, a sharp decline from the 7 percent registered in 2007, but much higher than expected post crisis.

Governance

2.1.15 Kenya's record on institutional reforms and governance remains below the SSA average (see Graph 6). The Transparency International Report for 2008 ranks Kenya 147 out of 180 countries. This is an improvement on earlier performance, when Kenya was ranked among the bottom twenty. However, recent assessments[2], including jointly with the Government, attest to the erosion of the integrity of public institutions and governance, which poses serious fiduciary and investment risks for the country.

2.1.16 The Government has embarked on legislation in a range of areas including public officer ethics, anti-corruption and economic crimes, government financial management, public procurement and audit, privatization and statistics. Numerous other measures have followed, including a ministerial code of conduct, and reforms of the judiciary and the police force.

Graph 6: Governance (Ranking)



Source: AfDB Statistics Department using data from Doing Business Databases, World Bank, 2008

2.1.17 To streamline procurement, one of the main sources of irregularities in Government, a Public Procurement Oversight Authority (PPOA) has been established. The transparency of the budget has improved and it is generally acknowledged by the donor community that recent budgets have been more pro-poor and that there has been some improvement in the delivery and quality of public services.

2.1.18 However, the implementation of governance reforms has been largely inadequate. The road ahead promises to be even more challenging as the appetite for difficult governance reforms might have diminished with the formation of the GCG. However, leaders of the coalition are adamant that governance reforms will continue and that the timetable for the introduction of a new constitution is on track.

2.1.19 The recent report on the Observance of Standards and Codes (Fiscal Transparency Module, 2008) by the IMF notes improvement in data and reporting on budgetary and related issues in Kenya. On the other hand the Government has strengthened the capacity of the National Bureau of Statistics to generate and disseminate data.

Business Environment and Competitiveness

2.1.20 Kenya was ranked 72 of 178 countries in the 2008 World Bank Ease of Doing Business Index. It was also identified as the 10th most important reformer of the business environment.

[1] See the Migration and Remittances Fact Book 2008.
[2] These include the Bank Group's Governance Profile and the Public Financial Management and Accountability review done jointly by development partners and the Government.

In both respects, it was well ahead of other SSA countries (Table 1). In particular, Kenya scored highly in terms of dealing with licenses and getting credit.

Table 1: 2008 Doing Business Rankings

	Kenya	SSA	Africa	Highest Africa
Ease of Doing Business	72	136	134	27
Starting a business	112	126	122	8
Dealing with licenses	9	112	112	9
Employing Workers	66	117	117	11
Registering property	114	121	122	26
Getting credit	13	114	114	13
Protecting investors	83	112	112	9
Paying taxes	154	104	108	11
Trading across borders	148	130	124	17
Enforcing contracts	107	116	116	33
Closing a business	76	121	117	26

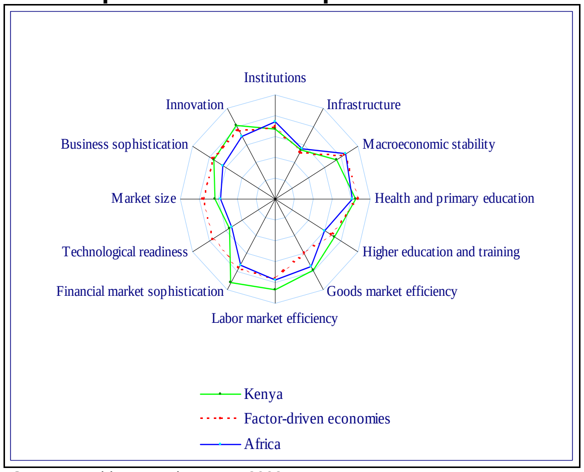
Source: World Bank, Ease of Doing Business, 2008

2.1.21 Kenya ranked 148 on trading across borders, partly a reflection of the inefficiency at the port of Mombasa. The port requires major investments, especially upgrading the container terminal. The Government has embarked on the reform of this port, which will now operate on a 24 hour basis. Further investments in equipment and structures, are planned with a view to expanding services to countries in the region.

2.1.22 The Government completed a Private Sector Development Strategy in 2007 focused on enhancing the business environment. Its action plan includes strengthening infrastructure, combating crime and insecurity, implementing anti-corruption measures, and removing regulatory and administrative barriers to doing business. Crucially, the Government aims to undertake a constant dialogue on impediments to private sector activities.

2.1.23 Kenya was ranked 10th out of 29 African countries in overall competitiveness in 2007 by the World Economic Forum (Graph 7). While the country retains characteristics of a "factor-driven economy", with high dependence on commodity prices and world economic cycles, it is transforming into an "innovation- driven economy" in two respects: first, skilled labor is playing a greater role in the economy than previously and second, the financial sector is increasingly innovative.

Graph 7: Global Competitiveness Index

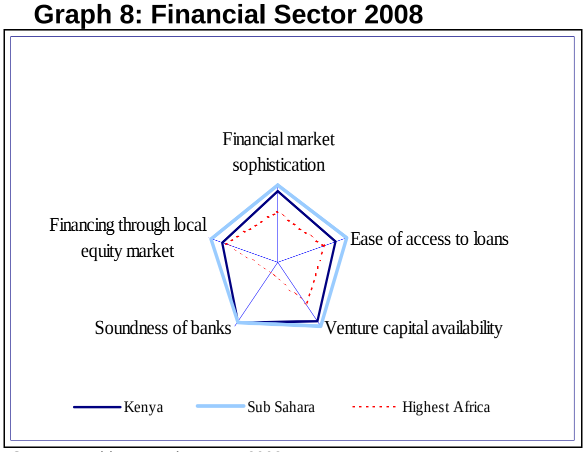


Source: World Economic Forum, 2008

2.1.24 Thanks to Kenya's early focus on higher education and training, it now has an impressive skills mix and a human resource base which are above the African average, but which still require expansion if Kenya is to achieve its ambitious development goals. The private sector has increased its ability to harness the benefits of existing technologies, an important feature in the transition to an innovation-driven economy.

2.1.25 The country enjoys a high level of financial market sophistication (Graph 8), which in turn translates into business sophistication, and goods and labor market efficiency that are above the African average. It fares less well in comparison to the average for factor-driven economies in terms of market size and infrastructure—which are closer to the African averages.

Graph 8: Financial Sector 2008



Source: World Economic Forum, 2008

Regional Integration

2.1.26 The history of East Africa's economic integration goes back to 1917, when an organization for coordinating common services for Kenya and Uganda (joined a decade later by Tanganyika) was set up by the colonial government, with headquarters in Nairobi. Kenya has since continued to play a leading role in the region (i) due to its strategic location on the East African coast—for centuries one of the most important outposts for the transcontinental trade between Europe, the Arab world, the Indian sub-continent and the Far East; and (ii) as the gateway for many countries in the hinterland. Kenya's regional importance was buttressed by the size of its economy, based to a larger extent on private enterprise. The institutional legacy and diversified economic structure inherited at independence were also significant factors.

2.1.27 Kenya attracted substantially more foreign direct investment than Uganda and Tanzania. Nairobi became the logical regional headquarters for multinational firms and banks. Kenya's neighbors saw these as threats to their nascent industrialization efforts. Associated political pressures eventually led to the collapse of the East African Community (EAC) in 1977.

2.1.28 In 2003, Kenya, Uganda and Tanzania resumed fully-fledged economic collaboration under the auspices of a revamped EAC and were joined by Rwanda and Burundi as full members in 2007. EAC collaboration resumed when the economic and political situation of the region had greatly changed. Economies had been liberalized and more representative politics were being promoted in East Africa. In 2004, Kenya, Uganda and Tanzania signed a Protocol establishing the East African Customs Union and setting up a common external tariff, with timing provisions to protect economically weaker Uganda and Tanzania.

2.1.29 The Government's Ministry for Regional Integration has analyzed Kenya's strengths, opportunities and challenges in the regional context. They include the promise of a large regional market of over 200 million, strategic location, relatively well developed transport infrastructure, and a large and regionally influential private sector. The challenges include overlapping regional memberships and an absence of focus on regional integration in national policy documents.

- Mombasa is the second most important harbor in the region after South Africa's Durban, with 17 international shipping lines calling regularly and handling 14 million tones of cargo each year, a quarter of which is transit cargo to the region.[3] In recent decades, the lack of investment in modern cargo handling infrastructure and technology has seriously undermined the port's efficiency, causing long delays. Business surveys indicate that inadequate port services bear some of the blame for the escalating cost of doing business in the region. During 2008, the Government transformed Mombasa into a 24-hour operation to reduce the backlog. To reach and maintain international standards at the port will require more investment in cargo handling and complementary services. The Government plans to relinquish the former to the private sector.

- Kenya is the transport hub of East Africa and greater regional integration will further strengthen its position. Nairobi is the base for an extensive regional trucking business, airfreight services and international airlines. The Government has argued, however, that the country's transport infrastructure requires substantial private and public investment to cope with the rising regional trade volumes. Recent initiatives to alleviate regional infrastructure bottlenecks include plans to develop a modern railway system and to construct major highways as part of the Northern Corridor—the main transport link to the sea for countries in the hinterland.

- Kenya's private sector plays a leading role in the region. Kenyan companies are among the most important foreign investors in Uganda and Rwanda and a number are cross-listed on the regional bourses. The Nairobi Stock Exchange has mentored the Kampala, Dar-es-Salaam and Kigali stock exchanges in recent years. The Kenya Commercial Bank has established branches in Kampala, Dar-es-Salaam and Juba—from which it hopes to expand further a field—and has been important in Kenya's expanding trade to the region. Although the reach and competitiveness of Kenya's private sector have caused apprehension in parts of East Africa, businesses from the other countries

[3] The port also serves Uganda, Rwanda, the Democratic Republic of the Congo, Burundi, Ethiopia, Southern Sudan, Somalia and Northern Tanzania.

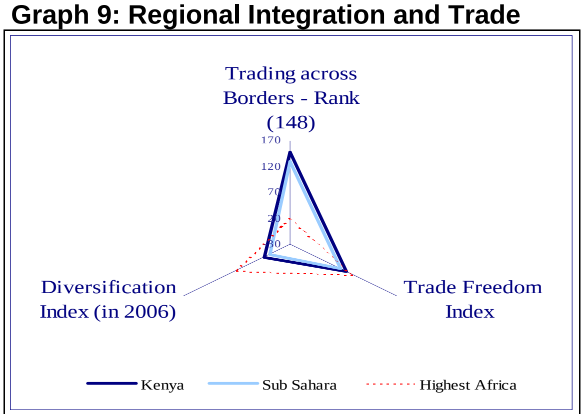
have discovered profitable niches—ranging from food products to timber—in their trade with Kenya.

2.1.30 The challenges to Kenya's integration aspirations are twofold:

- First, the Government sees its multiple memberships of regional blocs—including COMESA, IGAD, Nile Bain Initiative, and WTO—as, besides being expensive in terms of membership fees and other commitments, impairing policy coherence. In October 2008 the heads of state and government from the EAC, SADC and COMESA signed a memorandum of understanding in Kampala with the goal of unifying the three entities into a single free trade area of over 500 million and a GDP of close to $600 billion. This is an important step in the right direction.

- Second, the Government also sees the poor regional infrastructure as a key impediment to greater integration. The Government plans key developments in regional infrastructure—notably a transport link from the port of Lamu to Isiolo with connections to Ethiopia and Southern Sudan as well as power interconnection between power producers in Ethiopia and the rest of East Africa. The Ministry of Regional Integration has an elaborate East African Strategy which emphasizes infrastructure development.

Graph 9: Regional Integration and Trade



Source: World Bank, 2008, ADB-OECD 2006/2007

2.1.31 Under this CSP, the Government has set aside ADF resources for the implementation of important regional projects, including power transmission and road transport. In doing this Kenya gets from the Bank's regional window, an additional 2 UA for each UA so committed. This provides a powerful incentive for Kenya and its neighbors to embark on similar regional initiatives with support from the Bank. The Bank Group is also planning important joint analytical work on regional integration in East Africa with focus on the role of infrastructure. Going forward the Bank will continue to emphasize the importance of incorporating regional integration in Kenya's policy priorities and national strategies, including in the implementation of Vision 2030 and the MTP.

Trade

2.1.32 There has been an important structural shift in Kenya's trade in recent years, both in terms of direction and content. For much of the post-independence years, Kenya's trade was directed towards Europe. However, following trade liberalization among regional economies in the past decade, including free exchange rate markets and lower tariffs within blocs, Kenya's trade has switched exceedingly to the region. In 2007, about 70 percent of exports (about US$2.8 billion), mostly manufactures, went to COMESA countries. In 2007, over 12 percent of Kenyan exports went to Uganda, about 8 percent to Tanzania and 2.1 percent to Rwanda and 4 percent to Sudan. Burundi and DRC have also become important trade partners for Kenya, with the return of peace and increased economic activity.

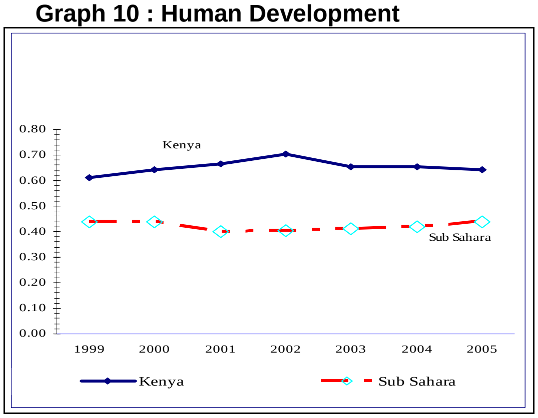
2.1.33 Kenya's trade is more diversified than the SSA average, but in comparison to Africa's best performers, it still has some way to go in diversifying the direction of its trade (Graph 9). In this context though, Kenya shows major change. It now exports more manufactures, horticulture and fish than its traditional exports coffee and tea, the latter two accounted for less than 30 percent of total export revenue in 2006. However, Europe is still an important trade partner and Kenya has been a major regional negotiator in the process leading to an Economic Partnership Agreement (EPA) for the Eastern and Southern Africa bloc of countries. However, Asia is the most important source of imports, over 50 percent in 2007. With respect to the US sponsored Africa Growth Opportunity Act (AGOA), following rapid expansion, production of apparel targeted to the USA has declined in recent years with the lifting of international quotas on exports of apparel in 2005.

Social Context and the Environment

Social Inclusion and Equity

2.1.34 Kenya has a rapidly expanding middle class, and its human development index (HDI) is above the sub-Saharan African average (Graph 10). It is still characterized by wide regional economic disparities. The richest 10 percent of households own about 36 percent of total wealth and the poorest 10 percent own less than 2 percent.

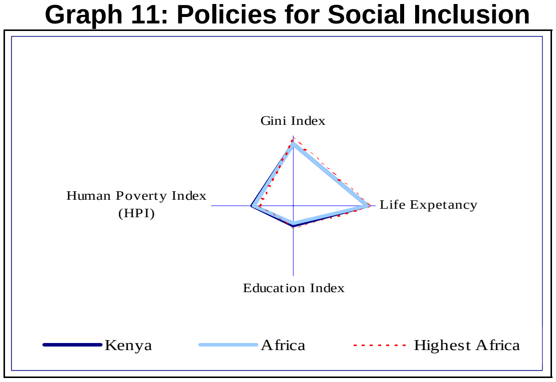
Graph 10 : Human Development



Source: AfDB Statistics Department, 2008.

2.1.35 Kenya's Gini coefficient of 0.51 in 2005/06 (up from 0.45 in 1994) is only lower than that of South Africa and Namibia in the region (Graph 11). In rural areas, poverty and inequality are marked, and land scarcity undermines livelihoods. Recent growth has, however, helped reduce absolute poverty from 52 percent in 1997 to 45.9 percent in 2005/2006.

Graph 11: Policies for Social Inclusion



Source: AfDB Statistics Department using data from the UNDP Databases, 2008

2.1.36 Social indicators have improved in recent years. Maternal mortality was reduced by 140 to 414 per 100,000 live births between 1998-2003. Child immunization rose by 50 percent in three years to 72 percent by 2006/07 and the attendance by pregnant women at antenatal clinics increased from 42 to 56 percent over the same period. The mortality of in-patients with malaria was halved to 17 percent (2006/07). It is estimated that the proportion of adults aged 15-49 with HIV/AIDS declined from 6.7 percent in 2003 to 5.1 percent in 2006.

2.1.37 In education, the introduction of free universal primary education in 2003 led to a sharp increase in school attendance. About 8.2 million children attended primary school in 2007 compared to 5.9 million in 2000. The rate of transition from primary to secondary level rose from 41.7 percent in 2002 to 60 percent in 2005.

2.1.38 In terms of MDGs (see Annex X) Kenya has already achieved MDG 2 (universal primary education) and achieving MDG 6 (progress in combating HIV/AIDS) is likely. The promotion of gender equality, MDG 3, has received more attention in recent years, and will likely be achieved. However, while progress has been made, MDG 1 (eradicate extreme poverty and hunger); MDG 4 (reduce child mortality); and MDG 5 (reduce maternal mortality) will on current trends not have been met by 2015. With respect to MDG 7 (ensure environmental sustainability) and MDG 8 (global partnerships) the progress achieved is inconclusive.

Gender Issues

2.1.39 Both the Vision 2030 and the MTP envision a critical role for women in the socio-economic development of Kenya. Gender parity has been achieved in primary education, about 4 million girls attended school in 2007, through the introduction of free universal primary education. Even more important, the number of girls attending secondary school had increased to about half a million, 44 percent of the total, by 2007. The percentage of females in tertiary education has also improved markedly in recent years, with attendance rates of over 40 percent.

2.1.40 With respect to leadership within government and politics, recent years have seen more female representation. In the GCG about 15 percent of the over 90 cabinet and deputy ministers are female, but only about 10 percent of the 222 MPs. Women comprise between 20-30 percent of high court judges, ambassadors and heads of state corporations and agencies. This is an improvement on a decade earlier when female politicians and top government officials were rare.

2.1.41 The Bank Group's Gender Profile for Kenya, completed in 2007, observed that in spite of political and social inroads, a number of gender gaps remain, especially in income generation. Women's access to credit and productive assets such as land continues to be poor, since traditional practices still preclude women from inheriting property. Women in business still find it difficult to graduate to formal lending institutions because they often have little or no collateral.

2.1.42 Recent household surveys indicate higher incidence of poverty among female headed households, in both rural and urban areas. Besides poorer access to healthcare, credit and employment, female-headed households experience domestic violence more frequently than others. The Government plans a number of initiatives, some in the form of affirmative action, to address gender disparities. They include (i) increasing female representation in parliament, where the country lags behind its neighbors, (ii) raising female access to public sector jobs and enhancing their career prospects therein, and (iii) improving female access to family planning and the quality of antenatal care.

Environment and Climate Change

2.1.43 Kenya is a relatively large country, but the land amenable to agriculture is less than a quarter of the land mass. The rest of the country receives only sporadic rainfall and could not sustain agriculture without irrigation. High population growth has put considerable pressure on natural resources. Up to 80 percent of the population uses fuel wood or charcoal and deforestation and soil degradation are significant problems. Closed forests stand at 1.7 percent of land against the recommended level of 10 percent. Climate change has aggravated the situation.

2.1.44 Kenya has experienced unprecedented out of season flooding and droughts with serious impacts on farming and rural livelihoods. Incidence of vector and water-borne diseases during periods of heavy rains and flooding are interspersed by famine and malnutrition during droughts. To escape the threat of famine or unemployment rural dwellers are migrating in large numbers to the cities. The recent increases in food prices have aggravated the situation (see Box 2).

2.1.45 Among the policy initiatives introduced by the GCG is the protection of Kenya's forests and water resources, including a master plan to restore and rehabilitate the Nairobi River Basin.

Box 2: Bank Group's Response to Kenya's Food Crisis

Kenya has become increasingly food insecure due to climatic changes, and despite its impressive economic growth in the last five years. Agriculture is primarily rain fed and fertilizer use is crucial to boosting output. Low rainfall and severe droughts have been exacerbated by the shortage of affordable fertilizers caused by over 50 percent increase in import prices. Food production declined in 2007 and UNICEF estimates that 1.3 million people have become food insecure, with the majority resident in the arid and semiarid north of the country. In August, the Government requested for assistance from the donor community and the Bank Group to purchase fertilizer.

The Bank Group responded expeditiously to the Government's request and reallocated about US$11.5 million from existing projects to help the country to purchase fertilizer under the Bank's Africa Food Crisis Response program. The fertilizer is expected to be available to farmers prior to the onset of the short rains (November-December) this cropping season. This will help boost food production and ameliorate the impact of the food crisis in Kenya.

2.2 Strategic Options

2.2.1 Country Strategic Framework

2.2.1.1 Kenya's Vision 2030 was formally launched in 2008 (Box 3). It projects Kenya at the end of two and a half decades of implementation as: (i) globally competitive; (ii) a prosperous nation; and (iii) with citizens enjoying a high quality of life. Achieving these three interrelated goals has influenced the focus of the first comprehensive medium-term plan (MTP 2008-2012) also launched in 2008.

Box 3: Thrust and Targets of Kenya's Vision 2030

Strategic Objectives

(i) Maintain an average growth rate of 10 percent per annum over the next 25 years; (ii) Create a just and cohesive society enjoying equitable social development in a clean and secure environment; and (iii) Realize an issues-based, people-centered, results-oriented and accountable democratic system.

Foundations

(i) Macroeconomic stability; (ii) Continued governance reforms; (iii) Enhanced equity and wealth creation; (iv) Expansion of economic infrastructure; (v) Science, technology and innovation; (vi) Land reform; and (vii) Security and public sector reforms.

Pillars

(i) ***Economic***: Tourism, Agriculture, Manufacturing, Wholesale and Retail Trade, Business Processing Outsourcing (BPOs), and Financial Services; (ii) ***Social :*** Education, Health, Water and Sanitation, Environment, Housing and urban services, and Gender, Youth and Vulnerable Groups; and (iii) ***Political:*** Rule of Law, Electoral and Political process, Democracy and Public Service delivery, Transparency and accountability, Public administration, Security, Peace building and Conflict management.

Source: Government of Kenya, 2008

2.2.1.2 The MTP recognizes the importance of well developed economic infrastructure in transforming Kenya into a globally competitive economy. Competitiveness includes being well linked to neighboring countries to boost trade. The MTP also underlines the importance of delivering modern infrastructure services to rural areas to boost incomes and social welfare.

2.2.1.3 During 2008-2012, initiatives in transport will include presentation of a National Integrated Transport Master Plan, development of a new transport corridor to Southern Sudan and Ethiopia, and maintenance of existing roads, including rural roads. A Roads Act enacted in 2007 will guide policies and institutions. The Kenya-Uganda Railway concession is being revamped and this will facilitate greater economic integration.

2.2.1.4 In the area of electricity generation, the Government will complete a National Electricity Supply Master Plan, which will also reflect on the work of the Rural Electrification Authority. An Energy Access Scale-up program will complement this overall effort toward improvement of power supply. In telecommunications the under sea fiber optic cable and a national fiber optic network are being constructed. Strengthening the water and sanitation sector is also a priority.

2.2.1.5 Agriculture, and rural development more generally, is key to the achievement of the goals of the MTP. Focus is on building an innovative, commercially-oriented and modern farm and livestock sector, through support to smallholders, and creation of off-farm activities in the rural economy. Irrigation infrastructure for crop and livestock farming (especially in ASALs) and the establishment of disease free livestock zones are priorities. A food security and nutrition policy incorporates the expansion of the strategic grain reserve.

2.2.1.6 In the social sector, the aim is to provide an efficient health infrastructure network, raising the quality of health care delivery to international standards, and creating a mandatory national health insurance scheme. In education the main goals are to raise transition rates in basic education, improve education quality, and address regional inequalities by improving access in the poorer regions of the country.

2.2.1.7 To reach its goals, the Government aims to use the budget to target spending on the priority sectors. These will account for 62 percent of expenditure by 2010/11, an increase from 57 percent in 2007/08.

2.2.2 Challenges and Weaknesses

2.2.2.1 Kenya is faced with a number of weaknesses and, as a result, challenges, seven of which are outlined below:

(i) *Maintenance of political stability.* The rapid disintegration of Kenya's social and political fabric in a matter of months following the post-election crisis pointed to the need to emphasize equitable development. The quick resolution of the post-election crisis was a positive step, but sustainability will require political will to ensure that the coalition Government remains intact and delivers on its agenda of addressing the socio-economic fragility of the country.

(ii) *High levels of corruption and weak governance.* Corruption, weak governance (see previous discussion on governance) and insecurity are major impediments to investment. Maintaining the pace of reforms will be required. This includes strengthening the role of anti-corruption, oversight and law enforcement agencies.

(iii) *High cost of doing business*. Kenya is aspiring to become a middle income country. As discussed in the Business environment section the cost of doing business is a major hindrance and its competitiveness is correspondingly much lower.

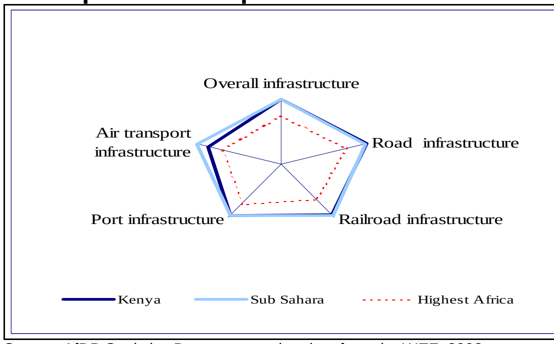
(iv) *High unemployment and inequality.* High unemployment and income inequality persist; with significant geographical variation and incidence amongst the youth. Allied to this is the inequitable distribution of, and poor access to, land. These issues were identified as key drivers of the post election crisis and will require a concerted effort to address. Furthermore, although Kenya has a high level of skills at one end of the labour market, there is a lack of vocational skills at the other end. In addition, access to credit and technology is difficult for SMEs and informal traders.

(v) *Enhancing regional and international trade.* Although Kenya has had an expansion in trade with EAC and COMESA countries in recent years, transport and other infrastructure still inhibit the movement of goods and services within the region. In addition, the new Economic Partnership Agreement between the East African region and EU will reduce Kenya's previously privileged access to EU markets. Similarly, the pace of regional integration, especially within the EAC and COMESA has been slow. The key challenge to enhance trade and integration is to ensure coordinated investments in regional infrastructure and concerted capacity building for national and regional institutions.

(vi) *Improving economic and social infrastructure.* The MTP identifies the absence and poor quality of infrastructure, broadly defined to encompass economic, productive and social sectors, as a major impediment to sustained pro-poor growth. Kenya's transport (Graph 12) and energy infrastructure, for example, are overloaded and require both modernization and expansion. Infrastructure in other sectors (e.g. agriculture, water, health, education and the environment) is also inadequate. A major challenge is to raise the resources required for investments in infrastructure to support Kenya's growth.

(vii) *Environmental degradation*. Kenya has seen a substantial destruction of its forests in the past decades owing to population pressure, notably household demand for charcoal and wood fuel (see the Environment and Climate change section) and illegal logging activities. The country's vulnerability to climate change has increased as a result.

Graph 12: Transport Infrastructure 2008



Source: AfDB Statistics Department using data from the WEF, 2008

2.2.2.2 Kenya's CPIA ratings have been above average and rising since 2005 (Annex VII). It has performed very well in the areas of economic management and structural reforms—notably its reform of the financial sector. Kenya's scores in the area of social inclusion and equity have not improved much, with its scores on gender equality, and the environment being below average. The country receives high scores in public management, in the specific areas of revenue mobilization and quality of public administration, but with low scores on property rights and corruption in the public sector.

Box 4: Key development weaknesses and challenges

- Maintenance of political stability
- High levels of corruption and weak governance
- High cost of doing business
- High unemployment and inequality
- Enhancing regional and international trade
- Improving economic and social infrastructure
- Environmental distress

2.2.3 Strengths and opportunities

2.2.3.1 Kenya's *strategic location, with access to the sea and its transport network serving a number of landlocked countries and regions*, make it the premier business and communications hub in the region. The country could significantly strengthen this position through planned upgrading of the road and rail network, investments in a submarine cable and marine systems, and in broadening the financial market.

2.2.3.2 In spite of corruption and, generally, poor governance, Kenya's *macroeconomic policy is sound* and, compared to its neighbours, Kenya has done well in *domestic revenue mobilisation*. This has resulted in low levels of debt and a low reliance on external funds[4]. There is still a need, however, for increased access to international private capital, which would require an improvement in the business environment and current perceptions of difficulties in paying taxes, registering property, starting a business and enforcing business contracts.

2.2.3.3 With over 20 public and private universities, offering both technical and professional education, Kenya has a *strong human resource base*. It also has a number of other institutions providing specialised training in management, science and technology. In combination with the large number of multinational companies and international banks basing their regional headquarters in Nairobi, this has led to the growth of a strong managerial cadre. Tapping the potential of this existing human capital to move the economy from factor driven to increasingly service driven (with greater efficiency and innovation) is an opportunity that needs to be exploited.

2.2.3.4 Kenya is *one of the most important tourist destinations in Sub-Saharan Africa.* In 2007, more than 1 million tourists visited the country, spending close to US$0.9 billion. The sector has contributed to economic diversification and created employment in urban and rural areas. It has also contributed to the success of the country's branding of its coffee and tea. However, population pressure and climate change are threats to animal and plant fauna and innovative approaches will be required to protect the country's unique nature.

2.2.3.5 Despite the numerous weaknesses identified in the discussion on the business environment and competitiveness (e.g. poor infrastructure), combined with over regulation and the high cost of finance, *the private sector has been a solid performer in the Kenyan economy*. The private sector's use of modern technology gives Kenya an edge in exporting goods and services, it has shown resilience in times of crisis, and the vibrancy of its financial and capital markets is driving both domestic and regional growth. Now is the time to build on this strength and harness the role of the private sector in ensuring the successful implementation of the MTP.

2.2.3.6 The implementation of the MTP will require significant financial and human resources, as well as strong planning and prioritization. The government has identified the private sector as a key partner in this regard. The challenge, however, is to expedite the pace of institutional, legal and regulatory reforms to enhance the role of the private sector and ensure that public private partnerships (PPPs) become a viable vehicle for increased investments.

2.2.3.7 It should be borne in mind, however, that the private sector also incorporates those at the lowest ranks—the informal sector (jua kali) in urban areas and smallholder farmers in the countryside. These groups are even more constrained than their formal sector counterparts in access to credit and modern infrastructure services. A large swathe of the population is hindered from meaningful income generating activities but could well form a major part of the economy if given adequate assistance.

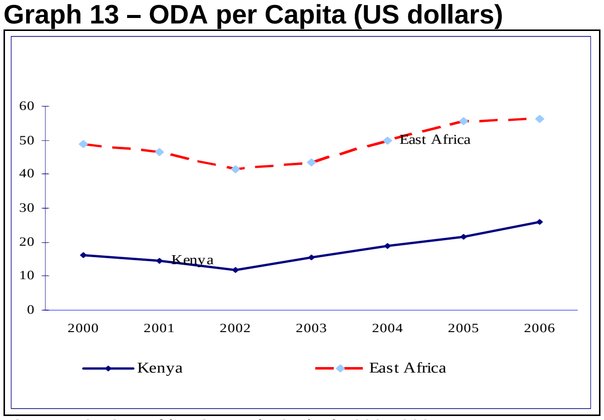
[4] As reported by the OECD (2006), Kenya's net ODA/GNI was 4.5%. This compares to Tanzania (14.5%), Uganda (16.9%) and Rwanda (23.6%).

2.3 Developments in Aid Coordination and AfDB Positioning

Aid Coordination and Harmonization

2.3.1 Aid to Kenya has increased since 2002 (Graph 13), as a result of the change in Government and commitments to more democratic governance. The Government and donors convened their first Consultative Group meeting in November 2003, and re-affirmed the importance of aid coordination principles. Following the Paris Declaration in 2005, Development Partners in Kenya have organized themselves in coordination groups namely: the Donor Co-ordination Group (DCG), the Harmonization, Alignment and Coordination Group (HAC) and the sector donor groups.

Graph 13 – ODA per Capita (US dollars)



Source: OECD, Africa Strategic Outlook, 2004-2005

2.3.2 The formulation and signing of the KJAS's partnership principles in 2007 between the Government and 17 development partners (including the Bank), accounting for 90 percent of ODA to Kenya, is one of the major results of this wide coordination. The principles set standards for effective management of development assistance through joint programming, use of country systems, joint analytical work and dialogue, and joint reviews of program implementation.

2.3.3 Kenya received about US$1 billion in support during 2007, about US $27 per capita. Among multilateral donors, the share in total support was: World Bank (41 percent) European Commission (18 percent), and the African Development Bank (16 percent). Among bilaterals, China's support was 14 percent, and KfW of Germany and AFD of France, contributed 13 percent each. Other major donors include the members of KJAS.

2.3.4 The current results framework of the KJAS gives a prospective distribution by sector among active partners (Annex VI). The World Bank is mainly present in infrastructure, social services, public sector reforms and private sector development. The European Commission, while also investing in infrastructure and public finance management, has emphasized decentralization, governance and rural development. The Bank Group concentrates on roads and transport, energy, agriculture and social sectors. Bilateral partners extend their support mainly to social sectors and governance reforms.

2.3.5 Despite the progress achieved in harmonization, the 2008 OECD survey on aid effectiveness indicates that much remains to be done to reach the targets of the Paris Declaration on Aid Effectiveness (Annex II). Many development agencies, while recognizing the potential benefits of harmonization, have not yet fully complied with the agenda. They rarely share information on analytical work nor coordinate their missions to the country. Development partners have also been unwilling to provide general budget support, citing poor governance. Donor funding to Kenya is subject to a high degree of unpredictability as a result.

2.3.6 The post-election crisis also undermined progress towards greater coordination and harmonization demonstrated for example, by the declaration of "no business as usual" by some Development Partners. The situation, however, improved after the formation of the coalition Government. In May and September 2008, the Government convened Consultative Group meetings aimed at mending relations with donors. Development Partners reiterated their commitment to engage with the Government on development issues.

ADB's Positioning

2.3.7 The Bank Group portfolio in Kenya currently comprises 18 ongoing public sector operations amounting to UA481 million (of which UA54 million or 11.3% had been disbursed by end-September 2008). By sector, infrastructure, including transport (mainly roads), water and sanitation accounts for the largest share (60 percent) and this is consistent with the Government's and Bank Group's expressed priorities. This is followed by agriculture and natural resources, 22 percent; and the social sector 17 percent.

2.3.8 The Bank Group's Private Sector portfolio comprises 3 operations, totaling US$13 million, concentrated in the financial sector. This amount is negligible relative to the potential. Consultations with private sector representatives in August 2008, showed a strong desire for the Bank Group to deepen its engagement in this sector and the Bank is scaling up its intervention under this CSP.

2.3.9 Annex IX shows that the social sector portfolio has been problematic with overall implementation progress rating of 1.69. The loan signing of the Community Empowerment and Institutional Support project (Approved by the Board on December 2007) was also delayed. Following the post election crisis, the Government requested the Bank to modify the coverage of its proposed intervention. The project development objectives remain unchanged and the modified project is expected to be signed shortly. In the infrastructure sector, the Roads 2000 – District Rural Roads Rehabilitation project will close in December 2008 and the unused loan balance has been used to purchase fertilizer as part of the food crisis response—see Box 2.

Results of the Previous CSP

2.3.10 In preparing the CSP, the Kenya Country Team noted that the focus of the previous CSP 2005-2007 on infrastructure and rural development and the instruments used were appropriate. Progress was made in a number of areas—see Table 2. The average age of the portfolio improved (2.6 years in 2007), reflecting the fact that about 42 percent of the projects were approved in the last quarter of 2007.

2.3.11 The average project size increased from UA27.6 million in 2005 to UA41.1 million in 2007 and this is consistent with the Bank's institutional preference for larger sized operations. Projects at risk declined from 40 percent in 2005 to 21 percent in 2007. However, at 8.4 percent, the 2007 disbursement was lower than the already low level of 12.25 percent for 2005 and significantly below Bank Group's average.

2.3.12 The Kenya Field Office (KEFO) was established in 2007. It has been staffed relatively quickly with nationally and internationally recruited staff. KEFO is playing an increased role in country dialogue and portfolio management and a number of tasks are currently task managed from the field as part of an effort to improve implementation progress. The improved field presence has meant increased aid coordination and harmonization with KEFO currently chairing the Roads and Transportation Donor Group—See Annex VI. It also actively participates in the donor coordinating group (DCG) and in the harmonization, alignment and coordination (HAC) group. KEFO has developed a good network with Kenya's Private Sector and it has built strong constituencies with line Ministries and project executing agencies.

2.3.13 The Bank Group's interventions during the 2005-2007 CSP also supported the Government's development objectives through increased irrigation infrastructure to boost small holder agricultural productivity and reduce the vulnerability of farmers. A large share of the interventions focused on transportation infrastructure. The Nairobi-Thika Highway Improvement Project, part of an international trunk road to the Ethiopian border, and the Arusha Namanga Athi River Road were designed to improve access, and promote economic growth and regional integration.

2.3.14 A number of challenges remain especially slow implementation of projects and very low disbursements against rapidly growing Bank Group commitments. And more could be done to further improve the degree of candor in supervision reporting and project performance ratings.

Portfolio Improvement Plan

2.3.15 As part of the CSP dialogue, the Kenyan Government's oversight agencies, line ministries, officials of project executing units and the Bank Group assessed the implementation progress of the portfolio. A number of areas were identified for focused attention. These include the need for the executing agencies and the Bank to expedite procurement and disbursement processing; to strengthen the capacity of project implementation units; and to improve oversight and results monitoring by the Ministry of Finance.

Table 2: Trends in Portfolio Performance

Performance Indicators		ADB Kenya 2005	ADB Kenya 2007	ADB Overall 2007	World Bank Kenya 2007
Implementation and Impact	Project Cycle from Identification to Effectiveness (days)	..	..	480	665+
	Age (years)	2.75	2.6	4.2	2.6
	Disbursement Rate (%)	12.25	8.41+	25	9.1
	Average Project Size (US$ M)	27.6	41.1	18.3	58.2
	Projects at Risk (%)	40	21	45.4	14
Harmonization and Alignment	% Support relying on RMCs PFM and Proc. Systems	n.a.	0*	10	52*
	% Aid provided as Programme-Based Approaches	n.a.	0	n.a.	0
	Leader of (#) Donor Working Groups in the Field	n.a.	1	n.a.	3
	Total Number of Joint ESWs	0	0	n.a.	2

*Refers to use of procurement systems only; +See also Annex IX

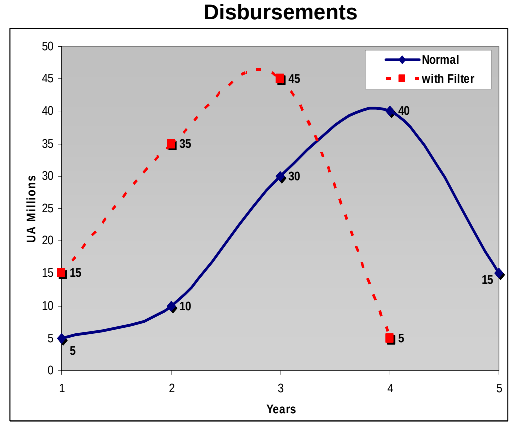
2.3.16 The need for greater preparedness of projects for implementation at entry was particularly highlighted as a major cause of delay during implementation and the evidently lower disbursement than originally envisaged. It was recognized that lack of project readiness at entry is expensive for Kenya in terms of delayed development benefits to beneficiaries and costly for the Bank in terms of missed opportunities to strengthen the pipeline of lending and analytical work.

2.3.17 For these reasons, the Government and the Bank agreed on a four-point portfolio improvement plan for this CSP. First, the Bank committed to further strengthen KEFO staffing to enhance project execution. Second, the Government requested Bank support for institutional strengthening of the capacity of the Ministry of Finance to monitor the results of overall development assistance. Third, targeted training on procurement and disbursement for project executing agencies and annual country portfolio reviews will be carried out, jointly with the Government and other development partners. Fourth, the Government adopted a project "readiness filter" for enhanced quality at entry with the following key elements:

- Ensure that project implementation plan is ready
- Counterpart funds are available for the first year
- Designated project staff are identified by appraisal, including the project manager, procurement expert, an M&E specialist and a financial management specialist
- Compliance with environmental, social, financial management and procurement policies
- Bidding documents for the first year are ready by Board approval
- Ensure that projects are designed with appropriate indicators for tracking results.

Graph 14 below shows the disbursement profile that is likely to be associated with the proposed filter. It will ensure timely project start-up and expeditious disbursements.

Graph 14: Impact of Readiness Filter on Disbursements



Source: African Development Bank, Country and Regional Programs – East A (OREA), 2008.

Lessons Learnt

2.3.18 Although the focus of the previous CSP (2005-2007) and the instruments were appropriate, the following are key lessons: First, in the face of limited resources, it pays to be focused both with respect to choice of sectors for intervention, and within those on specific areas where the Bank Group has comparative advantage. There was an evident shift in lending toward infrastructure, during the previous CSP period and, this trend is expected to continue in line with Government's preference and Bank Group's priorities.

2.3.19 Second, the Government cherishes long-term engagement that does not swing too radically in the face of changed political conditions. The Bank Group's clear expression of support and sustained engagement with Kenya during difficult times has helped to build strong constituencies with the Government and Kenyans in general.

2.3.20 Third, it is evident that lending alone is not always the most effective response to Kenya's development challenges and opportunities. Much can be accomplished through targeted policy notes, analytical work, advisory services and institutional strengthening to assist Government in making its policy choices.

2.3.21 Fourth, partnering with other donors in delivering support to Kenya within the scope of KJAS is crucial in augmenting available Bank Group financing.

2.3.22 Fifth, in spite of the Bank Group's emphasis on Private Sector development, not much lending was done in this area during the previous CSP. The development needs of Kenya are huge, and with considerable potential for private sector lending, particularly through public private participation in national and regional infrastructure operations. During the new CSP, financing from the Bank's private sector window will be an important complement to public sector projects.

III. BANK GROUP STRATEGY FOR KENYA

3.1 Rationale for Bank Group Intervention

3.1.1 The rationale for Bank Group support to Kenya is threefold. First during the CSP preparation mission in July 2008, the Government expressed a strong wish to continue to partner with the Bank Group in implementing the MTP and Vision 2030. The Government appreciated the measured tone adopted by the Bank during the country's recent political crisis and the speed with which it responded to requests for assistance. It also noted the importance that the Bank attaches to sustained engagement with its member countries.

3.1.2 Second, the Government plans to implement the MTP and Vision 2030 with active private sector participation. Many of the projects envisaged, notably those in transport, energy and water will require public-private partnerships. The Bank Group has accumulated experience, including from neighboring countries, in engaging in such partnerships.

3.1.3 Third, the prosperity of the Kenyan economy has positive impacts on regional economies. Supporting regional economic integration is a strategic pillar for Bank Group operations, and a strong and continued presence in Kenya would contribute to the region's further integration. Already the Bank Group is supporting regional interventions in transport and communications, and plans to join other development partners in studying regional integration.

Pillars for Bank Group Support

In conceptualizing the pillars for the CSP, we made a distinction between (i) Pillar I, which focuses on the medium to long-term concerns of improved infrastructure services for competitiveness and enhanced regional integration and (ii) Pillar II, which addresses the more immediate and short-term needs of those adversely affected by the post-election crisis and similarly vulnerable groups in Kenya, in particular employment, reconstruction and restoration of livelihoods.

<u>Pillar I: Supporting Infrastructure Development for Enhanced Growth</u>

3.1.4 The Government has underlined the important role that the private sector will play in generating growth and creating jobs in both its Vision 2030 and the MTP. However, Kenyan firms have continued to list erratic electricity supply, an inadequate road network, and insufficient water and sewerage services as among the most important impediments to their competitiveness[5].

3.1.5 Increasing infrastructure provision in rural areas has been identified by the MTP as crucial for addressing regional inequalities and for unlocking Kenya's agricultural potential. Rural populations with access to modern infrastructure and markets have been able to engage in small-scale commercial agriculture and off-farm income generation, while those with limited access, notably the ASALs to the north of the country, have few sources of

[5] Firm surveys are undertaken periodically by the Kenya Association of Manufacturers.

income. Rural electrification reduces dependence on wood fuel and is beneficial for the environment.

3.1.6 The Government and population of Kenya are keen supporters of regional integration.[6] The country's landlocked neighbors, Uganda, Rwanda, Burundi and Southern Sudan, are among its most important export markets. As indicated in the section on challenges and weaknesses, inadequate infrastructure is eroding Kenya's competitive edge and reputation as a regional infrastructure and communications hub.

Pillar II: Enhancing Employment Opportunities for Poverty Reduction

3.1.7 This pillar focuses on employment generation, as the most urgent challenge facing Kenya in its bid to address the socio-economic pressures and reconstruction needs arising from the post-election crisis of 2008, improve livelihoods in the poorer regions of the country and reduce poverty.

3.1.8 Economic and social indicators show that Kenya's youth and other vulnerable groups in urban and rural areas have not benefited sufficiently from the growth expansion of recent years. In addition, livelihoods in the poorer regions have deteriorated with adverse impacts on security. Part of the problem has been the lack of skills for employment or self-employment, but for the majority it has been absence of employment opportunities.

3.1.9 Out of a population of 35 million, it is estimated by the Government that 75 percent are below 30 years, while the population aged 15-35 years comprises 38 percent of the total (about 13 million). Excepting the youth attending school, tertiary institutions and other forms of training, it is estimated that about 10 million are unemployed or underemployed. Thus while sustained economic growth is a precondition for reaching Vision 2030 targets, the Government has underlined the importance of targeted measures designed for rapid job creation for the country's youth and other vulnerable groups.

[6] A three-person Committee on Fast Tracking the East African Federation appointed by the EAC secretariat in 2004 to examine the views of state and non-stake actors found Kenya to be the most enthusiastic for the Federation project.

Synergies between the Pillars

3.1.10 There are synergies between the pillars of the CSP, which enhance the potential for development impact. First, the pillars are focused on poverty reduction, with emphasis on growth and employment creation, areas also highlighted by the CSP for 2005-2007, indicating not only the persistence of the challenges but also the continued prioritization of Bank Group's support.

3.1.11 Second, Pillar I focuses on supporting "hard" infrastructure to improve access to markets and amenities as a key means of lowering the cost of doing business, unlocking agricultural potential and boosting off-farm income-generating opportunities, and promoting economic integration. However, the Government also recognizes the importance of the "soft" infrastructure described in Pillar II to ensure that there are sufficient capacities and skills to meet the demands of the private sector and agricultural modernization, and to take advantage of regional opportunities. The targeted measures for increasing employment (Pillar II) combined with the proposed public/private sector interventions in infrastructure (Pillar I) will help meet some of the demands of the youth and other vulnerable groups for a greater share in Kenya's growth and prosperity.

3.2 Deliverables and Targets

Lending

3.2.1 Kenya's indicative allocation for the ADF-XI period, based on the 2008 PBA exercise, is UA 348.65 million, an increase of 41 percent over ADF-X. Table 3 shows the indicative lending program distributed across sectors and themes. These are concentrated in infrastructure (transportation, energy and water) consistent with Pillar 1. Improved infrastructure services for competitiveness and enhanced regional integration will be a key outcome of the CSP. The on-going Nairobi-Thika Highway Improvement project approved in 2007 is part of the priority road network designed to improve access to urban, rural and neighboring countries. This CSP will scale up the focus on national transportation and regional operations (Road Sector III, Nairobi Transit System and the Mombasa-Nairobi-Addis Corridor). The Bank Group is also playing a key role in the Nairobi Toll Road Concession, the first such public private partnership in the road sector in Kenya. The Kenya-Uganda railway is also being explored for possible private sector financing.

3.2.2 In the power sector, the Nairobi-Mombasa transmission line and the Turkana Wind Power Plant will help to reduce energy costs. Kenya is committed to regional operations and the NBI-NELSAP inter-connection project is designed to improve East Africa's power pool. The prospect for private sector financing of the Kenya-Uganda oil pipeline extension is being explored. Greater use of private finance would reduce the burden on public finance and could potentially release funds for use in other sectors. The Government also needs to pay more attention to cost recovery. The CSP will build on on-going Bank support to the Water Services Boards for improved services in medium-sized towns and increased efficiency of water storage.

3.2.3 In line with Pillar II, improved livelihoods for those adversely affected by the post election crisis and other vulnerable groups in Kenya will be a key outcome of the CSP. To maximize the restoration of livelihoods and employment opportunities, the Bank will finance a number of interventions that would generate substantial employment through labor-intensive reconstruction and rehabilitation. The restoration of the Nairobi River Basin project will strengthen basin management and urban upgrading through an integrated labor-intensive approach. The two other interventions, reconstruction and restoration and the proposed livestock project focused on disease eradication, are designed to ensure that growth is shared among the wider population, especially in the rural areas of the north (with poverty levels above 60 percent) that have lagged behind in recent growth and poverty reduction. Notably, the eradication of livestock diseases will improve prospects for commercial cattle rearing and beef exports. The technology, vocational education and training project will enhance the skills of the youth and other vulnerable groups for gainful employment.

Analytical Work and Institutional Support

3.2.4 Analytical work, policy advisory services and institutional support (see Table 4) will be done in conjunction with the Government and other partners. The Bank will facilitate economic integration by working closely with DFID, the EAC Secretariat and the Government in addressing the constraints to an integrated East Africa. This will include an assessment of the alignment of the medium term plan and vision 2030 to Kenya's expressed integration aspirations. Also, in collaboration with the World Bank, DFID and the Central Bank of Kenya, the Bank will support a study on Kenya's Policies for Prosperity. The study will include analyses of the sources, opportunities and constraints to growth and provide policy recommendations. It will also focus on the enabling environment for private sector participation in economic activities for growth and poverty reduction.

Table 3: Indicative Lending Program (2008-2012)

Fiscal Year	Amount* (UA m)	Sectors/Themes
Public Sector Window (ADF-XI Resources)		
2008	**40**	Energy (UA 15 m) Skills Development (UA 25 m)
2009	**225.65**	Energy (UA 50 m) Transport (UA 20 m) Water (UA 70 million) Reconstruction & Restoration (UA 80 m) Institutional Support (UA 5.65 m)
2010	**83**	Livestock (UA 8 m) Transport (UA 75 m)
Total	**348.65**	
Private Sector Window		
2008/9	**132**	Infrastructure(Energy/Transport) and Lines of Credit

See Annex VIII for details. *Financing amounts are indicative.

Table 4: Indicative Non-Lending Program (2008-2012)

2008
1. Portfolio Improvement Plan
2. Private Sector Road Show
2009
3. Country Portfolio Review
4. Economic Integration (with DfID)
2010
5. Country Portfolio Review
6. Policies for Prosperity (with World Bank, DfiD, CBK)
7. CSP Mid-Term Review
2011
8. Country Portfolio Review
9. Domestic Revenue Mobilization.
10. CSP Completion Review

3.2.5 Grants and other sources of funding will be sought to finance the proposed non-lending activities. The field office will conduct annual Country Portfolio Reviews in partnership with others as part of an enhanced focus on results.

3.3 Monitoring and Evaluation of the CSP

3.3.1 As indicated, the Government and development partners plan to revise the KJAS. As soon as this task is completed, Bank Management will present it with a cover Memorandum to the Board of Directors for consideration and approval. The KJAS results-based framework will be the basis for monitoring the outcomes of Kenya's overall development assistance.

3.3.2 Until the revised KJAS is in place, this CSP will guide Bank interventions in Kenya. The Bank will proceed as follows:

(i) Annex 1 shows the results-based framework that would be used jointly by the Government and the Bank to monitor the outcomes of this CSP. It is based on Kenya's medium term plan as a starting point and focuses on the outcomes that can be influenced by Bank-financed interventions during the period. The main objectives and priority areas of Bank Group support are covered under each pillar. As indicated, the existing stock of projects in the current portfolio will account for a significant share of outcomes during this CSP.

(ii) The Bank will conduct annual country portfolio reviews, jointly with development partners, to track progress towards the attainment of the development objectives of projects. A mid-term review will be undertaken during the third quarter of 2010 to assess progress towards the CSP outcomes. A completion report will be prepared in 2011.

3.4 Country Dialogue Issues

3.4.1 *The KJAS Partnership Principles remain the basis for continuing dialogue*. The Bank Group and development partners discussed their respective business plan priorities during consultations in July and September 2008 with the Government. The need to reduce transaction costs for the Government was endorsed by all partners. The Government and donors agreed to revise the KJAS and the division of labor matrix. The objective is to ensure consistency with the Coalition Government's medium term plan (2008-2012) and to address the issues identified during the 2008 OECD/DAC survey on aid effectiveness. These include the need for joint analytical work and coordination of missions. During the CSP, the Bank Group will continue to play an active role as part of our sustained engagement with the Government in partnership with others. On completion, the revised KJAS will be presented to the Board as indicated.

3.4.2 *More effective governance*. Kenya's credibility and development progress could be derailed by failing to address patterns of corruption. The Bank will continue to address governance through an active dialogue with the Government, by helping to strengthen anti-corruption institutions and through building capacity for improved public sector management. The Bank's Institutional Support for Good Governance Project is directed towards the realisation of these objectives. This will support the wider PFM and 'Governance, Justice and Law and Order Programmes', which will be the main drivers of the governance reform agenda.

3.4.3 *Greater focus on portfolio improvement and results.* The need for expeditious execution of the existing projects in the portfolio to deliver results remains a priority. Government expressed a commitment to strengthen the capacity of the Ministry of Finance to provide effective oversight of donor-financed projects. It also adopted the project "readiness filter" to assist the line ministries, the Bank Group and donor partners to ensure implementation readiness of new projects at entry.

3.4.4 *Greater Bank Group coordination and focus on the private sector.* In view of the importance of maximizing Bank Group impact on private sector growth, this CSP was prepared in close collaboration with the Private Sector Department (OPSM). This joint approach will be continued in the delivery of the proposed Road Show and institutional strengthening interventions designed to enhance Bank Group's support to the private sector for growth and poverty reduction.

3.5 Potential Risks and Mitigation Measures

The following are some of the key risks to the implementation of the CSP, and proposed mitigation measures:

3.5.1 *Weakening of political resolve*. The post-election crisis in early 2008 demonstrated the evident need for concerted efforts to bridge the political, socio-economic and ethnic divides. The GCG has an ambitious mandate including restoring stability, delivering a new constitution and restoring investor confidence. Its success depends on the ability and commitment of the coalition members to continue working together. A weakening of the political resolve could undermine the effectiveness of the GCG, setting back both the country's and the Bank's implementation of development projects. The Bank will continue its sustained engagement and support for the benefit of all Kenyans.

3.5.2 *Slow pace of structural reforms*. Unemployment, income inequality and uneven patterns of land ownership were key drivers of post-election violence, which exposed deep rooted fissures in society. To address these problems requires concerted government effort in accelerating the implementation of structural and land reforms. A failure to do so will continue to make the implementation of Bank projects challenging and reduce the effectiveness of equity enhancing interventions. The Bank will mitigate the political and structural reform risks by continuing an active dialogue with the Government to create a stronger system of checks and balances. Institutional strengthening will be provided to the Office of the Prime Minister, and other oversight bodies, to develop capacity in this regard.

3.5.3 *Exogenous developments*. Rising oil and food prices, combined with the shock of the post-election crisis has made managing the macroeconomic environment more challenging. It will now take some effort to balance an expansionary policy, to revive the economy, against the fiscal control needed to curb inflation. High inflation could lead to (i) cost over-runs and the stalling of development projects, and/or (ii) a reduction in rural incomes and further inequality. In addition, Kenya's terms of trade have worsened (and further worsening is expected) due to the rise in oil prices, which has weakened the economy's prospects. Finally, Kenya's sovereign credit ratings were downgraded by major international rating agencies following the crisis, but have recently been assigned a positive outlook. If the ratings are not upgraded soon, this will further delay issuance of a planned international bond by the Government and could hurt public financial management reforms and growth.

IV. CONCLUSION AND RECOMMENDATION

4.1 This CSP comes at an opportune time with (i) the formation of a coalition government, (ii) the launching of the Vision 2030 and the first 5 year Medium Term Plan (2008-2012), (iii) an investor conference with the Government of Kenya expected shortly, and (iv) a significant increase in the ADF allocation. Several Development Partners are also concluding their country strategies and business plans at this time while awaiting the revised KJAS.

4.2 Supporting infrastructure to enhance growth (Pillar I) and addressing the socio-economic pressures arising from the post-election crisis through employment generation for poverty reduction (Pillar II) remain key priorities for the Government and the Bank. Bank Group support towards these pillars will improve Kenya's prospects for economic growth and job creation and will enable it to play its rightful role in an integrated East Africa.

4.3 The Boards of Directors are invited to consider and approve the proposed Country Strategy Paper for Kenya for 2008–2012

Annex I: Kenya's 2008-2012 CSP Results Monitoring Matrix

Strategic Objectives (MTP)	Constraints to achieving the desired outcomes	Final Outcome Indicators (2012)	Final Output Indicators (2012)	Mid-term Outcome Indicators (2010)	Key Actions and Mid-term Output Indicators (2010)	ADB Interventions Ongoing and proposed in the CSP
PILLAR I - Supporting Infrastructure for Enhanced Growth						
Transport						
National road network in good condition and cost of transport reduced.	• Huge maintenance backlog. • Inadequate road linkage to neighboring countries. • Low capacity for contracting and supervision. • Poor traffic management and enforcement of traffic laws.	• 60 % of targeted classified roads in good condition. • 50 % of the targeted rural roads in good condition. • Capacity for contracting and supervision adequate. • Active private sector participation in the management, and financing of road infrastructure • Improved traffic flow to and from neighboring countries.	• 1,600 km of the targeted classified roads upgraded /constructed. • 3,000 km of the targeted rural roads rehabilitated. • 34 officials trained in contract administration and supervision. • 3 road concessions completed. • Nairobi Transit System completed. • Construction of Lamu-Southern Sudan progressing	• 40% of the targeted classified roads in good condition. • 25 % of the targeted rural roads in good condition. • Additional resources mobilized for construction of Nairobi transit system and Lamu to Southern Sudan transport corridor.	• 25% of 2000 km, classified roads upgraded/constructed • 25% of 5000 km, rural roads rehabilitated. • 20 officials trained in contract administration and supervision. • Construction of Merille River - Moyale (390 km) road starts • Construction of Nairobi Transit System commenced. • Lamu-Southern Sudan corridor plan completed.	**Ongoing** • Roads 2000 – District Rural Roads Rehabilitation Project. • Nairobi-Thika Highway • Mombasa-Nairobi-Addis Corridor (Multinational) • Arusha – Namanga – Athi River Road Development Project (Multinational). **Pipeline** • Road Sector Support III. • Nairobi Transit System. • Nairobi Toll Road • Kenya/Ethiopia – Mombasa Nairobi Addis Corridor Phase II (Multinational). • Lamu-South Sudan transport corridor study.
Energy						
Increased supply of electricity.	• Inadequate skills and tools for planning of energy needs. • High cost of rural electrification programs.	• Power losses reduced and access increased in rural and urban areas.	• 500 km of the power line between Mombasa and Nairobi upgraded. • NBI-NELSAP Interconnection Project successfully completed.		• Mombasa – Nairobi power transmission upgrading plan completed and implementation commenced. • Implementation of the NBI-NELSAP interconnection project commenced.	**Pipeline** • Nairobi – Mombasa power Transmission line (2009). • NBI-NELSAP Interconnection Project (DRC/Burundi/Kenya/ Rwanda/Uganda) (2008). • Turkana – Rabai (private sector)

Strategic Objectives (MTP)	Constraints to achieving the desired outcomes	Final Outcome Indicators (2012)	Final Output Indicators (2012)	Mid-term Outcome Indicators (2010)	Key Actions and Mid-term Output Indicators (2010)	ADB Interventions Ongoing and proposed in the CSP
Water Supply and Sanitation						
Improved access to safe water and enhanced capacity for water resource management.	• Inadequate investment in provision of water and sanitation • Weak capacity for management of water facilities within the urban, periurban and rural areas.	• 3 million more people access safe water (overall access 67%). • 50% reduction in incidence of water borne diseases. • Demonstrated improvement in water management	• Construct 1,500km of new water supply systems. • 2 multi purpose dams with 2.4 billion cubic meter capacity constructed • 200 officials water sector trained and sensitized on sector reforms.	• 62% households have access to safe water up from 57 % in 2007. • Revenue collection efficiency at 90% vs 60% in 2004. • Unaccounted-for-water reduced from 70% in 2007 to 50%.	• 8 boreholes, 21km transmission main and 106 public fountains constructed. • Two out of five water towers protected. • Water Act 2002 fully operational.	**<u>Ongoing</u>** • Rift Valley Water Supply and Sanitation Project - RVWSP. • Water Services Boards Support Project - WSBSP. **<u>Pipeline</u>** • Medium Towns Water Supply and Sanitation Project (2009). • Water Storage (2009).
Improved hygiene.	• High rural-urban migration leading to poor sanitation in congested living areas. • Frequent breakage of main sewer systems due to increased discharge to fixed systems.	• Increased sanitation coverage to 52 %.	• Sewer network extended in targeted areas. • Reinforced capacities of decentralized entities (including water services boards) to manage sanitation facilities.	• Sanitation coverage increased from 48 % in 2006 to 50 %. • Reduced sewage network blockages and increased flow to treatment plants.	• Construct sanitation facilities in public buildings. • Public and Communal latrines constructed in low-income areas.	
Business Environment						
Reduced cost of doing business	• Public service delivery inadequate • Limited access to credit in rural areas. • High cost of finance (14 %).	• Doing Business Rank raised to 52. • Access to formal financial services improved to 28 %.	• Framework for PPP operational. • Number of financial institutions targeting the poor, especially women, up by 100% compared to 2008.	• 62 rank from 72 in 2008 in the "Doing Business Report" • Access to formal financial services up to 24 % from 19% in 2006.	• Completion of business environment improvement reforms. • PPP framework formulated. • ESWs on regional integration studies completed. • Number of financial institutions targeting the poor, especially women, with credit facilities increased.	**<u>Ongoing</u>** Institutional Support to Good Governance; Community Empowerment Project (2007–2013); Women Enterprise Support Project. **<u>Pipeline</u>** Institutional Capacity Building (2009); Policies for Prosperity (2009); Regional Integration Study; PTA Bank (2008); East African Development Bank

Strategic Objectives (MTP)	Constraints to achieving the desired outcomes	Final Outcome Indicators (2012)	Final Output Indicators (2012)	Mid-term Outcome Indicators (2010)	Key Actions and Mid-term Output Indicators (2010)	ADB Interventions Ongoing and proposed in the CSP
PILLAR II - Enhancing Employment Opportunities for Poverty Reduction						
Reconstruction, Rehabilitation and Rural Livelihoods						
Improved livelihoods for vulnerable groups	• Low farm productivity. • Lack of off-farm economic activities • Poor marketing facilities. • High cost of fertilizer. • Prevalence of livestock diseases. • Limited extension services. • Destruction of forests and soil erosion. • Increased pollution levels.	• Average agricultural Income increased to Ksh 153,000 per year. • 36 % increase in beef and milk production from 2007 levels. • 50 % decrease in epizootic disease incidences & 25 % in young stock mortalities in districts in ASALs • Forest cover increased to 4%. • 48,000 ha of forest under community management. • Improved waste management and reduced pollution in Nairobi.	• 4,356 ha of irrigated, land added. 97 Blocks constructed and 9 irrigation sites rehabilitated and constructed • 80,000 farmers' trained (40% female), 9 Water User Associations (WUA) and 9 farmer's schemes established. • Four disease free zones created. • 50 % increase in access to quality water for human and livestock consumption • 16,000 ha reforested, 5,000 ha fuel wood plantations and 1,500 ha tea established to fill gaps in the buffer zone. • Nairobi River Basin fully cleaned.	• Average agriculture income increased from about Ksh 15,000 to Ksh 50,000 per year. • Improved scheme management through formation empowering of WUAs. • Milk and beef production increased by 18 % from the 2008 levels. • Forest cover increased to 3% from 2 % in 2008. • 20,000 ha forest under community management. • Reduced pollution of Nairobi River.	• Additional 1307 ha of land irrigated. • 40,000 farmers trained (40% female). • 2 WUA members and 2 farmer's schemes established. • Irrigation schemes covering 246 ha in 3 districts improved • 51 boreholes, 127 pans & dams, and 54 shallow rehabilitated. • Two disease free zones created. • 8000 ha reforested, 2,500 ha fuel wood plantations and 800 ha tea established to fill gaps in the buffer zone. • Waste management system for Nairobi on a PPP basis started.	**Ongoing** • Kimira–Oluch Smallholder Farm Improvement Project; Small-Scale Horticulture Development.; ASAL-Based Livestock and Rural Livelihoods Support Project; Creation of Sustainable Tsetse Eradication Program; Green Zones Development Support Project; Ewaso Ngiro National Resources Conservation Project • **Pipeline** • Rehabilitation and Reconstruction Project (2009). • Rehabilitation and Restoration of Nairobi River Basin (2009). • Mau Forest Rehabilitation (2009) • Isiolo Laikipia/Samburu Disease Free Zone (2010). • Policies for Prosperity (ESW)
Skills Development						
Increased access to employment through skills development	• Limited access to secondary education due to lack of facilities. • Inadequate facilities and inappropriate curriculum in TIVET institutions.	• Primary to secondary school transition increased to 75 % and the rate from secondary to university to 15%.	• 560 secondary schools constructed and fully equipped.	• Primary to secondary level transition up to 70% from 60 % and secondary to university to 10% from 3 % in 2005.	• 250 secondary schools constructed and fully equipped. • 700 secondary school teachers trained.	**Ongoing** • Education III (2003–2010); Rural Health III (2004–2010); African Virtual University Project (2004–2009). **Pipeline** • TIVET (2008).

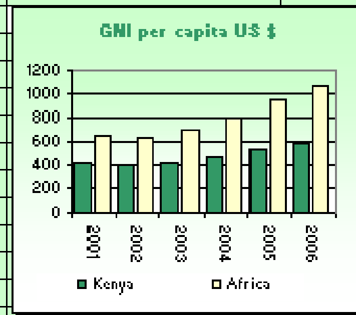
Annex II: Compliance with Paris Declaration

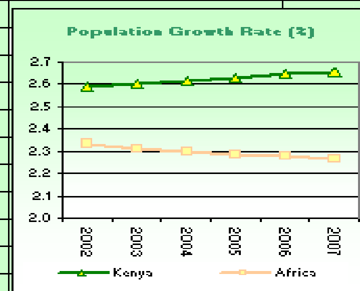
	Indicators	Comment on Kenya's Recent Experience
OWNERSHIP	1. Partners have operational development strategies	Yes, Kenya has Vision 2030, MTP, and an MTEF.
ALIGNMENT	2. Reliable country systems	2006 PEFA and related assessments indicate that Kenya's public financial management systems present significant fiduciary risk.
	3. Aid flows are aligned to national priorities	The Government's submission to OECD-DAC on 2005/6 aid flows indicated that the bulk of the flows bypassed the budget.
	4. Strengthen capacity by coordinated support	Donors have undertaken a variety of capacity building efforts, but often with a narrow focus on their own aid flows.
	5. Use of country PFM and procurement systems	Only a limited number of donors use country systems for the procurement and even then for specific types (such as national shopping).
	6. Strengthen capacity by avoiding parallel project implementation structures	PIUs are increasingly integrated into the government ministry structures.
	7. Aid is more predictable	Poor governance (including corruption scandals) has led to the withholding of financing on many occasions.
	8. Aid is untied	A substantial portion of the aid to Kenya is still tied.
HARMONIZATION	9. Use of common arrangements or procedures.	Development partners seldom provide general budget support to Kenya.
	10. Encourage shared analysis	Few donors undertake joint missions, but joint analyses will become more frequent under the KJAS.
MANAGING FOR RESULTS	11. Results oriented frameworks	The Government is implementing the National Integrated Monitoring and Evaluation System (NIMES), which is intended to ease access to statistics and to produce periodic progress reports on the implementation of the national development strategy.
MUTUAL ACCOUNTABILITY	12. Mutual Accountability	The KJAS contains targets for harmonization, based on the global targets.

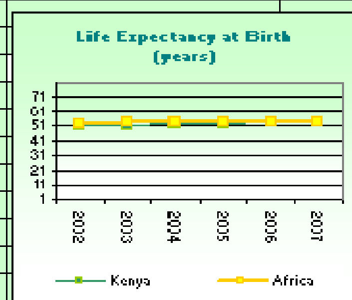
Source: OECD-DAC (2008), Government of Kenya, and Development Partners.

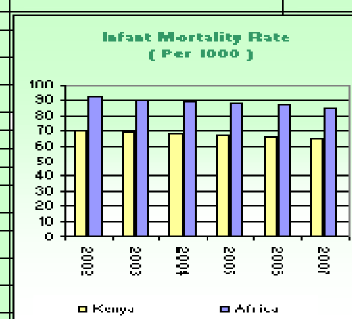
Annex III: Comparative Economic and Social Indicators (1990-2007)

	Year	Kenya	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)		580	30 307	80 976	54 658
Total Population (millions)	2007	37.5	963.7	5 448.2	1 223.0
Urban Population (% of Total)	2007	21.4	39.8	43.5	74.2
Population Density (per Km²)	2007	63.3	31.8	65.7	23.0
GNI per Capita (US $)	2006	580	1 071	2 000	36 487
Labor Force Participation - Total (%)	2005	50.7	42.3	45.6	54.6
Labor Force Participation - Female (%)	2005	47.1	41.1	39.7	44.9
Gender -Related Development Index Value	2005	0.521	0.486	0.694	0.911
Human Develop. Index (Rank among 174 countries)	2005	148	n.a.	n.a.	n.a.
Popul. Living Below $ 1 a Day (% of Population)	2005	45.9	34.3	…	…
Demographic Indicators					
Population Growth Rate - Total (%)	2007	2.7	2.3	1.4	0.3
Population Growth Rate - Urban (%)	2007	5.1	3.5	2.6	0.5
Population < 15 years (%)	2007	42.7	41.0	30.2	16.7
Population >= 65 years (%)	2007	2.6	3.5	5.6	16.4
Dependency Ratio (%)	2007	83.2	80.1	56.0	47.7
Sex Ratio (per 100 female)	2007	99.4	99.3	103.2	94.3
Female Population 15-49 years (% of total population)	2007	24.4	24.2	24.5	31.4
Life Expectancy at Birth - Total (years)	2007	54.1	54.2	65.4	76.5
Life Expectancy at Birth - Female (years)	2007	55.2	55.3	67.2	80.2
Crude Death Rate (per 1,000)	2007	11.8	13.2	8.3	10.4
Infant Mortality Rate (per 1,000)	2007	64.4	85.3	57.3	7.4
Child Mortality Rate (per 1,000)	2007	104.1	130.2	80.8	8.9
Total Fertility Rate (per woman)	2007	5.0	4.7	2.8	1.6
Maternal Mortality Rate (per 100,000)	2005	560	724	450	8
Women Using Contraception (%)	2003/6	39.3	29.9	61.0	75.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2007	27.6	39.6	78.0	287.0
Nurses (per 100,000 people)	2007	121.9	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2003/5	41.6	50.4	59.0	99.0
Access to Safe Water (% of Population)	2006	57.0	62.3	80.0	100.0
Access to Health Services (% of Population)	2004	77.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2004	43.0	45.8	50.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2005	6.1	4.7	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2005	641.0	300.7	275.0	18.0
Child Immunization Against Tuberculosis (%)	2006	92.0	83.7	85.0	93.0
Child Immunization Against Measles (%)	2006	77.0	75.4	78.0	93.2
Underweight Children (% of children under 5 years)	2003/5	19.9	28.6	27.0	0.1
Daily Calorie Supply per Capita	2004	2 149	2 436	2 675	3 285
Public Expenditure on Health (as % of GDP)	2006	2.5	2.4	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2006	107.4	96.4	91.0	102.3
Primary School - Female	2006	113.4	92.1	105.0	102.0
Secondary School - Total	2006	32.4	44.5	88.0	99.5
Secondary School - Female	2005	47.0	41.8	45.8	100.8
Primary School Female Teaching Staff (% of Total)	2005	44.8	47.5	51.0	82.0
Adult Illiteracy Rate - Total (%)	2007	11.8	33.3	26.6	1.2
Adult Illiteracy Rate - Male (%)	2007	7.6	25.6	19.0	0.8
Adult Illiteracy Rate - Female (%)	2007	16.1	40.8	34.2	1.6
Percentage of GDP Spent on Education	2006	8.1	4.5	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2005/7	7.0	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2000/7	0.5	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2000/7	1.0	10.9	…	…
Per Capita CO2 Emissions (metric tons)	2005/7	0.3	1.0	1.9	12.3









Sources : ADB Statistics Department Databases

last update : July 2008

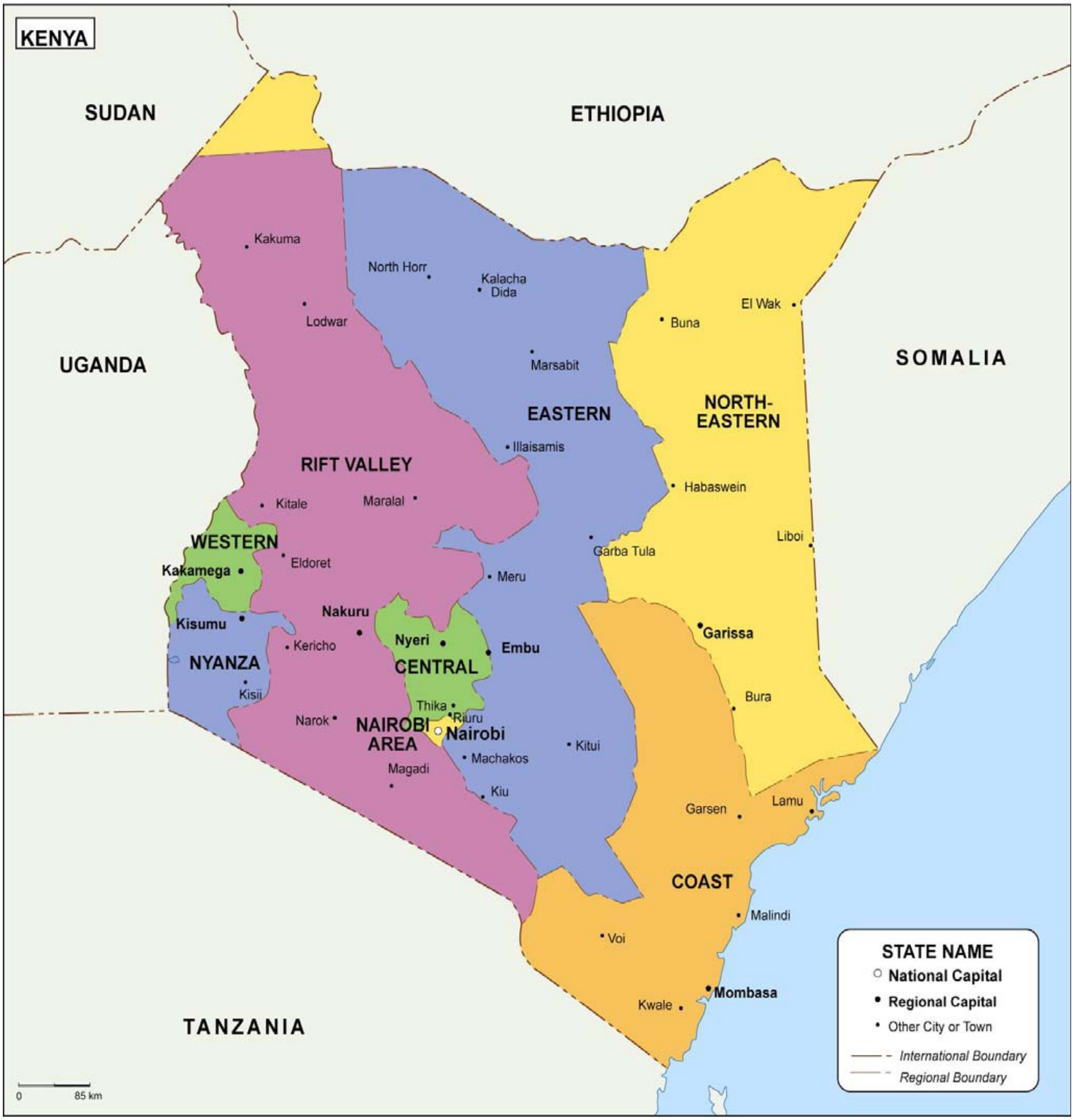
Note : n.a. : Not Applicable ; … : Data Not Available;

Annex IV: Table of Economic and Financial Indicators 2006/7 – 2012/13

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Prov.	Est.			Projections		
Annual percentage change, unless otherwise indicated							
National account and prices							
Real GDP	6.7	5.7	6.2	8.3	9.1	9.7	10.0
GDP per capita	3.7	2.8	3.3	5.4	6.2	6.9	7.2
GDP deflator	7.1	12.1	11.2	5.2	5.6	5.8	5.9
CPI Index (eop)	13.6	28.5	7.5	5.0	5.0	5.0	5.0
CPI Index (avg)	10.4	18.2	16.9	6.5	5.0	5.0	5.0
Terms of trade (-deterioration)	-1.1	-8.0	-7.0	-0.9	0.4	0.2	0.1
Money and credit (end of period)							
Net domestic assets	16.0	16.5	16.4	17.4	17.4	16.9	16.8
Net domestic credit to the Government	33.3	16.9	15.6	14.2	13.0	13.4	13.7
Credit to the rest of the economy	11.4	17.6	16.5	17.2	17.8	17.7	17.8
M3 (percent change)	18.9	17.5	17.3	17.7	17.8	17.8	17.9
Reserve money (percent change)	17.4	18.0	16.4	17.2	17.8	17.8	17.9
In percentage of GDP, unless otherwise indicated							
Investment and saving							
Investment	19.1	21.9	21.9	23.3	27.3	29.9	32.6
Central Government	4.6	8.2	8.6	8.4	8.6	9.0	9.5
Other	14.5	13.6	13.3	15.0	18.7	20.9	23.1
Gross National Saving	15.2	15.9	15.1	17.4	21.8	24.6	27.5
Central Government	1.7	0.4	1.6	2.7	2.9	3.2	3.5
Other	13.5	15.5	13.6	14.8	18.9	21.4	24.0
Central government budget							
Total revenue	21.7	21.3	21.6	21.8	21.8	21.9	22.0
Total expenditure and net lending	23.7	29.4	28.6	27.6	27.6	27.8	28.0
of which : wages and salaries	7.5	7.2	6.8	6.6	6.5	6.5	6.4
Interest payments	2.5	2.4	2.4	2.3	2.4	2.3	2.2
Development expenditures	4.7	8.3	8.6	8.5	8.7	9.1	9.6
Overall balance (commitment basis) excl. grants	-2.0	-8.1	-7.0	-5.8	-5.7	-5.9	-6.1
Overall balance (commitment basis) incl. grants	-2.2	-6.2	-5.6	-4.2	-4.0	-4.0	-4.0
Net external borrowing	-0.1	1.2	1.2	1.5	1.5	1.5	1.5
Infrastructure bonds	0.0	0.0	0.8	0.8	0.8	0.8	0.8
Net domestic borrowing	2.0	1.7	1.6	1.4	1.2	1.2	1.2
Total donor support (grant & loans)	1.5	3.8	3.6	3.8	3.9	4.1	4.3
Balance of payments							
Exports value, goods and services	26.8	23.5	23.4	24.4	24.9	25.3	25.6
Imports value, goods and services	37.6	35.5	36.0	35.9	35.6	35.5	35.4
Current external balance, including official transfers	-4.0	-6.0	-6.8	-5.9	-5.5	-5.3	-5.1
Current external balance, excluding official transfers	-3.9	-6.1	-6.8	-5.9	-5.5	-5.3	-5.1
Gross international reserve coverage in months of next year imports (end of period)	2.9	3.2	3.5	3.7	3.9	4.2	4.5
Public debt							
Nominal central government debt (end of period), net	46.7	41.6	43.0	40.2	41.3	38.0	38.9
Domestic (gross)	23.6	22.0	21.0	20.7	19.9	19.2	18.5
Domestic (net)	19.3	17.8	16.8	16.5	15.7	15.0	14.3
External	23.1	19.5	21.9	19.5	21.4	18.8	20.4
Memorandum items:							
Nominal GDP (in Ksh Billions)	1717.5	2036.0	2403.5	2739.2	3155.0	3660.6	4264.1

Source: Ministry of Finance

Annex V: Political Map of Kenya



This map was prepared by the African Development Bank Group exclusively for the use of readers of the report to which it is attached. The names used and the borders shown do not imply, on the part of the Bank or its members, any judgment concerning the legal status of a territory nor any approval or acceptance of the borders.

ANNEX VI: Development Partners' Sector Presence (as defined in the KJAS 2007 – 2012)

Sector Group	AfDB	Canada	Denmark	EC	France	Finland	Germany	Italy	Japan	Netherlands	Norway	Spain	Sweden	UK	UN System	US	World Bank	Total lead/active in each sector
Agriculture, Livestock, and Forestry	•		•	•			•		•	•			◙		•	•	•	10
Democratic Governance		•	•	•		•	•			•	•		•	◙	•	•	•	**12**
Education	•	•		•			•	•	•			•		•	◙	•	•	11
Energy	•			•	•	•			◙			•			•		•	8
Environment	•		◙	•	•	•			•	•				•	•	•	•	10
Gender	•	◙		•							•	•	•		•			7
Health and HIV/AIDs			•	•	•		◙	•	•			•		•	•	•	•	11
Land									•				•	•	◙	•	•	6
Private Sector Development	•		•	•	•				•	•				•	•	•	◙	10
Roads and transportation	◙			•	•				•						•		•	6
Social Protection				•	•			•	•			•		•	•	•	◙	9
Urban, local government, and decentralization	•			•	•			•					•		•		◙	7
Water and Sanitation	•			•	•		•	•	•	•		•	◙		•	•	•	12
Total lead/agency	**1**	**1**	**1**	**0**	**0**	**0**	**1**	**0**	**1**	**0**	**0**	**0**	**2**	**1**	**2**	**0**	**3**	
Total active/agency	9	3	5	12	8	3	5	5	10	5	2	6	6	7	13	9	12	

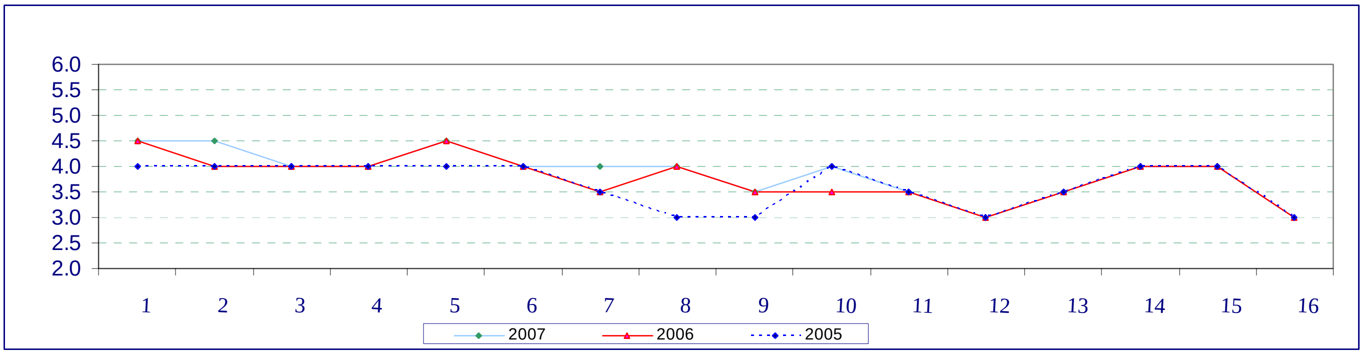
◙ **Current Lead Donor/Chair**

• **Active Donor**

Annex VIIa: Kenya's CPIA Ratings 2005-2007

Year	A. Economic Management			B. Structural Policies			C. Policies for Social Inclusion / Equity					D. Public Sector Management and Institutions					Overall Rating
	1 Macro	2 Fiscal	3 Debt	4 Regional Int./Trade	5 Fin. Sec.	6 Business Reg. Frame	7 Gender Equality	8 Equity Pub. Resource	9 Human Resources	10 Social Protection	11 Environmt.	12 Property Rights	13 Budget Managemt.	14 Revenue Mobilization	15 Public Admin.	16 Corruption Pub. Sector	
2007	4.5	4.5	4.0	4.0	4.5	4.0	4.0	4.0	3.5	4.0	3.5	3.0	3.5	4.0	4.0	3.0	4.10
2006	4.5	4.0	4.0	4.0	4.5	4.0	3.5	4.0	3.5	3.5	3.5	3.0	3.5	4.0	4.0	3.0	3.86
2005	4.0	4.0	4.0	4.0	4.0	4.0	3.5	3.0	3.0	4.0	3.5	3.0	3.5	4.0	4.0	3.0	3.73

Annex VIIb: Graph of Kenya's CPIA Performance (2005- 2007)



Annex VIII: Indicative Lending Program for Kenya (2008-2012)

Project Title	Planned Board Approval	Indicative Amount	Area/Country/Region Covered
Public Sector Window (in UA million)			
Infrastructure (Roads, Energy, Water)			
A. National Operations			
1. Road Sector Support III	2009	20.00	Countrywide
2. Nairobi Transit System	2010	40.00	Nairobi
3. Nairobi-Mombasa Power Transmission Line	2009	50.00	Countrywide
4. Medium Towns Water Supply and Sanitation Project	2009	30.00	Countrywide
5. Water Storage	2009	40.00	Countrywide
B. Regional Operations			
6. Mombasa Nairobi Addis Corridor Phase II	2010	35.00	Regional Operation
7. NBI – NELSAP Interconnection Project	2008	15.00	Regional Operation
Reconstruction and Restoration and Livelihoods			
8. Rehabilitation and Reconstruction	2009	15.00	Countrywide
9. Mau Forest Restoration	2009	15.00	Rift Valley
10. Restoration of Nairobi River Basin	2009	50.00	Nairobi
11. Livestock (Isiolo/Laikipia/Samburu)	2010	8.00	Eastern and Rift Valley
Skills Development/Institutional Support			
12. Technology, Vocational Education, and Training	2008	25.00	Countrywide
13. Institutional Support	2009	5.65	
Public Sector Operations Sub-total		**348.65**	

Private Sector Window (in UA million) – National Operations			
Infrastructure (Roads, Energy)			
14. Northern Corridor Nairobi Concession	2009	64.22	North of Kenya
15. Lake Turkana Wind Power Plant	2009	19.27	Countrywide
Private Sector--National Operations Sub-total		**73.49**	

Private Sector Window (in UA million) – Regional Operations*			
16. Shelter Afrique	2008	19.27	Regional
17. PTA Bank (Line of Credit/Equity/Technical Assistance)	2008	20.53	East African Community
18. East African Development Bank (Line of Credit/Technical Assistance)	2008	18.62	East African Community
Private Sector--Regional Operations Sub-total		**58.42**	

*The regional private sector operations are lines of credit and technical assistance offered to pan African and regional financial institutions from which the Kenyan private sector can directly benefit, but are also available for other regional clients.

Annex IX: Overview of the Bank's Portfolio in Kenya

No	Project Name	Net Commit (UAm)	Disb (%)	Age (Yrs)	IP	DO
	Public Sector Window - National Operations					
1	ASAL-Based Livestock	21.6	50.4	4.8	2.4	2.0
2	Kimira-Oluch Smallholder Irrigation	24.1	2.2	2.4	3.0	3.0
3	Smallscale Horticulture Dev.	17.0	0.0	1.1	..	..
4	Ewaso Ngiro North Nat Res Cons	16.5	14.0	3.5	2.7	2.3
5	Green Zones Development	25.0	18.0	3.0	2.4	2.0
6	Roads 2000-Districts Rural Roads	20.0	40.0	7.3	2.2	2.3
7	Nairobi-Thika Hwy Improvement	121.0	0.0	0.9	..	..
8	Rift Valley Water and Sanitation	18.1	11.7	4.3	2.3	2.8
9	Water Services Boards Support	45.3	0.0	0.9	..	..
10	Education III Project	31.0	0.6	4.8	1.6	2.0
11	Rural Health Project III	23.2	1.8	4.3	1.8	3.0
12	Community Empowerment	17.0	5.9	0.8	..	..
13	Kisumu District Primary Schools Water and Sanitation Project	0.2	100.0	0.8	..	..
14	Inst. Supp. for Good Governance	5.5	14.2	2.2	2.7	3.0
	Public Sector Window - Regional Operations					
15	Mombasa-Nairobi Addis Road	34.8	16.8	3.8	2.1	2.8
16	Arusha-Namanga-Athi River Road	49.2	9.6	1.8	..	..
17	African Virtual University Support	5.0	57.2	3.8	2.5	2.0
18	Creation of Sust. Tsetse Eradication	6.6	45.1	3.9	2.3	3.0
	TOTAL	**481.1**	**11.26**	**3.2**	**2.3**	**2.6**

Note: Implementation Progress (IP) and Development Objectives (DO) ratings are based on the 2008 rating or the last available rating: 3 = highly satisfactory; 2 = satisfactory; 1 = unsatisfactory; 0 = highly unsatisfactory.

ANNEX X: Progress on the attainment of MDGs*

Goal/Target for 1990 - 2015	Key Indicators	Baseline 1990	Latest	Target 2015	Current Status on MDG
1. **Eradicate Extreme Poverty and Hunger.**	The proportion of population below USD 1.0 per day (%)	43.3	46 (2005/6)	21.7	
	Share of the poorest quintile in national consumption (%)	4.8	4.8 (2000)	9.6	Unlikely to be met
	Prevalence of underweight in under-fives (%)	32.52	31.0 (2003)	16.26	
	Prevalence of stunting in under-fives (%)	6.17	5.0 (2003)	3.09	
	Prevalence of wasting in under-fives (%)	22.5	19.0 (2003)	11.05	
2. **Achieve Universal Primary Education.**	Net enrolment rate in primary education (%)	80.0	86.5 (2007)	100	Likely to be met
	% pupils starting grade 1 who reach grade 5	63 (1986)	80 (2005)	100	
3. **Promote Gender Equality & Women Empowerment**	Ratio of girls to boys in primary, secondary and tertiary education (%)	Primary (94.9)	Primary (96 - 2006)	100	On track
		Sec. (74.9)	Sec. (89.5-2004)	100	
		Public universities (36.1-1995)	Public universities (57.9 - 2004)	100	
4. **Reducing Child Mortality**	Under-five mortality rate (per 1000 births)	98.9	120 (2007)	33	Unlikely to be met
	Infant mortality rate (per 1000 births)	67.7	79 (2007)	-	
	Measles vaccine (%)	48	80 (2007)	100	
5. **Improve Maternal Mortality**	Maternal mortality ratio (per 100,000)	590	414 (2003)	147	Unlikely to be met
	Proportion of delivery by skilled health personnel (% of births)	51	56 (2006)	100	
6**. Combat HIV/AIDS**	HIV prevalence among 15-24 year-old pregnant women (%)	15.6% (1999)	5.1 (2006)		Likely to be met
	Condom use rate of the contraceptive prevalence rate (%)	26.9% (1989)			
7**. Ensure Environmental Sustainability**	Proportion of population with sustainable access to an improved water source	48	57 (2007)	74	Tentative
	Proportion of population with access to improved sanitation	84	48 (2006)		
8.**Global Partnership for Development**	Debt service as a percentage of exports of goods and services		10.53 (2003)		Tentative
	PCs in use per 1000 people and internet users per 1,000 population; Telephone lines and cellular subscribers per 1,000 population		9 (2003)		

* Note that due to lack of data, indicators for some MDGs might not be exhaustive.
Source: United Nations Development Programme, 2008, and Government of Kenya.

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