Country Policy Brief

Country: Kenya

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A. Introduction and Purpose of the Brief

This paper reviews the development effectiveness efforts in Kenya. It reflects on progress, challenges and the on-going policy responses of the Kenyan Government and her development Partners. The purpose of this paper is to provide an overview of the Kenyan situation, with the primary objective of documenting the progress, challenges and priorities for the Country. This paper is meant to share the Country's own learning experience in order to contribute to the International dialogue under the Global Partnership for Effective Development Cooperation (GPEDC).

B. Country Context

The Current Kenyan Constitution was promulgated in 2010, which has altered our governance framework fundamentally by creating a two-tier government, one at National and 47 Sub-National Governments, called County Governments. The distribution of functions of County Governments is outlined in the Fourth Schedule of the Constitution.

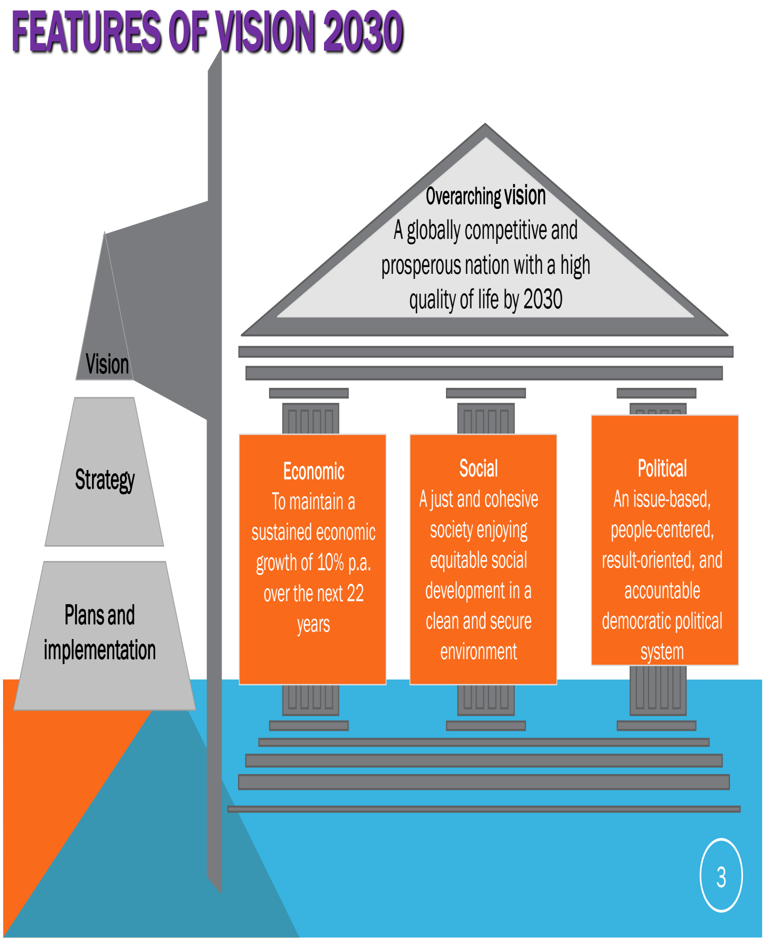
Though Kenya has made significant gains since the introduction of Multi-Party politics in 1991, great efforts still need to be made in ensuring that all Kenyan citizens lead a high quality of life by the year 2030. At the start of this Millennium, Kenya embarked on an ambitious path to long-term sustainable development through the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) of 2003-2007. The strategy saw the economy recover from a growth rate of a paltry 0.3 percent in 2003 to a high growth rate of 7.1 percent in 2007. The gains made in 2007 suffered setbacks following the 2007/08 Post Election Violence (PEV) that erupted after the disputed presidential elections results. The unfortunate events led to a big drop in the economic growth rate to 1.5 per cent in 2008. Nevertheless, there has been a modest improvement in the recent past with a growth rate of 4.5 per cent realized in 2011.

Real GDP growth accelerated to 5.2%, 4.3% and 4.6% in the first three quarters of 2013 primarily driven by financial intermediation, tourism, construction and agriculture. There has been improved investor and business confidence after a successful and peaceful March 2013 general elections; increased rainfall; a stable macroeconomic environment; lower, stable international oil prices; stability of the Kenya shilling; and reforms affecting security, governance and justice.

The overarching challenge Kenya is facing today is to generate economic growth that is more inclusive in order to more effectively reduce poverty across the country. There is an urgent need to strengthen Kenya's private sector as the main engine of economic growth and to make this growth more inclusive than it has been, by generating employment opportunities, especially for the youth. To achieve this, it is necessary to stimulate private-sector activity through the creation of an enabling business environment, while enhancing the skills of Kenya's workforce to respond to the demands of the emerging labour market of a transforming economy.

The Kenya Vision 2030 is the country's long–term development blueprint which aims to transform the economy into a globally competitive and prosperous country providing a high quality of life for all its citizens. It aspires to transform Kenya into a newly industrializing, middle income country by the year 2030. The Kenya Vision 2030 is implemented in five year successive Medium Term Plans, with the First Medium Term Plan (2008-2012) and currently the Second Medium Term Plan, 2013-2017 is being implemented.

The Vision is based on three "pillars" namely; the economic pillar, the social pillar and the political pillar. This vision's programme plan comes after the successful implementation of the Economic Recovery Strategy for Wealth and Employment Creation (ERS) which has seen the country's economy back on the path to rapid growth since 2003, when GDP grew at 0.3% rising to 7.1% in 2007. In the initial year of the First Medium Term Plan, 2007-2012, projects implemented were aimed at national healing and reconciliation following the Post Election Violence (PEV), repair of damaged infrastructure, assistance to damaged small scale businesses and resettlement of internally displaced person.



Kenya has been classified as a middle-income country after a statistical reassessment (rebasing) of its economy which increased the size by 25.3 per cent after Kenya National Bureau of Statistics in September 2014 which changed the base calculation year to 2009 from 2001. The updated base year, 2009, was chosen due to the fact that it was a year when many of the country's reference surveys were undertaken. The rebasing was last done eight years ago in 2005 and affected GDP figures from 2006 to 2013. Kenya effectively becomes Africa's ninth largest economy, up from 12th, surpassing Ghana, Tunisia and Ethiopia. Kenya became the latest African country to benefit from rebasing of its economy after Nigeria which overtook South Africa to become the continent's biggest economy earlier this year.

The value of goods and services – GDP – is now estimated at USD $53.4 billion (4.76 trillion shillings) in 2013 after the rebasing, up from USD $42.6 billion (3.8 trillion shillings). With an estimated population of about 44 million people, the new GDP figure implies economic output per capita stands at more than $1,200 which places Kenya at the bottom rank of the Middle Income Status. With the rebasing, the economic growth was revised to 5.7 percent in 2013 up from the previous estimate of 4.7 per cent.

The Second Medium Term Plan, 2013-2017 (MTP II) is being implemented under the theme *"Transforming Kenya; A pathway to devolution, socio-economic development, equity and national unity*. The priorities under MTP II are Implementation of the Constitution and Devolution; National Cohesion; Security; Drought Emergencies and Food Security; Equity in access to opportunities and lower cost of living; health; Education; Infrastructure; Competitiveness and rebalancing growth; Strengthening social protection; Governance and Public Financial Management Reforms; land Reforms and Arts, sports and Culture.

The jump of Kenya's economy into this middle-income status was driven largely by agriculture, manufacturing, and Construction/real estate sectors. Agriculture is still the backbone of the Kenyan economy with its GDP contribution going up from 24.1% to 25.4% based on 5-year average 2009 to 2013. Manufacturing contribution to GDP increased from 9.5% to 11.3%. Information and Communication Technology (ICT) sector is now treated as a standalone sector, taking into account its vibrant telecoms industry which has pioneered mobile payments technology and exported the innovation across Africa and around the world. Kenya is integrated into a number of global value chains – e.g. floriculture, textiles, leather, manufacturing and tourism – but economic and social benefits have been limited due to insufficient or unsustainable linkages with other sectors.

Kenya has been receiving development assistance since independence and the average annual ODA inflows as a percentage of GDP increased from 5.8 percent in the 1970s to 9.9 percent in the 1980s, to a peak of 10.7 per cent in the 1990s before declining to 3.9 percent in 2004. ODA as a percentage of GDP has averaged 5 percent in the last 10 years while ODA as a percentage of the total government budget averaged 21 per cent in the 1990s. This trend has gone down and this can be attributed to improved allocation by government of domestic resources for development purposes. In 2005/2006 Financial Year, ODA as a percentage of total government budget was 16 per cent, which dropped to 12 per cent in 2009/2010 but peaked again to 16 per cent in 2013/2014 Financial Year.

In the Financial Year (FY) 2014/2015, National Treasury mobilized external resources amounting to about 14% of the total government budget which is for the implementation of flagship/development projects in line with the national priorities as stipulated in the Kenya Vision 2030. Some of the flagship projects that will be implemented in FY 2014/15 include: The Lamu Port Southern Sudan-Ethiopia Transport (LAPSSET) Corridor project, the Standard Gauge Railway project, Thwake Multi-purpose Dam project, Geothermal Energy projects, Rural Electrification Project and Water & Irrigation projects. Some of the major flagship projects will help foster regional integration and trade with other East African countries as well as increase economic growth.

C. Development cooperation and partnership framework

Kenya initiated reforms in its Public Finance Management Systems in 2006 with the establishment of the Public Finance Management Reforms (PFMR) Secretariat. The reforms were geared towards accelerating transparency and accountability for improved service delivery. The goal of the second PFM Strategy 2013-2017, is to ensure "*a public finance system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development*". The PFMR Secretariat is supported by Development Partners as well as Government counterpart contribution.

The reforms together with the Paris Declaration on Aid Effectiveness led to the development of the electronic Project Management Information System (e-ProMIS), to manage data on both domestically and externally supported programmes/projects that inform planning, budgeting and monitoring of the programmes/projects. The e-ProMIS is accessible online and has the ultimate objective of improving transparency, accountability and effective monitoring of programmes/projects.

Partnership and Dialogue arrangements

In 2005, Kenya signed the Paris Declaration on Aid Effectiveness together with over 100 developed and developing countries, heads of multilateral and bilateral development cooperation. The Government has since then been implementing the aid effectiveness principles with the objective of streamlining systems of delivering external assistance through better harmonized, aligned and coordinated Development Partners (DPs) activities in line with the objectives of the Paris Declaration, 2005.

In 2007, the Government of Kenya together with Development Partners developed a Joint assistance strategy popularly known as Kenya Joint Assistance Strategy (KJAS, 2007-2012) which was signed by the Government and 17 Development Partners in September 2007. The KJAS supported government initiatives and helped build our relationship further. The KJAS expired in December 2012. A review of the KJAS done in 2010, found that there was a marked improvement toward alignment to country's development agenda, the Vision 2030 and Medium Term Plans.

In 2009, the Government of Kenya and the Development Partners (DPs) who form the Aid Effectiveness Group reviewed the Aid Coordination Structure to improve the dialogue among stakeholders. The following levels of engagement were agreed on:

(i) Development Partnership Forum (DPF)

The DPF held twice a year and provides a useful opportunity for both the Government and her Development Partners to engage in dialogue on Kenya's development priorities and challenges, recent political and economic developments, and on how our development cooperation can effectively contribute towards the attainment of these priorities to accelerate progress in attaining our Vision 2030 objectives. It is currently chaired by the Deputy President and assisted by Cabinet Secretary, National Treasury. It is co-chaired by two Co-Chairs of the

Development Partners Group (DPG), on a rotational basis. Participation includes other key stakeholders from the Private sector, Civil Society Organizations, Parliament and Council of Governors. Dialogue is between Cabinet Secretaries and Ambassadors/High Commissioners and Country Directors of various development partner agencies.

(ii) The Pre-Development Partnership Forum (Pre-DPF)

Prior to the DPF, a Pre-DPF technical meeting is usually held whose outcome feeds into the DPF. It is chaired by the Principal Secretary, National Treasury and assisted by the two Co-chairs of DPG. Participation includes other key stakeholders from the Private sector, Civil Society Organizations, Parliament and Council of Governors at the technical level. Dialogue is between Principal Secretaries and Heads of Development Cooperation of various development partner agencies and other senior technical officers both from Government, Development Partners, Private Sector, Civil Society Organizations and Parliament.

(iii) The Government Coordination Group (GCG)

The GCG was formed in 2009 with the overall objective of providing (1) a high level forum for government to discuss economic, development, and humanitarian issues with a focus on harmonization, alignment and coordination (hac) across Ministries, and (2) to increase the effectiveness and efficiency of external assistance to Kenya by exchanging information and experiences on key issues and ensuring that clear messages of guidance are communicated to development partners in a coordinated manner and aligned with the national priorities as outlined in the Medium Term Plans. The membership is Government only at the level of Principal Secretaries.

(iv) Development Partners Group (DPG)

The Development Partners Group (DPG) is a donors' only group which meet on a monthly basis. Issues from the DPG and GCG feed into the AEG and vice versa.

(v) Aid Effectiveness Group (AEG)

Also restructured in 2009 was the Harmonization, Alignment and Coordination (HAC), group to the Aid Effectiveness Group (AEG) with monthly meetings held at the Treasury Building. The AEG is a technical group at the level of Heads/Deputy of Agencies and senior technical officers from both Development Partners Agencies and Government ministries. It is Co-Chaired by both Government and a Development Partner. The Director External Resources Department has been the permanent Co-chair from Government. Other key members/stakeholders are CSOs, Private Sector and Parliament. The AEG holds annual retreats to review progress and chart the agenda for the next Financial Year.

The mission of the AEG is to reduce transaction costs to Government of Kenya and to Development Partners by streamlining systems of delivering aid, standardizing procedures, eliminating duplication, managing for development results and upholding mutual accountability.

The Vision of the AEG is more harmonized, aligned and coordinated external assistance by promoting aid effectiveness to achieve development results and improve the welfare of all Kenyans.

vi) Aid Effectiveness Secretariat

The Aid Effectiveness Secretariat (AES) was formed in 2010 as a support unit to the AEG and also coordinates the preparation of the DPF and other activities of the AEG. The Secretariat is mandated to support the Government of Kenya (GoK) and Development Partners equally in meeting Paris, Accra and Busan commitments. AES coordinates the activities of all the groups and helps support it in achieving the AEG work plan.

D. Progress in Effective Development Cooperation (after 4th Busan Forum and Mexico ministerial meeting)

Kenya participated in the three rounds of Survey used monitor the Paris Declaration on Aid Effectiveness in 2006, 2008 and 2010. Kenya also participated in the First Global Partnership Monitoring Framework in 2013 used to monitor the GPEDC. The results show some improvement in the indicators measured but a lot still needs to be done to ensure effective development cooperation. The results were as follows:

No.	Indicator	Results
1.	Development Cooperation is focused on results that meet developing Countries' priorities	• Not monitored • There exists the National Information Monitoring & Evaluation System(NIMES) • Existence of Monitoring and Evaluation Directorate which monitors the implementation of the medium term plans • First Handbook of National Reporting Indicators, 2008-2012 developed • Second Handbook of National Reporting Indicators, 2013-2017 currently being finalized
2.	Civil Society operates within an environment which maximizes its engagement in and contribution to development	• Not monitored • Have put in place a framework of CSO engagement with Government • Representatives attend the monthly Aid Effectiveness Group meetings convened by Government • Medium involvement in most planning, budgeting, implementation & oversight roles
3.	Engagement and contribution of the private sector to development	• Not monitored • Has in place Kenya Private Sector Alliance (KEPSA) • KEPSA holds two to three roundtable discussions annually with the President on issues affecting private sector growth • KEPSA representative participates in the Aid Effectiveness Group meetings
4.	Transparency: Information on development cooperation is publicly available	• Not monitored • An electronic Project Information System (e-ProMIS) has been developed and is accessible to public • Integrated Financial Management Information System (IFMIS) has been re-engineered to be more functional and is accessible to all key users • Kenya is a member of the Open Aid Platform (OAP)

5a & 5b.	Development Cooperation is more predictable	• Slight improvement in annual predictability from 67% in 2010 to 75% in 2013 • Medium term predictability still low with the third outer year being 48% while on average is 78%. • 2015 target is 89%
6.	Aid is on budgets which are subject to parliamentary scrutiny	• Improved from 77% in 2010 to 92% in 2013 • However, most resources are still not recorded on budget or in e-ProMIS especially to Non State Actors
7.	Mutual accountability among development cooperation actors is strengthened through inclusive reviews	• Draft Aid policy in place • Mutual Accountability Framework in place • Annual Mutual Assessments of progress
8.	Gender equality and women's empowerment	• Absence of a system for tracking gender allocations • There is dedicated directorate to implement the gender policy and affirmative action • Constitutional requirement for two-thirds gender rule in public appointments and also on the elective positions
9a	Quality of developing country PFM systems	World Bank CPIA: Constant at 3.5 in 2010 and also in 2013
9b	Use of Country PFM and procurement systems	Moderate use of PFM systems, Moved from a score of 58% in 2010 to 66% in 2013
10.	Aid is Untied	OECD-DAC data: 93% in 2010

Source: OECD-UNDP Global Partnership Monitoring Framework Survey Results

The main results achieved since Busan are the following:

- Domestication of the Busan Outcomes in the Mutual Accountability Framework although there is slow progress in implementation
- Finalization of the Kenya External Resources Policy and forwarding to Cabinet for approval
- Inclusiveness: Inclusion of Development Partners, CSOs and Private sector in the development of the Second Medium Term Plan 2013-2017 (MTP II)
- Integration of the Aid Effectiveness principles in the MTP II
- More structured dialogue between the Government and Development Partners on issues of mutual concern geared towards accelerating the implementation of the development agenda
- The preparation of the United Nations Development Assistance Framework (UNDAF), 2014-2018, aligned to the government fiscal year and based on the UN "Delivering as One" principles.
- Establishment of a South-South Centre

Building Blocks

Kenya is a member of the following building blocks:

- South-South and Triangular Cooperation
- African Platform for Development Effectiveness
- Collaborative Africa Budget Reform Initiative (CABRI)
- CSO Task Team on Development Effectiveness

E. Development Effectiveness Agenda

The main achievements since Busan are:

- The Integration of the Aid Effectiveness Principles in the Second Medium Term Plan (MTP II): With the expiry of the Kenya Joint Assistance Strategy (KJAS) in December 2012, the Government and Development Partners agreed on the integration of the Aid Effectiveness principles in the MTP II instead of developing a second KJAS. The aid effectiveness principles together with the partnership principles are integrated in MTP II under Chapter 7.

- The finalization of the Kenya External Resources Policy

Some of the issues which are in the future work plan are:

i. Ensuring alignment of all development programmes to the Kenya Vision 2030, Second Medium Term Plan, Sector Plans and the County Integrated Development Plans (CIDPs)
ii. Predictability of resources for funds committed on budget. The last two fiscal years has experienced very low absorption. Reporting to be ensured through the electronic Project Monitoring Information System (e-ProMIS).
iii. Using the Country Public Financial Management Information systems which will ensure that they are strengthened, especially in procurement and accounting of resources spent.
iv. Committing to the Mutual Accountability principle which will ensure responsible and transparent aid. This will also improve transparency and accountability and managing for development results.
v. Leading the Division of Labour process so that the actions of development partners are more coherent and have impact. This will reduce fragmentation of aid if they work more through Programme Based Approaches
vi. Direct payments reporting have been a challenge with lack of supporting documents. Commit to follow the laid down government procedure of reporting direct payments so that we do not have unreported expenditures due to lack of supporting documents.
vii. Invite development partners who are still working outside the AEG to join and work within an all inclusive development agenda, by engaging in the established forums.
viii. Capacity building of County Governments on the principles of aid effectiveness
ix. Harmonization of the Government sectors into one set of sector definitions which will be used for planning, budgeting and execution

The main upcoming actions are:

- Annual Retreat to review progress on implementing the GPEDC
- Enhancements of the e-ProMIS to ensure effective and comprehensive data capture
- Finalization of the division of labour process
- Updating the Mutual Accountability Framework
- Establishing Single Projects Implementation Units (SPIUs) in line ministries and County Government

Some of the Challenges are:

- Weak Mutual Accountability
- Lack of commitment to the division of labour process by development partners and this affects harmonization
- Fully rolling out the GPEDC framework to both National and Sub-national Governments being that in 2013 Kenya embraced the devolved system of governance which poses serious coordination and implementation challenges.
- Low usage of the Country PFM and procurement systems due to mistrust
- Weak reporting of direct expenditures/expenditures by development partners for resources captured on budget. In some cases where reporting is done, there is lack of support documents

F. The Global Partnership and its contribution to the development effectiveness agenda at country level

The Global Partnership and predecessor commitments continue to play an important role in shaping the dialogue on effective external resources management. The Monitoring surveys have put pressure on governments to reform their public financial management information systems. The run-up to the third high level forum in Accra, Ghana saw many countries develop Aid Management Information Systems (AIMS) or Development Assistance Databases (DADs).

The GPEDC has also emphasized that developing countries have systems in place to collect data on development cooperation. This has ensured that as a Country we have improved our data collection processes and enhancements of the e-PoMIS is being done to ensure effective data capture and monitoring of progress. The Global Partnership as well as the Paris Declaration monitoring surveys has shaped the annual assessment of progress being done by the Aid Effectiveness Group. The Global Partnership to continue the campaigns on “data revolution” to ensure that all activities are measured, monitored and data captured. In instances where household surveys are required to be conducted and partner countries lack resources, development partners to commit to support these processes so that outdated data is not used to inform planning.

Kenya anticipates that the Global Partnership will play a key role in shaping Global Mutual Accountability such that activities like illicit financial outflows, tax haven, stole assets and global corruption are eliminated. Boosting of domestic resource mobilization by partner countries requires concerted efforts by all stakeholders by subverting tax evasion, tax avoidance and illegal trade. Therefore the Global Partnership can act as a platform where discussions on genuine partnerships are built so that we achieve effective development cooperation through the boosting of domestic resources mobilization to implement the GPEDC and post-2015 agenda.

The Global Partnership can contribute to the post-2015 agenda by ensuring that development partners commit to support partner countries in strengthening their systems of aid delivery as well as their institutions so that they manage to boost domestic resource mobilization. Sustainable development will only happen when partner countries can mobilize their own domestic resources for operations such that aid is only used to supplement development financing and catalyze development. Therefore one of the Global Partnership monitoring indicators would be to measure the extent of integration of the Sustainable Development Goals in the Countries' development plans/strategies to ensure implementation of the post-2015 agenda. Global Partnership can also act as platform where development partners commit to continue providing concessional loans to countries joining the Middle Income Status as well providing more grants to developing countries.

G. Conclusions and recommendations

Kenya has joined the low middle income country category and has also an ambitious development plan which aims to transform the country into a highly industrialized nation providing a high quality of life to its citizens. Even with the rebasing of the economy in September 2014, most citizens still live in poverty. The unemployment rates are high with soaring cost of living. To ensure that Kenya achieves its development agenda, all development resources should be aligned to the Vision 2030 and Second MTP. The integration of climate change, gender equality, human rights and the post-2015 development agenda into the planning process will ensure that we achieve inclusive growth. Therefore inclusive dialogue and inclusive partnerships that ensure effective development cooperation must be ensured.

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