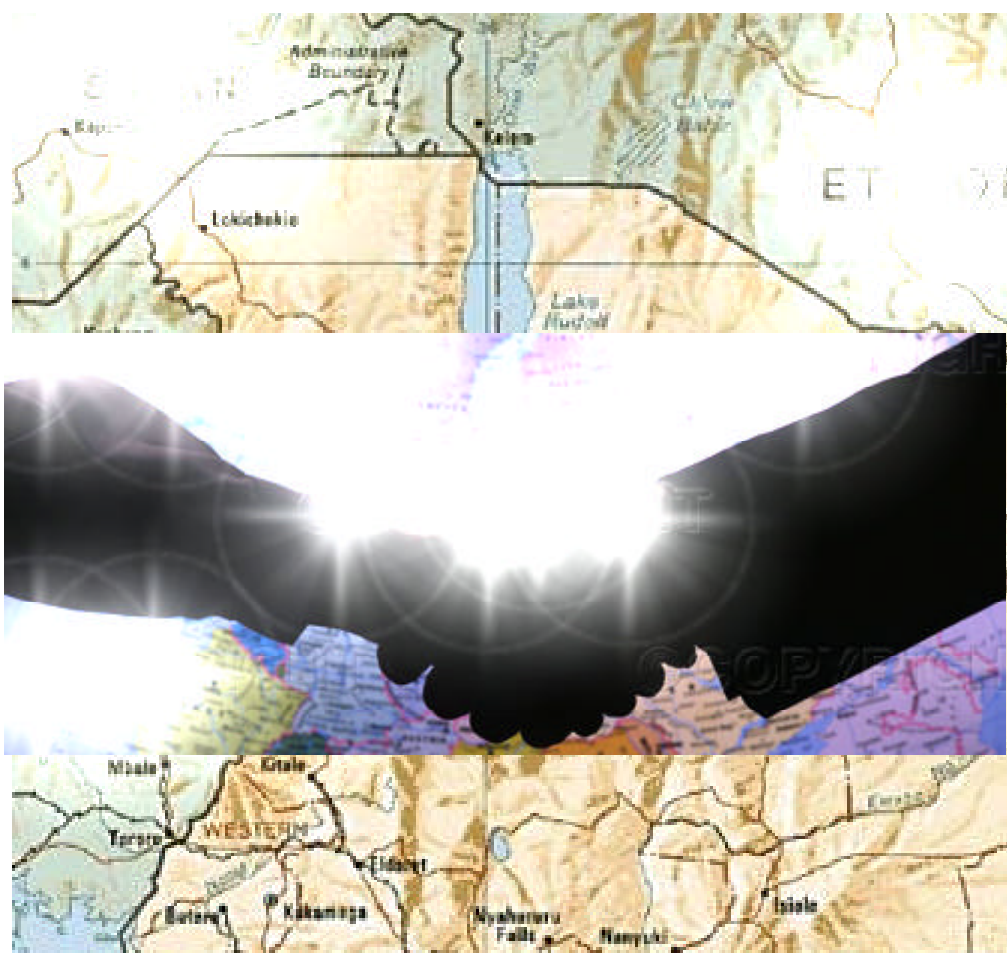


A Critical Assessment of Aid Management & Donor Harmonisation



The Case of Kenya



African Forum and Network
on Debt and Development

A Critical Assessment of Aid Management and Donor Harmonisation
The Case of Kenya

ISBN 978-0-7974-3411-0

EAN 9780797434110

© 2007

All rights reserved to AFRODAD

African Forum and Network on Debt and Development

31 Atkinson Drive, Hillside,
PO Box CY1517, Causeway, Harare, Zimbabwe
Telephone 263 4 778531, 778536 Telefax 263 4 747878
E-Mail afrodad@afrodad.co.zw
Website: www.afrodad.org

About AFRODAD

AFRODAD Vision

AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

AFRODAD Mission

To secure policies that will redress the African debt crisis based on a human rights value system.

AFRODAD Objectives include the following:

- 1 To enhance efficient and effective management and use of resources by African governments;
- 2 To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world.
- 3 To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being a political, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level that protect the interests of the weaker nations. The Transparent Arbitration mechanism proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

AFRODAD is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of Seven programme and five support staff.

Acknowledgements

AFRODAD's work on this subject matter would not have been possible without the input and assistance of many individuals and organizations. We are deeply grateful to all those listed here.

We owe great debt of gratitude to Vitalis Meja and his research team for investing considerable time and effort in the research process of this report. The authors are indebted to various institutions and individuals which made invaluable contributions in terms of their key insights, opinion and data. We are particularly grateful to the Ministries of Ministry of Finance, civil society and donor agencies that did provide the main body of data necessary for the assessment made in this report. Nonetheless the views expressed in this report are those of the authors. We also remained indebted to Nancy Dubosse, our new Programme Director for Research and Policy Analysis for the final edit and proof-reading of this report.

The central financial and technical support of Diakonia was invaluable to the project. We are also indebted to our colleagues, Mandla Hadebe and Taurai Chiraerae for the time and effort they did put in making this study and publication a reality. Last but not least many thanks to many of our colleagues whom we can not all name but whose input into the national research validation workshop remain vital to this output.


Preface

Although donors argue that they have changed their approach and that conditionality has been replaced by 'country ownership', poverty reduction and pro-poor growth strategies, experience on the ground seems to suggest otherwise. Lack of harmonization and alignment of policies, procedures and programs among various donors' agencies continue to mar effective aid delivery to recipient governments who in turn have been eluded by the key concepts of inclusiveness, popular participation and 'good governance'.

Problems of economic governance and ineffective utilization of development assistance have ranged from poor or no consultation with the intended beneficiaries; lack of coordination between various government agencies, the failure to harmonize policies, programs and procedures harmonization and alignment, poor project design within parastatals, public or private enterprises; to poor monitoring of foreign funded projects and consequently in indebtedness and poverty..

This international agenda has evolved over time, and hopefully will continue to evolve. Its principal manifestation at this time is the Paris Declaration of March 2005. The Paris Declaration on Aid Effectiveness represents a landmark achievement for the international community, which brings together a number of key principles and commitments in a coherent way. It includes a framework for mutual accountability, and identifies a number of indicators for tracking progress on the part of donors and partner countries. At the same time, there is a general recognition that the Paris Declaration is a crucial component of a larger aid effectiveness agenda that could engage civil society actors in a more direct manner. The power of the Paris Declaration is its focus on a limited number of general principles for action. As such, the Paris Declaration is not intended to provide operational instructions for how to achieve specific development results. The Paris Declaration is therefore limited in terms of the stated purpose of aid effectiveness in that it does not, and cannot, by itself, tell us how to reduce poverty, improve democratic governance, or promote greater gender equality.

As development actors, CSOs share an interest in the concept of aid effectiveness as an important one for keeping development efforts on-track, for drawing attention to outcome and impact level results, and for drawing lessons of good practice from accumulated experience. The shared pursuit of aid effectiveness provides a legitimate entry point for dialogue among all development cooperation actors, including CSOs. This case study by AFRODAD is but one of the civil society contributions to monitoring and tracking Aid effectiveness in Sub-Saharan Africa, which by and large constitutes the bulk of aid beneficiaries. We do hope that the thoughts and ideas shared by this case study will help enlighten issues and move the continent and its development partners step a head.



Charles Mutasa
Executive Director

Table of Contents

| | | |
|-----|--|----|
| 1.0 | Executive Summary | 9 |
| 1.1 | Summary of Main Findings | 9 |
| 2.0 | Introduction And Background | 11 |
| 2.1 | Aid Harmonisation in Perspective | 11 |
| 2.2 | Kenya in Perspective | 11 |
| 2.3 | Statement of the Problem | 12 |
| 3.0 | Development Assistance In Kenya | 14 |
| 3.1 | Paris Declaration in the Kenyan Context | 14 |
| 3.2 | National Development Programmes | 15 |
| 3.3 | Donor Performance across Sectors | 17 |
| 3.4 | Systems, Procedures and Instruments | 17 |
| 3.5 | Government Leadership in the Harmonisation Process | 17 |
| 3.6 | Instruments of Aid Harmonisation | 22 |
| 4.0 | Donor Performance Towards Harmonisation | 23 |
| 4.1 | Proportion of Aid Managed by Use of National Procedures | 23 |
| 4.2 | Predictability of External Resource Flows | 23 |
| 4.3 | Rationalization of Processes | 24 |
| 4.4 | Discussed Conditionalities | 24 |
| 4.5 | Delivery of Aid | 24 |
| 4.6 | Reforms at the Field Office | 25 |
| 4.7 | Harmonisation of Donor Structures | 25 |
| 4.8 | Aid Predictability | 25 |
| 4.9 | The Challenges of Integrating the New Global Programs and Players into the Harmonization Framework | 25 |
| 5.0 | Non-state Actors And Aid Harmonisation In Kenya | 26 |
| 5.1 | Government on CSOs | 26 |
| 5.2 | Donors on CSOs | 25 |
| 5.3 | Civil Society Perspective on Aid Harmonisation Process in Kenya | 26 |
| 6.0 | Recommendations And Conclusion | 28 |
| 6.1 | Recommendations | 28 |
| 6.2 | Conclusion | 29 |
| | REFERENCES | 30 |
| | Annex 1 Methodology | 31 |

List Of Tables

| | | |
|------------|---|----|
| Table 2.1 | Budgetary Trends 2003/04 - 2004/05 | 12 |
| Figure 3.2 | ODA and Official Aid To Kenya | 14 |
| Table 3.2 | Sector Composition | 16 |
| Table 3.3 | Current Sector Involvement By Donors Understudy | 18 |
| Table 4.3 | Type Of Support By Donor | 24 |

List of Acronyms

| | |
|--------|--|
| CBK | Central Bank of Kenya |
| CG | Consultative group |
| CSO | Civil Society Organisation |
| DCG | Donor Consultative Group |
| DED | Deutsche Entwicklungs Dienst |
| DFID | Department for International Development |
| EC | European Commission |
| EFMAP | Enhanced Financial Management Action Plan |
| ERD | External Resource Department |
| ERS | Economic Recovery Strategy |
| GDP | Gross Domestic Product |
| GoK | Government of Kenya |
| GTZ | Gesellschaft für technische Zusammenarbeit |
| HAC | Harmonisation Alignment and Co-ordination |
| IFMS | Integrated Financial Management System |
| IMF | International Monetary Fund |
| IPPD | Integrated personnel payment system |
| KERP | Kenya External Resource Policy |
| KfW | Kreditanstalt für Wiederaufbau |
| KJAS | Kenya Joint Assistance Strategy |
| KRB | Kenya Roads Board |
| MoF | Ministry of finance |
| MTEF | Medium Term Expenditure Program |
| NSHIF | National Social Health Insurance Fund |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Cooperation and Development |
| PEMAAF | Public expenditure Management and accountability framework |
| PER | Public Expenditure Review |
| PFM | Public Finance Management |
| PPA | Participatory poverty assessment |
| PRSP | Poverty Reduction Strategy Paper |
| SIDA | Swedish International Development Agency |
| SWAP | Sector Wide Approaches |
| ToR | Terms of Reference |

1.0 Executive Summary

In 2008 the OECD takes stock of the implementation status of Rome agreement (2003) and Paris declaration (2005) on aid harmonisation and alignment. While many of the worlds poorest have seen some sort of improvement in quantity and quality of aid, Kenya like many other countries outside the HIPC framework are yet to experience a major leap in the quantity and quality of aid. Achieving aid harmonisation targets and alignment under the Paris and Rome agreements could mean a dramatic change in the way macro - economic policies are formulated and implemented, how public service delivery is provided to millions Kenyans and governance and security is guaranteed to address the actual development needs of Kenyans. For government this will imply, policy coherence, structural and economic reforms and political will to sustain reforms. For donors the implication points their commitment to improving the quality of aid under the Rome and Paris declaration framework. This will entail reforms at the policy, structural as well as systemic processes of aid delivery to Kenya. The study notes with considerable concern the lack of progress towards the use of national systems in the delivery of aid despite the enormous efforts by the government in the areas of public finance management reforms, procurements and the oversight role of the parliament. The study outlines some of the underlying factors behind these failures and proceeds to discuss some of the policy options the government and donors could consider towards aid harmonisation. It concludes with recommendations in areas that are crucial to the implementation of MDGs.

1.1 Summary of Main Findings

The Paris Declaration consists of a series of targets designed to encourage transformation in the development assistance and development programs, and policies formulation of the participating countries. The targets are geared towards developing a long-term strategy for aid harmonisation, alignment and country ownership.

After two years of implementation there has been a lot of progress in the public sector reform, especially on the finance management system and procurement front. There is however little evidence to show improving confidence on public systems by the donors. The major findings are summarised below.

1. The broad picture that emerges from our study is that aid harmonisation has the potential to encourage the a strong development partnership based on a country-owned and credible long-term strategy for growth and poverty reduction, however actual partnership and trust building mechanisms fall considerably short of this potential. This is partly because government leadership is weak in this process. There is also no policy and operational framework to guide the partnership process
2. The unveiling of aid harmonisation programs and processes including the development of the current draft documents (Kenya External Resource Policy and the Kenya Joint Assistance Strategy) on partnership for development assistance, along with the various consultative groups has not been an inclusive affair. Most stakeholders interviewed about the process viewed it as not open. They were only invited to meetings to be briefed on status and trends. However the government has opened up sector working groups to a few civil society organisations to participate.
3. Implementation of aid harmonisation related reforms have had limited impact in generating meaningful discussions and participation, outside the narrow official circle. This reflects in part the centralised nature of policy formulation and implementation by the government and the lack of institutional arrangement for broader engagements of other stakeholders.
4. Out of the 16 benchmarks under the Public Expenditure Management and Accountability Framework, Kenya has successfully met 6 in the areas of budget formulation, execution, monitoring and evaluation
5. Donor support is unresponsive to government's reform outcomes. The reforms have generated little progress towards the use of national systems to disburse aid. The gap between commitments and actual disbursements continues to be a problem, for project financing as well as for sector support and direct-to-budget funding. An estimated 50% of aid funds to central government are managed by use of national procedures, Conditionality still play a key role in determining the flow of external resources in to the country as well as the level of confidence in the country systems.

None of the donors reviewed provided budget estimates for disbursement of projects and programme aid consistent with the Kenyan fiscal year. Information for estimates are given based on the country assistance strategy and disbursement framework of the donor in question. There however appears to be a strong momentum to address this issue and rationalize these different processes under the one framework. There is generally broad support for many of the tools of harmonization, including joint reviews, joint analytical work, joint donor-government assessments of needs for capacity building, joint financing arrangements, leading a sector, delegating leadership, and actively participating in a sector in a non-lead capacity.

6. The donors interviewed and the government have noted that aid and development assistance to the country is often erratic and unpredictable. Donors may withdraw their support or delays disbursements in reaction to various reasons including politics, perceived human rights violation, crime and scandals within the country. Some donors for example Germany are trying to come up with mechanisms that would ensure that donor support is more reliable and consistent.

2.0 Introduction And Background

2.1 Aid Harmonisation in Perspective

Between 1970 and 2002 the countries south of the Sahara received a total of \$294 billion in loans . Yet Africa continues to register the slowest growth in per capita income of any continent. Aid to Africa has not guaranteed rapid growth and has not contributed sufficiently to the reduction of poverty or creation sustainable conditions for economic development. Aid in some cases has even to a greater contributed to lower growth by encouraging greater corruption, and weakening government internal mechanisms for aid management, and promoting debt servicing at the expense of the provision of social services . And yet in other countries, policy frameworks, public finance management and procurement systems are generally weak to promote economic growth and poverty reduction. Other problems that are also closely linked to the ineffectiveness is the incompetent planning of the donor nations aid programs, their aid disbursement framework and procedural requirement to aid management when dealing with developing countries. This has contributed to aid being allocated to wrong priorities.

There is a growing awareness among governments around the world that their own actions and behaviour are just as important for the effectiveness of aid in developing world. Indeed, the inclusion of such phrases as "mutual responsibility", "partnerships" and "dialogue" as part of the current aid debate is a clear recognition of past mistakes. There is an increasing movement by donors towards systematic support for recipient-owned plans for the attainment of development results increased use of national administration systems; and more coordinated and predictable actions among the multiple aid actors. Donors signed a commitment to improve the harmonization of aid in Rome in 2003 and, more recently, the Paris Declaration on Aid Effectiveness. It set out five basic principles for donors concerning ownership, alignment, harmonization, management and accountability, together with a set of 12 indicators which could be used to judge whether or not fragmentation was diminishing and coordination improving.

2.2 Kenya in Perspective

After experiencing moderately high growth rates during the 1960s and 1970s, Kenya's economic performance during the last two decades has been far below its potential. The country's economy had consistently been declining for the better part of the last decade prior to 2002. Growth in GDP averaged a mere 1.3 per cent per annum compared to an average annual population growth rate of 2.0 per cent over the last decade. Investments were low and declining, with gross investment as a proportion of GDP at a mere 13.6 per cent in 2002, Public sector investment stood at 4.8 per cent of GDP in 2002. At the same time, public consumption had increased to 19 per cent of GDP by 2002 . Consequently, per capita income declined from US\$271 in 1990 to US\$239 in 2002. The sharp deterioration in economic performance worsened the poverty situation. The number of people living in poverty is estimated to have risen from 11 million or 48 per cent of the population in 1990 to 17 million or 56 per cent of the population in 2001. The number of people openly unemployed stood at over 2 million or 14.6 per cent of the labour force, with the youth accounting for 45 percent of the total in 2003. In addition, the number of the working poor is staggering comprising primarily subsistence farmers, female headed households and slum dwellers. Disguised unemployment is also a serious problem, especially in the public sector .

The deterioration in the standard of living in Kenya is demonstrated well by the worsening in key social indicators over the last two decades. Illiteracy rates increased as enrolment rates in primary school declined while life expectancy and child mortality worsened. This disappointing development has further been complicated by the upsurge of the HIV/AIDS pandemic.

Over the last three years (2003-2005), the Kenyan economy has been on a slow but consistent recovery with real gross domestic product (GDP) rising by 0.4 per cent in 2002, 2.8 per cent in 2003, 4.3 per cent in 2004 and a decade high of 5.8 per cent in 2005. The positive performance has been fuelled by increased credit to the private sector, positive consumer and investor sentiments, low interest rates, a stable macro-economic environment and structural reforms over the period .

The following trends can be observed in the Kenyan economy:

- Kenya's ability to mobilize domestic resources has been impressive over the last three years with taxation revenues averaging between 21-22 per cent of GDP, well above the sub-Saharan average.
- The country's reliance on external concessional financing has been low enabling the country to achieve a sustainable fiscal framework as shown in table 1. In 2006/07, external financing only comprised 7 per cent of the total national budget.
- Nevertheless the positive trend has not translated into better welfare for ordinary Kenyans particularly in the areas of asset acquisition and new employment opportunities. At 5.8% the growth level is below the global target of 7 per cent for meeting the millennium development goals. There is therefore a need to intensify and sustain the economic growth to catalyse efforts towards poverty reduction.

Table 2.1 Budgetary Trends 2003/04 - 2004/05 - Central Government Budget (% of GDP)

| | 2002/03 | 2003/04 | 2004/05 |
|----------------------------------|---------|---------|---------|
| Total Revenue | 21.9 | 23.4 | 22.9 |
| -Own revenue | 19.8 | 21.1 | 21.3 |
| -Grants | 2.1 | 2.3 | 1.6 |
| Total Expenditure + net lending | 24.4 | 22.9 | 22.3 |
| Aggregate deficit (incl. grants) | -3.7 | 0.0 | 0.1 |
| Primary Deficit | -5.1 | -1.8 | -1.0 |
| Net Financing | 6.0 | 3.0 | 1.1 |
| -external | 2.1 | 2.3 | 1.6 |
| -domestic | 3.9 | 0.7 | -0.5 |

Sources: Adapted from Central Bureau of Statistics, Economic Survey 2005; Central Bank of Kenya Monthly Economic Review, March 2006.

Following from the introductory sections, the rest of the report is divided in the following sections. Section two will deal with government programs, systems and reforms and their evaluation in the context of aid harmonisation. The section will also deal with government's observation on aid harmonisation focussing on the challenges in experiences with the donors. Section three will deal with the efforts of donors on aid harmonisation process in Kenya. This section will also give an analysis of individual donor performance as well donor analysis government's performance on aid harmonisation. Section four will deal with non state actors on aid harmonisation in Kenya. Final section will deal with conclusions and recommendations, for government of Kenya, donors and non state actors in the aid harmonisation process in Kenya.

2.3 Statement of the Problem

At the beginning of the 21st century, the evidence suggests that donors are not favouring multilateralism. Of the total ODA 2000-2003, 64% is bilateral (with an upward trend) and only 36% given to multilateral institutions like the UN agencies and the development banks . This has put a lot of pressure on aid recipient particularly that of the African governments in complying with different donor requirements. Each donor comes with different procedures and mechanisms to identify, plan, implement, monitor and evaluate its activities, and different reporting requirements, and a lot of paperwork that consumes time and resources from government officials.

In other instances African governments are faced with different donor policy priorities, often contradictory, forcing them to implement inconsistent policy reforms. Sometimes, donors negotiate their projects directly with sectoral line ministries, bypassing central planning authorities, and thus creating tension within national administrations. Frequently, donors use a joint-piecemeal approach, splitting areas of intervention among them (i.e. a donor contributes to the health sector and another to the education sector, or donors distributing different geographical regions among them) regardless of the magnitude and reliability of their assistance, leaving governments with unbalanced support in the different areas. Additionally, donor agencies have their own disbursement processes, different from the developing countries' budget cycles; worse, sometimes their funds are unreliable, disbursements are delayed and programs discontinued.

At the same time, ODA management is increasingly being affected by changes in the international aid architecture. Bilateral and multilateral agencies are changing priorities and orientation by placing greater emphasis on the quality of partner country systems, joint planning, and financing, transparency and accountability and quality of programs toward economic growth and poverty reduction.

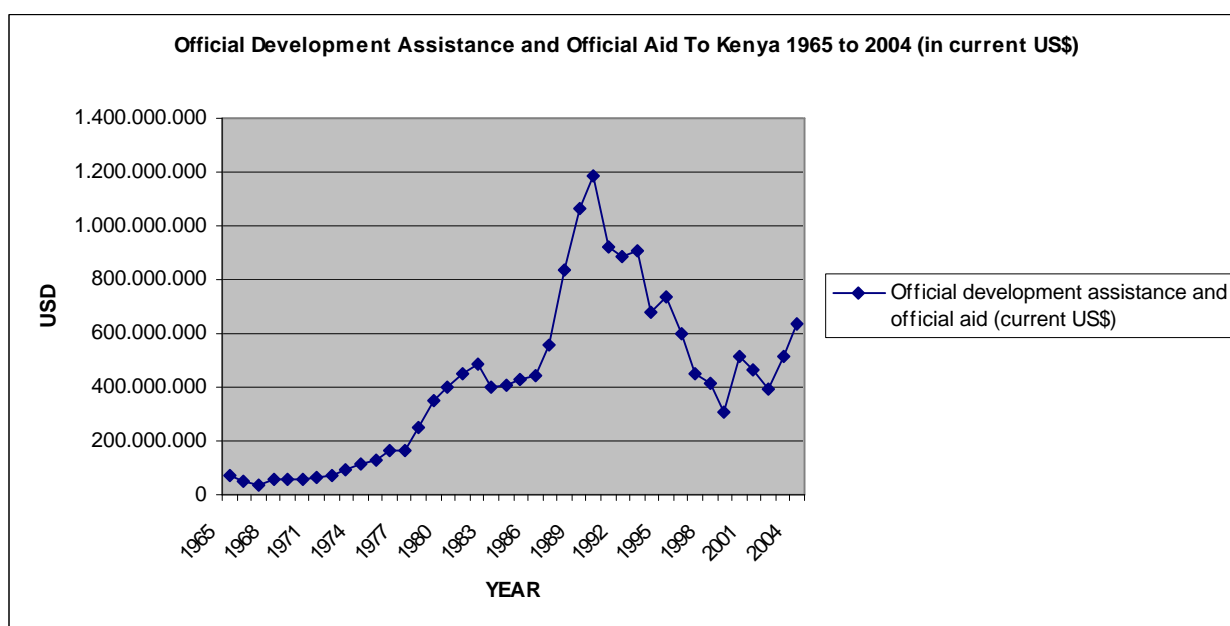
Government systems have to adapt to these new trends if it is to target ODA resources most consistent with their development needs. It is therefore important to examine the level of preparedness of Kenyan institutions, programs and systems to attract and absorb effectively ODA that comes to it. It is also crucial to examine the nature of support and the responsiveness of donors towards government's efforts.

3.0 Development Assistance In Kenya

Kenya like any other developing country needs external resources primarily to supplement the meagre domestic resources from its economy. The assistance a country receives redress the capital gap that arises from its development needs and act as catalyst in the implementation of the national development programs as well as playing a complimentary role in helping government's efforts in poverty eradication.

Kenya has been receiving development assistance since independence. The average annual gross external resources inflows, as a percentage of GDP, increased from 5.8% in the 1970s to 9.9% in the 1980s, 10.7% in 1990s but declined to less than 5% in the early 2000s . The cut back in early 1990s was in reaction to the human right violations, bad governance and wide scale corruption. A substantial proportion of support was transferred from government systems to civil society organisations. The result was weak government ownership and restricted donor co-ordination. Several donors have started stepping up their aid programs as shown in figure 2 below. The official development assistance jumped from US\$ 300 million in 2001 to just over US\$ 650 million in 2004 indicating confidence in the government . It can also be deduced from figure 2 that political factors have plaid a key role in determining aid flow in Kenya. Thus the perception of donors on how governance is handled in relation to tackling corruption in the public sector as well as human rights violation have over the years boosted their confidence in the government in place. Thought these political factors are crucial for Kenya, the Paris declaration does not put them as key to aid effectiveness.

Figure 3.2 ODA and Official Aid to Kenya 1965 to 2004



Source: World Bank World Development Indicators 2006

3.1 Paris Declaration in the Kenyan Context

Kenya is a signatory of the Rome agreement on donor harmonisation (2003) and also the Paris declaration on aid effectiveness (2005). Both declarations calls for country ownership and leadership in establishing and implementing their national development goal and priorities, including the achievement of the millennium development goals. It also calls for the reduction of transaction costs associated with the external resource management systems including the multiple conditionalities, processes, and procedures, monitoring and evaluation, reporting and delivery mechanisms.

The role of the government in the designing national development programs and priorities, negotiation, disbursement, execution, and appraisal of external resource flows with a view of promotion of local ownership and leadership is crucial is paramount in this regard.

The Paris declaration on the side of the government stipulates the following mechanisms for aid management:

- Ownership of the policy processes by the government and be in the driver's seat of the development process while donors align themselves to government strategy and policy systems
- Strengthening government's national development strategies and associated operational frameworks (e.g., planning, budget, and performance assessment frameworks)
- The government after appropriate consultations with the development partners and other stakeholders should develop a framework of partnership principles, common modalities of conditionalities, negotiations, disbursement, delivery, monitoring and evaluation and joint assessment missions

3.2 National Development Programmes

The government of Kenya's development agenda and policies are spelt out in documents such as the Vision 2030, The Economic Recovery Strategy for Wealth and Employment Creation 2003 - 07 (ERS) and the 1999 - 2015 National Poverty Eradication Program.

3.2.1 Kenya Vision 2030

Kenya has set 2030 to be a middle income rapidly industrialising economy providing a high quality of life to all its citizens in a safe healthy environment. It is therefore in the process of finalising vision 2030 to guide its development agenda . In this regard the country has set strengthening of democracy, institutions of governance, accountability, rule of law, and acceleration of economic growth as its guiding principles. For the vision to be realised, there will have to be massive investment in systemic reforms, infrastructure, and human and institutional capacity building. In this regard, external resources will be crucial in closing resource gap that will a rise the resource needs and the available resources in the implementation of national development programs.

3.2.2 The Economic Recovery Strategy for Wealth and Employment Creation 2003-07

Launched immediately after the 2002 general elections, the ERS identifies policy actions seen by the Kenyan government as necessary to spur the recovery of the Kenyan economy. The strategy was developed in a participatory manner tapping into the then existing policy documents including the PRSP of 2001 and the then manifesto of NARC government. The 4 year program is based on four pillars and five cross cutting themes which include:

Economic growth and poverty reduction

Economic Growth and Poverty Reduction to be achieved through policy based budget management and resource allocation, improved fiscal discipline and sustainable budget balance

Investing in human capital

This will be done through improved service delivery. The improvement in service delivery should be supported through the introduction of result based management with results and programme based budgets, accountability for results and performance audit particularly in the areas of education and health. The focus should include putting in place measures to achieve 100 percent net enrolment at primary level; meeting the health challenge through the establishment of a comprehensive National Social Health Insurance Fund (NSHIF) to all Kenyans; and continuing the battle against the HIV/AIDS pandemic.

Good governance

This should be reached by improved transparency, accountability and efficient controls in the PFM systems. The PFM reform is instrumental in the fight against wasteful spending and corruption as it improves access of financial data, audit related to risks and results, open and competitive procurement processes, and commitment control.

Rehabilitation and expansion of physical infrastructure

This should be done through rehabilitation, reconstruction and expansion of the road network, including the rural access roads, strengthening of the legal and institutional framework which includes the Kenya Roads Board (KRB).

ERS looks comprehensive in covering the institutional, systemic, as well as program areas. However in the context of aid harmonisation and aid effectiveness, ERS is important for two key issues. One it spells out key priority and program areas for the government of Kenya on economic recovery as well as poverty reduction thus providing a framework for alignment of resources toward the national priority. Secondly it outlines key reform areas in the public institutions and system that are fundamental to an effective and harmonised aid regime.

Within the framework of economic recovery and poverty reduction the government has sought to operationalise the four pillars using the sector wide approach. The goal is to develop sector strategies and action plans for easy co - ordination and alignment, increase the quality, effectiveness, and coherence of sector-specific policy dialogue and of donor assistance, and reduce transactions costs to the government of donor assistance. Table 2 shows sector composition and the lead government agency.

Table 3.2 Sector Composition

| Sector | Chairman | Sector Composition |
|-----------------------------------|--|--|
| Agriculture and Rural Development | Permanent Secretary Ministry of Agriculture | <ul style="list-style-type: none"> • Agriculture • Livestock and fisheries Development • Environment and natural resources • Co-operative Development and marketing • Land and housing |
| Physical infrastructure | Permanent Secretary Ministry of water and irrigation | <ul style="list-style-type: none"> • Roads and public works • Transport • Energy • Water and irrigation • Local government • Information and communication |
| General Economic services | Permanent Secretary Ministry of Trade and industry | <ul style="list-style-type: none"> • Trade and industry • Tourism and wildlife • Labour and human resource development • Gender, sports, culture and social development |
| Public safety law and order | Permanent secretary Provincial administration and internal security | <ul style="list-style-type: none"> • Office of the president • State house • Office of the VP and Ministry of home affairs • Justice and constitutional affairs • State law office • Judicial department |
| Public administration | Permanent secretary/ Directorate of personnel management | <ul style="list-style-type: none"> • Directorate of personnel management • Foreign Affairs • East African and regional cooperation • Finance • Planning and national development • Regional development authorities • Public service commission • National audit office • Electoral commission • National assembly |
| Health | Permanent secretary Ministry of health | <ul style="list-style-type: none"> • Ministry of health • National aids control council |
| Education | Permanent secretary ministry of education | <ul style="list-style-type: none"> • Ministry of education, science and technology |
| National Securities | | <ul style="list-style-type: none"> • Department of defence • National security intelligence service |

The sectors are operationalised through working groups which comprises of the relevant ministries and departments, lead donor agency and other donors, private sector and civil society organisations. Two sectors have completed the SWAp and operational these include the education sector and Governance, Judiciary, Law and Order and Security, (GJLOS). There is considerable progress in the development of Swap fro the health sector, and water and sanitation. Reforms in the public finance management are in earnest.

3.3 Donor Performance across Sectors

Donors participating in the study have sought to focus on some sectors, this is both in the form of lead donor agency or as a contributor of resources to the sectors. The involvement of donors in these sectors is a key element, as this will enhance their selectivity in the program and policy areas in which they engage in. Interview with donors indicated that significant progress is being made in harmonization at the sector level. Of particular note is the health sector donor group, which was preparing a SWAp to support implementation of the government's health sector strategy that was expected to be launched by mid-May of 2007. The public financial management donor group is working closely with the government in preparing a SWAp to support the government reform program. The water and sanitation donor group is undertaking a study as a first step in preparing a SWAp. Both the government and the donors however noted that a diversity of approaches is working well in Kenya, and that, while a medium-term goal is to move to a lead donor model, this should be implemented by sector groups only as appropriate.

The sectors as portrayed in table 2 and the alignment of donors to the sectors in table 3 show a commitment to the realisation of the ERS strategy. However challenges remain. The sector clusters, though important, continue to pose a serious co-ordination challenge for the department responsible for harmonisation. This is largely due to the competing interests of ministries, and donors within a given sector. Also important to note is that in the context of SWAp, external aid management involves several ministries further complicating the ability of the department responsible for aid harmonisation process, the External Resource Department (ERD) to perform its role effectively given the limited in capacity in human, systems and facilities. Apart from that, being a fairly new department undergoing development, problems are being experienced with its internal organisational structure and its ability to co-ordinate line ministries. In this regard, the department is inadequately equipped to provide the much needed leadership across the sectors strategies and donor sector meetings in terms of policy and program guidelines. The lack of leadership of government particularly in the donor sector group meetings is further complicating the efforts of donors to develop joint efforts towards government programs. It is thus necessary to strengthen the capacity of the department particularly in the period of developing KJAS and finalising various sector strategies. At the same time the fragmented nature of aid in the sector strategy development the donor interests overwhelm the ability of the government to participate effectively in the SWAp development.

3.4 Systems, Procedures and Instruments

The establishment of a sound system of budgeting, procurement, and financial management in the developing country is a crucial component of fulfilling the targets of aid harmonisation and having development partners who have confidence in the public finance systems.

Kenya, with the support of its development partners, has launched a public sector reform plan aimed at improving its public financial management system, with the objective of creating a more efficient and results-oriented public service. The key elements of the reform program include, preparation and implementation of a Public Financial Management strategy and action plan, implementation of a new procurement act designed to increase efficiency and transparency of public procurement, strengthening the oversight role, and implementing the Financial Management Act of 2004.

3.4.1 The Public Finance System Reform

Donors have expressed concern over public finance management system of Kenya which is considered weak, not transparent and accountable. As a result none of the donors interviewed provide direct or sector budget support to the government despite the request by the government that donor support should flow through the national budgetary system. They have however expressed willingness to do so should the situation improve. Their shift to direct budgetary support, though, is predicated on a public finance management achieving an acceptable level of fiduciary risk.

Table 3.3 Current Sector Involvement by Donors Understudy

| Government Strategy area | Development partner | Increasing Harmonisation | Increasing selectivity |
|------------------------------------|---|---|--|
| Public Finance management | Lead agencies: DFID, EC, Germany, Sweden | All the donors in this area support basket fund for PFM program | |
| Energy | Lead agency: France Members: EC | | Germany considering disengaging from renewable energy |
| Water and Sanitation | Lead agencies: France, Germany, and Sweden Members: EC | A SWAp for water and sanitation is at advanced stage | |
| Roads and Transportation | Leaders: EC Members: France, Germany and Sweden | | France has delegated management of one of the two road project to KfW, possibility of disengaging after completion of the two projects Germany will disengage after completion of current projects Sweden expects to disengage between 2009 and 2011 |
| Land | Leaders: DFID, Sweden | They are supporting basket fund for land policy | |
| Education | Leaders: DFID Members: EC, Germany | A SWAp for education is operational | Sweden disengaged in 2006 |
| Health and HIV/AIDS | Leaders: DFID, Germany Members: EC, Sweden | A SWAp for health is planned | |
| Gender | Members: EC and Sweden | Gender round table participates in dialogue and policy development | |
| Agriculture | Lead agency: EC, Germany, Sweden Members: DFID | Germany, Sweden and DFID are supporting basket fund for the secretariat coordinating activities for revitalising agriculture | |
| Environment | Lead agency: France Members: DFID EC and Sweden | | DFID to withdraw starting 2007 |
| Governance, Justice, Law and order | Members: DFID, EC, Germany, Sweden | DFID, Germany, Sweden are supporting basket fund for GJLOS program. EC has aligned its support behind the government's strategy | |
| Public service reform | Lead agency: DFID Members: EC and Sweden | | |
| Civic education and civil society | DFID, EC, Germany, Sweden | | |

The government has sought to address this challenge by pegging the public finance management reform program into the Economic Recovery Strategy for Wealth and Employment Creation, (the ERS) and is seen as impetus to the achievement targets of the ERS which include;

- Fiscal sustainability and balance in the public economy to maintain a level of expenditure that can be funded without an increase in public debt level,
- Restructuring and reallocations for growth and poverty alleviation leading to increased expenditure in the social sectors, core poverty programs and development expenditure,
- Improved public sector performance, efficiency and effectiveness in the public sector, leading to improved service delivery and results for Kenyans.

In the context of aid harmonisation, sound public finance management system determines the external resource delivery channels and the level of fiduciary risk. Development partners are more likely to use country systems its public finance management system are sound.

A number of fiscal reforms aimed at improving public expenditure management and financial accountability with the support of Cooperating Partners have been in place since 1999. There has been a substantial institutional restructuring through (1) abandoning of central tender boards and (2) the adoption of a public procurement oversight authority. There has also been significant reform in the areas of the legal and regulatory framework, the development of a strategic plan and capacity building. With the adoption of the ERS Strategy for 2003-2007, the Government of Kenya and the development partners have adopted the Public Financial Management Performance Measurement Framework to facilitate harmonization of the dialogue between the government and partners around a common framework measuring the performance of the public financial management system over time. A number of measures have been taken in the area of Public Finance Management system:

- An Enhanced Financial Management Action Plan (EFMAP) was prepared detailing activities to strengthen budget formulation, execution, monitoring and evaluation, and also aimed to achieve 16 benchmarks, which were set up as conditionalities to meet the terms of an international financing institution. The benchmarks were originally emanating from the PEMAAF - The Public Expenditure Management and Accountability Framework.
- Changes implemented related to the budget formulation process have involved changing the timetable for the budget process to begin in October rather than December; integration of the MTEF secretariat and Budget Monitoring Department formerly in Ministry of Planning and National Development to the Budget Supplies Department in Ministry of Finance; and Consolidating various Budget papers into a Budget Outlook Paper and a Budget Strategy Paper. The Budget Outlook Paper gives indicative sector ceilings to outline to the sectors the national priorities. In addition, the government prepares the Budget Strategy Paper with ministerial ceilings guidelines to strengthen the efficiency of the budget process. Sector Work Groups have been established to prepare and coordinate budget preparation in sectors. Public expenditure reviews are prepared regularly, also at ministry level. The MTEF (Mid term expenditure framework) approach is used with an extended budget horizon and expenditure ceilings.
- There has been a significant overhaul of the budget preparation process, which has led to an increase in allocations towards the priority sectors identified in the Economic Recovery Strategy for Wealth and Employment Creation, as well as more direct participation of stakeholders in reviewing policy choices prior to the Budget.
- Budget reporting has also improved, both through technical changes in the way the Budget is presented and a dramatic reduction in the audit backlog for Central Government. This means that the Public Accounts Committee can review Government expenditures and the concerns raised by these audits in a more timely way, thereby increasing the strength of Parliamentary oversight.
- Parliament has also passed financial legislation establishing an independent Auditor General's office and is expected to debate new legislation, which will give Parliament a stronger role in the preparation of the budget.

- Measures have been taken by the treasury to ensure prudent financial management. Instructive circulars have been issued to Accounting Officers. Commitment control is now enforced through a zero balance drawing account and cash flow planning system based on work plans. Guidelines have been issued for the fiscal year 2005/06 in particular related to commitment control. The MoF has also initiated a quarterly allocation system related to the budget ceilings. The former Cash Management Units in spending agencies have been translated to Budget Implementation Committees, which are to meet weekly.
- The Integrated Financial Management Information System (IFMIS) has been introduced in select Line Ministry Headquarters to improve financial management through better data accuracy, timeliness and access to financial management information. Simultaneously an Integrated Personnel Payment System (IPPD) for efficient payment of salaries, payroll records and control has been implemented for central government. This has led to improved control of the payroll and more accurate salary payments. Also the budget classification has been improved with the adaptation of international standards and the financial reporting has become more timely.
- The Kenya National Audit Office is in the process of accelerating the clearance of audit backlogs. The Internal Auditor General's Office has introduced risk based audit on a pilot basis. Audit committees are being established at spending agencies to recommend and monitor action following audit queries.
- A Public Procurement Law has recently been enacted establishing transparent procedures and a new institutional framework with a central oversight authority.
- Other enabling legal provisions include the Government Financial Management Act which came into being 2004, provides a platform for improved public financial management.
- The Public Officers Ethics Act is now also in place enhancing personal integrity on the part of public officers.
- New Anti-corruption Institutions have been established while strengthening existing ones to enhance good governance and accountability .

These efforts have resulted in some improvements, as measured by the international PEMAAP benchmarks. In February 2006 it was estimated that at least six have been met.

But there are also very significant challenges which must be addressed if the reform efforts underway are to bear fruit. A number of ministries continue to return funds to the Treasury underscoring weaknesses in budget implementation and procurement inefficiencies across the public sector. The challenge is the low absorption capacity for the development budget by most ministries. The shortfall is worrying, because funds available to promote growth and reduction of poverty are going unused, slowing implementation of the IP-ERS and progress towards the MDGs.

In the same vein there has been a marginal shift towards development expenditures with its share of GDP increasing from 2.7 per cent in 2001/02 to 2.8 per cent in 2002/03 and 2003/04 over the last three years. Development expenditure was 41 percent lower than planned. This has been accompanied by corresponding marginal increases in allocations to the social sectors (education, and health) and agriculture where aggregate allocation averaged 46 per cent of total expenditures over the last three years. The composition of expenditure by economic classification is still highly skewed towards recurrent items despite the restructuring efforts. Salaries and wages, interest payments and pension payments continue to rise, keeping recurrent expenditures high .

As highlighted by the Kenya National Human Rights Commission in its 2005 report, there are still substantial areas of government spending, which are not properly scrutinized including the constituency development funds, the relatively lavish spending on Members of Parliament's salaries and benefits, and luxury vehicles for Ministers, Senior Civil Servants and Parastatal Heads. While good progress has been made in addressing the backlog of Central Government audits, local authorities have yet to produce audited accounts raising concerns that corruption at this level remains unchecked.

The public finance management reform programme shows closer working co-operation between development partners and the government particularly at the sector strategy level. The DFID, EC, Germany and Sweden provide basket funding to the Public finance management. However the government must provide strong leadership, and political will to implement the agreed changes.

3.5 Government Leadership in the Harmonisation Process

The flow of external resources to Kenya is guided by the External Loans and Credit Act, cap 422 which forms the principle legal framework that governs external resources management.

Responsibility for coordinating development assistance rests with the Ministry of Finance specifically under the External Resource Department. The core roles of the department include sourcing, negotiating, coordinating, disbursing, and reporting of ODA resources. In the context of aid harmonisation process, the ERD is the lead agency in facilitating government's participation in harmonisation issues with the development partners. However, as indicated in the previous section, this department is weak and ineffective for variety of reasons already enumerated.

3.5.1 Forums of Engagement

In order to facilitate dialogue between the government and development partners, government through ERD has created various forums for purposes of information sharing, updates and progress on aid harmonisation between itself and donors. There exists several of such forums These include;

The Consultative Group (CG)

This forum is held once in two years where the donors pledge their support to government programs. However with the development of the Kenya Joint Assistance Strategy (KJAS) this forum will no longer be necessary because KJAS establishes five year plans that determines where the funding and budgetary support will come from.

Kenya Coordination Group (KCG)

These are meetings organised by the ERD and is comprised of government and its development partners. These meetings are chaired by the Minister of Finance and are usually convened to communicate the government's progress as regards aid harmonization process. They are however increasingly becoming erratic and heavily relies on the availability of the minister of finance who in most cases is unavailable for these meetings.

The Kenya Donor Consultative Group (DCG)

The DCGs are held monthly and are chaired by the World Bank Country Director. The meeting comprises mainly for ambassadors and heads of agencies and are aimed at facilitating the operationalisation of harmonisation process among donors. DCG meetings are more regular and consistent as compared to those of the Kenya consultative group.

Others

The government also has annual sectoral meetings where the sectoral working groups converge. This meetings comprises the sector composition groupings as illustrated in table 2, donors agency and non state actors such as the relevant civil society organisations and the private sector. The sectoral working groups meet more frequently to review progress and adjust the strategies.

The Harmonization Alignment and Co-Ordination Group

Development partners in Kenya have formed a donor group known as the harmonization, alignment, and coordination (HAC) donor group. It was established in response to a request of the Government of Kenya during the Consultative Group Meeting of November 2003 for donors to better harmonize, align, and coordinate their activities, in line with the objectives of the Rome Declaration of February 2003. The HAC seeks to ensure that external resources are effectively managed and support national efforts to attain development objectives as articulated by Vision 2030, and the National Economic Recovery Strategy. The group currently comprises of 17 development partners and has a secretariat based at the World Bank who is also the current chair.

The main focus of HAC currently includes but not restricted to:

- Monitoring donor coordination, harmonization and alignment work, including the formulation and implementation of a partnership document and progress in implementing actions agreed at the Consultative Group meetings and/or the Kenya Consultative Group meetings.

- Preparation of the Kenya Joint Assistance Strategy (KJAS).
- Coordination of donor inputs to the joint government-donor statement of the CG meeting, prepared by the Bank and the government.
- Provision of support to the External Resources Department of the Ministry of Finance for mutually agreed tasks.
- Coordination in the development of a joint country assistance strategy.
- Monitoring and reporting on progress of the donor sector groups in implementing the HAC agenda.
- Coordination of the specific donor contributions to the CG, which the World Bank has delegated to the HAC as laid out in the CG roadmap.
- Coordination and preparation of the donor inputs on the Bank/Fund joint assessment note of the government's annual progress report of the IP-ERS, and related government documents .

The HAC donor group has been very instrumental in coordinating donor efforts. In particular, they have produced documents on partnership principles , ToRs for lead donor in the sectors, and ToR for joint assistance strategy. They are currently producing the Kenya Joint assistance strategy.

3.6 Instruments of Aid Harmonisation

There currently exists no strategy or policy document to guide the harmonisation process in Kenya. There are current efforts by both the government and the donors to bridge this gap. The government is at an advanced stage of finalising the Kenya External Resource Policy (KERP). Donors on the other hand, have produced a draft on the Kenya Joint Assistance Strategy.

3.6.1 The Kenya External Resource Policy

The Kenyan government is in the process of preparing the Kenya External Resource Policy (KERP) to outline the way the Kenyan government would like to partner and relate with donors. The policy document is in line with the Rome (2003) and Paris (2005) declarations on aid effectiveness as well as government overall policy as spelled out in documents such as the Economic Recovery Strategy for Wealth and Employment Creation. The policy document aims among other things at providing a framework for increasing participation and transparency in ODA operations, more strategic, coherent and coordinated institutional framework, enhancing partnership, transparency, accountability and strengthening collaboration with international organisation and sharpening the focus of bilateral ODA in Kenya. Still in its draft form, the policy document covers among other things the systemic, institutional arrangements, partnership and legal framework aspects of external resource management as well as exit strategy from the ODA.

3.6.2 The Kenya Joint Assistance Strategy (KJAS)

The proposed Kenya Joint Assistance Strategy (KJAS) is a coherent framework for managing donor support to achieve the national development agenda including the Vision 2030 and the Economic Recovery Strategy for wealth creation and poverty reduction. It provides a national framework for improving aid co-ordination and enhancing national ownership of the development process in Kenya. It is being created to harmonize donor systems of procedures and procurement, coordinate project support from donors, manage the disbursement of resources outside the exchequer and synchronize the country assistance strategy. KJAS provides a framework from which all donors interested in a given priority area can meet with the government to negotiate on the modalities of funding .

In spite of its importance, Kenya government participation in its formulation is lukewarm . While the government is expected to play a key role in guiding KJAS towards its priority areas and providing leadership in the form of vision and programs, its role seem to be performed by the donors who are keen to finalize the document. At the same time with the expiry of ERS by the end of 2007, the non completion of key sector strategies, and the vision 2030, KJAS lacks a framework from which it can rely on to identify priority. It is also not clear how the KERP and KJAS support each other considering they are both being developed at the same time to address the same subject.

4.0 Donor Performance Towards Harmonisation

A part from efforts from the partner government on aid harmonisation and effectiveness, Paris declaration lays down specific action point for donors. These include:

- Increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities.
- Enhancing donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance.
- Eliminating duplication of efforts and rationalising donor activities to make them as cost-effective as possible.
- Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries' priorities, systems and procedures.
- Defining measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices and their quick and widespread application .

This section examines the performance of donors under study in the following framework;

4.1 Proportion of Aid Managed by Use of National Procedures

The use of national procedures means that the banking, authorization, procurement, accounting, audit, disbursement and reporting arrangements for donor funds are the same as those used for government funds. In Kenya procurement and accounting for expenditure in the case of Development Revenues should follow the Government's own system, but are not respected by donors for lack of confidence in the public finance management. General budget support to Kenya is currently not provided by any of the donor agencies studied. Sector and project Support is however provided by all the agencies reviewed. Thus for Appropriations in Aid national procedures are not used by the donors under review. The government estimates that less than 50% (estimated) of aid funds to central government are managed by use of national procedures. Difficulties relating to harmonisation of donor procedures and the tying of aid flows to bilateral benchmarks have also prevented the effective utilization of aid (which represents between 50.5 per cent and 62.3 per cent of the development expenditure in the last four to five years).

Improvements have however been made to integrate donor funding, particularly ex ante, into the Government Budget. The National Budget Estimates for Financial Year 2005/06 demonstrate improvements in capturing of committed project and programmed financing by Development Partners. In addition, clear guidelines were issued by the Ministry of Finance in Financial Year 2005/06 on the procedures for channelling donor funds through the Government Exchequer System.

4.2 Predictability of External Resource Flows

The gap between commitments and actual disbursements continues to be a problem, for project financing as well as for sector support and direct-to-budget funding. Foreign financed development expenditure was about Ksh. 23 billion, compared to a budgeted Ksh. 34 billion in 2005/2006 . Direct budget support fell short of the forecast. This was attributed to delayed implementation of donor conditionalities under the IMF program. The government has systematically sought to exclude bilateral budget support estimates and later on budget support estimates from all donors in the budget, because of shortfalls and delays in donor inflows. Donor disbursement estimates have been agreed annually with the government 2-3 months before the beginning of the fiscal year however, there are also delays in donor inflows attributed to delayed implementation of donor conditionalities . Delays or even complete non-disbursement of committed funds undermines the integrity of budget planning and implementation schedules, reducing the effectiveness of entire projects and programmes. The risks of non-disbursement or untimely disbursement are particularly acute for direct budget support where Government may have committed funds in good faith, based on agreed expectations of disbursements. (See annex for donor commitment and actual disbursement table)

4.3 Rationalization of Processes

Practices, procedures, and processes differ from donor to donor, and from donor to government. Multiple and overlapping processes, missions, reviews, meetings and studies place undue burden on both Government and Development Partners. Under HAC there is now a strong momentum to address this issue and rationalize these different processes under the one framework. There is generally broad support for many of the tools of harmonization, including joint reviews, joint analytical work, joint donor-government assessments of needs for capacity building, joint financing arrangements, leading a sector, delegating leadership, and actively participating in a sector in a non-lead capacity. While donors are generally in agreement with joint ventures, evidence still shows the pressure to meet the individual donor project cycles and timelines as opposed to using the government budgetary circle. In addition to this difficulty, each donor requires its own financial reports on the funds they have put on basket funding adding higher transaction costs to the government. DFID has planned to phase out all stand alone projects by 2008.

In the same vein, none of the donors reviewed provided budget estimates for disbursement of projects and programme aid consistent with the Kenyan fiscal year. Information for estimates is given based on the country assistance strategy and disbursement framework of the donor in question. All the donors reviewed provide information for three years as outlined in their country assistance strategy. However in reporting the government seeks to comply with the donor project cycle requirement rather than the national budget cycle. Neither the estimates for disbursement of project aid nor the quarterly reports are consistent with the classification system and the budget cycle of the Government of Kenya.

4.4 Discussed Conditionalties

Conditionality still play a key role in determining the flow of external resources in to the country as well as the level of confidence in the country systems. Political conditionalities exist both at bilateral and multilateral level in Kenya and are at times referred to as benchmarks by some donors. Kenya has had aid scaled down from 2004 because of press reports and public perception over the levels of corruption at the highest echelons of the country's leadership key among them include the Anglo leasing scandal. Factors such as progress on public finance management reforms and sound macro economic framework play little role in determining decisions around the disbursement of aid and appear to frustrate those involved in the reform process. While corruption is rife in the country, there is need to establish an objective framework outlining circumstance of withdrawal/ or resumption of aid.

4.5 Delivery of Aid

Different external resource delivery mechanisms are used in Kenya among the donor countries involved in the study. The most preferred external resource delivery instrument for the government of Kenya remains the general and sector support. The study established that there is no more budget support or sector budget support given to the government by all the donors. The main reasons given to this is the lack of donor confidence to the public finance management system, corruption and lack of an on going program with the International Monetary funds. Donors point out that this could change should financial management systems improve considerably. All donors interviewed are comfortable with the idea of earmarked sector budget support.

Table 4.3 Type of Support by Donor

| Donor | Budget/ Sector budget support | Basket funding / SWap | Project support | Technical assistance |
|---------|-------------------------------|-----------------------|-----------------|----------------------|
| EC | No | Yes | Yes | Yes |
| Germany | No | yes | Yes | Yes |
| France | No | Yes | yes | yes |
| Sweden | No | Yes | Yes | |
| UK | No | Yes | Yes | yes |

Source: Author

4.6 Reforms at the Field Office

In order to facilitate effective operations in the efforts of aid harmonisation, there needs to be considerable delegation at the country office. Only the DFID and Sweden have made reforms in this regard. There appears to be a high level of responsibility given to the DFID and SIDA in the country regarding decision making on issues of aid harmonisation at the country level on behalf of the UK government and Swedish government respectively. The two country offices have a ceiling on the amount of funding they can spend without seeking approval from the headquarters. For SIDA, this currently stands at US\$ 5 million. It is however important to note that the country office works very closely with the headquarters. Other donors including EU, Germany, and France are yet to give considerable amount of autonomy to their country offices. Final decisions and commitments have to be made at the quarters slowing down the pace of harmonisation at the country level.

4.7 Harmonisation of Donor Structures

Only the UK and Sweden have one single office for aid management i.e the DFID and SIDA respectively. Others, including EC, Germany and France depend of the nature of support that is being applied for by the government. This complicates the reporting procedures considering that different institutions within the same donor have different reporting requirements and mechanisms, taking higher the cost of transacting cost to the government. For example Germany has GTZ, KfW, and DED as institutions dealing with the disbursement of aid. France also disburses its aid using Ministry of Finance and Ministry of Foreign Affairs and French Development Agency. In Kenya, this is not a problem since it is only French development agency that has a presence in the country. The same cannot be said in countries where all the institutions are active.

4.8 Aid Predictability

All the donors indicated that they use the country assistance strategy to disburse their aid. The country assistance strategies are medium term in nature and contain benchmarks or targets that the government must achieve if it is to get further funding. More general ones include timely submission of reports. It is hoped that with the coming of KJAS, donor assistance will be more streamlined within a given framework to allow for better co-ordination between the donors. It is however important to note that all donors observed that politics of the day equally affected their disbursement choices. This was particularly so when cases of corruption and human rights violations are raised by the media.

4.9 The Challenges of Integrating the New Global Programs and Players into the Harmonization Framework

Kenya is one of the few countries that receive funding from all the 11 global funds, and this has an implication on aid harmonization. Similarly, the emergence of new players particularly from the South East Asia, China and India in development finance further provides additional challenges to the aid harmonization process given their absence in the OECD framework.

5.0 Non-state Actors and Aid Harmonisation in Kenya

The government as well as the donors recognizes the role of non state actors in the aid harmonization process particularly in the area of advocacy and monitoring progress on aid harmonization. There however exists no clear institutional framework of engagement with these key sectors. What currently exists are ad hoc meetings organised by HAC Kenya secretariat for briefing purposes on the progress on KJAS and donor work on aid harmonization. There is no lead civil society organization to co-ordinate their participation in the aid harmonization process. Various explanations given by the donor, government, private sector and CSOs provide an insight into the lack of a framework of engagement.

5.1 Government on CSOs

While the government recognizes the important role civil society organisations and the private sector can play, they observe that Kenyan CSOs have adopted a reactionary approach to government initiatives and this has tended to discourage consultations. They at the same time are not transparent and accountable with the resources that come to them making the process of aid harmonization difficult. Some civil society organisations continue to give inputs to government main policy documents on aid harmonization. The Institute of Economic Affairs and Action Aid Kenya are among the civil society organisations that haven't given their technical support to the public finance management reform strategy and the Kenya external resource policy draft document respectively.

While CSOs have been active at the SWap stages, their participation in influencing the nature of partnership with the government and with its development partners are non-existent thus have little access to the aid harmonization process from the government. The government has been forthcoming when asked for information regarding the process by the civil society, but this also has been limited to the CSOs who are already in the mainstream. At times, Civil society organisations rely on goodwill of civil servants to update them on the process and content issues around aid harmonization.

5.2 Donors on CSOs

All the donors under the study provide direct funding to CSOs in facilitation of projects implementation in different parts of the country. This makes them key to the aid harmonization process as most development partners seek to align their support to government priorities and systems. Unlike government, donors have sought the direct engagement with civil society organisations in Kenya on aid harmonization. They have created a basket fund for civil society for purposes of civic education, and capacity building around the aid harmonization process and programs. HAC Kenya organised a CSO consultative meeting to brief the CSO on KJAS and ask for their input. The challenge for donors remains the ability of civil society organisations to organize themselves and engage with the process given the lack of a lead CSO in the process.

5.3 Civil Society Perspective on Aid Harmonisation Process in Kenya

Civil society participation in the Kenya's aid harmonization process is weak and uncoordinated. Individual policy advocacy based organisations with relevant contacts within the ministry and donors have logged in to the process, but this has remained at that level, and has not generated a process within the civil society community in the country to actively monitor aid harmonization and management in Kenya. The following are observed as contributing to the scenario.

- There are no civil society organisations that have research and advocacy around aid issues as their main core activity. CSOs are generally strong on thematic areas like trade, education and health .
- Lack of clarity of how the aid harmonization process and institutional arrangement around aid harmonization has hampered broader participation of CSOs. Only CSOs, who already have information, have been previously been dealing with the government or have close contacts with the government have been involved.
- The engagement of civil society organisations has not been deliberate and formal but ad hoc and dependent on opportunities provided by the government and donors and equally based on the knowledge of the process.

There is thus a need for a separate basket funding for civil society organisations to be able to effectively play its policing role on government performance on aid harmonization. The government at the same time needs to step in and develop a framework which would ensure that CSOs work within harmonisation and alignment framework.

Civil society has expressed concern that current framework of joint financing and lead donor agency might lead to monopolize sectors at the expense of government priorities. This they reckon is because of the lack of capacity within the government to deal with all the sectors effectively simultaneously.

6.0 Recommendations And Conclusion

6.1 Recommendations

6.1.1 Donors

Donors have made significant progress in aligning their support to local initiatives and basic requirements for moving towards harmonised support. The Public Finance Management reform program the GJLOS process, the Common Basket Fund (CBF), and the donor consultative group are just some of the few examples. There are however some concerns over the speed and the use of country systems. For progress to be made, the study therefore recommends that donors providing ODA to Kenya:

- Finalise and adopt the KJAS initiative as a basis for formulating country strategies for assistance.
- As far as possible adopt the joint actions approach and harmonised rules and procedures including formulation, supervision and evaluation missions; accounting, disbursement and reporting; annual consultations, etc. with the view to enhance Government capacity. The initiatives on basket funds in education, and Governance, Justice and Law and Order and security provide a basis for the way forward.
- Adopt the Integrated Financial management System (IFMS) as the basis for harmonising rules and procedures on accounting, disbursement and reporting thereby enhancing transparency and accountability on aid. The current, basket fund for implementing the Public finance management reform, education and GJLOS could provide initial phase of disbursing funds through the IFMS.
- Adopt the lead donor approach and the partnership principles as the basis of eliminating duplication and aid fragmentation.
- Adopt the MTEF with the view to improve the predictability of resources through the general budget support.
- Support approaches which increase aid effectiveness. Financing plans especially in support of the SWAp should include capacity building for government line ministries involved.
- Decentralise authority on decision making to the country missions in order to expedite and deepen consultations on aid harmonisation process in Kenya.
- Encourage and facilitate the participation of non state actors in the aid harmonisation process.

6.1.2 The Government

The government of Kenya has put in place the right reform program for achieving aid harmonisation. The macro economic indicators are positive and encouraging. However its social indicators require more effort. Sustained improvements in public financial management which will further encourage Development Partners to channel their funds directly through the Government Budget is equally fundamental. The current program on the Public Financial Management, and the Country Financial Accountability Assessment and the continued success of the Public Expenditure Review in engaging a wide range of stakeholders in the policy dialogue on public expenditures could contribute to further confidence in government systems.

- The government should establish a strong growth - poverty linkage through better translation of economic benefits to poverty reducing outcomes. The government must maintain its support to the priority sectors, while cumulatively increasing its budgetary allocations towards these programs.
- In terms of roles, the government ought to strengthen its leadership role in creating frameworks, institutions and programs necessary for aid harmonisation. It has to create conducive environment for the participation of other stakeholders in all policy areas, especially in aid harmonisation process. It also needs to initiate policies and programmes that encourage the implementation of Paris Declaration by non state actors.

- It is also crucial to strengthen the External Resource Department to be able to scrutinize aid conditionalities and determine its effects on the country. The department should also have sufficient man power to be able to participate in multilateral and bilateral negotiations as well as having the ability to streamline activities within other ministries.
- The government ought to initiate a trust - building process among the general public and donors. This will entail prosecuting those who have committed economic crimes, and show strong political will in fighting corruption.
- Finalise the KERP draft paper and initiate a multi stakeholder dialogue around the Kenya external resource policy to bring it to completion.
- The government should deepen the public sector reform and speed the completion of SWAps. This should entail enforcement of legal as well as institutional reforms already carried out in the public sector, in the areas of procurement and oversight authority.

6.1.3 Civil Society

The civil society organizations are key actors in aid harmonization. Their roles and responsibility can go a long way in catalyzing aid harmonization process. In this regard CSOs should;

- Organize themselves to engage donors and government in aid harmonization particularly in partnership development, and development of key policy instruments including KJAS and KERP.
- Build their capacity in the area of aid management and harmonization process.
- Participate in monitoring government and donor performance on aid harmonization in Kenya.
- Carry out civic education among the public to demand better economic governance from the government to ensure better use of public resources.

6.2 Conclusion

It is widely recognized that national ownership of the development process in Kenya is key to its success. In order to achieve this, capacity building throughout Government is needed, particularly with regards to financial management. Also important is the direct engagement of the government in the development of KJAS at its infancy stage. The current approach of briefing and commenting on the finished product from the HAC might create conflict in the implementation phase.

Stakeholders outside Government are also potentially important drivers of change. Development partners have a clear role to play in advocating appropriate reforms and assisting in providing resources to bring these about. Development Partners are already well engaged with the reform process and provision is made within the institutional structure for this to continue. Development partners should deepen their commitment to the principles of aid effectiveness, harmonisation and mutual accountability as laid down in the Paris Declaration of Aid Effectiveness.

Other external stakeholders have important roles which are not explicitly recognised in the institutional arrangements. Civil society groups have been vocal critics of misuse of public resources, and advocates for more transparent and accountable public financial management.

References

- CBK (2006): Annual Report; A publication by the Central Bank of Kenya , Nairobi - Kenya
- GoK (2006), Public financial management performance report and performance indicators, PEFA Evaluation, a publication by Government printers, Nairobi - Kenya
- GoK (2005): Economic Survey 2005 A publication by Government Printers, Nairobi - Kenya
- GOK (2005b): strategy to revitalize public finance management (PFM), a publication by Government printers, Nairobi - Kenya
- GoK (2003): Economic Recovery Strategy for Wealth and Employment Creation 2003 - 2007, A publication by Government Printers, Nairobi - Kenya
- HAC - Kenya (2006): Kenya Joint Assistance Strategy (Draft)
- Isabel Ortiz (2004) Backgrounder: Poverty Reduction (USA)
http://www2.gsb.columbia.edu/ipd/j_poverty_bk.html
- Paris Declaration (2005): Final Declaration on Aid Effectiveness
- SIDA (2004) Kenya Country Assistance Strategy , Stockholm
- UN (2006): Economic Development 'Doubling Aid' Making the big push work, New York
- www.hackenya.org
- www.nesc.go.ke/News&Events/KenyaVision2030Intro.htm
- World Bank (2006a): World Development Indicators, Washington
- World Bank (2006b); Kenya: country integrated fiduciary assessment

Annex 1 Methodology

The study entailed the collection of both primary and secondary data. A survey of key stakeholder representatives, using a common survey format was used to obtain the primary data. The data was obtained through interviews with key government senior official responsible for external resource management in the ministry of finance. One ministry official from the ministry formed the respondent list for the research. The research also included interviews with heads of official development agencies from European Commission, France, Germany, Sweden and United Kingdom and two civil society organization (CSOs) involved in aid harmonisation process in Kenya. The data also included personal observations made by the researcher in the course of interactions with other officials who were not part of the respondent list. During the interviews, an semi- structured format of interview was used.

The study also entailed evaluations of documents pertaining to the implementation of Paris declaration by the Harmonisation, Alignment and Co-ordination group of Kenya (HAC Kenya) as well as evidence submitted directly to the OECD in connection with this research about Kenya. This included documented data gathered from various sources available from libraries and information centers such as the UNDP, UN, World Bank, human development reports and household based surveys. There was also a search in relevant websites to provide further information on the topic under study. The review of the secondary data also included a survey of government policy documents including, Medium term expenditure framework (MTEF), Public finance management, procurement strategy, Public Expenditure and Financial Accountability (PEFA) framework External resource policy as well as relevant HAC Kenya documents.

Limitations of the Methodology

Due to time factor and lack of resources, the researcher could not carry out a national survey on the issues understudy. The researcher was recommended to people he ought to have interviewed in government departments. This therefore cannot be considered a fair sample as those who held a different opinion on the subject matter were not heard. The research also did not conduct interviews with the ministries of health and education who are key in providing basic services who in the process of finalising or have finalised their SWaps respectively. This in retrospect researcher feels was a lost opportunity to get the actual performance of both government and donors at sectoral level.

List of Interviewees

Government

Ministry of Finance

Moses Kanagi - Deputy Chief Economist, Department of External Resource

Donors

Harmonisation Alignment and Co-ordination HAC Kenya Secretariat

Ms. Wendy Ayres - Head of Secretariat

Ms. Elana Aquino - Researcher

Department of International Development Co-operation (DFID)

Mr. Eddie Rich - Deputy Head of Programs

French Development Agency (AFD)

Mr. Christophe Barat - Economist, Programme Officer

German Economic Development Co-operations (BMZ)

Mr. Heiko Warnken - Head of Development Co-operation

European Commission

Mr. Johan Cauwenbergh - Head of Operations

Swedish International Development Agency (SIDA)

Ms. Annika Jayawardena

Head of Swedish International Development Agency (SIDA)

Civil Society Organisations

ActionAid

Rose Wanjiru - Program Officer

Institute of Economic Affairs

Kwame Owino - Program Officer

Footnotes

¹ Ortiz 2004

² Between 1970 and 2002 Africa paid back \$268 billion, and accumulated, after interest, a mountain of debt amounting to \$210 billion.

³ GoK 2006

⁴ GoK 2003

⁵ GOK 2003

⁶ CBK 2006

⁷ UNCTAD 2006

⁸ CBK 2006

⁹ SIDA 2004

¹⁰ World Bank 2006a

¹¹ Paris Declaration 2005

¹² www.nesc.go.ke

¹³ GOK 2003

¹⁴ The model for donor sector work encouraged by the Paris Declarations suggests a lead donor spearhead each sector group, with the other donors in the working group delegating a large part, if not all, of the management to the lead. In practice in Kenya, several models have been adopted due to the distinct characteristics of each sector group and the donors who participate in them.

¹⁵ ERS is expiring 2007 year and the subsequent framework that could be used by donors to inform the formulation of KJAS (vision 2030) is not yet ready

¹⁶ There are some sectors that have more than ten donors e.g the GJLOS.

¹⁷ GoK 2005

¹⁸ A review carried out in 2004 provided a comprehensive analysis of the weaknesses in the MTEF and annual budget processes. The most important of these were: (a) the disconnect between the MTEF and the annual budgeting process; (b) an abbreviated budget timetable that provides insufficient time for consultation with stakeholders on issues and choices; (c) the absence in Kenya of budget strategy documents that translates all core government policy statements into coherent medium-term expenditure plans, within the aggregate resource constraint; (d) a lack of political engagement in determining the budget strategy and sector ceilings, a problem that led to weak budget execution; (e) weakness of the sector working groups in making decisions about the allocation of resources; (f) a lack of specification of expected longer-term outcomes and annual sector outputs in planning and budgeting documents; (g) a lack of strategic and well-costed program proposals of sector ministries based on expected outcomes; and (h) the absence of a transparent process of allocating resources across sectors and ministries (GOK 2005).

¹⁹ The total volume of public procurement in 2003/2004 is estimated at US\$3.6 billion (9 percent of GDP), representing almost half of government spending (with the balance going to salaries and related benefits, debt service, and other transfer payments). The importance of improving public procurement derives from its central role in budget implementation. Procurement provides both the new equipment and the goods and (nonwage) services needed to keep the public sector running smoothly to provide needed services. The passage of the new procurement act, signed into law in November 2005, marks a significant turning point in this transition. (GOK 2006)

²⁰ GOK 2006

²¹ GoK 2006 PEFA

²² These include African Development Bank, Canada, Denmark, European Commission, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Spain, Sweden, UK, USA, UN, World Bank

²³ www.hackenya.org

²⁴ Partnership principles aim at increasing the effectiveness of development assistance to support the Economic Recovery Strategy through better relations, co-ordination and reduced transaction costs.

²⁵ HAC - kenya 2006

²⁶ Kenyan government sent their comments to the HAC secretariat instead of being part and parcel of its development from the beginning

²⁷ Paris Declaration 2005

²⁸ GoK 2005b

²⁹ CBK 2006

³⁰ World Bank 2006

³¹ ERS is expiring by the end of this year, sector strategies are incomplete leaving a policy vacuum to guide important documents such as KJAS

