



UNIVERSITY OF NAIROBI

INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

**THE IMPACT OF FOREIGN AID ON HUMAN DEVELOPMENT: A CASE STUDY OF
MDG FINANCING IN KENYA**

WILFRED ABOKI OMARI

REGISTRATION NUMBER: **R50/69710/2013**

SUPERVISOR: MR.G.K.IKIARA

ASSOCIATE DIRECTOR, INSTITUTE OF DIPLOMACY AND INTERNATIONAL
STUDIES, UNIVERSITY OF NAIROBI

**A THESIS SUBMITTED TO THE INSTITUTE OF DIPLOMACY AND
INTERNATIONAL STUDIES, UNIVERSITY OF NAIROBI IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF
MASTER OF ARTS INTERNATIONAL STUDIES.**

DISCLAIMER

The information contained in this study is the result of my academic research carried out by me. The views and/or observations expressed in this research are my own and they do not reflect/or represent in any way the official position of the Ministry of Devolution and Planning.

OCTOBER 2014

DECLARATION

This research paper is my original work and has not been presented to any other examination body. No part of this research should be reproduced without my consent or that of the University of Nairobi.

Sign **Date.....**

WILFRED ABOKI OMARI

REG No: R50/69710/2013

The project has been submitted with my approval as a university supervisor.

Sign **Date.....**

MR.GERRISHON K. IKIARA

DEDICATION

This work is dedicated to my lovely wife Marieta, my daughter Esther (MUK, USA), my sons Anthony (Divine Word) and Andrew (Lukenya Academy) for their continues prayer and encouragement and my little granddaughter Victoria for always remembering me as "Babu", and reminding me of the writing pen and paper during the time I was pursuing this Masters program. I do also dedicate this project in memory of my late mum Mrs. Skolastica Kemunto for her tireless effort that enabled me get educated, my dear father Francis Omari whom I shall always cherish, my mother-in-law Grace, my brothers Batholomew, David, Leonard, Richard and my sisters Norah, Gladys, Jackline, Caroline, Roda and Lilian and all those who made this project succeed.

ACKNOWLEDGEMENT

I wish to extend my sincere gratitude, first to the Lord, Almighty, who gave me the endurance needed to tread the rocky path of completing this project. I wish to express my appreciation to the Institute of Diplomacy and International Studies (I.D.I.S), University of Nairobi for giving me the opportunity to study Master's Degree Program in International Studies. I acknowledge with great appreciation the assistance I received from my supervisor Mr.G. K. Ikiara Associate Director IDIS. Lt General Jackson Ndungu Waweru, the Commandant National Defence College and the entire faculty members National Defence College, Karen Kenya for the guidance they accorded throughout the time I was doing the research and writing of this project. I also wish to recognize the support and encouragement I received from the staff and participants of course 16/2013-2014 especially members of seminar C "*original*" at National Defence College, Kenya.

I am grateful to the Ministry of Devolution and Planning for the generous scholarship awarded to me to undertake a Master of Arts in International Studies, University of Nairobi. Special thanks go to Mr. Stephen Wainaina; Economic Planning Secretary, Mr. Joseph Mukui; Director Economic Development and Coordination, Mr.Samson Machuka; Director MED, Mr. G. M. Mailu; Director Enablers, Mr. Moses Ogola; Director Social and Governance and the staff of The National Treasury, External Resources and Ministry of Education for their support and assistance.

Table of Contents

DECLARATION	i
DEDICATION	ii
ACKNOWLEDGEMENT	iii
Table of Contents.....	iv
List of Tables	viii
List of Figures	ix
ABSTRACT.....	x
ABBREVIATIONS AND ACRONYMS.....	xi
1:0 CHAPTER ONE: INTRODUCTION	1
1:1 Background To The Problem	1
1.2 Statement of the Problem	3
1.3 Objectives of the Study	5
1.3.1 General Objective.....	5
1.3.2 Specific Study Objectives.....	5
1.4 Research Question	5
1.5 Hypotheses	6
1.6 Scope of the Study	6
1.7 Justification of the study.....	7
1.8 Research Methodology	8
1.8.1 Sampling Techniques	8
1.8.2 Data Collection.....	9
1.8.3 Data Compilation and Processing.....	10
1.8.4 Data Analysis.....	10
1.8.5 Conclusions and Report Writing	10
1.9 Literature Review	11
1.10 Theoretical Framework	22
1.10.1 Introduction	22
1.10.2 Modernization theory	23
1.10.3 Dependency Theory.....	24
1.10.4 The Policy Implication of the Dependency Theory.....	25
1.11 Chapter Outline	28
CHAPTER TWO	29
2.0 OVERVIEW OF FOREIGN AID IN AFRICA	29
2.1 Introduction	29

2.1.1	Historical Overview of Foreign Aid.....	29
2.2	Main Donors.....	35
2.3	Types of Aid.....	40
2.5	From Independence to Dependency	43
2.6	Looking Ahead.....	44
2.7	Direct Impacts of Foreign Aid.....	45
2.7.1	ODA per Capita.....	47
2.7.2	ODA as a Proportion of Central Government financing	47
2.7.3	ODA as a Percent of GNI.....	48
2.7.4	ODA as a Percent of Gross Capital Formation	49
2.7.5	ODA Relative to Other External Capital Flows	49
2.7.6	The Procyclicality of Aid	51
2.7.7	Policy Impact.....	52
2.8	Conclusion.....	54
	CHAPTER THREE.....	55
3.0	A CASE STUDY OF AID FINANCING TO MDGs IN KENYA	55
3.1	Introduction	55
3.1.2	Baseline scenario.....	58
3.2	Achieving the MDGs, Financing Scenarios	64
3.2	Funding MDGs.....	70
3.3	GOK Allocations to MDGs	71
3.3.1	Devolved Funds.....	73
3.4	Development Partners' Support to MDGs.....	75
3.4.1	Introduction	75
3.4.2	Allocations.....	75
3.4.3	Disbursements	76
3.4.4	Off-budget Disbursements.....	77
3.4.5	Allocations to MDGs versus Total Development Assistance to Kenya	78
3.4.6	Enablers	79
3.4.7	Development Partners Supporting MDGs.....	80
3.5	MDG Funding In Kenya By Goals.....	81
3.5.1	Overview	81
3.5.2	GoK Resources.....	82
3.5.3	Allocations to MDGs by Development Partners	84

3.4.4	Goal 2	90
3.4.4.1	GOK Funding	90
3.4.4.2	DP Funding.....	91
3.4.4.3	Conclusions	92
3.4.5	Goal 3	93
3.4.5.1	GOK Funding	93
3.4.5.2	DP Funding.....	93
3.4.5.3	Conclusions	94
3.4.6	Goals 4-6	94
3.4.6.1	GOK Funding	95
3.4.6.2	DP Funding to Goal 4-5	96
3.4.6.3	DP Funding for Goal 6	97
3.4.6.4	Conclusions (Goals 4-6).....	98
3.4.7	Goal 7	99
3.4.7.1	GOK Funding	99
3.4.7.2	DP Funding.....	100
3.4.7.3	Conclusions	101
3.4.8	Goal 8	102
3.4.8.1	GOK Funding	102
3.4.8.2	DP Funding.....	102
3.4.8.3	Conclusions	103
3.4.9	Enablers	104
3.4.9.1	Overall	104
3.4.9.2	GoK	105
3.4.9.3	Development Partners	106
3.4.9.4	Conclusions	107
CHAPTER FOUR		108
4.0	KEY FINDINGS AND ANALYSIS IN KENYA	108
4.1	Introduction	108
4.2	Goal 1: Eradicate extreme poverty and hunger	108
4.3	Goal 2: Achieve universal primary education	110
4.4	Goal 3: Promote gender equality and empower women.....	111
4.5	Goal 4: Reduce child mortality.....	112
4.6	Goal 5: Improve maternal health	112

4.7	Goal 6: Combat HIV/AIDS, malaria and other diseases	113
4.8	Goal 7: Ensure environmental sustainability	115
4.9	Goal 8: Develop global partnership for development.....	117
4.10	Conclusion.....	118
CHAPTER FIVE		119
5.0	CONCLUSIONS, RECOMMENDATIONS AND PROPOSED POLICY INTERVENTIONS	119
5.1	Introduction	119
5.2	Conclusion by Goal	120
5.2.1	Goal 1: Eradicate Extreme Poverty and Hunger.....	120
5.2.2	Goal 2: Achieve Universal Primary Education	121
5.2.3	Goal 3: Promote Gender Equality and Empower Women.....	121
5.2.4	Goals 4-6: Reduce Child Mortality; Improve Maternal Health, and	122
	Combat HIV/AIDS, Malaria and Other Diseases.....	122
5.2.5	Goal 7: Ensure Environmental Sustainability	122
5.2.6	Goal 8: Develop Global Partnership and Development	123
5.3	Suggested Recommendations and Policy Interventions	123
5.3.1	Introduction	123
5.3.2	Recommendations and Policy Interventions	123
References		126
Government of Kenya Publications		129
Other Publications.....		131
Annexes.....		132
Annex 1: List of Ministries and Government Agencies included.....		132
Annex 2: List of Development Partners Included.....		133
Annex 3: List of DPs whose details were obtained from GoK estimates		133

LIST OF TABLES

Table 1: World Top Donors to Djibouti, Ethiopia, Kenya and Somalia as at 2011	36
Table 2: Baseline Scenario Macro-economic Developments.....	59
Table 3: Baseline Scenario Fiscal Accounts (nominal terms in percentage of GDP).....	59
Table 4: Baseline Scenario and MDG targets.....	60
Table 5: Macroeconomic indicators - MDG scenarios	65
Table 6: Government expenditures and revenue (% of GDP).....	66
Table 7: Policy scenarios and MDG targets.....	67
Table 8: Public Spending (Current and Capital in billion Kshs)	70
Table 9: Total allocations to MDGs by GOK and development partners (KES billions)	70
Table 10: Total GoK allocations to MDGs (KES billions).....	71
Table 11: Total allocations by DPs to MDGs (KES billions).....	76
Table 12: Annual GoK allocations to MDGs	82
Table 13: Annual DP allocations by goals (KES millions).....	85
Table 14: GoK annual allocations to MDG 1 (KES billions).....	88
Table 15: Total allocations by DPs to MDG 1 (KES billions)	89
Table 16: Total allocations by DPs to MDG 2 (KES billions)	92
Table 17: Total annual DPs allocations to MDG 3 (KES billions)	94
Table 18: Total allocations by DPs to MDGs 4-5 (KES billions)	97
Table 19: Total allocations by DPs to MDG 6 (KES billions)	98
Table 20: Total allocations by DPs to MDG 7 (KES billions)	101
Table 21: Total allocations by DPs to MDG 8 (2008/9 to 2012/3, KES billions).....	103
Table 22: Total Allocations to Enablers, 2009/09 -2012/13 (KES billion)	104
Table 23: Total allocations by DPs to enablers (2008/9 to 2012/3, KES billions)	106
Table 24: Summary of MDGs progress during the period under review	108
Table 25: Summary of MDGs performance, funding and correlation	120

LIST OF FIGURES

Figure 1: Schematic Depiction of Dependency Theory	25
Figure 2: The relationship between the national center, national periphery and world core	26
Figure 3: Public spending both current and capital (KES in billions, 2003)	69
Figure 4: Proportion of GoK allocation over the period	71
Figure 5: GoK MDG allocations to total GoK allocations	72
Figure 6: GoK MDG allocations at 2008/9 and 2012/3	73
Figure 7: CDF sectoral allocations	74
Figure 8: Economic Stimulus Program (ESP) sectoral allocations	75
Figure 9: Total DP allocations to MDGs (KES billions)	76
Figure 10: DPs total vs. off-budget disbursements	77
Figure 11: Total external support verses support to MDGs	79
Figure 12: DP support to enablers and MDGs	80
Figure 15: Total cumulative allocations (GoK and DPs) to MDGs	81
Figure 16: Proportion of allocations (GoK and DPs) to MDGs at start and end of period	82
Figure 17: GoK allocations over the period	83
Figure 18: GoK allocations in 2008/9 and 2012/3	83
Figure 19: Distribution of total DP support to MDGs (KES billions)	84
Figure 20: DP support to MDGs by goals (KES billions).....	85
Figure 21: Total off-budget disbursements by goals.....	86
Figure 22: Total allocations to MDG 1 vs. to all MDGs and all sectors	87
Figure 23: Allocations to MDG 1 and special programs.....	88
Figure 24: Share of DPs MDG allocations to total DP allocations (KES billions)	89
Figure 25: Total allocations to MDG 2	90
Figure 26: GoK MDG 2 allocations to total GoK allocations.....	91
Figure 27: GoK allocations to MDG 2 allocations at beginning and end of period.....	91
Figure 28: Share of allocations to MDG 2 vs. allocations to other MDGs	92
Figure 29: Trends in allocations to MDG 3 (KES billions)	93
Figure 30: Total allocations to MDGs on health (goals 4-6, KES billions)	95
Figure 31: GoK allocations to MDG 4-6.....	95
Figure 32: GoK allocations to MDG 4-6 at beginning and end of the period.....	96
Figure 33: MDG 4-5: share of Total MDGs - DP support (KES billions)	97
Figure 34: Total DP support to MDG 6 (2008/9 to 2012/3, KES billions)	98
Figure 35: Annual allocation to MDG 6 - trend.....	99
Figure 36: GoK annual allocations to MDG 7 verses total allocations and allocations to water	100
Figure 37: Total DP support to MDG 7 (KES billions)	101
Figure 38: Annual allocations to MDG 8 - trends.....	102
Figure 39: GoK allocations to MDG 8 - trends.....	102
Figure 40: Total DP support to MDG 8 (2008/9 to 2012/3).....	103
Figure 41: Total allocations to enablers by category (KES billions)	105
Figure 42: GoK allocations to enablers	105
Figure 43: DP funding to enablers (KES billions)	106
Figure 44: GPI for Primary, Secondary and University education.....	111

ABSTRACT

Foreign Aid forms one of the largest components of foreign capital flows in the international system for low-income countries. Since independence in 1963, Kenya has been receiving foreign aid to compliment its budget for capital and social investments. The Paris declaration of 2005 commits donors to provide reliable, indicative commitments of aid over a multi-year framework and also disburse aid in a timely and predictive manner in line with the agreed schedules. Studies have also shown that stable macroeconomic policy environment is a requisite for aid effectiveness. However, foreign aid flows in Kenya have been unpredictable and the macroeconomic policy environment unstable. The general objective of this study is to examine the impact of foreign aid on human development in Kenya focusing on MDGs financing.

This study was divided into five chapters. Chapter one begins with the background of foreign aid operations. Chapter two looks at major donors, history and impact of foreign aid globally with a focus to Africa economy and human development. Chapter three is on foreign aid in Kenya; it impacts on economic growth and human development. On the other hand chapter four and five represent data interpretation, summary, conclusion and recommendation. The study established that there is a good relationship between foreign aid and economic growth. The study concluded that, a targeting system of priority on specifics MDGs used for more impact realized on human development in Kenya in line with the World Bank latest policy on aid disbursement to developing countries.

ABBREVIATIONS AND ACRONYMS

AEG	Aid Effective Group
AfDB	African Development Bank
APRs	Annual Progress Reports
BADEA	Arab Bank for Economic Development
BRICS	Brazil Russia India China and Republic of South Africa
CBK	Central Bank of Kenya
CDF	Constituency Development Fund
CIDA	Canadian International Development Agency
CPA	Country Programmable Aid
DAC	Development Assistance Committee
DFID	Department for International Development
DPs	Development Partners
EIB	European Investment Bank
ESP	Economic Stimulus Programme
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
GoK	Government of Kenya
GPI	Gender Parity Index
HDI	Human Development Index
HIPC	Highly Indebted Poor Countries
IDA	International Development Agency
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IMR	Infant Mortality Rate
KDHS	Kenya Demographic and Health Survey
KES	Kenya Shillings
KIHBS	Kenya Integrated Housing and Budget Survey
LATF	Local Authority Transfer Fund
LDCs	Less Developed Countries
MDGs	Millennium Development Goals
MMR	Maternal Mortality Rate
MOH	Ministry of Health
MOMS	Ministry of Medical Services
MOPHS	Ministry of Public Health and Sanitation
M-PESA	Mobile money transfer service run by Safaricom

MTP1	Medium Term Plan 1
NNMR	Neonatal Mortality Rate
ODA	Official Development Assistance
OECD	Organization for Economic Corporation and Development
OPEC	Organization of Petroleum Exporting Countries
PIU	Project Implementation Unit
SIDA	Swedish International Development Agency
SMEs	Small and Medium Enterprises
U5MR	Under-Five Mortality Rate
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNICEF	United Nations Children’s Educational Fund
USAID	United States Agency for International Development
WB	World Bank
WEF	Women Enterprise Fund
WFP	World Food Programme
WHO	World Health Organization

1:0 CHAPTER ONE: INTRODUCTION

1:1 Background To The Problem

There has been progressing in the development at global level with a vast difference across regions and countries towards Millennium Development Goals (MDGs). Poverty reduction has remained progressively realised in parts of Asia while, on the other hand; there has been a sharp contrast of the progress in sub-Saharan Africa, which faces significant challenges in meeting the MDGs. The region has been experiencing the highest incidences of disease burdens, notably with the highest maternal child mortality ratios. With no sustainable support, there is likelihood of not meeting some of the goals as envisaged.

An effort to raise new and large scale finances to help developing countries achieve the MDGs has been gaining attention. Official Development Assistance (ODA) has been tripled or quadrupled in some countries that have been receiving aid. According to the 2005 Millennium Project Country-Case Studies report, there has been considerable expansion in government consumption and investment. The emerging concern is whether the developing countries can implement MDG programs effectively at higher levels of funding if they are committed to donors and consume the fund to achieve the MDGs. Policies and foreign aid flow targeting MDGs has a strong effect on the economy and feedback on the indicators of MDG through market on such factors as labour, goods, services and foreign exchange. An analysis on MDG strategies should complement by sector studies on economy-wide analysis.

Kenya ascribed to the Millennium Declaration and continues to mobilize resources and institutionalizing measures to address MDGs. A needs assessment study was conducted and provided a picture of Kenya in regard to each of the MDGs and the indicators (Republic of Kenya, 2005). The report indicated that Kenya required a

total of US\$ 61 Billion during 2005-2015 to realise the MDGs. Kenya's 2012 MDGs status report showed a significant progress made towards the achieving universal millennium goals. These goals include universal primary education, although there was a need for the government to scale up efforts to sustainability of other goals that are outside the current momentum to complete by 2015.

Kenya has shown an improved macroeconomic performance in the past years. The growth in GDP had increased to 4.9% in year 2004 and went up to 5.8% in 2005 with a high growth of over 7.0% in 2007. The high growth level achieved through structural reforms, stable macroeconomic environment and more enabling environment for the private sector. The sector level high growth recorded in tourism, transport, communication, building and construction, agriculture, wholesale and retail, and also in the manufacturing sector. Tourism sector stabilised to increased number of international visitors.

However, the post-election crisis and deteriorating terms of trade had a negative impact on the economy, and the GDP growth slowed down 2007/2008 which hurt the tourism and transport industry. Agriculture was also slowed down with parts of the country experiencing dry weather. The Medium Term Plan (MTP) of Vision 2030 which the government had planned to sustain and accelerate GDP growth up to 10 percent in 2012. It was slowed down due to insecurity (Republic of Kenya, 2008). The essential strategy involved the stability of the macroeconomic indicators dependable on structural reforms on governance, financial sector reforms, restructuring and privatizing state-influenced enterprises and reorientation of expenditures towards areas of priority. The development of infrastructure and social services has brought about reduced poverty on a sustainable basis and reallocate public resources to the development of infrastructure and social services. This paper,

therefore, wishes to present budgetary allocation in achieving MDGs and consider the impact on additional external resources geared towards human development.

1.2 Statement of the Problem

Economic growth has been affected by foreign aid for developing countries as discussed for a long time. Foreign aid is very fundamental as it has direct implications to poverty reduction in developing countries like Kenya. Other empirical studies on foreign aid and economic growth generate mixed results. Evidence of the positive impact of foreign aid on growth; however, as much as in some areas, foreign aid has recorded success in helping develop the poor nations. There is also large evidence of the negative impact of foreign aid in economic growth, especially in African countries,¹ while, in some areas, there is evidence suggesting that the aid has no effect on growth. For those who conclude that foreign aid led to growth and development of economies, could apply to economies in which it combined with sound fiscal, monetary, and governance policies.

Countries in Sub-Saharan Africa characterized by a high degree of poor economic performance, persistent dependency, cyclic drought, civil wars, unemployment, disease incidences and poverty, Kenya being one of them.² Kenya classified as a developing country, has become highly dependent on technical foreign aid, face enormous foreign debts owing to unfavourable balance of payment. The flow of donor funds to Kenya in the period 1970-1999 averaged about 9% GDP accounting for about 20% of the annual government budget and financed slightly over 80% of development expenditures.³ Kenya's economy is labour intensive with mainly

¹ Jensen P.S.M.Paldan, "Can The New Aid Growth Models be Replicated?," World Bank WP 2003.

² Hansen H.F. Tarp and S.Vikkelso, "Aid Effectiveness: A Survey of 30 years of Literature on Aid Savings, Investment and Growth Linkages," Development Economics Research Group, 1998.

³ Njeru, J., "The Impact of Foreign Aid on Public Expenditure: The Case of Kenya," African Economic Research Consortium, 2003.

exporting of raw materials and characterized with a few state-owned infrastructure enterprises, and maintains a liberalized external trade system. The country perceived as a financial, communication and transportation services anchor for the Eastern and Central Africa region. For Kenya to realize the aspirations of attaining status of middle-income country by 2030 with accelerated growth of 10%, a functional human development base is critical. Therefore in this study, the areas of focus shall include levels of edification, gender parity, human development index, human health and access to services as impacts from foreign aid.⁴

There are two sides of foreign aid in Africa like other aid recipient countries in the world. On one hand, donors are willing to give money but on the other the recipient countries have to do as the donors say.⁵ Thus, the study seeks to establish how the effects of continued funding have contributed to human development in Kenya within the review period from 1999. Funding involves some socio-political and economic reflection among participating stakeholders with variation in conditionality. Behind the closed donor aid, doors emanate reasons of self-interest that dominate negotiations and agreements. There has been no clear concept of support in terms of particular interests or motives of aid applicable to scenarios. Foreign Aid can have some philanthropy characteristic, and as anecdotal from the absence of the settlers and the pervasiveness of the unravelled foreign aid. The study also tries to fill the gap by looking at the impact of financial aid in Kenya's economy and development to the policy shift.

⁴ Lensink, R. and H. White, "Are there Negative Returns to Aid"? *JDS* p.37, 42-65, 2001.

⁵ Jonathan Glennie, "The Trouble with Aid, Why Less Could Mean More for Africa", IAI 2008 p.36.

1.3 Objectives of the Study

1.3.1 General Objective

In spite of the pervasiveness of a number of factors the contemporary foreign aid objectives at the international and bilateral level gyrate around poverty mitigation and urgent situation relief which are interrelated. The payback at the rear of donors takes a momentous share in the effectiveness of foreign aid, in particularly where divergent interest lies in the support relationships of donor and recipient. The primary objective of the study was to assess the influence of external funding on human development. It was through financing of MDGs in Kenya by Government of Kenya (GoK), Development Partners (DPs), and other selected Private sector actors to MDGs related sectors.

1.3.2 Specific Study Objectives

1. To establish the impact of foreign aid in human development in developing countries.
2. To unearth the involvement of foreign aid towards MDGs financing in developing countries.
3. To examine the effectiveness of foreign aid on the policy shift of African countries.

1.4 Research Question

1. What impact does foreign aid play in the human development in developing countries?
2. What are the contributions of foreign aid towards MDGs financing in developing countries?

3. How does foreign aid help to shape policies of developing countries?

1.5 Hypotheses

This project looks at how foreign aid impacts on promoting economic growth in developing world and an instrument of human development used by the Western countries to influence their agenda on the developing countries. It is undoubtedly true that there can never be economic growth without real human development, leadership, governance and human rights. In view of this, the study proffers the following hypotheses.

Hypothesis 1: Foreign aid has made a positive impact on the human development in developing countries.

Hypothesis 2: MDG financing through foreign aid influences policy change in developing countries.

1.6 Scope of the Study

The study covers the period 1999-2012 and looks at poverty alleviation efforts. They included health, environment, forestry, agriculture, education, gender, youth, water and sanitation, housing/human settlement, rural electrification, rural and regional roads and governance as enablers. Poverty alleviation in this study has taken as synonymous with increases in both economic and human development index. The study uses the United Nations Development Programme's (UNDP) measurement of HDI as a proxy for development for many reasons. Development partners providing bilateral funding to the MDGs related sectors or projects in Kenya as well as UN agencies, development banks and other multilateral partners included in the study. Even though, it aims at finding out the impact of foreign aid in the human development of third world economies, the study uses Kenya as a case study. The study involved an extensive collection of countrywide and intercontinental

stakeholders in Nairobi the principal city of Kenya and presently the focal point of most imperative economic deeds. Even though, the Constitution of Kenya 2010 established a two-tier government. The County Governments are at foundation phase and, therefore, all the important matters in the country such as economic planning and necessary data are still centralized, to a large extent in Nairobi. Also, most government ministries, key to this study, such as The National Treasury, Ministry of Devolution and Planning, and Ministry of Education among others.

1.7 Justification of the study

The preference of the study period between 1999 and 2012 was when the MDGs initiated by the Government of Kenya. It implemented the economic recovery policies that show its economic growth grow from a bear 1.1% in 2001 to 7.1% in 2007 and then 4.4% in 2011. Under vision 2030, the country aims to become industrialized middle income country offering eminence of life for all its citizens in year 2030. The base of the Kenya Vision is on the three pillars namely; the economic pillar, the social pillar and the political pillar. Like other developing countries, Kenya is faced with a myriad of problems ranging from inequality in income distribution, poverty, ethnicity, inadequate infrastructure and institutions to unemployment among others. Increases in national income would offer the potential to benefit the poor. Increases in employment may also help some to move out of poverty and subsequently increased human development index for Kenya.

Much preceding researches on foreign aid tend to overstate on its role on economic growth. As opposed to economic growth, development laid prominence on significant and assessable changes in the lifestyle of the state's inhabitants. To the government of Kenya and current developing nations, this study examined the discussion on whether economic growth is tantamount with economic development in

the country or region. For that reason, the conclusion of the study will provide some guide to facilitate policy makers in decision making. The study may also make proposals on how to realize rapid sustainable human development. In turn may be essential in the course of formulating public policies as the governments that permit promote economic growths that trickle down resulting in an increase of human development index. The conclusion of the study is ordinary to facilitate, policy makers in the design of plans to take full advantage of the optimistic of foreign aid on human development as well as on economic growth.

1.8 Research Methodology

A national approach on MDG investigation to establish the accomplishment should be carried out, and this might offer an opinion on the effects of foreign aids flow across the economy. There is a need to consider approaches and impact of the outcome to help achievement of the diverse MDGs, and affect the outcome will have on the economy of the state. MDGs goals interrelated serve health and education, social and economic significance of the inhabitants. The fiscal requirements depend on the financially viable presentation which includes expansion in management revenues.

1.8.1 Sampling Techniques

Kenya has financed human development towards MDG goals in the course of foreign aid as depicted by desktop interrogation of various data sources. The development partners randomly interviewed after being identified using the Aid Effective Group (AEG) member list and the list of donors in the Government of Kenya development estimates books.

1.8.2 Data Collection

The main tool for primary data collection was a questionnaire with open and closed-ended questions. The questionnaire was structured in three parts namely: - Part A general information. Part B establishes the impact of foreign aid in Kenya's socio-economic development. Part C on objectives 1-3 that aim at finding out other key forces that may also act as a character in shaping the public plans on the benefits of globalization and additional opinions of the respondents. The technique used drop and pick method afterwards as it was cheaper and suitable, particularly for those top government officials who establish it complicated to afford time to sit down with the researcher. The researcher was also accessible when needed to respond to any clarifications or questions raised by the respondents. Oral interviews were also used to enhancement the questionnaires as was considered necessary by the researcher for illumination and concordance.

Utilize of secondary data was imperative in this study and extracted from relevant research reports and database of Institute of Economic Affairs-Kenya, OECD-DAC statistics and Kenya Economic Survey Reports. Supplementary information gathered from donors; government selected ministries and Semi-Autonomous Government Agencies like Kenya National Bureau of Statistics Annual Economic Reports from 2000-2013. Data collection method comprised of obtaining relevant documents from various sources, notably from The National Treasury, Ministry of Devolution and Planning, Central Bank of Kenya (CBK) among others. These incorporated books, government publications, official WB reports, journals and online material on fundamental subject of foreign aid impact on human development and MDGs financing.

1.8.3 Data Compilation and Processing

Two data sources were used to ascertain the intensity of DPs funding to MDGs namely funding data obtained from DPs directly and the GoK development estimates books. Since the data was in different currencies, it needed to be converted into Kenya Shillings (KES) using the Kenya Central Bank's annual mean exchange rates. GOK's MDGs related funding extracted from the Budget Estimates, Supplementary Budget and Development Estimates books first by selecting the corresponding votes and then either including all funding by the particular ministry or extracting the relevant projects only. UN agencies were requested to report only their core funding in order to avoid double counting. However, some organizations include project funding received from bilateral donors. The bulky volume and the different formats of the data collected or submitted by different actors posed many challenges, as well as allocating projects and supported under various MDGs.

1.8.4 Data Analysis

Data analysis was at first done individually for the GOK and DP funding flows and then an amalgamation on the collective data together. Funding trends by each MDG goal drawn compared with the progress of the MDGs during the same period. The main challenges faced in data analysis include data gaps, discrepancies between funding amounts of GoK and the DPs and gaps in MDGs status reporting.

1.8.5 Conclusions and Report Writing

The study considered the percentage and patterns of allocations of both the GoK and the DPs separately and combined. Lack of data on MDG indicators in a number of cases made it difficult to do a comparison on the performance of MDGs. The conclusions were drawn for total funding allocations and trends, and for separate MDGs.

1.9 Literature Review

The term development has remained baffling and confusing. It has often conceded the perception of growth and modernization, which have both equated with the concept development. The term "development" must be concerned with the economic, human, technological, cultural, social and political requirements. These are needed to steer up the revolution of the complete humanity in order to effectively cause development. It could also signify making a better life for each person, which includes; meeting basic needs, housing, reasonable services and satisfactory food to preserve good health. Progress measurement was by the level of development seen in terms of the Gross National Income (GNI) of the nation's economy. Growth is measured to a large extent by the Human Development Indices (HDI). These covers aspects like access to water, health, education, food and proper housing facilities to all the citizens.

According to Arnold (1985) improvement includes in the more insubstantial aspects of nationwide performance. The modernization theory discussed in a different place in these projects was ideological foundation is relying on the intangible Western ideas (So, 1990). The holistic securitization of developmental approaches of the donors and international aid systems reflect insubstantial ideas of modernization. Riddell (2007) defined development aid noticed that the less demanding and less complex tangible elements used quite often by aid agencies. The definition provided by all aid institutions is that the development assistance committee of OECD in 1969 which later amended in 1972 had remained the primary applicable definitions until now. The definition may mean that the type of moneys made available by private parties which include foundations, NGOs and civil societies, or individuals did not recognize as ODA. OECD finally determines whether a certain Official Aid from

government agencies is ODA or not. Riddell (2007) argued that ODA was controlling aid as from 1979. The controversial, debt has remained part of ODA even when the original loan given was not ODA.

Roger and Riddle states that in its broad sense that foreign aid and contains the capital such as physical goods skills and technical expertise, moneys or loans transferred by donors to recipient (Riddell, 2007). Therefore, there were two parties' one receiving aid and the other providing the support. The international aid system provides countries that are interest to give a narrower meaning of aid like development aid. Relationship between the donor and the recipient is far better situation economically while latter in less position (Arnold, 1985). According to Glennie (2008) donors are wealthy, while the recipients are poor.

Lancaster (2007) noted that supra international body was responsible for all foreign aid. Individual donor country policies on foreign aid policy and the money allocated to a recipient. Significantly variants in the area of giving aid exist among donors. There are significant past and administrative factors that affect both internationally and nationally which can shape the reasons behind foreign in aid policies.

Riddle (2007) said the major reasons that affect foreign aid policies were on support emergency needs, support development goals and show solidarity. Others were the self-interest; chronological ties that contribute to global public goods, support for brittle states; they promote human right, for environment protection, exercise edifying authority and security among others. Time and again donors bring up these factors and other ideas together in formulating their aid policies and distributing aid. Some countries like US and Japan candidly affirmed a policy that the foreign aid required to accomplish self-centredness (Riddle, 2007).

Riddle (2007) and Lancaster (2007) distinguished that the foreign aid from the US was based primarily on geopolitics and nationalized interest during the cold war. Arnold (1985) noted that the aid at this period was used to strength solidarity with socio-political associate countries to weaken their enemies. According to Riddle, the USA foreign aid dwindled contrary to expectations of more development oriented after the cold war (Riddle, 2007). Most of the US Western allies followed the footstep of the US and changed their aid policy accordingly. Japan was categorical in its policy that the foreign aid was to promote Japan commercial interest. Historically, tying aid and promoting a national interest was a common trend among donors (Riddle, 2007).

Riddle (2007) quips that countries like Britain, France, Netherlands, Belgium, Portugal and Spain used foreign aid to manipulate former colonies to maintain enjoying physically powerful ties with them. For instance, Britain formed the Commonwealth while France coined Franco zone. Miserable poverty can be reduced in the course of rich countries empowering poor countries. The basis of support for poor countries is based on moral good. The concept and approaches motivate the selfless drive of rendering foreign aid to the poor. However, others noted that scarcity and anguish of the people was itself adequate to show the accountability of the wealthy to make available support (Riddle, 2007).

Riddle (2007) notes that pursuant to utilitarianism moral point of view of support granted was to bring the amplification of the squabble theory state where its noted that if dollar can make a difference in a poor country. Aid should, therefore, has remained in the conservative as well as in the existing development dialogue. Hence to strength the whole utilitarianism viewpoint of ethical ground by providing utilitarianism on foreign aid theories of impartiality. This theory indicates that the proper justification should be deontological outlook that if the consequence likely

could not finish off; the decent responsibility must remain active to lengthen more effort and accomplish the result. Riddle continues to note that the degree of honourable fairness is above limitations of academicians on foreign aid. Pertaining to other forms of the moral component hence asserting that every person in the planet is an entity of righteousness and accomplishment. Consequently, both individuals and government of every country according to Riddle (2007) argued that the worldwide decent duty to the entire human being was, therefore, supported to comprehend their requirements.

The study contradicts the challenge with the broad-based observation of a nucleus globe proper unit which claims that there is no such world government or individual country without moral. The country may remain responsible to the citizens (Sharpcott, 2008 & Riddle, 2007). A state that provides support to the underprivileged country has either self-centredness or merely does it willingly. The foreign assistance required does not conclude the volume of aid the donor provides. The country is principally answerable for their nation's moral commitment to put forward voluntary support. Reus-Smit, (2008) argue that the growing universal press forward and put into practice the international laws that arise from both domestic and international responsibilities. Human rights exploitation is a momentous international violation and international community supports human rights protection. Riddle (2007) notes that the genocide of Rwanda transformed the tendency of international law with respect of human rights and state relations. He also agrees that similar trend have also emerged on global aid structure is more institutionalized than before. The Paris pronouncement urged member states to collaboration in order to support one another for efficient performance of aids to achieve the MDG goals (Riddle, 2007).

Consultations held since the inauguration of foreign aid has continued to raise particular issues. According to Arnold (1989), there are scholar supporting and opposing categories of foreign aid. Mavrontas (2010) also indicates that the administrators of several parties such the United Nations, the World Bank and NGOs defenders of foreign aid. The aid administration system has created its guidelines for both the donor and the recipient side. The endowed interests are from individual experts and personnel in provision of services to the NGOs. Other organizations and expatriates are offered work with the government offices of the recipient countries in accordance with their careers that the aid stipulates (Arnold, 1989).

Prominent scholars such as Sachs and Radelet individually argue on the importance of foreign aid in assisting third world countries to achieve MDG development goals (Mavrotas, 2010. Sach in his research sounded confident demonstrating that augmented foreign aid helped individual countries to accomplish the MDG goals. According to Arnold (1989) starting capital for third world countries towards industrialization was an essential requirement. He notes that the aid provides money and facilitates technological transfer and technical support. The assistance is geared towards infrastructure development, provision of social services and the overall increase in living of standard. Further capital or technical assistance could be a mechanism for the development as stated in the Arusha declaration of 1967.

Svensson (2000) argues that the beneficiary government and unselfish donor may have conflicting objectives as the former represent a variety of stakeholders who are wealthy individuals may order the use of the aid. Misuse of foreign aid can cause inconsequential impact on the growth of MDGs. Boone (1996), noted that effectiveness should not determine its impact on GDP growth. Consumption instead of investment may perhaps rise signifying the unsatisfactory result s of studies on

growth where poverty remains. According to Boone (1996), foreign aid helps to achieve tangible changes that occur on human development from the infancy mortality, primary school ration and life expectancy as reflected by MDGs.

The study proponents indicated that the foreign aid can reduce extreme poverty if aid to developing countries would sustain over the course of the next decade. The study also suggested that richer countries such as Japan, Canada, U.S, E.U and Australia should donate 0.7% of their GNP to needy states found in Africa others in South America and the Carribbean. The contributions should be invested in education, infrastructure, health and technology so as to increase productivity of workers and at the same time, attract more funding that may boost the creation of additional wealth. The countries could also boost the agricultural sectors through donating money to build and fund education and infrastructures such as roads, airports and seaports. At the same time develop rural areas in order to offset the rural to urban migration.

Some African leaders channel aid money meant for economic development to selfish expenditures. Arnold (1989) argues against political involvement as ineffective issues in foreign aid. There is manipulation of poor countries by their former colonial masters through use of aid as a weapon to implement the Western ideological and economic interest against poor countries, hence reinforcing the dependency theory. Aid creates dependency and curtails efforts of poor countries to develop (Arnold, 1985 & Riddle, 2007). Moyo (2009) in her book “Dead Aid” noted that failure of foreign aid has shown the complexity of corruption.

Arnold (1985) reiterates that the actual aid typically comes up with information into putting up the best policy. It is possible to counter opposition against the aid. Scholars have come up with various concepts and modalities towards setting

effective aid modalities which need debate (Mavrotas, 2010 & Moyo, 2009). Consideration of aid is not separable from issues of aid effectiveness. Efficiency of aid project is fundamental, but efficacy of aid in regard to development of the beneficiary nation assesses the critical method (Duflo & Kremer, 2008). He notes that the assessment of exacting venture may not be difficult and complicated as judgment to the change on growth through foreign aid to the recipient country. For example, there was no way of evaluating school enrolment and access to children who never went to school earlier through the building of new primary schools.

Development has been affected by foreign aid and efficacy to developing countries as far complicated. Mavrotas (2010) noted that the efficiency of foreign aid motivates economic growth, and this has been debatable for the last five decades. A discussion of the effect of aid on growth of the macro-economy was standard in 1990 (Mavrotas, 2010 & Moyo, 2009). It was centred on aid effectiveness, systems conditions and not related to the impact on growth independent of policy. The disagreement on the type of support and policies of the funding for maximum growth were planned to achieve different results. Recipient countries have not seen much improvement since foreign aid has been going through various phases of modification hence affecting its strategies and impartiality.

The challenges have had their effect on foreign aid with various approaches attempting to come up with better solutions. Mavrotas (2010) & Moyo (2009) noted that this changing process has had its complication to single out factors like foreign aid and attribute it to results. The effect of support to measure certain procedures followed significantly. The pointers can, for instance, be growth or poverty reduction and if two countries compare with and without the aid. The study should consider and offer differences between the countries that can influence the pointers such as

controlled experiments. The challenges influencing evaluation of support are massive interdisciplinary research on development of economic, effectiveness of aid recently and looking forward to results registered. The impact can be assessed both at macro- and micro-economic levels. Researches carried out on the same have shown a positive impact on the macroeconomic level there has been massive agreement on the assessment. The few disputed ones have helped in the improvement of social outcomes on health, education, technology for a green revolution. On the other hand, evaluation on the impact of foreign aid on the macro level such as growth and reduction of poverty remains to be controversial. The evaluation of foreign aid on the microeconomic level for four decades has been famous. According to Harrod-Domar model savings and capital, can determine the productivity and growth of a given economy. The assumption is that all foreign aid invested as capital and increases productivity which ultimately contributes to economic growth. It presumes that the aid can replace savings or capital and foreign currency. Another presumption is that the aid cannot invest but simply delivered for consumption as food aid and emergency aid. The use of foreign aid to substitute the available resources may not be enough for the whole economy meaning that the principle that foreign aid can work and bring growth in countries with good macroeconomic policies is real.

On the other hand, researchers like Hansen and Tarp concurs that despite good policy plan more aid in Africa have very little effect on factors outside macroeconomic strategies. They note that such results may need to put in place some measures that should research on. The World Bank and the IMF (SAP) studied developmental progress achieved in the 1980s and 1990s rather this reversed (William, 2003). SAP instead brought the burden and social destruction to the poor particular women and children.

Despite the arguments in support of aid, those scholars that are pessimistic about the effectiveness of foreign aid still oppose it. As per Easterly, large amounts of aid channelled to developing countries has, usually, been wasted and embezzled by corrupt leaders. He asserts that the foreign aid has promoted a phenomenon the “Dutch Disease” in receiving states that should be a concern to African countries. Impacts of large inflows become. As a result to a national currency, which makes exports less competitive and imports cheaper? People depending on export industries and sectors of the economy that compete with imports may suffer due to the situation created by Dutch disease.

According to Raghuram Rajan foreign aid, affects the currency of the receiving country negatively most important to depreciation. This rise in the value of the domestic monies making it more expensive for foreigners to purchase exports from developing countries thus discouraging foreign investment. Automatically undermines foreign investment (Wallis, 2007).⁶ Easterly argues that more than \$2.3 Trillion of aid money has been channelled to developing countries over the last 50 years. The reasons for the aid to promote development leading success and further states that aid wasted on projects. It deemed to elevate aid organizations instead of improving the state of these developing countries, and that aid money is wasted on propping dictators supporting the rich countries interest.⁷

Moyo (2009) reinvigorated the debate of aid to Sub-Sahara Africa by calling for a total cut off all aid money as it encourages corruption, which perpetuates poor governance, poverty and nurturing dependency. Moyo shows the way in which aid to

⁶ Wallis William, "A Foreign Aid Critic Spreads Theory far and fast ", financial times, May 26, 2007: poverty education organization, chapter 5: the foreign debate.

⁷ William Easterly, *The White Man's Burden: Why The West's Efforts To Aid The Rest Have Done So Much And So Little Good*, Penguin Press, 2006.

developing countries has led to a vicious cycle for the “need” for more aid.⁸ Nonetheless, looking at these arguments, literature research up to date broadly corresponds to the discussion of foreign aid on developing countries. Foreign aid has many challenges allied with it, much of it wasted by corrupt leaders, and support contributing to “Dutch disease” that discourages foreign investment. Aid has been ascribed to the triumphant annihilation of many serious illnesses such as polio and smallpox and is also contributing to the reduction of HIV/AIDS scourge that has significantly infected and affected many lives in Africa. As a result, has occupied the economies to develop for such countries such as South Korea and Taiwan.⁹ In conclusion, foreign aid debate has both the optimistic and pessimistic views on economic development in recipient states.

The effects FDI and ODA have on poverty reduction and human development gains. Previous studies are conflicting in their measurements of development, and few have looked at ODA and FDI together in this context. Some studies have examined the effects of capital on GDP growth. While a growing GDP per capita is a positive sign, it indicates economic growth rather than development and the achievement of poverty alleviation. Human development indicators are a better measure of the impact of the capital sources on poverty, other than employing them in different phases leading to conflicting results.

The HDI designed by the United Nations Development Programme to measure the social and economic development on life expectancy basing it on education

⁸ Dambisa Moyo, *Why Aid Not Working And How There Is Another Way For Africa*, Penguin Books Ltd London, 2009, Page 49.

⁹ Sachs, Jeffrey D. and Warner, Andrew M. "*Economic Reform and the Process of Global Integration.*" Brookings Papers on Economic Activity, 1995, (1), pp. 1-18.

attainment and income.¹⁰ Disparities about income inequality have been rising within different countries. With an exceptional of such countries as Brazil, China, India, Indonesia, South Africa and Turkey there are notable changes.

Ideas have been re-emerged on attainment of human development in countries such as Brazil, China and India as well as in Bangladesh, Mauritius and Turkey. These countries bring to focus the questions sound policies and learning valuable lessons from experiences. On the contrast, the key drivers and principles of development have come out in different development plans. They are dependent on the role of states in the development, dedication to human development, social welfare, openness to trade and innovation.

As it emerged in the 2011 report on Human Development that argued that policy discussions should take place before issues surrounding human development process such as inequality and environmental destruction discussed. These concerns if ignored would bring dire consequences to the gains made on human development and environmental crises. The courses of action and research have adequately addressed the contemporary issues emerging from global realities, policies and work. It should be put in place for human develop broad principles that would affect the perception and behaviour of individual nations.

Policy making should support adequate research that would help in contemporary issues emerging globally in line with realities, strategies and action to broaden human development concept. Human development and family of human development indices met with the challenges of moving beyond a focus and measuring capabilities to incorporate capacities and concerns. The achievement on

¹⁰ United Nations Development Programme, "*Human Development Report*", 2013.

health, education and income must pursue essential guarantee in improved social conditions.

Therefore to promote social cohesion, integration, and objectives of different strategies in individual states positive development is significant. The society should equalize most human development through a unified society through reduced teenage pregnancies and reduce suicide rates found in an unequal society. In the past, the aspects were underappreciated. In summary, foreign aid is not always available.

1.10 Theoretical Framework

1.10.1 Introduction

Global complexity has necessitated the life in which foreign aid has researched. Scholars have commonly focused on a particular perspective of aid and policy frameworks while developing consistent foreign aid theory (Van der Veen, 2011). The foreign aid theory analysed various international relation theories. The central issue is that the foreign aid has been in international relations since the last six decades (Shaw, 2011 & Moyo, 2009). Taking into consideration that foreign aid stands as the central issue of international relations it has paved the way for future development of a particular theory in foreign aid. Modernization theory explains that the developmental path of the west must be monitored by the third world to scrutinize foreign aid appropriately (So, 1990). This relationship of the unequal nature of relations between donors, recipients should be related to the dependency theory. Two schools of thought came up with the debate on the role of aid in developing countries. The thoughts are the dependency and the modernization theories.

1.10.2 Modernization theory

An American Scholar's hard work in finding a development path for newly established African states after colonial independence (So, 1990). In classical modernization theory the advocates were trying to look for additional theories in which it can base its theory (So, 1990). It was found on functionalist theory and evolutionary theory relevant and used both as a springboard to formulate modernization theory. From evolutionary theory, they adopted three assumptions that are to become classical modernization theory. The undirected primitive to advanced society and changed the way forward of the civilization in the society, and the changes are evolutionary and slow not revolutionary.

So (1990) noted that the modernization theory had concepts related to functionalist theories. Unlike traditional society, modern society is individualistic and self-engaged and during development significant for economic productivity. There were four concepts which include sociological, economic and political from different scholars. There are five stages of economic development. These stages include traditional culture, precondition to taking-off, take-off, the drive to maturing and mass consumption. The incentives include technological innovation, restructuring a better international environment in international trade. The stage help to perform this is capital and resources in third world countries. The fifth stage is the increased national income and employment creation for strong domestic market which is referred to high mass consumption society.

The classical modernization theory criticised the necessary adjustment for resiliency taking place (So, 1990). The two theories emphasise on third world countries usage of similar terms in modern and tradition. They rely on studies at state level and takes responsibility for modernization and contact with western countries is

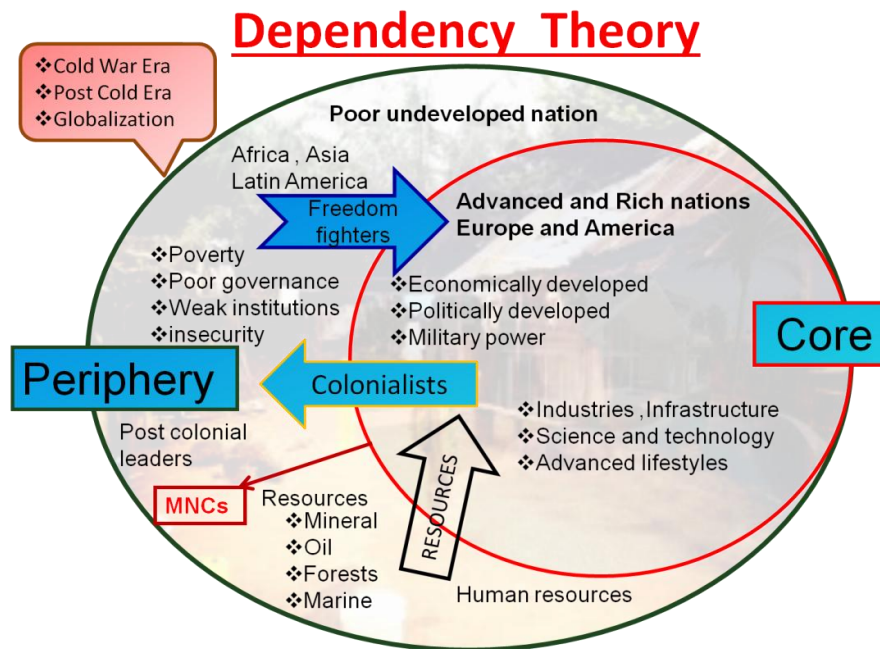
beneficial. More attention to external factors and modernization theory relatively gives an impact on the development of the country, and they are opposed to classical unidirectional growth path of the western model of development.

1.10.3 Dependency Theory

Latin American intellectuals founded the dependency theory which spread from historical situations of Latin America in the 1960s. It has expanded to the North America and managed to be counter offence to the mainstream proponents of modernization theory (So, 1990: 91-95). Two theories that are the Economic Commission for Latin America (ECLA) and Modernization theory were not able to give answers on economic stagnation, political repression and huge differences between rich and poor countries in Latin America. They expressed the idea of the rich countries transferring wealth to poor countries.

Like the other theories; the dependency theory has passed through various changes. Broadly, the dependency theory was divided into two areas that are the classical dependency theory and the new dependency theory (So, 1990). The theory noted more population was a problem that did not have any motivation for the development. The resulted into internal socio-political movements and changes that influenced the structure and thereby allowed under-development.

Figure 1: Schematic Depiction of Dependency Theory



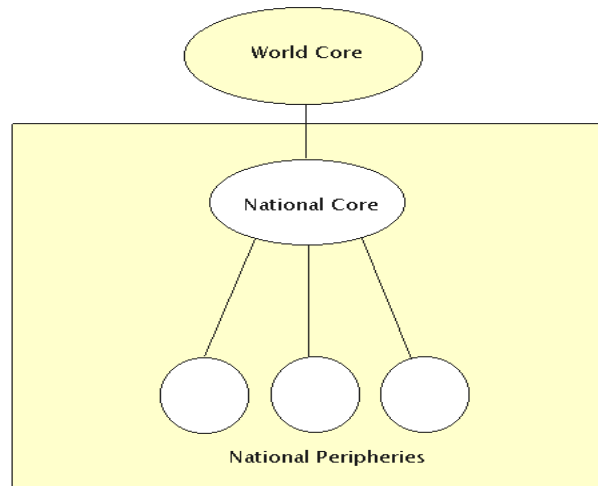
There are three past forms of dependence namely colonial, peripheral and core. After Second World War, the highest contributors were technological and industrial development. The industrial sector depended on other sectors such as sending goods abroad. Monopolies in international markets lowered the price of primary commodities and raw materials brought into third world countries. The foreign capital controls that the economy of third world countries was purposed to subsidize imports to third world countries. They had an impact on the national product and industrial sector of third world countries. The industrial sector in the third world countries was dependent on technological domination of imperial centres. The industrial nations did prefer to sell vast machineries as simple merchandise and demanded payment of royalties as their share in the business.

1.10.4 The Policy Implication of the Dependency Theory

The analysis of dependency theory puts questions of how weak economies can acquire rather different outdated issues concerning proportional comparative

advantage. The capital accumulation and import/export strategies flow from core to periphery and vice versa as shown in figure 2.

Figure 2: The relationship between the national center, national periphery and world core



As shown in figure 2 above within the global center, national core and national peripheries, wealthy countries had high contingency episodes on the world economy. The exploitation by colonial relationship of European powers dominated the relationship between the rich countries and the poor countries. The relationship is now highly likely to make the poor countries become dependent on help offered by rich countries. Hence, a repeat of these relations is not currently extremely for poor countries of the world. Second dependency theory repudiates the central distributive mechanism of the neoclassical.

Although, the poor countries have many common economic and trading problems related to industrialization forming a group or cartel to periphery the power on individuals. The groups will have more power than an individual state. The elites in the capital might be convinced to take steps that would alter the dependency condition. The countries might be forced to confine the use of the wealth in national construction projects or literacy programmes rather than importing luxury

automobiles and take expensive vacations abroad. Hence encourage investment at home.

1.10.2 Conclusion

The Internal socio-political movements and changes can influence the structure and thereby allow underdevelopment. However, critics of this theory like Karl Marx argue that the dependency theorists do not offer a solution to the state of underdevelopment of developing countries. They shift blame to the developed nations as being responsible for the situation of underdevelopment in these countries while ignoring the internal factors that have contributed largely to this degrading state.¹¹ According to Ochola (2007), bad leadership has propelled underdevelopment in developing countries of which most of the problems facing Africa today could contain administration not pursued a personal agenda.¹² Despite its failure to give alternatives, one cannot entirely dismiss the valid arguments of the dependency theory.

On the other hand, the modernization theory summarizes development in terms of literacy, communication, reliable road networks, high levels of industrialization and increased urbanization in the economy. In order to achieve development, modernization theorists argue that donor assistance is necessary as it accelerates investments and helps improving the structural problems in developing countries.¹³ In looking at both the dependency and modernization theories of development, each has its strengths and weaknesses. The fact that there exist disagreements on these theories makes the study of the development both challenging and exciting at the same time. This study however shall be based on the

¹¹ White, H. “*The macroeconomic impact of development aid: A critical survey*” Journal of Development Studies, 1992, vol. 28: 163–240.

¹² Samuel A Ochola, *Leadership And Economic Crisis In Africa*, Kenya Literature Bureau, 2007, Chapter 1, Page 13.

¹³ Baran, P. 1957. *The Political Economy Of Growth*, (1968 edition) New York : Monthly Review Press.

modernization theory which argues foreign aid is necessary for the developing countries to achieve economic development.

1.11 Chapter Outline

The project contains five chapters. Chapter 1 defines the Problem, the Research Questions, the Dependent Variables, Hypotheses and the Methodology. Chapter II presents an overview of foreign aid in Africa in depth by discussing foreign aid in its historical context and its evolution to date. Chapter III focuses on the financing of MDGs in Kenya. The chapter looks at the role of foreign aid in promoting key sectors for the country's economic growth and development. In Chapter IV the study analysis, the data collected in the light of the hypotheses and theoretical frameworks already stated and Chapter V concludes with recommendations and suggested policy.

CHAPTER TWO

2.0 OVERVIEW OF FOREIGN AID IN AFRICA

2.1 *Introduction*

This chapter discusses the general overview of African countries in relation to how aid has been channelled to these countries and the impacts that aid has had so far on the continent with particular reference to human development.

2.1.1 **Historical Overview of Foreign Aid**

The institutionalization of foreign aid can be traced back to the period of USA Marshal Plan, which established economic cooperation between USA, Western Europe and England. The fund was for rebuilding the infrastructure and revival of the economy in Europe that was dismantled by the Second World War. Scholars argued that the Marshal Aid was different from what they call foreign aid now or from the conventional aid. They also noted that this helped the development of the economy through injection of much capital (Arnold, 1985:2). When official aid designed for developing countries in 1950s, it focused on providing technical assistance. The funds for technical cooperation programmes UN Aid was able to fundraise \$20 million (Riddell, 2007:25-27).

By earlier 1960s, the World Bank emerged as a source of development finance (Riddell, 2007:25-27 & Moyo, 2009: 11-15). It created a body responsible for the development assistance known as International Development Association (IDA). The amount of Official Development Aid (ODA) in 1950s and 1960s increased significantly. It was in this period that many weak economies including Sub-Saharan Africa registered economic growth Arnold (1985: 8). According to Riddell (2007), OECD donor countries agreed to provide 1% of GNI. In 1970s, ODA began to fall in value with a promise to channel massive aid remained a fiasco as the beginning for

promise. The War in Vietnam and political shocks in South East Asia caused the fall in support (Riddell, 2007: 25-38).

In late 1960s poverty and unemployment issues gained focus for consideration on talks of OECD (Riddell, 2007:25-38). However, the agenda was about poverty incorporation on the aid giving programme at the beginning of the 1970s. ODA had different strategies targeting the poor and poverty alleviation became the predominant. The reverse happened on poverty reduction, with the support from US and Europe decreasing help in Scandinavia and Holland on the anticipation of more aid flow. The primary cause being oil crises in 1970s in the Arab countries hence the increased contribution to ODA and assistance in Sub-Saharan weak economies.

From 1980s, after a decade of complicated experience with factors such as poverty, the donors started facing the reality that was more than it seems. ODA accompanied by the flourishing of experts involved in gender and participatory underlined as a new dimension accompanied by the flourishing of experts. Inflation and recession affected the principal donors, England and USA resulting to reduced aid as conditions of support. Integral economy adjustment enumerated liberal economy principles associated (Riddell, 2007:25-38 & Moyo, 2009: 18-22). This liberal principles which have remained still as grand terms of support where public sector downsizing and privatization sector deregulation were taken by the US and UK, in aid. It was immediately adopted by the World Bank and has become the pillars of rendering ODA almost by all industrial countries. At the beginning of 1980s, there was noticeable, the total ODA decreased suggestively its foreign aid. The second major aid report on the development continued in Brandt report on development issues.

The first Brandt's report accepted that there were problems in international financial support and underlined the improvement in the life of poor and was vital for survival (Riddell, 2007:25-38). The report emphasised that ODA should increase for the coming years. ODA started becoming small over the years and then the fiasco followed. The strategies of ODA excluded the ideas of the first Brandt report. Riddle (2007: 28-42) also noted that poor countries life became worse in the 1980s. The reduction of public expenditure for the Structural Adjustment Programme (SAPs) for health, education and social services contracted the poor in sub-Saharan countries. The second Brandt report and plans of ODA that excluded the recipient ideas dismissed. The first report on Brandt praised the ideas of partnership from the Pearson report (Riddell, 2007: 28-42). He also noted that public expenditure had structural adjustment programme that affect the budget for health, education and other social basic services. It contracted in poor sub –Saharan countries (Riddell, 2007:28-42 & Moyo, 2009: 18-22) hence the suffering of women and children in particular. The World Bank in the 1980s, focused on the economic condition of sub-Saharan Africa that put focus on problems such as the dilemma of countries in the region.

Failure of ODA should be shared by donors and external advisers as noted by the World Bank. The Bank recommended the doubling of aid to sub-Saharan Africa. It also advocated much of the aid shall be used to improve systems such agricultural institutions, education institutions and health organizations in sub-Saharan Africa. Indeed, aggregate ODA almost doubled in 1989 than the beginning of 1980s. There are two main factors as deteriorating living standard and economic crises. The World Bank noted that SAPs were to look at the plight of human life vulnerable to economic development of Sub-Saharan Africa and other developing countries. The Scandinavian countries, Holland and Canada, increased their official support. The

1980s had another peculiarity of the improved emergency and disaster that needed more support for mitigation.

Riddell (2007: 28-42) noted that international politics necessitated the downfall of the communist camp as well as the cold war on foreign aid. Aid was not found to be working by some researchers. It created welfare dependency among the recipients, and they argued that it reduced development in the 1990 (Riddell, 2007:28-42). Some connected the downfall to socialism as well as the end of foreign aid as a result of the budget deficit from major donor countries.

Riddell continued saying that the public pessimism on foreign aid and the fluctuation of ODA. It did not stop the official aid agencies from having an intense debate about it and reverse the fall instead it was affected in 9/11 by political orientation focusing on security and poverty. The International organization poverty still reflected high in UN institutions such as UNICEF, UNDO. The UN fundamental purpose of aid was to help in social and human development (Stokke, 2009: 316-331). The main development conceptual framework of HDI lies on human rights that underpin decisions on rights of the poor was to help them make choices on their wellbeing. The development conceptual framework was accredited by UNDO and UN secretary general giving importance. These link to interdependence of human security, development, and human rights, democracy and peace (Riddell, 2007: 28-42 & Stokke, 2009: 325-340). On the other hand, poverty eradication was undertaken to achieve a wider political objective such as security.

The concepts and strategies of foreign aid in the 2000/1 World Development report by the World Bank, and the Millennium Development goals of UN were supposed to address poverty at the centre. Poverty was said to be complex in nature and connected to a number of factors such as political, social and economic issues.

There was need to attack its requirements as a comprehensive and integrated approach that would consider the local communities, national and global. The main drivers of development were to promote economic opportunities, enabling empowerment and enhancing security. The UNDP approaches to development were similar to those of the World Bank, and a comprehensive strategy was designed and implemented by the recipient countries.

According to Stokke (2009), a development summit by the United Nations adopted the Millennium declaration call for all nations to commit themselves to tackle the plight of the poor in the world through poverty eradication. The MDG pledge from both the recipient and the donors had eight major goals. The goals were to eradicate extreme poverty, hunger, achieve primary education universally, gender equality and empower women, reduce child mortality, improving maternal health, fight against HIV/AIDS and malaria and other communicable diseases. It would maintain a sustainable environment and develop a global partnership for development.

Riddell (2007: 42-46) noted that a consensus on aid financing for the millennium remained. The donor countries were called upon, to achieve a 0.7% of their GNI target. The UN established an independent advisory body called the Millennium Development Project. Thereafter the African Commission presented a report at the G8 meeting which endorsed the recommendations of the "Millennium Development Project". It added strengthening aid accountability; the African countries committed to becoming more truthful when determining their trade policies and tariff regimes. It was followed by the initiation of the New Partnership for African Development (NEPAD) in 2001 so as to respond to targets of MDGs (Lancaster, 2007: 55-57). The road maps for MDGs report, as well as the African commission report, have been used in the successive conference on contemporary developmental

issues (Riddell, 2007: 42-46). The Paris conference in 2005 which produced the Paris declaration on harmonization of aid, the Busan Summit in South Korea in 2011, on aid effectiveness and the 38th G8 summit in May 2012 reinforced the MDGs efforts.¹⁴ Another effort was the Paris declaration that addressed issues on ownership, harmonization, alignment, results and accountability in official development assistance.

Accordingly the new actors and contexts included donors, weak states, private sector and civil society. The G8 recognized official developmental assistance to the poorest and vulnerable people and thereby the achievements of MDGs are vital. In its MDG mid-term review, the UN points on economies of the globe and financial crisis the dramatic rise in food costs, and the declining involvement of donor countries.

Poverty also affects the achievement of the other MDGs and is reflected in HDI indicators. The indicators include life expectancy, infant and maternal mortality, access to clean water, medical facilities and schools, which are still being addressed in Africa. Poverty and sustainable development are and will remain Africa's key challenges, which should be tackled more intensively by African governments themselves, with the support of the international community.

The late 1950s saw African countries begin to attain their independence from colonial masters and thus the birth of foreign aid to Africa.¹⁵ At the end of Second World War, the WB and the IMF were set up by major world powers to assist countries dealing with severe developmental problems. In 1964, the African Development Bank was founded with a supporting role to WB and IMF. The OECD launched its Development Assistance Committee (DAC) which has been accountable

¹⁴ <http://www.oxfam.org/en/campaigns/busan-aid-summit-2011>

¹⁵ Jonathan Glennie, "*The Trouble with Aid: Why less could mean more for Africa*", International African Institute
Royal African Society, Social Science Research Council, 2008, Chapter 2, Page 10.

for around 90 per cent of global aid flows.¹⁶ In the second half of the 1970s, Africa required support to help in the high cost of living and high illiteracy levels that led to the development of poor economic policies among many African nations. Indeed, most countries' economies were not doing well. It existed as a drop in the international prices of principal African exports, chiefly, primary goods. Therefore, Africa sought help in the form of grants and cheap loans in order to cover shortfalls in their access to foreign exchange. Africa replaced South and Central Asia as the primary beneficiary of aid moving from receiving around 21 per cent of global aid in 1960 to receiving around 35 per cent by 1980.

2.2 Main Donors

The United States and European Union were the leading donors to the Horn of Africa a role assumed especially after the Second World War (WWII). The WW11 left the US and Europe the main countries economically active to give aid and grants to not only Africa. The US, under the Marshall Plan, used foreign aid to help reconstruct mainly Western Europe as some Eastern European states were still pro-communist, and hence keeping USSR influence at bay. Besides, any foreign aid that was sent to Africa and the rest of developing world was sent to further cement the ally-status. Thus, most countries that received foreign aid during that time stood considered allies of the two super-powers. After the dissolution of the Soviet Union in 1991, aid programs lost their underpinnings as support reflected more on regional issues. The items included Middle East peace initiatives and Eastern Europe democracy; and the illicit drug trafficking in the Latin America.¹⁷ The U.S has also

¹⁶ Ridell, R.C. "*Foreign Aid Reconsidered. Baltimore*", The Johns Hopkins University Press, 1987.

¹⁷ Christopher David Linebarger, "*Foreign aid and democracy: A quantitative analysis of the determinants of development assistance*", University of Nevada, 2008.

lend a hand in developmental related assistance including humanitarian, food aid and supported countries transiting to democratic societies and market-oriented economies.

Table 1 gives a number of top 30 donors in terms of foreign aid funding in 2011 in East Africa for Djibouti, Ethiopia, Kenya and Somalia. Data for Sudan and Djibouti were not available.

Table 1: World Top Donors to Djibouti, Ethiopia, Kenya and Somalia as at 2011

s/no	NAME OF DONOR	TOTAL CONTRIBUTION IN US\$
1	United States	448,017,213
2	European Commission	167,237,380
3	Japan	90,386,480
4	Un Central Emergency Response Fund	86,298,912
5	United Kingdom	65,334,968
6	Canada	26,050,674
7	Denmark	22,754,682
8	Norway	22,187,271
9	Brazil	22,095,646
10	Sweden	20,175,100
11	The Netherlands	13,635,563
12	Germany	13,159,162
13	Spain	12,194,066
14	Switzerland	10,767,113
15	Finland	7,701,130
16	Australia	7,455,698
17	France	5,564,352
18	Ireland	4,852,895
19	Italy	3,012,512
20	United Arab Emirates	1,927,649
21	Sudan	1,788,000
22	Islamic Development Bank	1,000,000
23	Russian Federation	1,000,000
24	New Zealand	762,777
25	Saudi Arabia	738,487
26	African Development Bank	507,898
27	Luxembourg	276,578
28	Republic of South Africa	146,199
29	Czech Republic	112,676
30	Estonia	42,254

Source: UNOCHA Financial Tracking Services, 2012

Foreign Aid, therefore, became a tool used to fight terrorism in countries under threat of terrorism such as Afghanistan, Pakistan, and Jordan, which were not

among the top recipients of aid.¹⁸ This shift of focus from aid for development to aid for fighting terror leads to the question whether foreign aid today can still contribute towards human development. While one may argue that foreign aid for fighting terror is not channelled to human development projects, can as well argue that there can never be human development without international peace and national security.

The first major pledging round of the new aid era was in the development conference in Monterrey in 2002. President George W. Bush promised a 50 per cent increase by the U.S development assistance by 2007. Between 2001 and 2006, the Bush administration quadrupled the aid to Africa from \$ 1.4 billion to \$ 5.6 billion a year. The U.S again increased ODA to Africa by 4.4 per cent in 2007. On the other hand, the UK is taking the lead in Europe although the Nordic countries, the tiny Luxembourg and Netherlands remain the only donors meeting 0.7 per cent target of their GNI in aid. In fact in October 2007, Alistair Darling, the UK chancellor recommitted his government to doubling aid to Africa from the 2004 levels by 2010. He also confirmed of UK's goal to reach 0.7 per cent target by 2013.¹⁹

The EU as a principal donor agreed to double aid by 2010 even as Japan appears to be the only major donor lowering its aid. Republic of Korea (OECD member) pledged to raise aid to 0.1 per cent of GNI, around \$ 1 billion by 2010. However, in 2007, the EU increased its support by 43 percent. Consequently, the African Development Bank has been the beneficiary of funding increases having donors pledging to raise their contributions by over 50 per cent between 2008 and 2010.

¹⁸ Woods, Ngaire . *The Shifting Politics of Foreign Aid*. International Affairs, 2005.

¹⁹ Jonathan Glennie, *The Trouble with Aid: Why less could mean more for Africa*, International African Institute
Royal African Society, Social Science Research Council, 2008, Chapter 2, Page 11.

Other countries such as China have increased their aid to African countries. China also stated that in a period of three years, it would provide US\$20 Billion to Africa in a bid to finance trade and infrastructure. Nonetheless, China is facing steep competition from India, who is pledging billions of loans to Africa.²⁰ China had put in place ways of investing in Africa in by 2012. They signed a Bilateral Investment Treaties (BIT) with 32 African countries. The China-Africa Development Fund had by the end of 2012 invested US\$2.385 Billion had funded 61 projects of which 30 countries in Africa. They had already invested US\$1.806 Billion for 53 unit of work. There were eight pledges that China made at the Forum of China-Africa Cooperation (FOCAC) in the Beijing. China's financial institutions have actively expanded financing support for Africa.

Energy and mineral resource exploitation is emerging as one of the attractions for developing countries from Africa. In this area, Chinese enterprises have helped African countries to establish an up-stream-downstream-integrated industry chain. The total change undergone by the economic growth has provided chances to have improved the infrastructure involving the local communities. Within the SADC region, Chinese mineral exploration and processing enterprises have set up endowment funds to sponsor health care, education and sanitation. Manufacturing is China's key investment field in Africa. Between 2009 to 2012 Chinese enterprises' direct investment volume to Africa's manufacturing sector totalled US\$1.33 Billion. Mali, Ethiopia and other resource-poor countries also were beneficiaries of Chinese investments. Chinese enterprises' investments have brought about changes to all dimensions of Africa's social development. In areas such as agriculture, cash crop cultivation in Zimbabwe has provided interest-free loans to local farmer households.

²⁰ Emma Mawdsley & Gerard McCann, "*India in Africa: Changing geographies of power*", Pambazuka Press, 2011, Chapter 3.

It has improved productivity in the area, offered technical knowhow for the whole production process and organized local employees to visit China and also funding local schools and orphanages. These have promoted the positive interaction and collective development of Chinese enterprises and local society.

Service industries that produce zero-pollution and consume little energy have become the new highlight of China-Africa Cooperation. The Chinese have investments in trade, finance, science and technology services, power supply and another field in Africa. About US\$3.87 billion had been invested by China in Africa financial sector at the end of 2012. It amounted to 17.8% of its total investment volume in Africa hence helping to support development funds available to local enterprises. The project was the largest commercial logistics and conversion in investment service centre in Southwest Africa. It helped in the deepening of Chinese and African people ties especially with African government hence sharing the fruits with the local people.

China has contributed to the economic growth of Africa. By the end of 2012, the volume of China investment in African countries' totalled to US\$14.242 Billion. The countries where China investment has been fast tracked include; Mauritius, Seychelles, South Africa and Nigeria, with investments targeting industries, manufacturing, processing and wholesale. The advanced Chinese enterprises' internationalized China-Africa investment and financing cooperation has solidified the foundation of Africa's economic development. The increased Africa's capacity of independent development improved Africa's competitiveness development. In the future, China will further expand investment and financing cooperation with Africa. To fulfil its commitment on the provision of US\$20 Billion-worth of loans to Africa

and used for infrastructure construction. It would as well as the development of agriculture, manufacturing and small and medium-sized enterprises.

The WB and IMF are also major donors in Africa, apart from policy advice and capacity building. The WB finances loans which are used to build infrastructure: roads, electric power plants, etcetera. It also finances projects such as drinking water, health care, education, and housing all aimed towards poverty reduction and improvement of living standards, especially in the third world states. The World Bank is one of the foreign banks for Reconstruction and Development (IBRD) and the International Development Association which gives interest-free loans with a maturity of 35-40 years to World's poorest countries. For instance, in 2008 countries with a GNI per capita below \$ 1,065 were given these loans. About 50 percent of these loans went to African nations.²¹ The IBRD makes the bulk of its 12 – 15 years low-interest rate loans to “middle income” countries with per capita incomes above \$ 1,065 per year. However, as the WB points out, over 70 percent of World's poor; those who live on less than \$2 per day live in these middle-income countries.”

2.3 *Types of Aid*

Most scholars have identified two major types of aid that most donor countries give to recipient countries. These may be emergency aid or development aid. Emergency aid, as the name suggests, are support given to recipient countries in order to overcome unpredicted calamities such as floods, earthquakes, terrorist attacks. However, development aid is aid geared towards long-term development plans, such as building roads and railway system, construction of airports and other infrastructure, building hospitals to improve healthcare. This study shall examine each of these two

²¹ Maureen Burton, Reynold Nesiba, Bruce Brown, *"An Introduction to Financial Markets and Institutions,"* Second Edition, M. E. Sharpe Inc. , 2010.pg.615.

types of support, and how they have contributed or impeded economic growth and development in Africa.

It is common for countries whether rich or poor to respond charitably to natural disasters. Emergency support also known as humanitarian aid is the fastest growing type of aid because natural calamities have been on the rise. This relief is different from development aid although it contributes to development objectives. This support targets the short, medium and long-term projects and programmes, thus promoting economic growth and reducing poverty. Its goal is on improving the health care, in terms of the services provided, the education system spent on schools, teacher's salaries and the infrastructure. For instance, improving the roads and ports to ensure the private and public sectors work efficiently. Aid also spent on large development projects such as oil pipelines, hydroelectric pumps that are considered vital by investors to the long-term economic prospects of the recipient countries.

However, on the issues that require a holistic approach, there cannot be a clear distinction between development and emergency aid. Problems such as the malaria pandemic in Africa need long-term intervention. Aid envisioned for development, long term objectives of poverty reduction and economic growth. In some instances, funding is necessary for supporting education, improving health care, public infrastructure development, agriculture and rural development to enhance food security. Proponents of aid advocate for more development aid as a tool of lowering the high rates of poverty and enhance sustainable growth in African economies. According to them, more help is necessary in order help the economic growth.

2.4 Aid to Africa

In the past there has been increased in calls for more foreign aid to Africa in order to eliminate the continent's poverty. Pleas renew for increase in aid to

developing countries. Two arguments have been put forth to justify more foreign aid to Africa. The first argument was to establish the essential rightness of help given as an obligation for the West's moral. Helping Africa, through foreign aid is not sympathetic and the injustice and inequality that permeate the international political economy.

Another factor which affects the request for more sustained project for developing countries for multiple investments in health, education and economic infrastructure is the need to break cycles of deprivation. These two arguments justify the need for more aid to Africa. Most scholars disagree on the effectiveness of foreign aid in general. The undeniable fact remains that during a period when support has risen over time as a percent of income in Africa. Africa's growth rate has concurrently fallen. Scholars have attempted to explain this through the 'aid quantity argument.'²² The collective term Aid advocates that it be unfair and misleading. The World Bank points out that while aggregating decades of aid provided to Africa may be very important and; the average "receipts" per African per week or day are negligible. With proponents of aid even pushing harder for more aid to be channelled to Africa, it is mostly expected that this may happen. Despite this call for more help, this culture of support seemingly has left Africa more indebted, more vulnerable, inflation-prone to the vagaries of the currency market and more unattractive to investment of higher quality.²³

It might be true that support has increased the risk of civil conflict and unrest in sub-Saharan Africa and distorted leadership in Africa. There is an obvious moral urgency for humanitarian and charity based support to assist when disaster strikes.

²² Thirlwall A.P. "*The Economics of Growth and Development Selected Essays*", Edward Elgar Publishing Limited, 1997. Pg260.

²³ Martin Meredith, "*The Fate Of Africa: From The Hopes Of Freedom To The Heart Of Despair*" (2005).

Corruption, however, has been cited by many scholars as the primary factor that impedes economic growth and development in Africa, despite receiving huge sums of money in foreign aid. Grant money has been used by African leaders to make themselves and their close families rich while widening the gap between the rich African elites and the poor African citizens.

Additionally, foreign aid has been used by most African leaders to perpetuate sycophancy, using such cash to reward the sycophants. As a result, what Africa has witnessed is dictatorship, poor governance, corrupt leaders and serious poverty cycles characterized with many unending calamities such as drought and famines. For instance, in Zambia, the former Head of State of Zambia, Fredrick Chiluba, was charged with theft of states funds. A serious problem as aid flows meant to help average Africans end up supporting the ruling class with their families and friends and continue perpetuating poor governance in Africa. International donors have turned a blind eye that aid money is fuelling graft, and it has made it easy for funds used for anything except for the purpose of development. The foreign aid has been regarded more like a free pot of money from where the African leaders. The cronies continue to draw their riches, in spite the suffering of the common citizens for whom foreign aid intended.

However, despite this negative aspect, in cases where aid money is channelled to development based projects. Investment in new technologies, improvement of health sectors, education, building of roads and improving the agricultural sector, has no doubt been a great contributor to economic growth and development in Africa.

2.5 From Independence to Dependency

Aid condition has been one of most discussed subject in Africa. Aid dependency can be measured by looking at aid as a percentage of the recipient

country's GDP and seeing how that ratio changes over time.²⁴ An increase in the amount of support given to African countries from the donors compromised on state sovereignty. Africa has been largely seen as still dependent nations whose leaders continued to dance to the tunes of their colonial masters and policies made. At first, the donors themselves seemed not bothered by the poor policies that perpetuated poverty and wide gap between the rich and the poor. Lack of accountability, corruption dug its root with the target being the foreign aid. It made Africa even poorer, encouraging more debt and inflow of foreign aid at the expense of states' independence.

2.6 *Looking Ahead*

Many global organizations have acted first on poverty eradication in Africa for the last one decade. The United Nations announced the Millennium Development Goals (MDGs) of 2001. Poverty was given the first priority and strategies were put in place to help in the effort to meet the needs of the world's poorest, with a set of eight time-bound. The targets included the reduction of poverty, disease, adequate shelter and exclusion while promoting gender equality, health, education, and environmental sustainability. They are unlike any previous efforts to meet the needs of the world's poorest citizens and combine resources to do so effectively.²⁵

The Organization of African Union coined New Partnership for African Development (NEPAD) in 2001, to pursue new priorities and approaches to the political and socio-economic transformation of Africa (Asiedu, 2004).²⁶ One of the primary objectives of NEPAD is to promote the private sector and foreign direct

²⁴ Jonathan Glennie, *The Trouble with Aid: Why less could mean more for Africa*, International African Institute

Royal African Society, Social Science Research Council, 2008, Chapter 2, Page 22.

²⁵ United Nations Report, 2001.

²⁶ New Partnership for African Development Report, Abuja, Nigeria 2001.

investment. With these ambitious goals and initiatives laid out for the next decade, policy makers, investors, and donors are still speculating on what capital sources will have the biggest impact in Africa. In fact, much of the literature presents conflicting findings on the impact of various capital sources on African development. This research focuses on the impact of FDI and ODA on human development as the sources of financial flows to developing countries.

2.7 Direct Impacts of Foreign Aid

The most direct and positive impact of foreign aid is aid for relief and emergencies. Most developing countries, like Kenya, lack the capacity and financial might to meet their objectives when disasters strike. In such cases, humanitarian agencies come in handy with their aid to help stabilize situations. In addition, there are programmes and projects whose primary objectives are to improve the livelihood of impoverished communities especially in developing countries. The projects cut across various sectors ranging from health, agriculture, infrastructure to education.

Donor countries have channelled foreign aid towards health programmes such as immunization, creation of awareness on breast cancer, HIV/AIDS, water and sanitation. Medicines especially AIDS drugs paid for with grant money. Grant money has also played a leading role in the school system. There has been witnessed here in Kenya, where aid money has helped fund free primary education. A crucial area is the infrastructure sector where aid money has been channelled in this sector in order to improvement on it that is roads and the ports. The Thika superhighway and the slum upgrading are some the infrastructural that Kenya engaged in to boost infrastructural development. The project is a community empowerment and infrastructural programmes and the Standard Gauge Railway from Mombasa to Malaba. Also, another programme is the proposed Lamu Port South Sudan Ethiopia Transport

Project (LAPSSSET) jointly financed by the Kenyan government and donors. Donor aid and grants are necessary to the achievement all these projects. On the other hand, aid has its demerits, such as encouraging dependency, widening the gap between the rich and poor. LDCs have a myriad of issues ranging from encouraging corruption, conditional ties, creating unemployment like the retrenchment and staff rationalization program among others.

There are a number of countless examples of aid projects whose benefits disputed. In Uganda, the Bujagali hydroelectric dam is set to receive around \$ 750 million from donors, including the European Investment Bank, WB, and AFDB. However, in East Africa the largest project has raised queries from the Ugandan and civil society groups over the impact of the dam. It is because Lake Victoria is the livelihood of many people who rely on with fishing and agriculture.²⁷ Another example is the stall oil pipeline from Chad to Cameroon, which entered into controversy between the World Bank and Chad.

To summarise there is a need for Sub-Saharan Africa, Asia and LDCs to receive development aid this would help translate the area. ODA allocations to different geographical areas and income categories have not changed very much over the last 15years. The middle-income countries have currently been on the decline as compared to previous years for approximately 24 percent in 2000 and 15.9 percent in 2009. ODA channelled to sub-Saharan Africa, the world's poorest region, and to Asia, an area in which the largest number of the world's poor. These regions are also the beneficiaries of large amounts of aid. The implication of this is sub-Saharan Africa, Asia and the LDCs are more at ease the decreases development aid. However, this

²⁷ Jonathan Glennie, *The Trouble with Aid: Why less could mean more for Africa*, International African Institute Royal African Society, Social Science Research Council, 2008, PP 33.

picture in the aggregate masks the extent to which aid flows have in reality biased towards just a few countries.

2.7.1 ODA per Capita

The support given to developing countries have available to spend per head of population is an important factor. The countries would further have relatively small populations who receive more foreign funding mainly developing countries. Many LDCs receive little moneys for a large population. In 2008, 36 countries received more than \$100 in aid per capita of which 18 were semi-industrialized, and nine were LDCs²⁸. Several post-conflict countries (example Liberia, Democratic Republic of Congo, South Sudan, East Timor and others) get some aid. The per capita aid is more than five times help of the amount received by the sub-Saharan Africa. These findings imply that, on a per capita basis, a significant number of countries depending on the development aid. In turn, increases their vulnerability to sharp swings in ODA.

2.7.2 ODA as a Proportion of Central Government financing

Many governments rely on foreign aid as a proportion of their budget which is crucial to help the government in its plans expenditures effectively on the basis of detailed projections of inflows, both internal and external. Where aid is a significant proportion of the federal budget there is a need to enable careful managed so as not to undermine expenditure seriously. There is little information on aid as a percent of the federal government expenditure. For instance, aid flows can sometimes be unpredictable. Hence, governments have to account for shortfalls of the funds received.

²⁸ World Bank, "World Development Indicators," 2010.

In 2007, 15 of 48 developing countries, that provided data to the World Bank on ODA as a percent of central government expenditure relied on the funding to cover 25% of the budget.²⁹ Other countries such as Afghanistan, Armenia, Bangladesh, El Salvador, Ghana, Kenya, Kyrgyzstan, Lao PDR, Madagascar, Mali, Mongolia, Nicaragua, the Niger, Togo and Zambia. The two aid-dependent countries in Latin America, El Salvador and Nicaragua, are tiny countries next to their larger (non-ODA dependent) regional neighbours. Eight countries are classified as LDCs, again underscoring the high degree of aid dependency of this category of countries.

The countries that stand out most heavily dependent on aid as a proportion of government expenditures are Afghanistan, Lao PDR, Madagascar, Mali, Nicaragua and the Niger. Although this probably gives a partial picture due to lack of data availability. ODA will be especially important in resource-scarce states.

2.7.3 ODA as a Percent of GNI

The national income per year for some countries has substituted ODA fund with GNI Aid. In 2008, 26 countries registered ODA levels in excess of 10 % of GNI. Of these 26 countries, 17 are LDCs. It leaves two further countries, one of which is low-income (Nicaragua), the other middle-income (Iraq). At the end of the scale, Liberia's ODA/GNI ratio exceeded 185 percent in 2008 (World Development Indicators 2010).

For 31 developing countries, net ODA flows represented less than 0.5 percent of GNI in 2008 with three of them being in sub-Saharan Africa.³⁰ It is interesting to note that several countries in the category of 'not mainly dependent on aid.' Significant amounts of aid dollars in volume terms relative to other countries and,

²⁹ World Development Indicators 2009

³⁰ World Development Indicators 2010, World Bank, Washington DC

indeed, feature in the ‘top 20’ ODA recipients. However, because these countries’ economies are large (and growing), aid flows as a proportion overall. Put simply, some of the countries to be aid dependent to be given foreign aid. For most countries in Latin America, ODA is also small as a percent of GNI.

2.7.4 ODA as a Percent of Gross Capital Formation

Reliance on ODA to support gross fixed capital formation described to some the governments need external rather than domestic resources to finance growth-enhancing growth. The area most heavily dependent on net ODA as capital is Sub-Saharan Africa. At least 27 countries in the region were supported by ODA by 2009. However, many have ratios in excess of 50 percent or more.³¹ Underestimations as some countries have not reported this data to the World Bank. Other states that borrowed from ODA to finance the capital of weak economies like those of the LDCs (Comoros, Dominica, Grenada, Haiti, Seychelles, St. Lucia, St. Vincent and the Grenadines, Tonga) and Non-island small economies (Bhutan, Kosovo, Lesotho).

2.7.5 ODA Relative to Other External Capital Flows

The degree to which a country is dependent on support also depends on how important aid is relative to get finances that would assist to fund other regions. For many of the LDCs and some SIDS, ODA is important when a country can access international funds. They also attract little FDI, which is the primary source of other outside finances for developing the world, the World Bank and IMF. This imposed limit on the amounts of non-concessional loans that LDCs may assume under the debt sustainability framework for LDCs.³² It also increases the need for individual countries to source for funds and loans. It will encourage the economies to get

³¹ World Bank, World Development Indicators 2010

³² World Bank and IMF 2006.

essential resources from the global FDI flows that amount \$1.2trillion in 2010. The fund has been useful to cater for emerging economies and more private capital flows than ever before as a result of natural resources in poor developing countries. Between 1995 and 2009 the capital was given to Africa at 93.6 percent. Africa has about \$58.6 billion for FDI, and it had an overall (UNCTAD, 2010). The region in the same year stood overall at \$47.6 billion. It meant FDI as a whole was slightly more important than ODA to Africa as a source of external finance.

It hides the extent to which FDI funds were given mainly to individual countries. FDI grants to Africa as a whole was a small percentage and the rate of growth helping consider that this could substitute aid. Indeed, even though ODA and FDI typically have very different objectives. The shift from support to FDI as an economy moves to a higher per capita income level, such as FDI tends to substitute aid.³³

For some countries, remittance from migrants is a primary source of income through foreign exchange at about \$325.5 billion in 2010, although it is likely that more moneys were transferred through other challenges (World Bank, 2010). Poorer countries receive relatively larger remittances. The cause being when a country income is low then more citizens are likely to migrate to other better economies. There are also a large number of migrant from other regions since majority of their citizens are living abroad in the absence of economic opportunities at home hence the vulnerability from the high degree of dependency on ODA. It also helps in remittance of taxes that foster dependency. In some countries, though, large migrant giving is also dependency on ODA to some extent. Remittances promotes the economic growth and reduces poverty among developing countries.

³³ *World Investment Report*, United Nations, New York 2010.

2.7.6 The Procyclicality of Aid

The world's poorest countries are among those with the least diversified economies. Many LDCs typically rely on selling of goods and services to generate most of their foreign exchanges. The goods are able to help sustain wealth worldwide. A similar picture is true for many SID relied on industries, tourism, or financial services coupled with a handful of commodity exports. Hence, this exposes the external shocks than many other countries. This vulnerability was manifested most recently with the concurrent food, fuel, and financial crises. It led to harsh prices of food and fuel and reduced the amount of foreign exchange coming through tourism and also the exports.

Some countries experienced extreme weather events over the same period. The poorest countries and aid-dependent countries are among those least able to cope with external shocks and other crises due to their pervasive liquidity constraints and lack of effective countercyclical policy tools combined with weak institutions. In such circumstances, aid is most useful when it is countercyclical. It can thus enhance macro-economic stability in recipient countries. The empirical evidence is mixed as to whether support tends to be countercyclical or procyclical. The literature suggests that, on average, support tends to be procyclical that is countries tend to receive more in years when economic activity is on the rise and less when it is on the decline. Bulir and Hamann (2003 and 2006) find that aid inflows are more volatile than fiscal revenues and that shortfall in aid and domestic revenues tend to coincide; that is support tends to be procyclical.³⁴

Increases and decreases in funding are frequently a manifestation of economic conditions in donor countries; thus, support increases when times are good and falls

³⁴ Bulir A. and Hamann J.A, "*Volatility of Development Aid: From the Frying Pan into the Fire?*," IMF, 2005.

when times are not favourable. Consequently, between 2008 and 2009, the effects of the financial crisis took hold, 10 OECD-DAC donors decreased their funding levels as a proportion of GNI (Australia, Austria, Canada, Germany, Greece, Ireland, Italy, Japan, New Zealand and Portugal) (OECD-DAC 2010). Where aid is procyclical, it can exacerbate rather than mitigate the business cycle. This undermines macroeconomic stability in recipient countries and, in turn, impedes economic growth and development. Procyclicality also undermines countries' resilience to shocks. This undermines the development effectiveness of aid and may jeopardize the sustainability of the MDGs.

2.7.7 Policy Impact

Measures and regulations which recipient countries have to conform to characterized provision of foreign aid. African governments have been compelled to comply with donor conditions. For instance, the IMF's introduction of conditions on aid in the mid-1950s imposed terms on the use of aid and pressurized countries to make reforms. Such reforms ranged from economic reforms to political reforms in some countries. Of course, such reforms were resisted by many African leaders, as was the case of Structural Adjustment Programmes (SAPs) in Kenya.

Most African countries have changed significantly, evident in the African policy choices and economic structures of today compared with those at the beginning of the 1980s along the Washington Consensus.³⁵ Conditional ties of support ranged from imposing ideologies to the restructuring of African economies. Primary among these has been trading liberalization that entails reducing and eliminating import and export tariffs and quotas. Consequently in Kenya the government reduced restrictions

³⁵ Organization for Economic Corporation and Development (OECD) (2009a), *Development Aid at a Glance 2008: Statistics by Region*, January 2009.

on imported clothes and as a consequence, cheap ones from Europe and Asia made their way into the country. It benefits the consumers in the short term but devastating Kenya's most established industries. Donors have also put conditional links on aid money to force African governments to follow IMF approved public spending regimes. IMF insists that countries that it is lending should remain within tight public spending budgets. Governments are thus prevented from spending revenue as they please and at times aid money piles up waiting for IMF to give a directive on its spending.

Donor's focus is on how recipient countries governance. Therefore, having an influence in the decisions made by African governments. Donor conditionality on recipient countries has put pressure on African governments to embrace democracy and fair elections. It reduces human rights violations and to transparency in the use of aid money as a way of curbing misappropriation of funds and corruption. Institutional impact entails the donor-recipient relationship which has characterized aid to Africa for many years. Foreign aid has affected the choices and decisions made and how recipient countries.

The developing countries do not see the aspect of accountable and structured institutions as important in their growth and development agenda an essential prerequisite for development and poverty reductions in the long term. Lack of accountability and bad governance are seen as the primary cause of slow development in Africa where leadership has been a major setback in the development leading to significant root causes of socio-economic crises facing Africa today. There has increased the propensity for corruption. Whereas, poor governance characterized by unaccountable bureaucracies, unjust legal systems, widespread corruption, arbitrary policy-making and an unengaged civil society in the public life. The challenge is to

improve governance on African governments and the entire population. Donors are using their power to push on the governance in Africa by increasing the governance content of the conditions attached to aid.³⁶ Government capacity and its ability to plan and develop rational policies are undermined by dependence on aid. Accountability is less of a rule of an authoritarian donor to recipient countries. Singapore and the Republic of Korea are the best examples while, China whose economy is growing remains highly authoritarian. Matthew Lockwood remarks that the authoritarian rule does produce developmental outcomes that can either be very good or bad.

The relationship between aid and corruption has been an area under discussion where donors have highlighted the fight against corruption. Foreign powers have as well played the role in African democracy, where they use aid to get their favoured leaders into power and still keep them into power regardless of whether they are benefiting the country. For example, structural adjustment programs regardless of the harm they may have brought played a prominent role in the democratization process in a country like Kenya.

2.8 Conclusion

This chapter has looked through a preview of foreign aid in Africa, and in some cases, the rest of the world. It has discussed both the positive and negative impacts of foreign aid for recipient countries mostly in LDCs. Therefore, what the study seeks the contribution of foreign aid on the human development in the recipient countries.

³⁶ The World Bank Group, "*Millennium Development Goals, Sub-Saharan Africa*," 2007.

CHAPTER THREE

3.0 A CASE STUDY OF AID FINANCING TO MDGs IN KENYA

3.1 *Introduction*

The development agenda in Kenya since independence has focused on poverty eradication, elimination of illiteracy and disease control. Sessional paper No. 1 of 1965 was the first major step in Kenya's efforts towards the achievement of sustainable development. There were other plans formulated in 1999 to reduce poverty. The Economic Recovery Strategy for Wealth and Employment Creation 2002-2008 (ERS) and Kenya's current development blueprint Vision 2030. The Constitution of Kenya 2010 reinforces the policy and forms a legal basis of sustainable development in the country. Practical measures have undertaken by the government and development partners towards the attainment of sustainable development. Millennium Development Goals and Vision 2030 form pivotal points for development in Kenya. It was achieved through significance dependence on programs to help economic recovery and other factors that would help the nation achieve its goals. There are eight goals to be achieved 2015 and respond to the world's central development experiences. The UN Millennium Summit of 2000 drew some targets to achieve and were adopted by 189 nations and signed by 147 heads of states.

The Marquette model focused on the MDGs with the greatest cost and the greatest interaction with the rest of the economy. The goals were universal primary school completion, reduced under-five and maternal mortality rates, stopping and reducing HIV/Aids, increase access to water sources and sanitation. The chapter also addresses achievements in terms of poverty reduction (MDG 1). MDG 2 to MDG 7 covers functions and links the level of a particular goal. The determinants include the

delivery of relevant services (in education, health, and water-sanitation) and other indicators, also allowing for the presence of synergies between MDGs. In fact, achievements in terms of one MDG can have an impact on other MDGs.

In education, the model tracks base- year stocks of students and new entrants through the three levels. The model includes several links between the MDG module and the rest of the economy. The additional government services needed to reach the MDGs requires additional resources (capital, investment, labour and intermediate inputs) become unavailable to the rest of the economy. Increased foreign aid may lead to exchange rate appreciation with economy-wide repercussions, including consumers benefiting from lower prices of imports and lack of attractiveness for the goods for exports/ imports substitutes. At the same time, the pursuit of generating extra income may affect the educational composition hence also having different level of education. The performance of the rest of the economy will also influence the delivery of other MDGs goals. Higher individual incomes provide other resources that enable private households to bring that will impact positively the government in the provision of health and education programs. The improvement will earn the government revenues, and help in financing other operations effectively.

The Social Accounting Matrix (SAM) used in the Kenyan MAMS application is based on a recently produced SAM for the Kenyan economy (Kiringai et al., 2006). As the MAMS model requires the government to separate different sectors. Individual sectors not involved in MDG activities combined include agriculture, manufacturing and service. Most of the remaining sectors are producing services related to the MDGs and divided between private and public suppliers. The public MDG sectors consist of water, public administration, infrastructure, health and education. Except for public policy, developments in each area will have a positive

impact on the MDGs. Education has three tiers namely; primary, secondary and tertiary education. The health sector had two divisions that is public and private sector.

3.1.1 Policy scenarios

The Medium Plan of Vision 2030 proposed by Government to improve on the recent economic developments and various structural reforms changed and working with the past years (Republic of Kenya, 2007). This is based on continued broad GDP growth driven by agriculture, industry and service sectors. It anticipated that higher growth in real GDP in the medium term predicate on encouraging people to keep money for future and also investments that would raise total productivity. Gross domestic investments are projected to increase from about 20.4 percent of GDP in 2006/07 to 32.7 percent in 2012/13 reflecting an increase in both public and private sector investment. Gross national savings are projected to increase from 16.5 percent of GDP to 27.5 percent over the same period. Therefore, in order to achieve the projected growth targets, external savings, of at least 5 percent of GDP per year will be required. Total expenditures are projected to increase slightly from 23.5 percent of GDP in 2006/07 to 27.8 percent of GDP in 2012/13. The plan should show policies drawn in favour of infrastructure. The share capital of total expenditure increased from 4.4 percent of GDP in 2006/07 to 9.8 percent in 2012/13. It is expected that the revenue-GDP ratio would stay constant, around 21 percent of GDP during the period.

Arising from these revenues and expenditure measures the highest of fiscal deficit. Given an increase of 2.8 percent of the GDP in 2007/2008 to 6.4 in 2012/2013 domestic borrowing requirements were expected to be lowered. Hence, the local debt-to-GDP ratio should decline gradually from around 22.6 percent in

2007 to about 21.1 percent in 2013. External debt is expected to remain constant at around 22 percent of GDP during the period. Donor support is expected to increase to around 5 percent of GDP already in 2008/09 and stay around this level towards the end of the period.

3.1.2 Baseline scenario

A baseline scenario has been developed to which alternative scenarios will compare. The baseline scenario differs somewhat from the scenario outlined in the Medium Term plan. In the baseline scenario a 7.9 percent average annual growth rate during 2003-2015 has been expected (Table 3.1). Population is growing by 2.3 percent a year, which means that GDP per capita is growing by 5.6 percent a year. Private consumption is increasing by 7.8 percent while government actual current expenditure is expected to increase by 6.5 percent. Total investment is assumed to be growing at around 10 percent where public investment is assumed to grow faster than public investment. In real terms, government expenditures as a percentage of GDP remain constant around 24 percent of GDP. However, there is a shift in the composition as share of current expenditures is reduced, and the share of capital expenditures is increased. Capital expenditures are rising from around 2 percent of GDP to 6 percent of GDP. Exports are expected to increase by 7.4 percent while imports are growing by 7.8 percent. From table 2 below real exchange rate is appreciating overtime. Both external and internal debt is expected to decline over the period where foreign stock of debt is being reduced at a faster rate.

Table 2: Baseline Scenario Macro-economic Developments

Indicator		2003	2010	2015	Annual Growth
Population	Millions	32.7	38.4	43	2.3
Real GDP	(bn 2003 Kshs)	1009.8	1668.3	2519.7	7.9
Private consumption	(bn 2003 Kshs)	856.9	1401.4	2115.5	7.8
Government consumption	(bn 2003 Kshs)	213.6	315	454.5	6.5
Total Investment	(bn 2003 Kshs)	179.4	374.6	580.4	10.3
Private Investment	(bn 2003 Kshs)	156.7	283	426.5	8.7
Public Investment	(bn 2003 Kshs)	22.6	91.7	153.8	17.3
Exports	(bn 2003 Kshs)	280.8	443.9	660.9	7.4
Imports	(bn 2003 Kshs)	406.5	665	1003.1	7.8
GDP per capita	(bn 2003 Kshs)	34879	48723	65303	5.6
Exchange rate	Index Kshs per dollar	100	92.9	88.4	-2.0
External debt	% GDP	45.9	30.4	21.9	-6.0
Domestic debt	% GDP	25.2	25.0	23.5	-1.0

Source: MAMS model results. Note all macro-economic aggregates are expressed in real terms

Table 3 shows the fiscal accounts, in nominal terms. Government spending, as a percentage of GDP, goes up as time moves. Tax revenue increased as time goes on, and grants borrowed are cleared with time. The rise in tax revenue that is corrected from personal and corporate income taxes while import duties are becoming less important.

Table 3: Baseline Scenario Fiscal Accounts (nominal terms in percentage of GDP)

Item Description	2003	2010	2015
Government revenue	23.5	27.3	30.5
Direct taxes	7.7	13.4	18.0
Import duties	1.8	1.6	1.4
Other Indirect taxes	9.7	8.5	7.8
Grants	1.4	0.9	0.6
Domestic borrowing	1.4	1.9	1.8
Foreign borrowing	1.4	1.0	0.7
Government spending	23.5	27.3	30.5
Current expenditure	18.7	21.4	24.2
Capital expenditure	2.0	4.9	5.5
Interest payment	2.8	1.0	0.8
Domestic	2.1	0.5	0.5
Foreign	0.7	0.5	0.3

Source: MAMS model results

The baseline scenario makes crucial assumptions on the use of government revenue. With regard to education expenditures, a higher share is targeted to secondary and tertiary levels. A larger share of public expenditures, both current and capital, is targeted to the health sector, water/sanitation activities and infrastructure investment.

The targets and base-year values for the different MDGs included in the model are shown in Table 4. In the baseline scenario there is progress across the board and the health related MDGs will achieve in 2015. There is also progress in reducing poverty, and the target is likely to achieve. The targets will not achieve the education target and the water and sanitation targets.

Table 4: Baseline Scenario and MDG targets

Indicator	Unit	2003	2010	2015	Target
National poverty headcount	%	52.0	42.4	27.0	24.5
Primary education completion rate	%	68.3	79.4	90.3	100.0
Under five mortality	Per 1000 children	115.0	70.6	32.1	33.0
Maternal mortality	Per 100,000 births	414.0	269.1	135.7	167.5
Access to water	%	49.0	53.6	60.0	74.0
Access to sanitation	%	86.0	87.0	88.4	92.0

Source: MAMS model results (Head Count Ratio target based on national poverty line, other MDG targets based on World Bank (2003) and Government of Kenya (2005a)

Improved economic performance during 2003-2007 reduced poverty in Kenya hence was a positive impact on the economy. In 1992-1997 people living below the poverty line increased from 44.7 percent to 2 percent in 1997 and declined in 2005/2006 to 47 percent. In the survey of 2005, there was a reduced poverty level within the rural households³⁷. Poverty in urban areas has also gone down and in other

³⁷ For a review on poverty incidence in Kenya see Oiro et. al (2004) and Manda et. al (2000).

areas remained at the same level of 49 percent other than in Nairobi. In urban areas, the growth was at an average of one percent but in rural areas the growth rate was at 3.6 percent while a study on poverty showed that the growth rate had raised to 5 percent.

The education sector has recorded substantial improvements in enrolment and retention rates in primary levels. The performance indicators are some of the factors affecting the primary school repetition, completion and transition rate which have improved. The rise in the number school going children (enrolment) in primary education was a result of Free Primary Education in 2003. An extra 1.5 million children were enrolled rising from 5.9 million to 7.4 million in 2004. The Gross Enrolment Rate (GER) stands at 104.8 percent as compared to 93 percent in 2002. Net Enrolment Rates (NER) has shown a significant improvement the last five years increasing from 67.8 percent in 2000 to over 82.0 percent in 2004. Primary school completion rate (PCR) has developed over the years, from 57.7 percent in 2000 to 76.2 percent in 2004. It shows that out of the total number of pupils enrolled in Standard 1 in 1996, slightly more than three quarters of them completed primary education in 2004.

The MDG goals are to be achieved to full completion in 2015. As primary school lasts eight years, this target has an 8-year lead time so achieving the goals. Therefore, there was a need for all the children to enroll in school by 2008. A study carried out in 2008 showed that there was improvement, and it targeted that 90 percent of the children will complete school by 2015. Hence, they were to be absorbed in secondary schools even though there were not specific guidelines on the same. Therefore, this has led to a lot of these pupils absorbed in secondary and tertiary institutions. Indeed, enrolment in secondary schools increased by 25

percent between 2000 and 2004. Gross enrolment at secondary level is about 30 percent, and the completion rate at the secondary level is about 79 percent. The transition rate from primary to secondary level has recorded an upward trend from the lowest rate of 43.3 percent in 2000 to 50.5 percent in 2004 (Republic of Kenya, 2006). The current level of transition rate is estimated to stand at 57.0 percent. Those pupils who continue with their education have grown from the results of 2006 at 60 percent and 2008 had a transition rate of 70 percent. It has also affected the enrolment in higher education with a lot of private universities coming up to be able to cater for a large number of students completing secondary schools. The tendency has continued over the years putting pressure on the ability of universities to deliver quality education resulting in low staff morale (World Bank, 2005). However, recent improvements in terms and conditions of service, combined with increased finances from student fees, have had some positive effects. The projections show both a steady increase at both secondary and tertiary level

Health of the mother and child mortality rate was also another target. In Kenya, child mortality rate has declined rapidly as a result of global initiatives as from 1970 to 1990s. It has improved because of child immunization that has been throughout the government hospital for no fee or at a fee (GoK, 2003, 2005a). The change has been realised because maternal care. The major challenge in reduction of child mortality continues increase in mortality rates since the 1990s in all regions of the country. Maternity mortality rates did, however, show some change from early 1990s to 2003. However, it is still far from the expected by 2015. Hence, it is possible to achieve MDG4 and MDG 5 with increased public spending allocated to the health sector.

The last MDG targets discussed in the study was the availability of water and sanitation. Safe water is estimated to access by 89 percent of urban dwellers and 49 percent of the rural area dwellers. For the last three decades it has emerged that inadequate funding for rehabilitation, upgrading and expansion of water supply and sewerage facilities has not availed. Most of the existing water supply and sewerage collection treatment and disposal systems constructed 30-40 years ago. As a result, both targets did not get any assistance in early 1990s to develop.

In order to achieve the MDGs in water and sanitation sector, 74 percent nationwide coverage of safe water supply and 92 percent coverage of improved sanitation are needed. More public resources would be needed to achieve both targets. The model includes several links between the MDG module and the rest of the economy. An important link is that the provision of the other government services needed to reach the MDGs requires additional resources such as capital, labour, and intermediate inputs. For example, increased demand for an individual labour group will increase the wage rate for that particular labour category. In the baseline scenario labour with higher skills seems to benefit most, even if all labour categories are receiving a higher real wage. Recall that the economy is growing at an average rate of 8 percent per year, and this drives up demand and has a positive effect on wages across the economy. The initially assumed an unemployment rate of 10 and 20 per cent in the unskilled and skilled labour categories, respectively and both labour categories unemployment is being reduced significantly to the minimum level set at 5 percent.

In summary, assuming a close to 8 percent annual increase in real GDP growth and a constant public expenditure-GDP ratio would be able to make some substantial progress in moving closer to the MDG targets, particularly the

health-related MDGs. However, the proposed allocation of public expenditures was not efficient to have a significant impact on all MDGs.

3.2 Achieving the MDGs, Financing Scenarios

There is some progress across all MDGs, but not sufficient to achieve all the targets. Additional resources are needed to achieve the MDGs and the financing options available to the government are either to increase taxes (mdg-tax), borrow domestically (mdg-db), foreign borrowing (mdg-fb) or grant aid (mdg-ga). In practice, a combination of the four financing options is used to finance operations within the public sector. The amount of resources required and the economy-wide impact of each alternative financing option. The scenario reveals the costs and the impact of each financial option separately achieve either an MDGs.

The different financing scenarios will have a different impact on GDP performance in the economy. Taxation and domestic borrowing tends to withdraw savings and hence lower investments and hence reduce GDP growth. Relying on foreign borrowing or grants would have a stronger effect on growth compared to the taxation and domestically borrowing scenarios. Table 5 shows the macroeconomic impact of the various financing options which would achieve all the MDG targets in education, health, water and sanitation. Interestingly compared to the baseline scenario public spending does only need to increase slightly in order to achieve all the MDGs. In the case of domestic borrowing the local debt-GDP ratio would increase to 68.6 percent in order to finance the necessary areas. Foreign borrowing stood at 60 percent of GDP ratio.

Table 5: Macroeconomic indicators - MDG scenarios

% GDP	Base	mdg-ga	mdg-tax	mdg-fb	mdg-db
Private consumption	65.0	64.5	62.8	64.5	62.9
Public consumption	24.2	26.3	26.7	26.3	26.6
Private investment	15.1	15.3	15.1	15.3	15.1
Public investment	5.4	5.3	5.1	5.3	5.2
Exports	18.9	16.5	18.3	16.5	18.0
Imports	-28.8	-28.0	-28.0	-28.0	-27.7
Foreign savings	0.9	3.2	0.9	3.7	0.9
Gross national savings	19.6	17.5	19.3	17.0	19.4
Gross domestic savings	10.7	9.2	10.5	9.2	10.5
External public debt	22.6	20.9	22.2	58.7	22.2
Domestic public debt	23.5	22.5	23.3	22.5	68.6
% Change Private consumption	7.8	8.2	7.6	8.2	7.6
% Change Public consumption	6.5	7.5	7.6	7.5	7.6
% Change Private investment	8.7	9.3	8.8	9.3	8.8
% Change Public investment	17.3	17.5	16.8	17.5	16.9
% Change Exports	7.4	6.9	7.2	6.9	7.1
% Change Imports	7.8	8.3	7.7	8.3	7.6
% Change GDP at market prices	7.8	8.0	7.8	8.0	7.8
% Change GDP at factor cost	7.9	8.2	8.0	8.2	8.0
% Change Real exchange rate	-2.0	-2.4	-2.1	-2.4	-2.1

Source: MAMS model results

Relying on taxation implies that the tax-GDP ratio needs to increase to around 30 percent (table 6). The remaining option would be to rely on foreign grants. In the case of grant-aid, it has to rise to a level around 2.8 percent of GDP. The major risk with a significant increase in grant-aid³⁸ (as well in the alternative of foreign borrowing) is the possibility of falling into the "Dutch Disease"³⁹. In both externally financed scenarios the real exchange rate appreciates by an annual average rate of 2.4 percent, which is slightly higher than the alternative

³⁸ Grant aid here refers to aid that is transferred directly to the government budget.

³⁹ The empirical evidence to support the interaction between aid flows and Dutch disease effects as well as the benefits of aid-financed investment has not been definitive.

scenario where domestic resource mobilization is used. The average annual growth rate of exports slows down to 6.9 percent, which is slightly lower than the baseline scenario or the alternative financing scenarios. However, there is no dramatic impact as the amount of aid (or external borrowing) required is not extraordinary high.

Table 6: Government expenditures and revenue (% of GDP)

Item	Base	mdg-ga	mdg-tax	mdg-fb	mdg-db
Transfer from the rest of the World	0.6	2.8	0.6	0.5	0.6
Direct taxes	18.0	18.0	20.5	18.0	17.6
Import duties	1.4	1.4	1.4	1.4	1.4
Other indirect taxes	7.8	7.7	7.6	7.7	7.5
Domestic borrowing	1.8	1.8	1.8	1.8	5.6
Foreign borrowing	0.7	0.7	0.7	3.5	0.7
Total revenue	30.5	32.4	32.6	32.9	33.4
Interest domestic debt	0.5	0.5	0.5	0.5	1.4
Interest rest of the world	0.3	0.3	0.3	0.8	0.3
Government consumption	24.2	26.3	26.7	26.3	26.6
Government investment	5.4	5.3	5.1	5.3	5.2
Total expenditure	30.5	32.4	32.6	32.9	33.4

Source: MAMS model results

Looking back at table 6 the impact of the different financing strategies on the various MDGs in the baseline scenario were seen to improvements, the health related objectives will be achieved, and poverty would decline significantly. Primary completion rate is increasing but would not reach 100 percent. Access to water and sanitation improves but still below the MDG targets. Table 3.4 also provide information on interactions on MDG targets that is by acquiring full primary completion on local resource mobilization giving way to higher poverty incidence compared to a situation that outward grants and were borrowing used. Focusing on water, and sanitation only would have a positive impact on poverty and the health goals if external borrowing or grants is used to finance the additional public spending. In both cases, private sector investment is crowded out by increased public

spending if the policy relies on taxation or domestic borrowing only. It is also the case in a situation where all MDGs targeted. The IMF (2005) studies indicated an absence of Dutch disease effects for five countries namely: - Ghana, Ethiopia, Mozambique, Tanzania and Uganda that experienced aid surges.

Table 7: Policy scenarios and MDG targets

Base year	% poverty head count	Primary completion rate (per 1000 children)	Under five Mortality (per 1000 children)	Maternal Mortality (per 100,000 births)	% Access to water	% Access to sanitation
	55	68.3	115.0	414.0	49.0	86.0
Base scenario	27.0	90.3	32.1	135.8	60.0	88.4
MDGs target	24.5	100	33.0	148.0	74.0	92.0
Mdg2-ga	24.7	99.1	30.4	129.1	60.7	88.6
Mdg2-tax	27.3	99.1	32.7	137.9	60.1	88.5
Mdg2-fb	24.7	99.1	30.4	129.1	60.7	88.6
Mdg2-db	27.2	99.1	33.1	139.6	60.1	88.5
Mdg45-ga	26.9	90.5	33.0	139.1	60.1	88.5
Mdg45-tax	26.4	90.5	33.0	139.1	60.1	88.5
Mdg45-fb	26.9	90.5	33.0	139.1	60.1	88.5
Mdg45-db	26.4	90.5	33.0	139.1	60.1	88.5
Mdg7-ga	26.6	90.6	27.5	126.3	75.8	92.0
Mdg7-tax	29.0	90.4	29.2	133.4	75.7	92.0
Mdg7-fb	26.6	90.6	27.5	126.3	75.8	92.0
Mdg7-db	28.9	90.4	29.3	133.9	75.7	92.0
Mdg-ga	24.6	99.1	32.8	148.0	75.9	92.0
Mdg-tax	28.2	99.1	32.8	148.0	75.7	92.0
Mdg-fb	24.6	99.1	32.8	148.0	75.9	92.0
Mdg-db	28.1	99.1	32.8	148.0	75.7	92.0

Source: MAMS model results

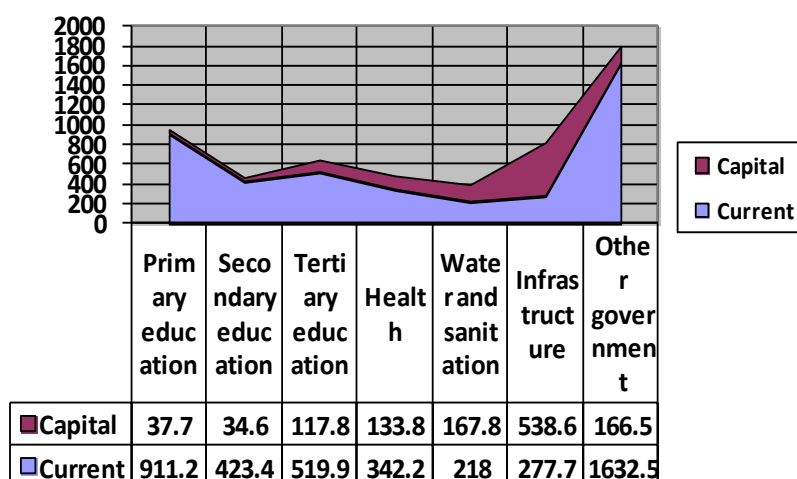
Turning back to the scenario where all the MDG targets achieved. A great result coming out from this analysis is that an efficient and an optimal allocation of public expenditures seem to be crucial whether Kenya will achieve the MDGs or not. Increased allocations in all sectors required, but some areas required a greater share of public resources. In the education sector, both current and capital expenditures needs to increase significantly at both secondary and tertiary level. It will not only achieve 100 percent completion at primary level but also satisfy the increasing demand at higher levels. A substantial amount of resources

was to be given to the water industry to achieve its goals. Continued high investments in infrastructure will be necessary, in particular to increase total factor productivity and growth, which in turn will reduce poverty.

The conclusion so far is that it is possible to achieve the MDGs under certain assumptions on GDP growth and enhanced public spending. However, is it a feasible plan, what is the macroeconomic impact of a scaling-up strategy or can the government create the necessary fiscal space? In principle, there are different ways in which a government can create such "fiscal space" (Heller, 2005)⁴⁰. Public spending did not meet the MDGs to a large extent. Still, undertaking a policy that would increase the domestic debt-ratio to close to 70 percent or an approach relying on foreign borrowing seems not to be a viable strategy. Foreign grants would be the preferred option, and the amount of resources is not extremely high. In addition, the additional resources would not have any significant impact on the real exchange rate. The time-profile differs between the various MDGs. For example, about MDG 2 the target set at full completion in 2015. As primary school lasts eight years, this target has an 8- year lead time. So achieving the MDG target requires complete enrolment of children by 2014 which means that educational expenditure, investments in particular, would need to be front-loaded before 2015.

⁴⁰ In a broad sense "fiscal space" can be defined as the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position (Heller, 2005).

Figure 3: Public spending both current and capital (KES in billions, 2003)



Source: Republic of Kenya various issues

In primary education, investment is increasing during the first years and up to 2008. Beyond 2008, no additional investments are needed to achieve the goal. In the other sector, there is massive increase in investments as both secondary and tertiary education services is expanding quietly dramatically in order to accommodate the increasing number of pupils graduating at each level. Investment in the health sector is growing in the first year and then remains constant at around 10 billion Kenya shillings a year (Figure 3). Investments in infrastructure and the water industry show a steady increase over the years. Table 8 provides some estimates on the cost expenditures by government function required to achieve the MDGs. The figures are the total amount of resources for the whole period 2003-2015, and thus reflect the amount of public resources required to achieve the MDGs. In order to compare the results with current expenditure patterns, it is difficult to match exactly as some investments in the scenario that needs to be front-loaded. It does not, usually, appear in budget estimates where investment expenditures typically show a smooth pattern over time.

Table 8: Public Spending (Current and Capital in billion Kshs)

Item description	Current	Capital	Total
Primary education	911.2	37.7	948.8
Secondary education	423.4	34.6	458.0
Tertiary education	519.9	117.8	637.7
Health	342.2	133.8	476.0
Water and sanitation	218.0	167.8	385.8
Infrastructure	277.7	538.6	816.3
Other sectors	1632.5	166.5	1799.0
Total	4324.8	1196.7	5521.5

Source: Government of Kenya (Various Issues)

3.2 Funding MDGs

This section provides an overall picture in terms of the total amounts allocated by both the government of Kenya and the development partners to MDGs related projects and programs. It assumed that the increased funding and attainment of MDGs targets shall translate into improvement in human development index through the various projects and programmes successfully implemented. The funding to the MDGs related sectors and projects during the five-year period from 2008/09 to 2012/13 from the government and development partners. It amounted to at least KES 1,564.6 billion Faith Based Organizations (FBOs) and philanthropists.

Table 9 below table shows (1) the total annual allocations by both the GOK and DPs to MDGs and (2) the total allocations by the GOK and DPs to all sectors.

Table 9: Total allocations to MDGs by GOK and development partners (KES billions)

CATEGORY	2008/9	2009/10	2010/11	2011/12	2012/13	TOTAL
(1) Total allocations to MDGs (GoK + DPs)	225.7	273.4	329.1	372.6	363.7	1,564.6
(2) Total budgetary allocations (GoK + DPs)	997.0	1,173.9	1,356.7	1,567.8	1,818.7	6,914.2
Proportion of MDG allocations of total	22.6%	23.3%	24.3%	23.8%	20.0%	22.6%

Source: Government of Kenya budget documents and development partner submissions

The share of funding for MDGs increased from 22.6% in 2008/9 to 23.8% in 2011/12 and then declined to 20% in 2012/13 as depicted in table 2 above. This translates to an average share of the MDGs funding of the total GoK budget funding and assistance by DPs to all sectors by GoK and DPs was 22.6 % over the period under review.

3.3 GOK Allocations to MDGs

The total government funding allocations to the MDGs-related sectors and projects during the period from 2008/09 to 2012/13 amounted to KES 969.2 billion. It includes the management development and recurrent budget allocations to core MDG sector ministries (such as Agriculture and Health). MDG related projects and programs in other non-core MDG sector ministries (such as the Ministry of Devolution and Planning); and devolved funds including CDF and ESP. The annual government funding allocations are presented in the following table 10.

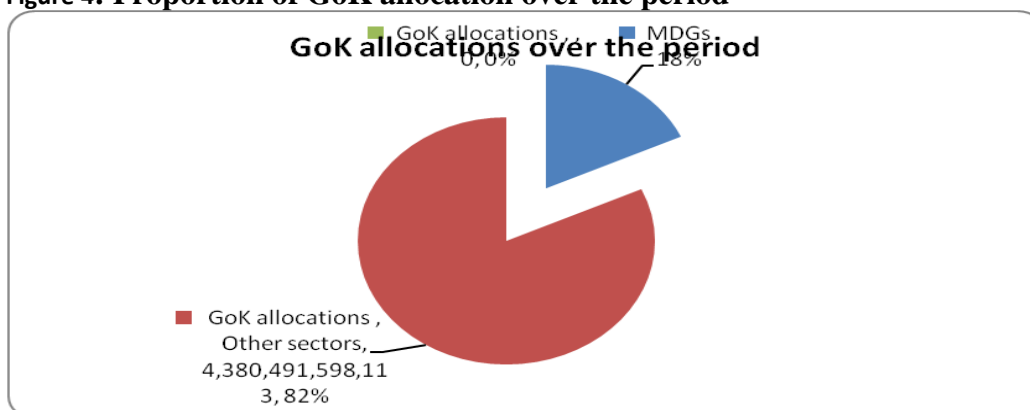
Table 10: Total GoK allocations to MDGs (KES billions)

Source of Funding	2008/9	2009/10	2010/11	2011/12	2012/13	Total
GoK MDG allocations	153.6	170.8	207.9	212.9	223.9	969.2
Total GoK budget allocations	771.3	900.5	1,027.6	1,195.2	1,455.0	5,349.6
Proportion of MDG allocations	20%	19%	20%	18%	15%	18%

Source: Government of Kenya budget documents

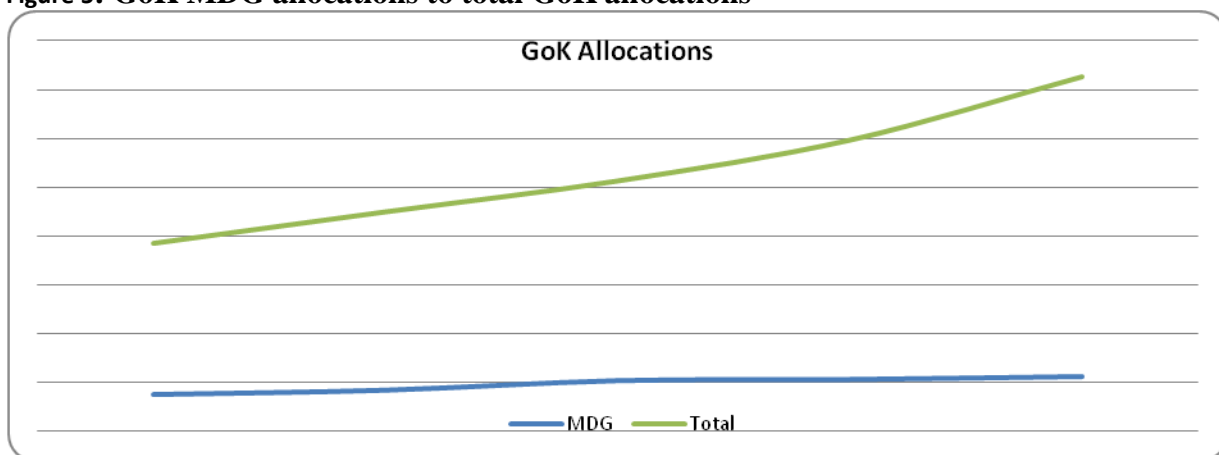
The proportion of government allocations to MDGs related programs to the total allocations over the period was 18% as depicted in figure 4 below.

Figure 4: Proportion of GoK allocation over the period



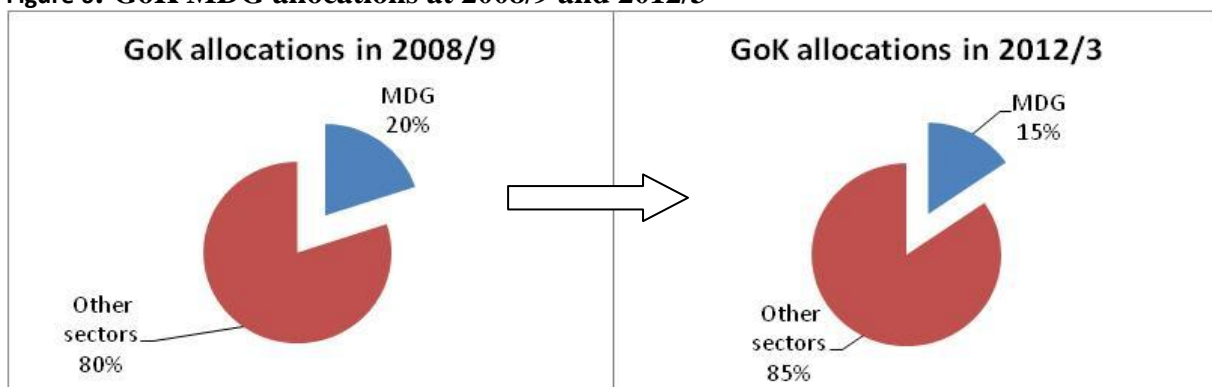
As shown in the figure 5 below, government allocations to MDGs related programs did not increase in line with increases in allocations to all sectors. While government allocations to MDGs related programs increased by 21%, the total government allocations to all sectors grew by 89%. However, it is implicitly implied that all activities undertaken lead to achieving MDG goals.

Figure 5: GoK MDG allocations to total GoK allocations



Further as shown in figure 6 below, the proportion of government funding allocations to MDGs related programs to total allocations decreased from 20% in 2008/9 to 15% in 2012/3. Hence, while the allocations were increasing over the period, the proportion that went to MDGs reduced over the period. It is consistent with the findings of the mid-term review of the first Medium Term Plan (2008-2012); the Government focused its resources on infrastructure and much less on social programs. While the development of infrastructure (such as roads and energy) is expected to affect the achievement of MDG targets, it is necessary to continue emphasizing direct funding to MDGs sectors.

Figure 6: GoK MDG allocations at 2008/9 and 2012/3

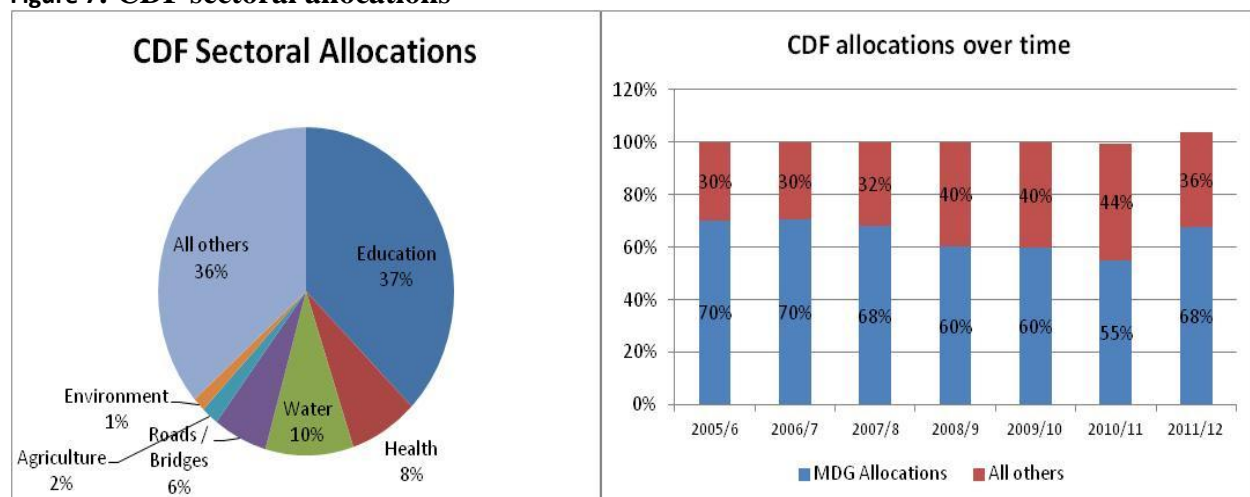


3.3.1 Devolved Funds

Devolved funds are those funds allocated to sub-national units such as constituencies and local governments to implement development programs according to local priorities. These funds include Constituency Development Fund (CDF) and Local Authorities Transfer Funds (LATF). To jumpstart the economy after the poor economic performance of the country in 2008⁴¹, government provided Economic Stimulus Programme (ESP) funds to constituencies to implement specific projects. The study was unable to obtain data for LATF in time and in a form that can analyze for the purpose of this report. During the period, the government disbursed KES 48.8 billion for CDF projects. The figure 7 below shows the proportion of the funding to the MDG sectors and the CDF allocations over the period.

⁴¹ However, the economy picked up afterwards

Figure 7: CDF sectoral allocations

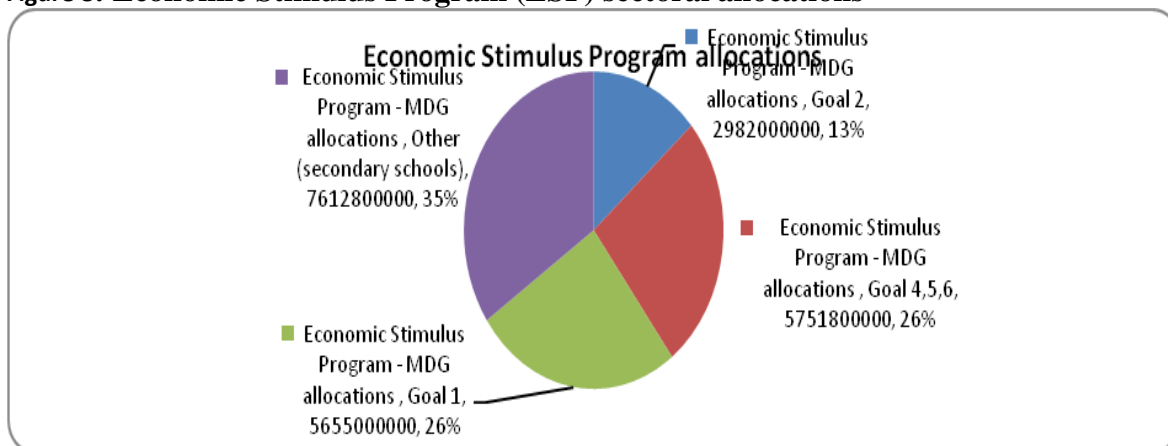


From figure 7 above, it can be deduced that the proportion of the total CDF funds allocated to MDG related projects over the period was 68% with education getting the highest proportion of 37% and the others being health, agriculture, environment and water. The rest of the allocations include bursaries to secondary schools. It implies significant emphasis by the public at local level on MDGs related projects. Public Finance Management Act 2012, as anchored in Chapter 12 of the Constitution of Kenya, stresses public participation as one of the key principles. Section 201 of the Constitution explicitly spells out the first principle to be “openness and accountability, including public participation in financial matters.”⁴² With the implementation of this Section of the Constitution, more funding to MDG-related activities at local level was expected in the future.

During the period, the government allocated KES 22 billion under the ESP. Of this amount, KES 14.4 billion or 65% of the allocation went to MDG related activities, which the rest 35% going to funding project in support of high school education. The allocations under ESP were as depicted in the figure 8.

⁴² Government of Kenya, "Constitution of Kenya, 2010", Government Printer Nairobi Kenya 2010.

Figure 8: Economic Stimulus Program (ESP) sectoral allocations



3.4 Development Partners' Support to MDGs

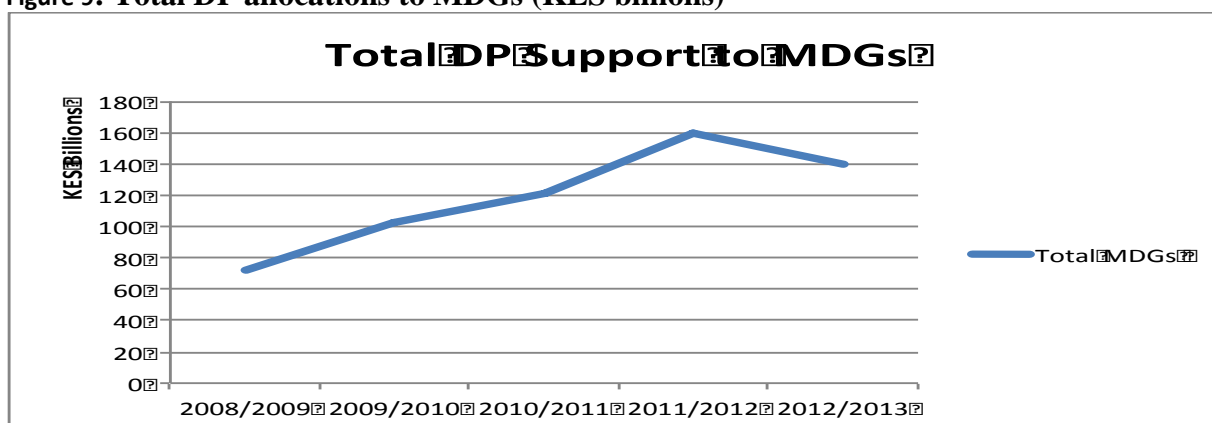
3.4.1 Introduction

As explained earlier, two different sources were relied on to obtain Development Partners' (DP) funding data. Firstly, data was collected directly from the DPs to establish the total annual allocations and disbursements, including support through GoK, NGOs and private sector to the MDG-related sectors and enablers over the last five years. Secondly, the GoK Development Estimate books 2008/09 - 2012/13 were used to extract the on-budget commitments. That is the support channelled through the Kenyan Government to the MDGs-related ministries and projects by the DPs in general, and particularly by the DPs who were not reached or did not reply. The GoK books were also used to establish the total on-budget external resources provided by DPs to Kenya. The total DP allocations in this report are thus the result of the DP's reports, complemented by GoK books.

3.4.2 Allocations

Development Partners' allocations to the MDGs in Kenya almost doubled from 2008/09 to 2012/13 in current prices. In the beginning, total annual allocations amounted at KES 72.1 billion and by the end of the period they had grown to KES 139.8 billion as shown on figure 9.

Figure 9: Total DP allocations to MDGs (KES billions)



Source: DPs reports, GoK development estimates

The growth fluctuated from the first to second year the support grew by 42%, and then slowed down to 18%, gained some speed again and eventually declined by 8.7% from 2011/12 to 2012/13. The total cumulative DP support (both on-budget and off-budget) to the MDGs in Kenya from 2008/09 to 2012/13 was KES 595.44 billion as depicted in table 11.

Table 11: Total allocations by DPs to MDGs (KES billions)

YEAR	2008/09	2009/10	2010/11	2011/12	2012/13	TOTAL
KES billion	72.11	102.62	121.18	159.71	139.81	595.44
Growth %	-	42.3%	18.1%	31.8%	-8.7%	

Source: Official Development Assistance Annual Reports 2008-2013

3.4.3 Disbursements

The analysis of the disbursements by the DPs had to be limited to the 20 who provided data on the disbursements. When the total reported disbursements between 2008/09 and 2012/13 are compared with the commitments by the same DPs during the same period, it can be seen that 65.9% of the allocated funds were actually disbursed. At the time of the study, the disbursement figures for

Box 3.1: Reasons for slow disbursements

- Slow execution of programs, especially at start-up; starting of the new programs takes a long time.
- Low capacity within the implementing ministries /project implementing units makes it difficult for them to keep up, particularly with new initiatives/activities.
- Delays in procurement and contract management; procurement using country systems have taken longer time that had been planned.
- Slow government's flow of funds process; lacking or delayed GoK budgets; and weak financial management controls.
- Political and security reasons.
- Disbursement in instalments beyond one fiscal year partly makes it look like a "slow disbursement".

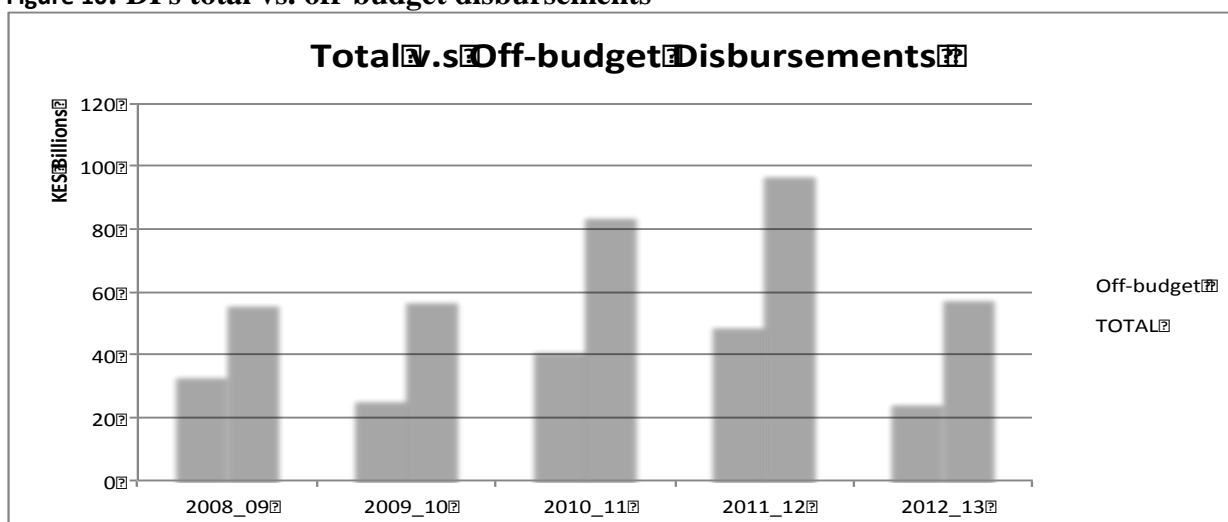
Source: Development partners

2012/13 were not yet complete and therefore the reported disbursements for this year are lower than they would normally be, reducing the total. There were substantial differences between the disbursement rates of the DPs. Some had 100% disbursement performance and real experiences with working through GoK structures, while others have faced challenges, and funds have been disbursing slowly. Some of the reasons listed by the DPs for the slow disbursements are listed in Box 3.1.

3.4.4 Off-budget Disbursements

The off-budget support (assistance through NGOs and private sector channels) was compiled from the DP's disbursement spreadsheets. A total of 12 DPs of the 20 DPs who reported disbursement data, disbursed also through non-state channels, amounting at KES 175.12 billion in five years, i.e. 29.4% of the total DP support to MDGs. Of the total reported disbursements, the share of the off-budget disbursements was about half, 49.5%. The share has declined from 59% in 2008/09 to 41% in 2012/13. The off-budget disbursements of the 12 DPs represented 98% of their total disbursements as shown on figure 11.

Figure 10: DPs total vs. off-budget disbursements



Source: Analysis of data provided by the 20 DPs (see annex 2&3)

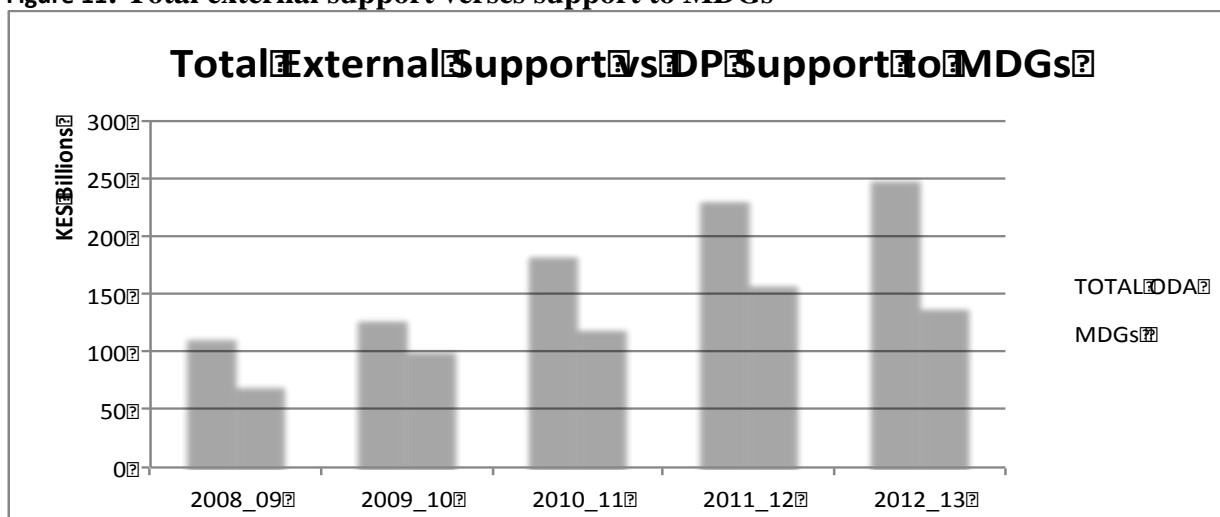
3.4.5 Allocations to MDGs versus Total Development Assistance to Kenya

In the absence of information of the total off-budget development assistance by DPs to Kenya, a comparison between the DP support to the MDGs and the overall development assistance to Kenya is difficult. However, if the assumption made that most of the off-budget support by the DPs has been to the MDGs-related sectors. It is thus known that the total development assistance to Kenya and get an indicative comparative picture. According to the GoK Development Estimates, the total on-budget external resources to Kenya during the period under review amounted at KES 736.26 billion. The reported off-budget support through this study was KES 175.12 billion during the same period. When these two combined, the total DP support to Kenya will be plausible to KES 911.38 billion. During the same period, the total cumulative support to MDGs was KES 595.4 billion, being 65.3 % of the total cumulative development assistance to Kenya. Even if the figure is not accurate, it can be considered to give a reasonably good indication of the share of MDGs-related funding of the total development assistance to Kenya. The DPs asked if MDGs played a significant role in their decision making on the assistance to Kenya. Some of the responses are shown in Box 3.2. Figure 11 was prepared with the above assumption and it depicts the total annual development assistance to Kenya (on- and off-budget) and the total donor support to MDGs.

Box 3.2: Do MDGs play a role in decisions making in DP funding?

The MDG-indicators have been one of the decisive factors for many DPs, but not the only one, when deciding on the assistance to Kenya. Two areas where the status of the related MDG indicators played an important role were maternal and reproductive health and environment. The DPS emphasize that their assistance is aligned with Kenyan government's development plans. In addition, the DPs underline the importance of extensive consultations with all stakeholders, notably the Kenyan Government in the funding decisions. The Kenya Joint Assistance Strategy (KJAS) and division of labour within this strategy were mentioned as part this interaction. Commitments are made for long term and these earlier engagements were reflected in the support during the reporting period. DP's own development policy programme priorities are also reflected in the portfolios.

Figure 11: Total external support verses support to MDGs



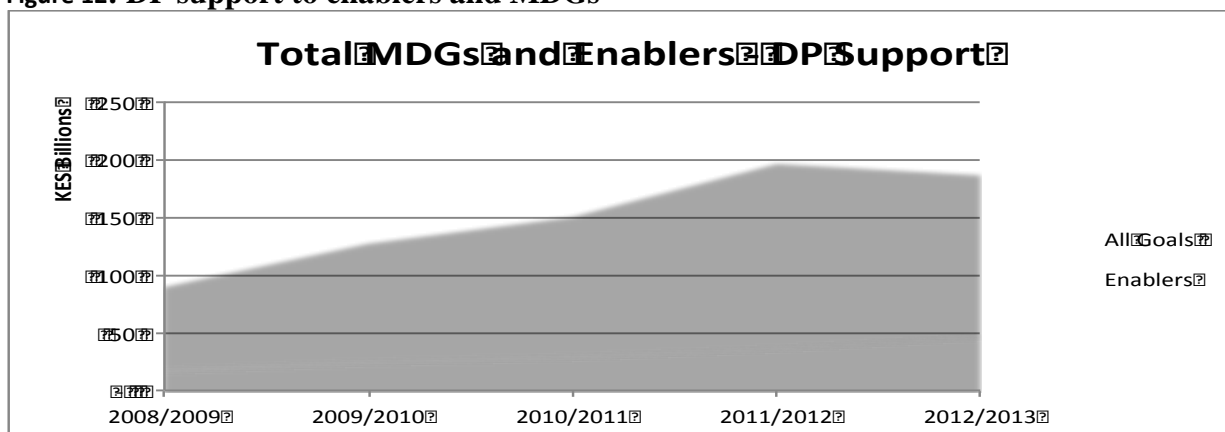
Source: GoK Development Estimates 2008/09-2012/13 and the DPs reports

The share of MDGs support of the total was 63.4% in 2008/09, thereafter increased to 79.2% in the following year. The percentage fell to 65.6% in 2010/11, then increased a little to 68.7%, and dropped again to 55.7% in 2012/13. It concluded that the share of the funding directed towards MDGs by the DPs has been significant.

3.4.6 Enablers

Enablers are expected to create an enabling environment to the attainment of most of the MDGs. The enablers included in this study are rural electrification, rural and regional roads, governance and individual MDG-projects. The total reported cumulative external funding towards the enablers amounted at KES 168.78 billion during 2008/09-2012/13. It is equivalent to 28% of all the allocations to MDGs-related sectors and projects. Support to enablers has grown steadily by 16% - 35% annually, from KES 20.6 billion to KES 49.3 billion in five years as shown on figure 12.

Figure 12: DP support to enablers and MDGs



Source: DPs reports, GoK Development Estimates

3.4.7 Development Partners Supporting MDGs

According to the GoK Development Estimates books, a total of 39 (16 multi-lateral and 23 bi-lateral) donor agencies from 19 countries have been supporting Kenya’s development through on-budget grants and loans between 2008/09 and 2012/13. The response from the DPs and the analysis of the GoK Development Estimate books revealed that out of the 16 multilateral agencies, 12 have also channelled funding to the MDGs-related sectors and projects. Out of the 19 partner countries, 17 have been supporting the MDGs-related sectors and activities.⁴³

Based (mainly) on the analysis of the DP’s reporting, the biggest donors to the MDGs-related sectors in Kenya were USAID with KES 144 billion. The World Food Program (WFP) with KES 110 billion between 2008/09 and 2012/13.⁴⁴ However, the latter includes support also reported by the bi-lateral donors. Thus, there is some double counting. USAID and WFP followed by the World Bank (WB), DFID and African Development Bank (AfDB), with their support between KES 40 - 60 billion each. The next two were France and Germany.

⁴³ This report covers 15 of them.

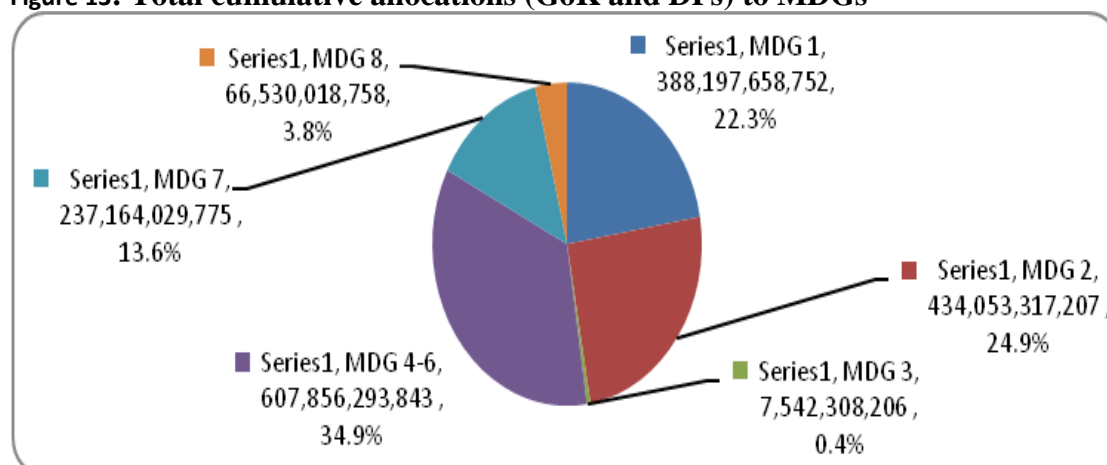
⁴⁴ Data for five agencies/countries was extracted from the Development Estimates books in the absence of DP’s own reports.

3.5 MDG Funding In Kenya By Goals

3.5.1 Overview

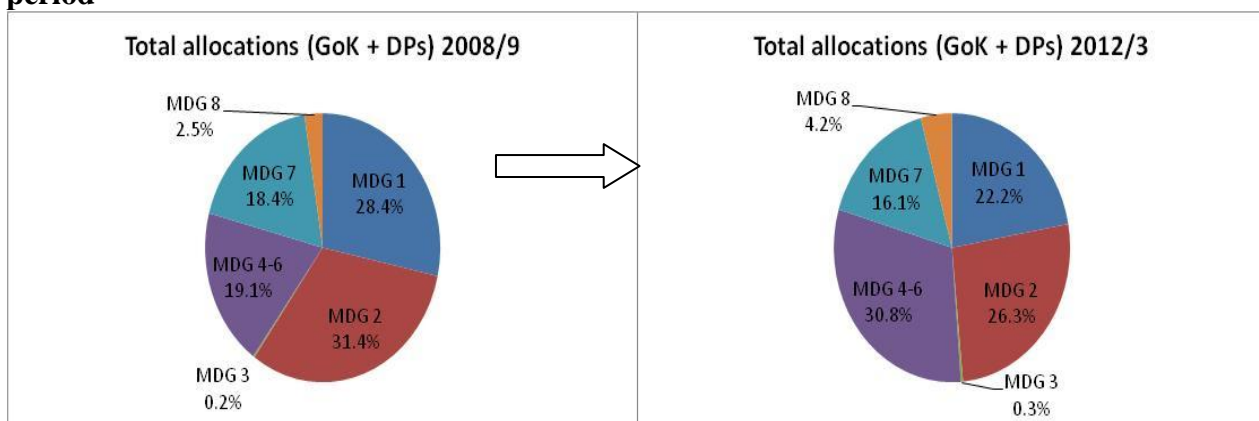
This section looks at the funding allocation by the government of Kenya and the development partners categorized according to MDGs, starting with overall comparisons between goals. The health sector (MDGs 4-6) received the highest proportion of the total allocations of the government of Kenya and development partners, with 34.6%. It was followed by primary education (MDG 2) with 24.9%, and food security, poverty alleviation and employment (MDG 1) with 22.3%. The lowest shares went to MDG 3 (0.4%) and MDG 8 (3.8%) as depicted on figure 15.

Figure 13: Total cumulative allocations (GoK and DPs) to MDGs



Over the period under review, there was a significant shift in funding emphasis towards MDGs 4-6, with the share increasing from 19.1% in 2008/9 to 30.8% in 2012/3. The proportion of total allocations to MDG 2 reduced from 31.4% in 2008/9 to 26.3% in 2012/3 and to MDG 1 from 28.1% in 2008/9 to 22.2% in 2012/3 as shown in figure 16.

Figure 14: Proportion of allocations (GoK and DPs) to MDGs at start and end of period



3.5.2 GoK Resources

The GoK committed itself to implement the MDGs as a matter of priority.

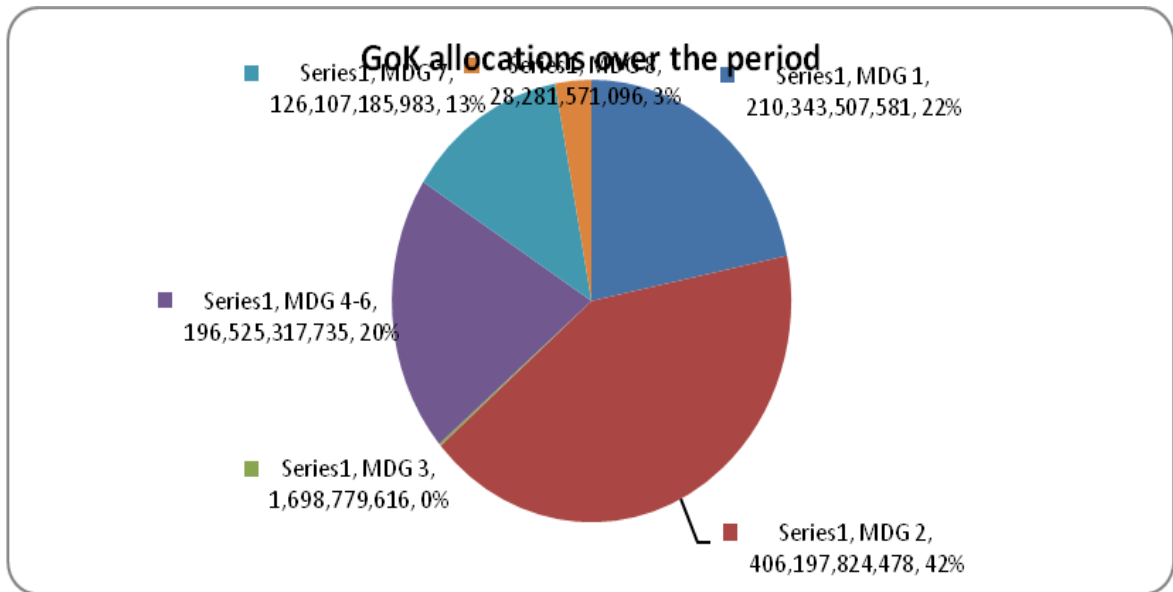
Table 12 provides the annual government allocations to the MDGs over the period.

Table 12: Annual GoK allocations to MDGs

MDG	2008/9	2009/10	2010/1	2011/2	2012/3	Total	Percent
MDG 1	37.0	37.2	45.8	38.3	52.0	210.3	21.7%
MDG 2	63.7	68.2	86.4	85.4	102.5	406.2	41.9%
MDG 3	0.0	0.5	0.4	0.4	0.4	1.7	0.2%
MDG 4-6	31.0	40.5	45.1	55.1	24.8	196.5	20.3%
MDG 7	20.1	20.3	25.4	28.4	31.9	126.1	13.0%
MDG 8	1.8	4.2	4.9	5.2	12.2	28.3	2.9%
Total	153.6	170.8	207.9	212.9	223.9	969.2	100.0%

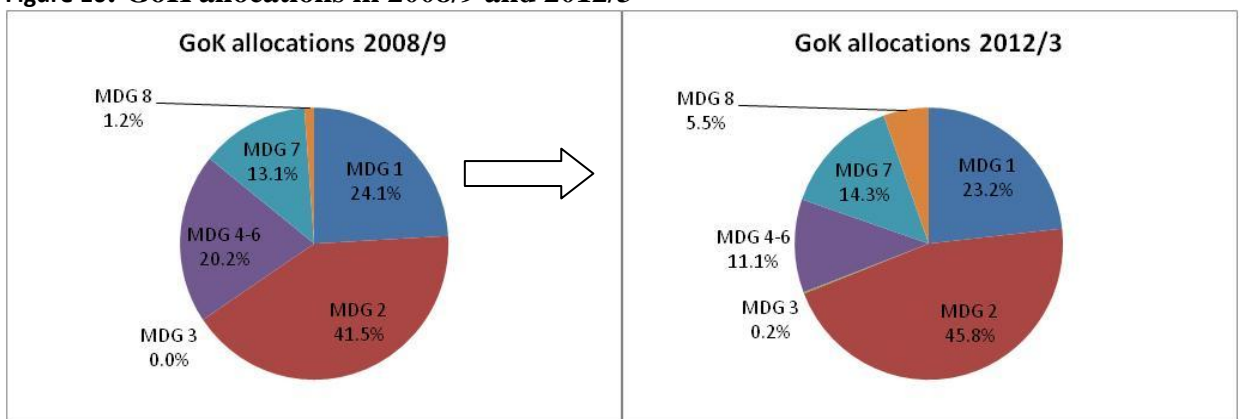
Government's MDGs-related allocations focused on primary education (MDG 2), which got the highest amount over a period of KES 406.2 billion, or 42% of the total government MDGs funding. It followed by food security; poverty alleviation and employment (MDG 1) at 22%, and health (MDG 4-6) at 20% as indicated in figure 17.

Figure 15: GoK allocations over the period



The government maintained a strong focus on primary education throughout the period increasing its share of MDG funds from 42% in 2008/9 to 46% in 2012/13. This emphasis may have contributed substantially to the probability of achieving MDG 2 targets. Health related sectors (MDG 4-6) suffered the greatest reduction in proportional allocations from 20% in 2008/9 to 11% in 2012/13 as depicted in the figure 18.

Figure 16: GoK allocations in 2008/9 and 2012/3



MDG six targets are being achieved as a result of substantial development partner funding. However, MDG 5 has not performed well, and as seen from the analysis, not enough resources have gone to supporting the achievement of this MDG.

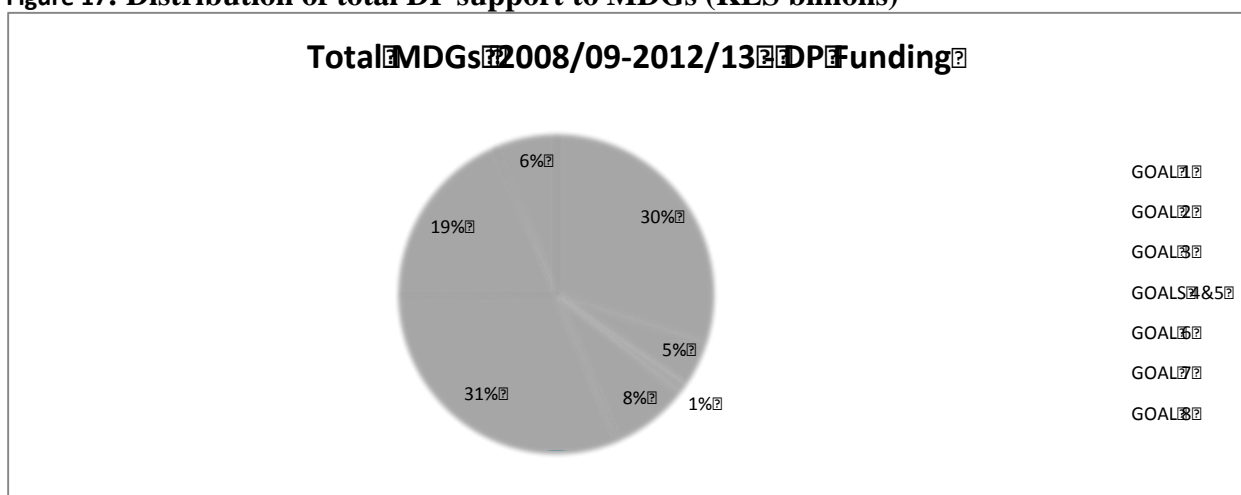
However, with the current focus on maternal health, there is optimism that real progress is eminent.

3.5.3 Allocations to MDGs by Development Partners

3.5.3.1 Overview

The largest cumulative share of the DP allocations to MDGs from 2008/09 to 2012/13 went to Goal 6: *Combat HIV/AIDS, malaria and other diseases* with KES 186.3 billion (31%). This was followed by Goal 1: *Eradicate Extreme Poverty* covering agriculture, fishing, livestock, rural development, employment creation and social protection amounting to KES 177.8 billion (30%). The third largest cumulative share of the DP support to MDGs has gone to Goal 7: *Ensure Environmental Sustainability* consisting of support to environment, climate change, water supply and sanitation, and urban housing, attracting a total of KES 111.0 billion, or 19%. The figure 19 shows the distribution of the DP support between MDGs.

Figure 17: Distribution of total DP support to MDGs (KES billions)



Source: DPs reports, GOK Development Estimates

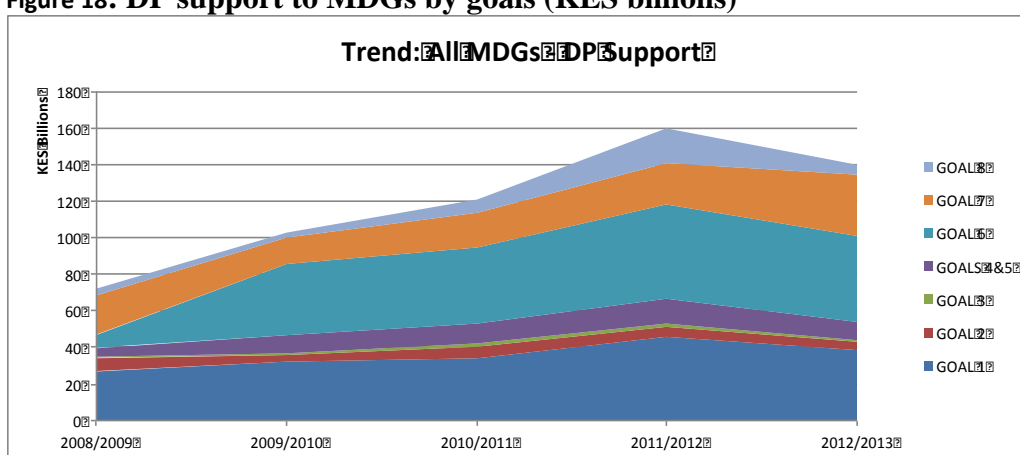
As can be seen from figure 20 above, the remaining two health sector goals (4 & 5) related to child and maternal health, have not benefitted much from the donor support. These together have received funding amounting to KES 48.3 billion (8%) over the last five years. Goal 2 on primary education received KES 27.8 billion (5%)

of donor support. The least supported was Goal 3 on the promotion of gender equality and women empower. It received only KES 5.8 billion, representing a meagre 1% of the total DP support during the period under review.

3.5.3.2 The Trend

Funding to goal number 6 has grown six fold during the five-year period, from KES 7.0 billion to KES 46.5 billion. While the support to combined Goals 4-5 grew by 99.8%, to Goal 7 by 58.6% and to Goal 1 by 41.6% that of Goal 2 decreased. As evidenced in figure, 20 annual fluctuations were quite large within most goals.

Figure 18: DP support to MDGs by goals (KES billions)



Source: DPs reports, GoK Development Estimates

From table 13, it is evident that the annual DP allocation to MDGs has been increasing with money allocated. MDG 1 was leading, while MDG 4 received the least throughout the period under review.

Table 13: Annual DP allocations by goals (KES millions)

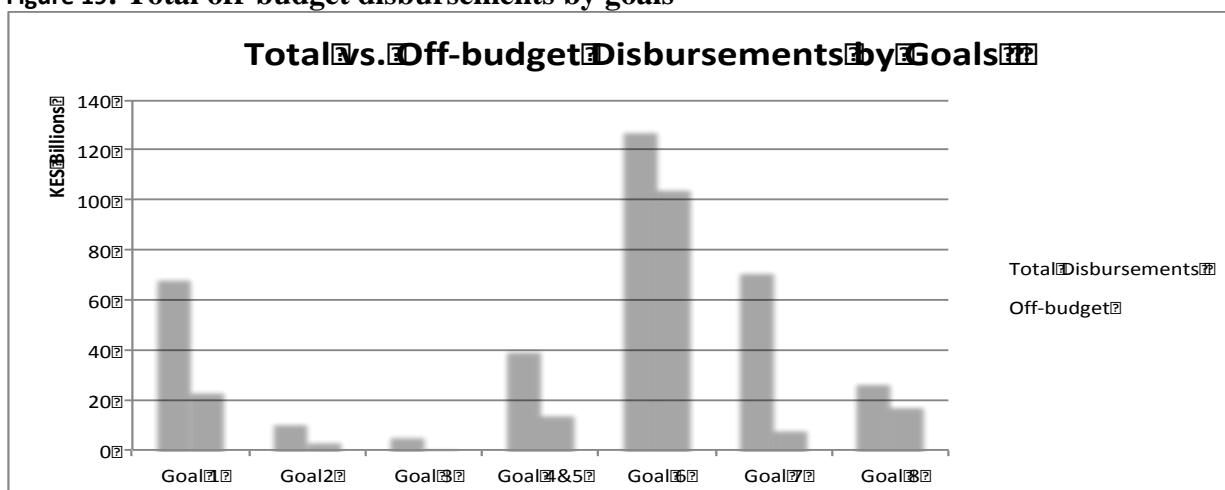
GOAL/YEAR	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	TOTAL
GOAL 1	27 081	32 026	34 178	46 178	38 389	177 854
GOAL 2	7 287	4 083	6 284	5 358	4 842	27 855
GOAL 3	435	915	2 023	1 632	836	5 843
GOAL 4	3 654	6 674	8 536	9 622	7 106	35 595
GOAL 5	1 411	3 222	1 602	3 445	3 018	12 699
GOALS 4&5	5 066	9 896	10 139	13 067	10 124	48 295
GOAL 6	7 052	39 041	41 677	51 927	46 587	186 287
GOAL 7	21 380	13 895	19 303	22 563	33 914	111 056
GOAL 8	3 808	2 76	7 576	18 979	5 119	38 248
ALL GOALS	72 113	102 624	121 181	159 708	139 813	595 440

The peak in 2011/12 explained by quite significant increases in funding flows to Goals 1, 6 and eight as depicted the actual allocations by goals. As can be seen from the data above, annual fluctuations under each goal were enough.

3.5.3.3 Off-budget Disbursements by Goals

It is striking how prominently Goal 6 features in the total reported off-budget support to MDGs: it represents 60% of all reported off-budget disbursements to all MDGs by DPs during the period under review. Furthermore, as can be seen from figure 21 below, the share of the off-budget disbursements of the total disbursements to this goal was very high, 82.2%. The disbursements through non-state channels of the total allocations to this goal were also prominent, 56.4%.

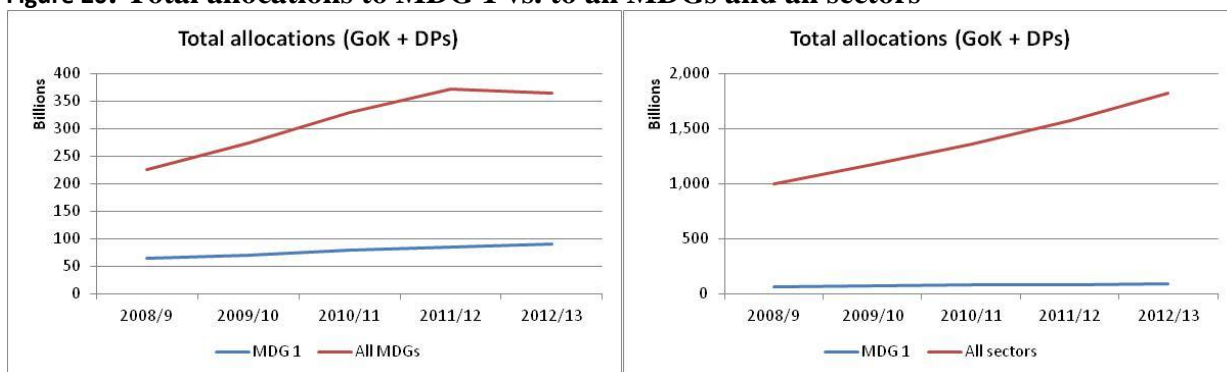
Figure 19: Total off-budget disbursements by goals



Source: 20 DPs reports (see annex 2&3)

Total funding allocations for MDG 1 from the government of Kenya and development partners during the period was KES 388.2 billion. Annual allocations increased from KES 64.1 billion in 2008/9 to KES 90.4 in 2012/3; an increase of 41% during the period. It is against an increase in total MDG allocations of 61%, and an increase in total allocations to all sectors of 82%. The proportion of total funding allocation to MDG 1 averaged 6% of the total over the period as indicated in figure 22.

Figure 20: Total allocations to MDG 1 vs. to all MDGs and all sectors



3.5.3.4 GOK Funding

Government funding allocations to MDG 1 obtain from government budget estimates. These included approved (annual) estimates and supplementary estimates, both recurrent and development. For ministries responsible for agriculture, regional and rural development; Northern Kenya and arid lands and also Special Programs with the total of both recurrent and development budgets are included. Ministry in charge of youth affairs has included for its substantial emphasis on training of the youth for employment.

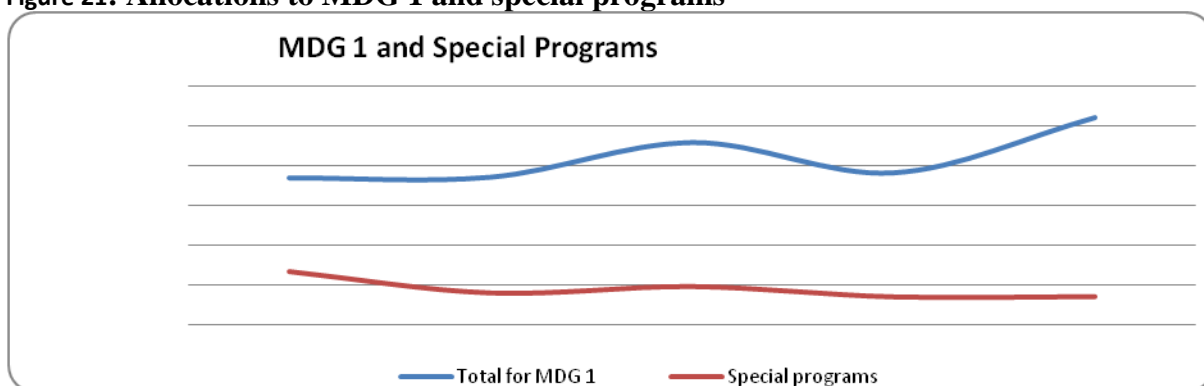
For other ministries with food security, poverty alleviation and employment related programs, funding to the specific programs were extracted mainly from the development estimates and included as part of this study. These ministries included the Planning (CDF programs, Central Kenya Dry Areas Program, South Nyanza Development Project, and Poverty Eradication Commission). Local Government (markets); former Office of the Prime Minister (*Kazi Kwa Vijana*); Finance (SME subsidies); and Industrialization (*Jua Kali* sheds). Table 14 presents the annual government allocations to MDG 1 related programs.

Table 14: GoK annual allocations to MDG 1 (KES billions)

MDG	2008/9	2009/10	2010/1	2011/2	2012/3	Total	Percent
MDG 1	37.0	37.2	45.8	38.3	52.0	210.3	21.7%
Total MDGs	153.6	170.8	207.9	212.9	223.9	969.2	100.0%
% of allocations to all sectors	4.8%	4.1%	4.5%	3.2%	3.6%	3.9%	

The proportion of government allocations to MDG 1 against allocations to all MDGs over the period was 21.7%. Against allocations to all sectors was 3.9%, with the annual proportion over the period ranging between 3.2% and 4.8%. The proportion has been declining, with 4.8% 2008/9 and 3.6% 2012/3. The essential feature of allocations to MDG 1 is the funding to Special Programs, which primarily focused on famine relief. The proportion of funds allocated for this purpose was 36% in 2008/9. It has since reduced to 13% in 2012/3 as shown in figure 24 below further proving the point why Kenya continues to suffer from chronic food insecurity in many parts of the country including agriculturally high potential ones.

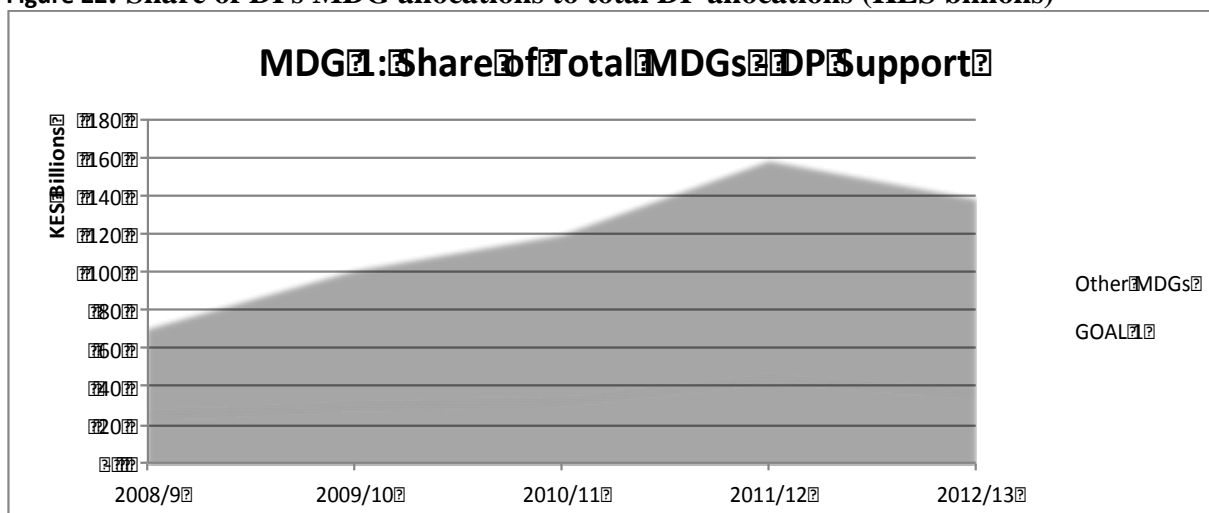
Figure 21: Allocations to MDG 1 and special programs



3.4.3.5 DP Funding

Food security (agriculture, livestock, and fisheries), rural development, employment creation and social protection have been in the core of the DPs' funding to Kenya during the last five years: of the total cumulative MDGs funding by DPs, its share was the second largest at **30%**. However, the proportion of the DP funding as it can be deduce from figure 24, decreased from 37.5% in 2008/09 to 27.5% in 2012/13.

Figure 22: Share of DPs MDG allocations to total DP allocations (KES billions)



Source: DPs reports, GoK Development Estimates

A total of 21 DPs provided funding to activities falling under Goal 1. The main contributors to this MDG were; the World Bank, World Food Program, AfDB, DFID and EU.

As can be seen from table 15, funding flows to the Goal 1 showed a steady increase for the first two years, after which it jumped by 35% in 2011/12 and then decreased in 2012/13.

Table 15: Total allocations by DPs to MDG 1 (KES billions)

YEAR	2008/09	2009/10	2010/11	2011/12	2012/13	TOTAL
KES billion	27.10	32.03	34.18	46.17	38.39	177.85
Growth %	-	18%	6.8%	35.1%	-16.8	

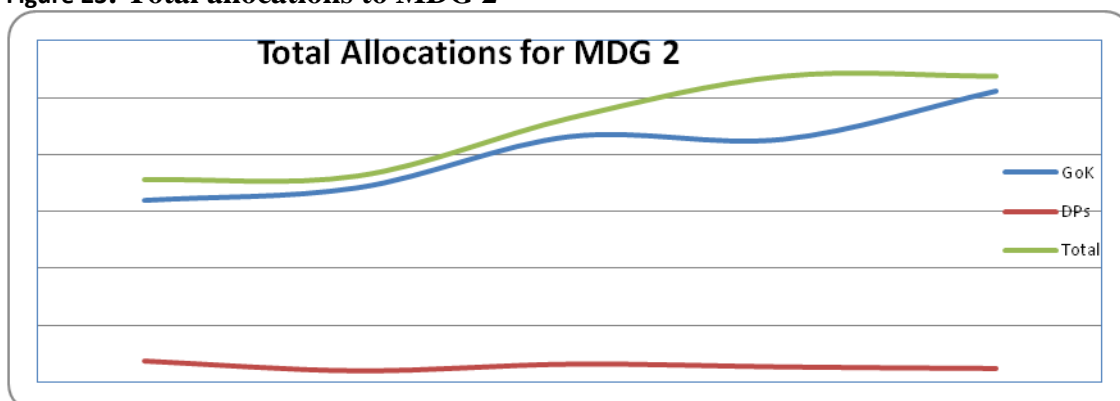
3.4.3.6 Conclusions

In conclusion, not only is the proportion of funding to MDG 1 low, the proportion of funding allocation from both the government and development partners declined over the period. GoK proportion of the allocations to MDG 1 to the total GoK allocations averaged only at 3.9%. This small level of funding coupled with the continued existence of allocations for emergency food relief indicates chronic food insecurity during the period under review.

3.4.4 Goal 2

Total allocations to primary education increased from KES 71 billion to KES 107 billion, an increase of 51% over the period as indicate in figure 25. It is also worth to note that Government of Kenya allocations increased substantially over the period while development partner support decreased.

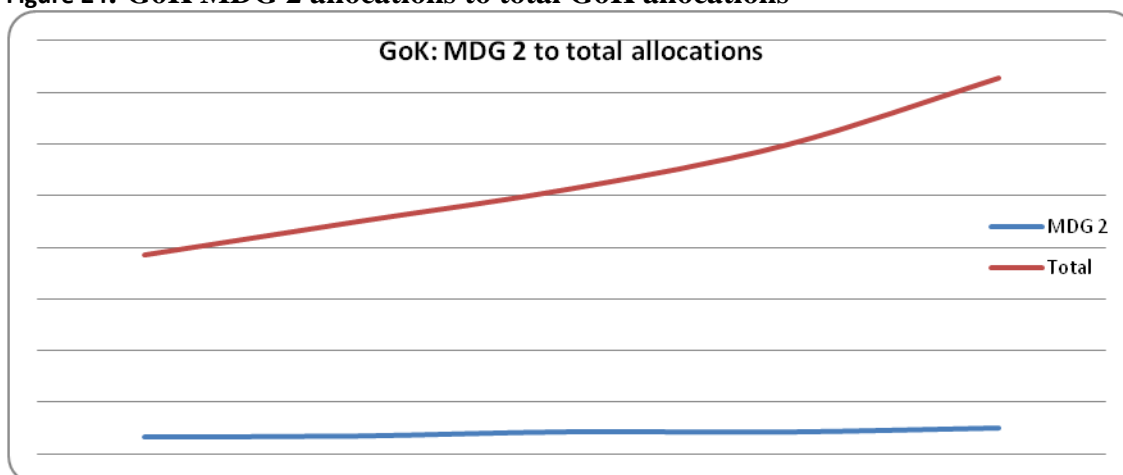
Figure 23: Total allocations to MDG 2



3.4.4.1 GOK Funding

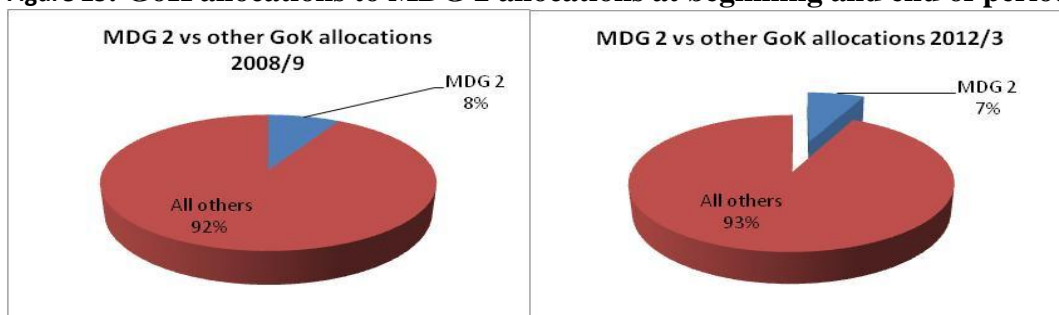
Government funding allocations to primary education extracted from state annual and supplementary estimates component of primary education from the ministries in charge of education. Government allocations to primary education increased from KES 63.7 billion in 2008/9 to KES 102.5 billion in 2012/3. An increase of 61% against the increase in total allocations to all sectors of 89% as evidenced in figure 26.

Figure 24: GoK MDG 2 allocations to total GoK allocations



The government increased its funding for free primary education over the period. The proportion of allocation to MDG 2 as compared to allocations to other sectors reduced slightly from 8% in 2008/9 to 7% in 2012/3 as depicted in the following diagram (figure 27).

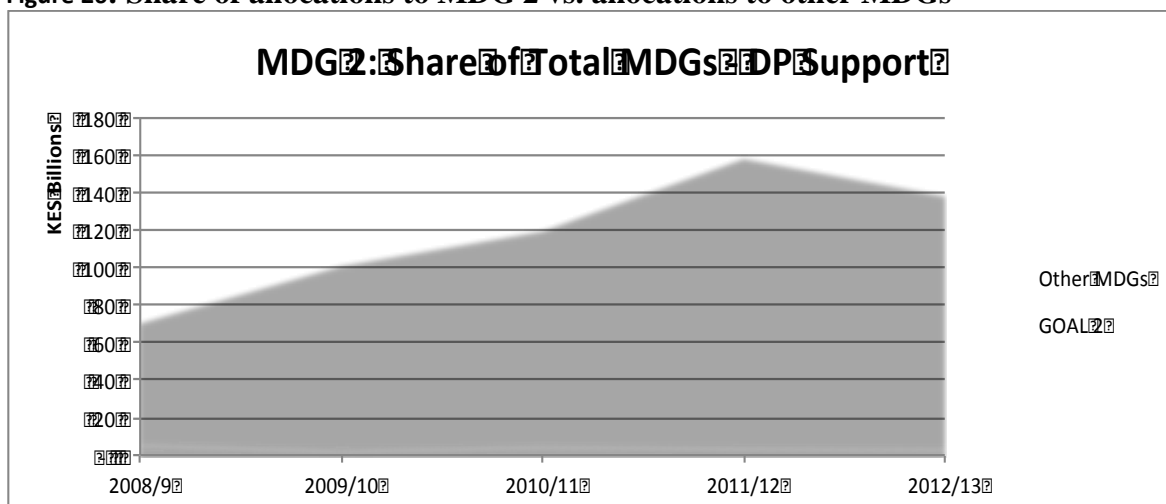
Figure 25: GoK allocations to MDG 2 allocations at beginning and end of period



3.4.4.2 DP Funding

The cumulative DP support to primary education has been only **5%** of the total MDG funding 2008/09-2012/13, amounting at KES 27.55 billion. Its share of the total MDG-support has decreased from 10% in 2008/09 to only 3.4 % in 2012/13 as seen in figure 28.

Figure 26: Share of allocations to MDG 2 vs. allocations to other MDGs



Source: DPs reports, GoK Development Estimates

Annual funding flows decreased by 33.6% from 2008/09 to 2012/13 and fluctuations were quite large, varying between KES 4 billion and KES 7 billion as indicated in table 16.

Table 16: Total allocations by DPs to MDG 2 (KES billions)

YEAR	2008/09	2009/10	2010/11	2011/12	2012/13	TOTAL
KES billion	7.29	4.08	6.28	5.36	4.84	27.85
Growth %	-	-44.0%	53.9	-14.6%	-9.7%	

A total of 10 DPs has provided assistance to Goal 2. The principal funders have been WFP, DFID and USAID.

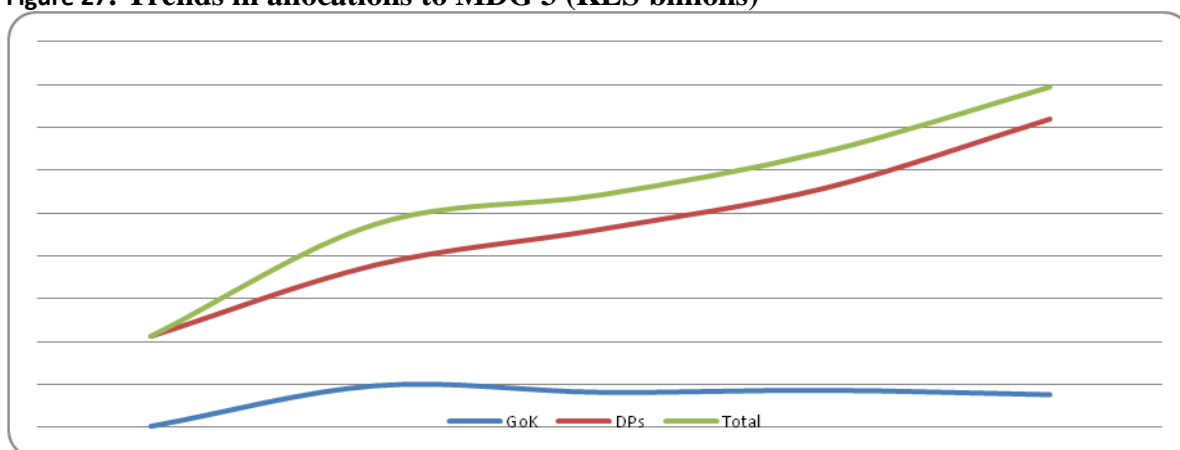
3.4.4.3 Conclusions

Although there was a slight decrease in proportion of GoK funding to primary education from 8% to 7% of total allocations in 2008/9 and 2012/3 respectively. The government maintained significant commitment of funding to MDG 2 programs, with very small development partner support. As a result of the GoK commitment, MDG 2 has registered good results.

3.4.5 Goal 3

The share of this goal of the total allocations to MDGs was the lowest, only 0.4% over the period under review. However, total allocations to MDG 3 increased from about KES 1 billion in 2008/9 to KES 4 billion in 2012/3, an increase of 271% over the period. Most of these funding came from the development partners in the given period shown in figure 29.

Figure 27: Trends in allocations to MDG 3 (KES billions)



3.4.5.1 GOK Funding

Government funding allocations to MDG 3 were mainly through the Women Enterprise Fund (WEF). WEF is a Semi-Autonomous Government Agency in the Ministry of Gender, Children & Social Development established in August 2007. To provide accessible and affordable credit to support women start and/or expand the business for wealth and employment creation. The Fund was allocated KES 482 million in 2009/10. The annual allocation had reduced to KES 377 million in 2012/3. By April 2013, WEF had disbursed KES 1.4 billion to 24,478 women groups in all the 210 constituencies in Kenya through financial intermediaries.

3.4.5.2 DP Funding

The share of the support by DPs targeted to gender equality and women empowerment has been negligible. There was only 1% of the cumulative support by

DPs to all MDGs, an equivalent of KES 5.8 billion in five years. As can be seen from the table 17, the funding grew rapidly at the beginning of the period and then started declining.

Table 17: Total annual DPs allocations to MDG 3 (KES billions)

YEAR	2008/09	2009/10	2010/11	2011/12	2012/13	TOTAL
KES billion	0.43	0.91	2.02	1.63	0.83	5.84
Growth %	-	111.6%	122%	-19.3%	-49.1%	

A total of nine DPs funded activities under this goal. The main contributor was The World Bank. Some of the funding reported by the WB under this goal, however, might more logically fall under Goal 1, further reducing the weight of this MDG in the DP funding. However, gender being a crosscutting theme of many donors, it is inbuilt in many projects and is not reported separately under this MDG.

3.4.5.3 Conclusions

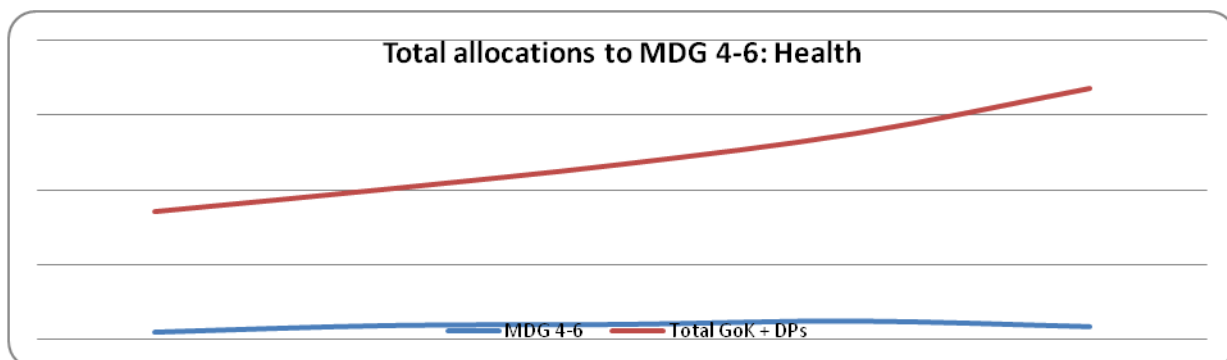
Funding to this goal has been minimal. Low awareness and social and cultural attitudes are the main impediments to progress in the achievement of MDG 3. Recent policy and legal changes with the enactment of the new Constitution and government policy pronouncements in support of women empowerment may result in some progress. This is one area where improved political will, right policies, education and awareness building and are likely to make the greatest difference in achieving MDG 3.

3.4.6 Goals 4-6

The proportion of the health sector of all MDGs-related allocations was the highest, 34.6%. The allocations to MDGs 4-6 increased from KES 43.1 billion in 2008/9 to KES 81.5 billion in 2012/3, an increase of 89%. It was due to substantial increases in development partner funding to Malaria, HIV/Aids and TB (MDG 6)

over the period. The share of MDG 4-6 of all allocation by GoK and DPs to all sectors averaged 7% as indicated in figure 30.

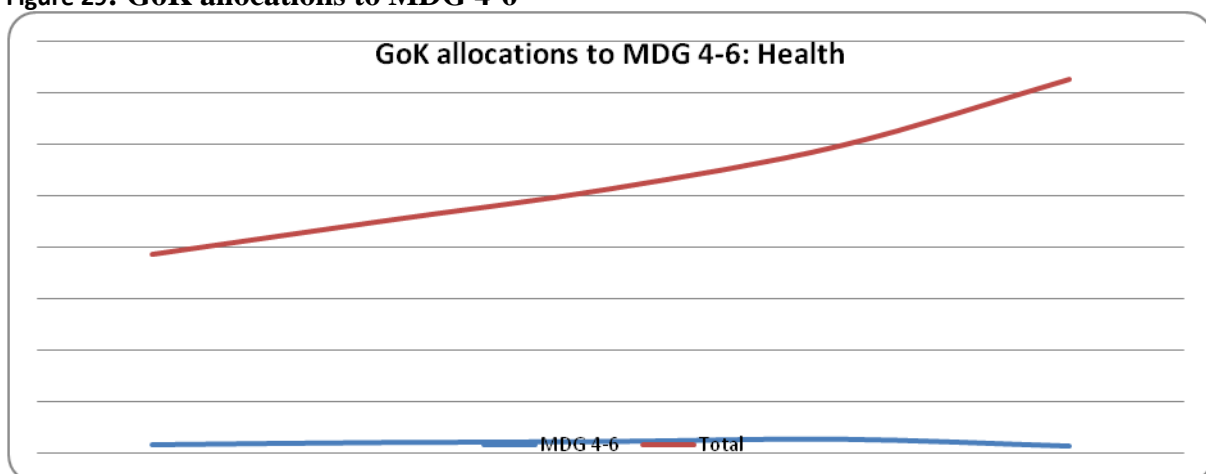
Figure 28: Total allocations to MDGs on health (goals 4-6, KES billions)



3.4.6.1 GOK Funding

Government allocation to the health sector reduced from KES 31 billion in 2008/9 to KES 25 billion in 2012/3. It is after a consistent increase to KES 55 billion in 2011/2. The proportion of allocation to the sector to total allocations averaged 4% over the period. It is significantly below the 15% agreed upon in the Abuja Declaration of 24-27 April 2001 as seen from figure 31.

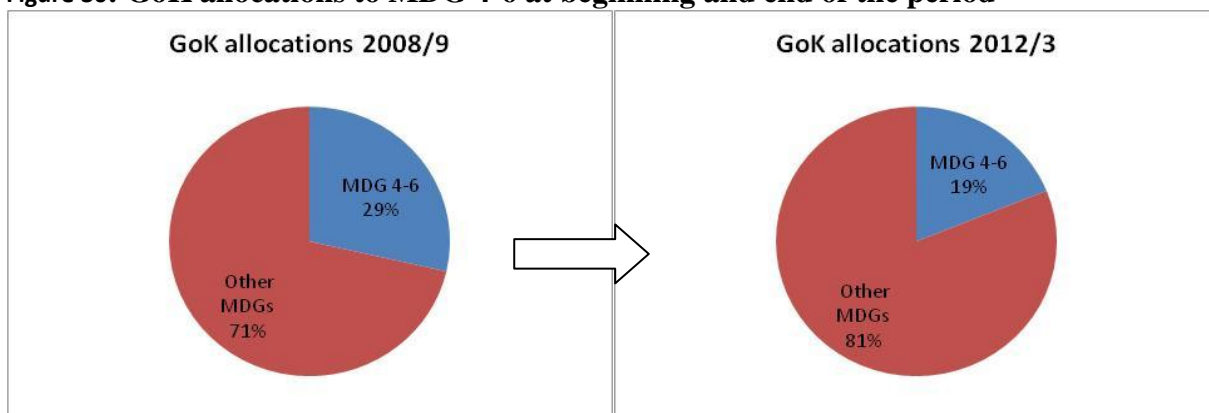
Figure 29: GoK allocations to MDG 4-6



Proportion of GoK allocation to the health sector versus all other MDG sectors reduce from 29% in 2008/9 to 19% in 2012/3 and against all other sectors from 4% to

2%. Government's annual budget allocation for health reduced by 20% over the period as illustrated in figure 32.

Figure 30: GoK allocations to MDG 4-6 at beginning and end of the period

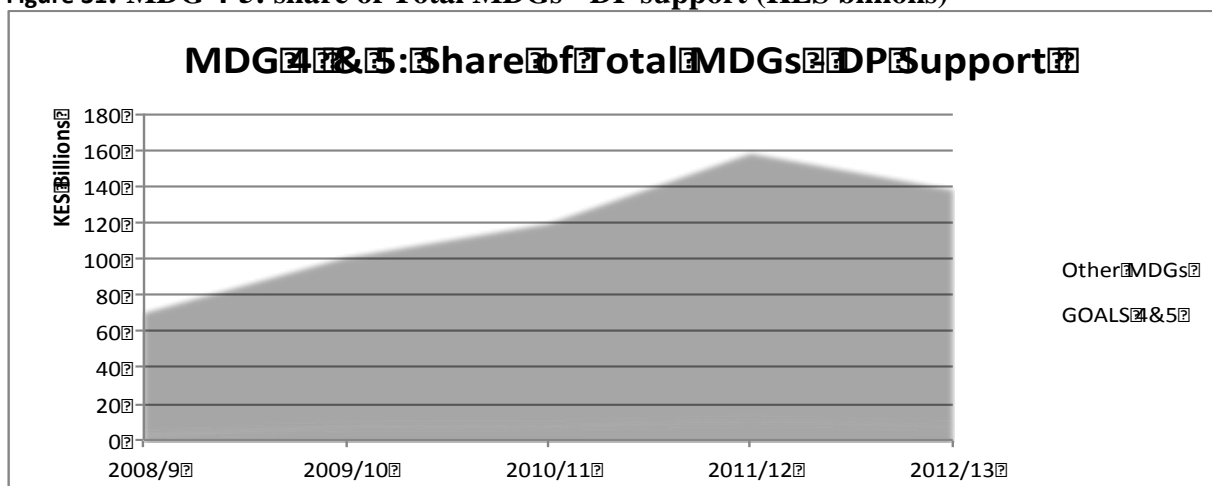


The low level of allocation of resources to the health sector may have contributed to the poor performance in health indicators, especially maternal health. Also, the achievements in Goal 6 that is highly dependent on development partner funding, makes the question the sustainability of such results in case of withdrawing or disruption of such funds.

3.4.6.2 DP Funding to Goal 4-5

Funding flows to children and maternal health have been small, amounting only 8% of the total cumulative DP funding to the MDGs. The relative share of support remained practically the same at the beginning and the end of the period: in 2008/09 it was 7.03% and in 2012/13 marginally higher, 7.21%. During the three years in between, its share was a bit higher, from 9% to 10.7% as illustrated in figure 33.

Figure 31: MDG 4-5: share of Total MDGs - DP support (KES billions)



Source: DPs reports, GoK Development Estimates

Actual funding flows to MDG 4 & 5 increased rapidly from the first to second year and continued a healthy growth until 2011/12. In 2012/13, the DP allocations declined by 22.6% as depicted in table 18.

Table 18: Total allocations by DPs to MDGs 4-5 (KES billions)

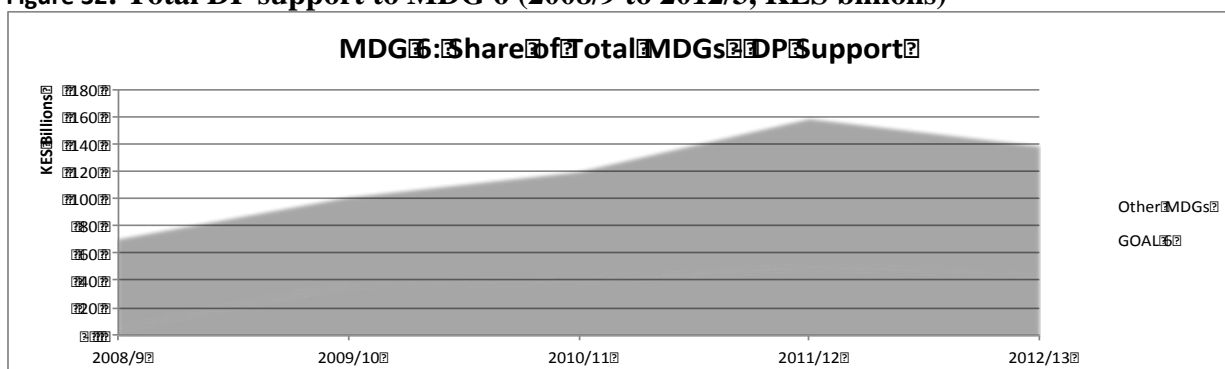
YEAR	2008/09	2009/10	2010/11	2011/12	2012/13	TOTAL
KES billion	5.06	9.90	10.14	13.07	10.12	48.29
Growth %	-	95%	24.2%	28.9%	-22.6%	

A total of 13 partners supported these goals. The largest one was the World Bank, though their reported support may include also support to the Goal 6. Other main funders include USAID, UNICEF, WFP, Denmark and Germany.

3.4.6.3 DP Funding for Goal 6

Funding by DPs towards Goal 6 has been significant: its share of the total cumulative DP funding to MDGs was the largest, 31%. In the beginning of the period, as illustrated in figure 34, the share was only 9.7% but jumped to 38.8% in 2009/10 and maintained a level between 33% - 34% thereafter.

Figure 32: Total DP support to MDG 6 (2008/9 to 2012/3, KES billions)



Source: DPs reports, GoK Development Estimates

Funding was only KES 7 billion in 2008/09. In 2009/10, it grew dramatically to KES 39.04 billion (by 454%). Since then, it has been between KES 40 and KES 52 billion annually. In 2012/13, it declined by 10% as shown on table 19.

Table 19: Total allocations by DPs to MDG 6 (KES billions)

YEAR	2008/09	2009/10	2010/11	2011/12	2012/13	TOTAL
KES billion	7.05	39.04	41.68	51.93	46.59	189.29
Growth %	-	454%	6.8%	24.6%	-10.3%	

By far the biggest supporter to this goal was the USAID: 63.7% (KES 111.6 billion) of the funding came from this agency alone. Second largest was the Global Fund, followed by DFID and GAVI. The largest proportion to this goal has been channelled through non-state actors as discussed earlier alongside 19 DPs funded this goal.

3.4.6.4 Conclusions (Goals 4-6)

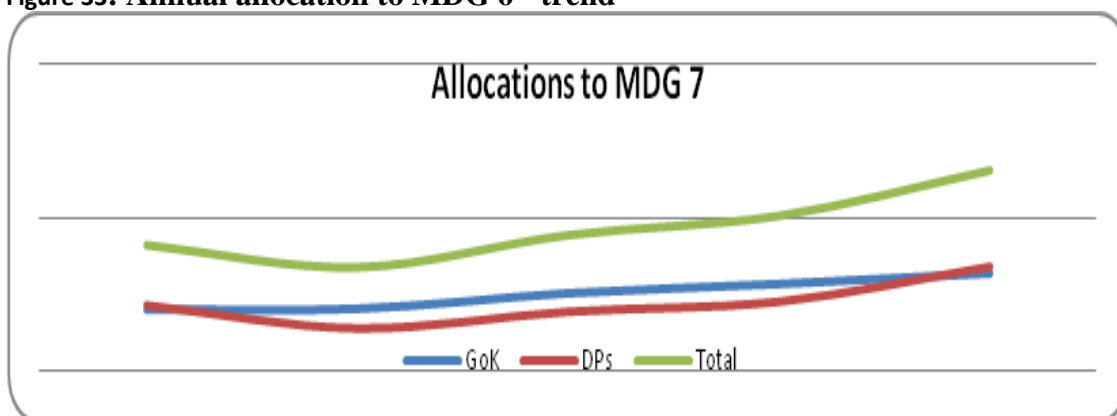
Significant resources made available to programs under MDG 6 by development partners, lead by the USAID, resulted in MDGs on health receiving the greatest proportion of all allocations in the period under review. As a result, MDG 6 targets are being achieved. MDG 5 has not performed well. It has not received enough funding to supporting the achievement of this MDG. The low funding levels for Goal

5 and Goal 4 from both the government and development partners may have been the greatest reason for their poor performance. However, with the current government focus on maternal health, progress is likely to be made. The important role of development partners in maintaining desirable outcomes for Goal 6 also raises the issue of sustainability. With the global economic crises and the possible shift in future focus of development partners, it remains the government responsibility to shift resources to bridge the gap.

3.4.7 Goal 7

Total funding allocations for MDG 7 from development partners and the Kenyan government increased from KES 41.5 billion in 2008/9 to KES 65.9 billion in 2012/3, an increase of 59%. Its share of all MDG-support was the fourth largest, 13.6% as can notice from figure 35.

Figure 33: Annual allocation to MDG 6 - trend

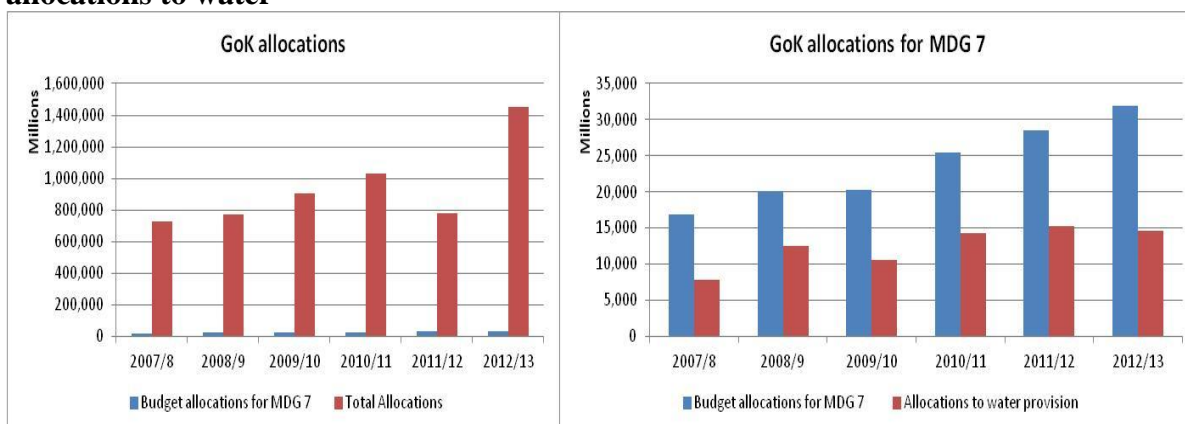


3.4.7.1 GOK Funding

Government budget allocations included in this study include those for the ministries in-charge of environment and forestry and a proportion of the budget allocations from the ministries in-charge of water and irrigation. Government budget allocations increased from KES 20 billion in 2008/9 to KES 31.9 billion in 2012/3, an increase of 59%. The share of allocations to MDG 7 averaged 3% of the total GoK

allocations to all sectors. Over 50% of this was for the provision of water for domestic use as illustrated in figure 36.

Figure 34: GoK annual allocations to MDG 7 verses total allocations and allocations to water

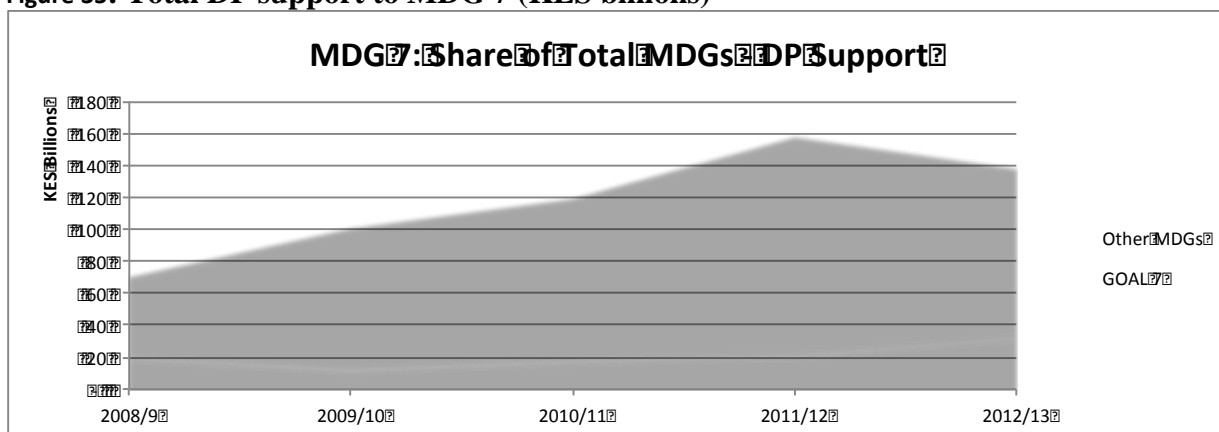


The budget allocations under MDG 7 also included annual allocations to slum upgrading programs for the five years. These amounts ranged from KES 482 million to KES 1.8 billion in 2012/3.

3.4.7.2 DP Funding

Environment, including water supply and sanitation, forestry, environment, climate change and urban housing/settlements received 19% of the total cumulative DP support to MDGs during the period under review. The share was 29.6% in 2008/09, and it declined to 15% in 2009/10. By the end of the period, it had increased to 24% of the total DP support to MDGs, which was still lower than at the beginning of the period as noticed from figure 37.

Figure 35: Total DP support to MDG 7 (KES billions)



Source: DPs reports, GoK Development Estimates

Funding to the Goal 7 as indicated in table 20 ranged from KES 13.9 billion to KES 33.9 billion. Yearly fluctuations were quite large. The biggest share of the funding was targeted to water supply and sanitation, followed by forestry.

Table 20: Total allocations by DPs to MDG 7 (KES billions)

YEAR	2008/09	2009/10	2010/11	2011/12	2012/13	TOTAL
KES billion	21.38	13.89	19.30	22.56	33.90	111.06
Growth %	-	-35.0%	38.9%	16.9%	50.3%	

A total of 18 DPs supported projects under Goal 7. The main contributors were AfDB, France and The World Bank.

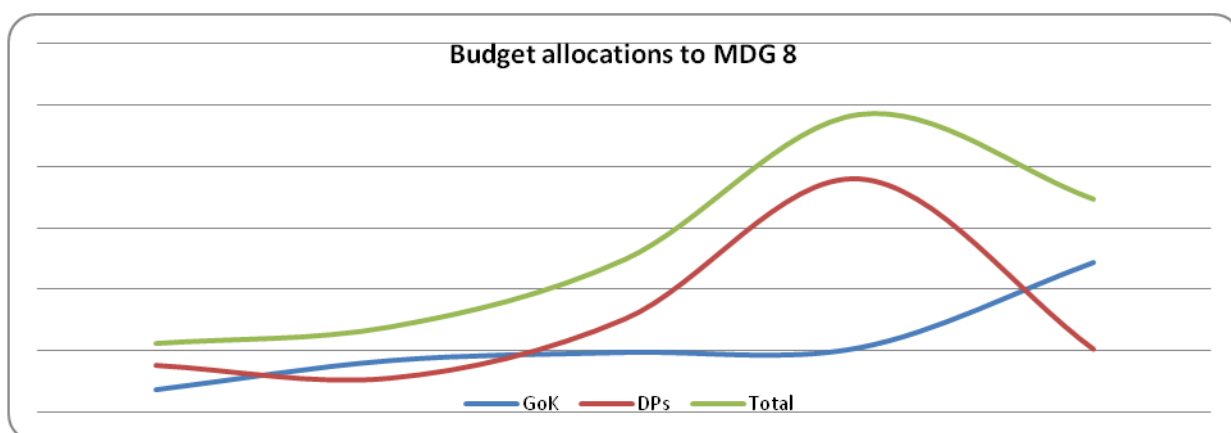
3.4.7.3 Conclusions

Allocations for MDG 7 increased from both the government and development partners. Over 50% of government allocations were for the provision of safe drinking water. There is a possibility of improvements in outcomes for MDG 7 including access to safe drinking water and forest cover. However, changing (and unclear) indicators made it difficult to make concrete conclusions for this MDG. For populations living in slum areas, the amount of resources and the level of programs indicate little progress achieved.

3.4.8 Goal 8

Total funding allocations (both government and development partners) increased from KES 5.6 billion in 2008/9 to KES 17.3 Billion in 2012/3, an increase of 209%. It is evident from figure 38 that the total amount of funding over the period was KES 66.5 billion with 57% of this amount coming from the development partners as indicated in figure 38.

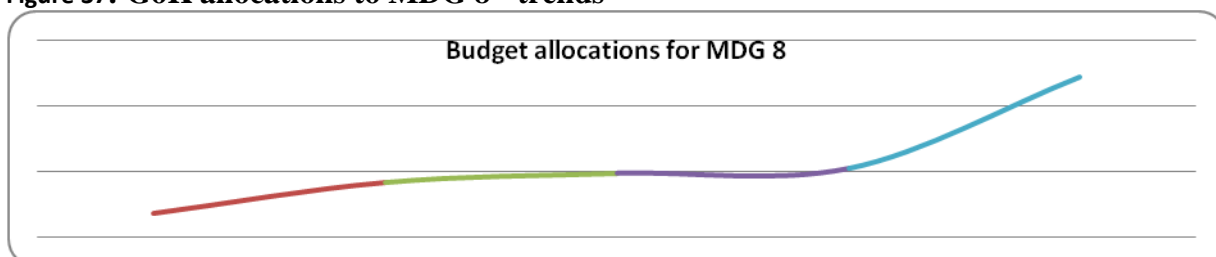
Figure 36: Annual allocations to MDG 8 - trends



3.4.8.1 GOK Funding

Government budget allocations included those for the ministries in charge of tourism, trade and industry. The budget allocations increased from KES 1.8 billion in 2008/9 to KES 12.2 billion in 2012/3 as shown on figure 39.

Figure 37: GoK allocations to MDG 8 - trends

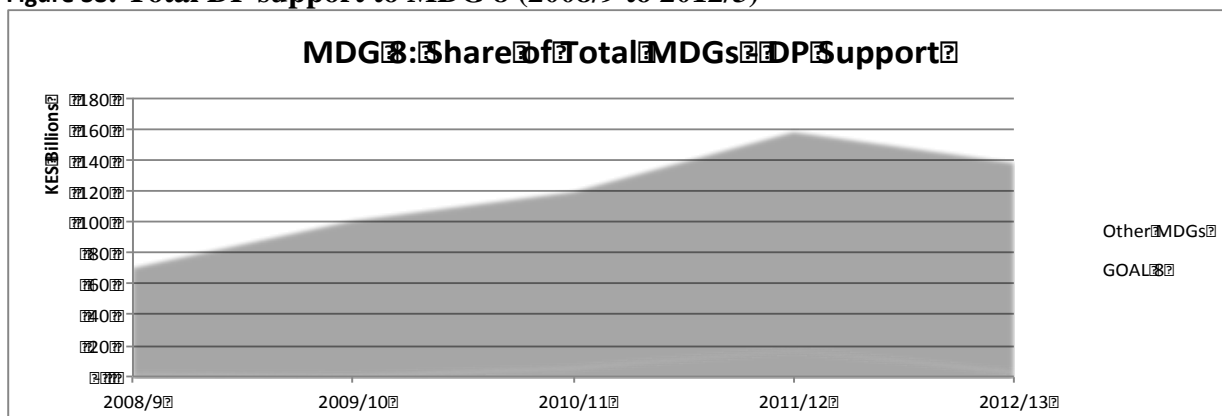


3.4.8.2 DP Funding

DP funding to the Goal 8 over the five years represented 6% of the total cumulative support to MDGs, amounting at KES 27.55 billion. At the beginning of

the period, its proportion of the total MDGs was 5.26% and at the end only 3.7%. In 2011/12, its share jumped temporarily to 11.9% of the total as depicted in figure 40.

Figure 38: Total DP support to MDG 8 (2008/9 to 2012/3)



Source: DPs reports, GoK Development Estimates

Total funding flows varied from KES 2.76 billion to KES 18.98 billion. Support reduced from 2008/09 to 2009/10, thereafter almost tripled 2010/11 and more than doubled in 2011/12. In 2012/13, the funding reduced drastically as implied in table 21. About 85% of the support went to trade and financial sector development and 15% to ICT.

Table 21: Total allocations by DPs to MDG 8 (2008/9 to 2012/3, KES billions)

YEAR	2008/09	2009/10	2010/11	2011/12	2012/13	TOTAL
KES billion	3.81	2.76	7.58	18.98	5.12	27.55
Growth %	-	-27.5%	174.6%	150.4%	-73.0%	

A total of ten donors reported funding to activities under this goal. The main contributors were WB, EIB, DFID, Italy and China. It is worth to note that Finland, South Korea and WB were the only DPs funding ICT.

3.4.8.3 Conclusions

Though funding increased for programs under this MDG, the greatest achievements were in ICT, an area that received limited funding from both

government and development partners. The achievements in mobile phone subscriptions, Internet use and mobile money transfers came from efforts of the private sector, from major players to small kiosks in the villages of Kenya. The only role the government played before the commencement of the period under review is to provide the right policy, legal and institutional environment for the development of the industry. At this point, there is a need to establish areas that focus attention to the policy of environment that can enable other supplement MDGs achievement.

3.4.9 Enablers

3.4.9.1 Overall

Enablers are expected to create a better environment for the attainment of a number of MDGs. The enablers included in this study are rural electrification, rural and regional roads, governance and individual MDG-projects. Total budgetary allocations to enablers from government and development partners grew by 11% from KES 49.7 billion to KES 55.4 billion. The total for the period was KES 254.2 billion as shown in table 22.

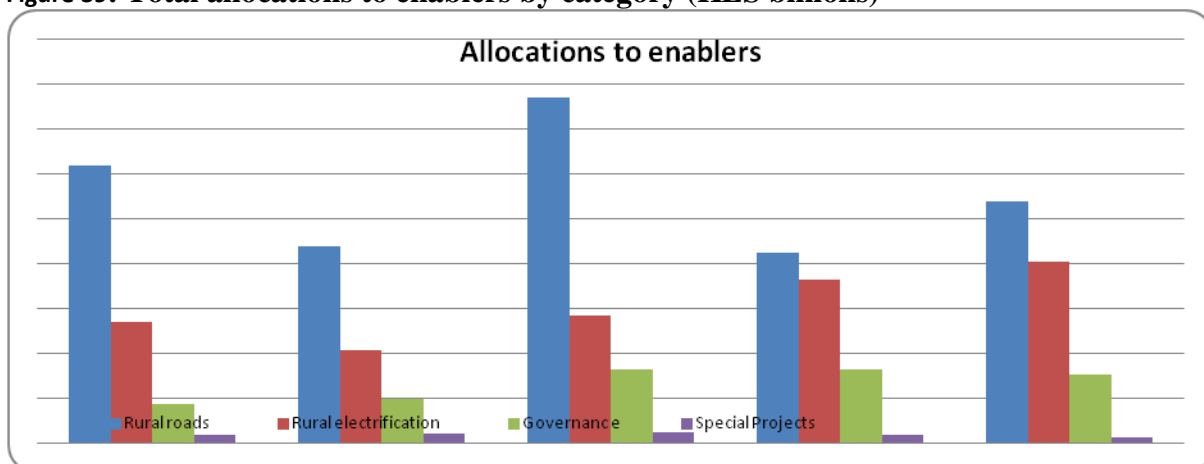
Table 22: Total Allocations to Enablers, 2009/09 -2012/13 (KES billion)

Enabler	2008/9	2009/10	2010/11	2011/12	2012/13	Total
Rural roads	30.98	21.94	38.60	21.26	26.89	139.68
Rural electrification	13.45	10.33	14.25	18.17	20.17	76.37
Governance	4.31	4.84	8.23	8.18	7.66	33.22
Special Projects	0.94	1.04	1.20	0.93	0.63	4.74
Total GoK + DPs	49.68	38.15	62.29	48.54	55.35	254.02

Figure 41 shows rural roads receiving the highest share in 2010/2011 compared to other years but still it remains the primary recipient of more funding. It can be attributed to the magnitude of work involved in roads construction, unlike other sectors. During the period, the country experienced the most fundamental and far-reaching reforms, which included the enactment of the new constitution and the

establishment of the local and institutional frameworks necessary for its implementation.

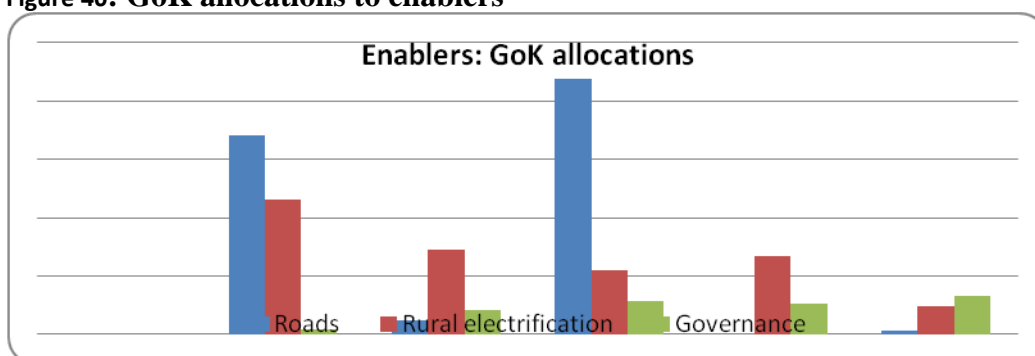
Figure 39: Total allocations to enablers by category (KES billions)



3.4.9.2 GoK

Government budget allocations included allocations to rural roads (including those done under CDF), governance initiatives under the agencies of government in charge of justice, human rights and anti-corruption. Other areas included allocations to agencies and programs directly focused on managing MDGs related programs. Total government allocation for the period was KES 85 billion. The greatest proportion of allocation went to rural roads followed by governance. Allocations under governance included amounts required to run the commissions established to manage the formulation and the implementation of the constitution and those focused on human rights and anti-corruption as indicated in figure 42.

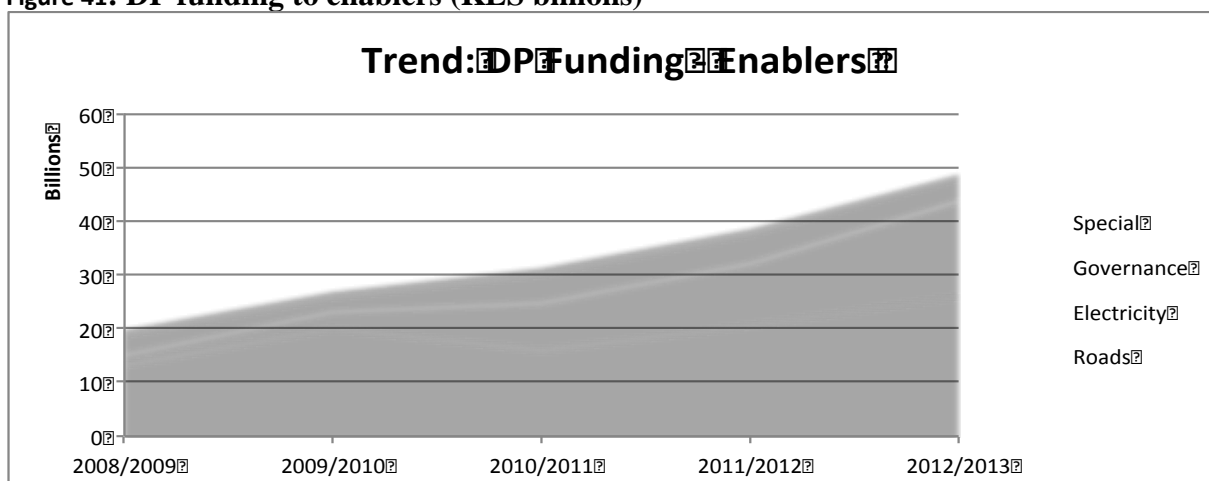
Figure 40: GoK allocations to enablers



3.4.9.3 Development Partners

Allocations to enablers grew by 41.7% in five years. The development of roads has attracted most of the funding from the DPs, followed by electrification. Based on the DPs reports, roads received KES 104.5 billion and electricity KES 43.9 billion in five years. However, it must be noted that the figures reported by DPs under these two categories include not only rural and regional roads and rural electrification, but also other related projects in the sector concerned. Governance related assistance amount to KES 21.9 billion during the five years period under review as evidenced in figure 43.

Figure 41: DP funding to enablers (KES billions)



Source: DPs reports, GoK Development Estimates

Table 23: Total allocations by DPs to enablers (2008/9 to 2012/3, KES billions)

YEAR	2008/09	2009/10	2010/11	2011/12	2012/13	TOTAL
Rural/regional roads	13.90	20.72	16.68	21.26	26.89	99.16
Electrification	1.85	3.09	8.76	11.49	17.75	42.94
Governance	3.88	2,76	5.36	5.56	4.35	21.93
Special MDGs projects	0.94	1.04	1.20	0.93	0.63	4.74
TOTAL	20.58	27.60	32.00	39.26	49.33	168.78

The multilateral agencies played a major role in funding infrastructure development projects as depicted in table 23. However, a number of bi-laterals also support infrastructure, the main ones being China, France, Germany and Japan. A

total of eight partners have allocated funds for governance, including African Development Bank (only multilateral). Four DPs reported support to individual MDGs-projects (mainstreaming and accelerating MDGs), amounting to KES 5.9 billion.

3.4.9.4 Conclusions

The improved road network can play an important role, for example, in access to health services (Goals 4-6) and access to markets (Goal 1). Rural electrification can change the life of rural school children by providing a better environment for learning. The impact of these investments on the achievement of MDG could not be assessed this study but would deserve a study of its own.













CHAPTER 4

4.0 KEY FINDINGS AND ANALYSIS IN KENYA

4.1 Introduction

Although Kenya has made progress in achieving some of the MDGs, more resources and commitment is needed to achieve many of the goals whose targets are not yet realised. The goal on eradication of extreme poverty (MDG 1), the health related goals (MDGs 4-6) and the goal on environmental sustainability (MDG 7) are not attained. Further, even reasonably well performing goals like achieving universal primary education (MDG 2), are challenged by a number of issues undermining the achievements. The following simple table 24 summarizes the progress of MDGs in Kenya during the period under review based on the MDGs Status Reports, surveys and other documents and each goal discussed in details.

Table 24: Summary of MDGs progress during the period under review

MDG	OVERALL PROGRESS	KEY
MDG 1		 Very Good progress made  Real progress made  Some progress made  Poor results achieved  Very poor results to the extent of regressing
MDG 2		
MDG 3		
MDG 4-5		
MDG 6		
MDG 7		
MDG 8		

4.2 Goal 1: Eradicate extreme poverty and hunger

The last Kenya Integrated Household and Budget Survey (KIHBS) done in 2005/6 showed that people living below the poverty line had reduced from 53.6% in 2000 to 45.9% in 2012. According to the World Bank's Kenya Update Report (June 2013), the level of poverty has decreased further to between 34% and 42%. Although according to the report, it was difficult to estimate precise poverty levels as the last household survey was done in 2005. According to the current trends, the MDG target of 21.7% is unlikely to be achieved by 2015.

Wage employment in both private and public sectors increased by 13% from 1,905,600 million in 2008 to 2,149,000 in 2012, while employment in the informal sector increased by 31% from 8,039,500 in 2008 to 10,511,200 in 2012. On average, employment in all sectors increased by 27% (Economic Survey 2013). However, at the same time population has grown from 38.5 million in 2008 to 42.7 million in 2012⁴⁵ (an increase of 11% over the period), and the unemployment rate has remained high. GOK initiatives include the Youth Enterprise Fund and the Women Enterprise Fund, which are meant to provide the youth and women with access to funds to improve or start businesses.

Food production has increased over the period according to estimates from the Ministry of Agriculture. Agricultural annual report 2008-2012, indicates maize production increased from 26.3 million bags to 40 million bags. This was an increase of 52% over the period. Beans production increased by 152% while potatoes increased by 155%, sorghum at 217%, and millet by 150%.⁴⁶ However, the overall food security situation in the country does not seem to have improved over the period as many ASAL regions still continue to receive food aid. More than 10 million people in Kenya suffer from chronic food insecurity and poor nutrition, while between one and two million people still require emergency food assistance throughout the year. Nearly 30% of children aged five years and below are classified as malnourished. Major areas affected include the North Rift, Eastern and North Eastern, and Coastal areas.

As can be seen from the foregoing, food production has increased at a higher percentage than the increase in the population. Food security challenges are a result of the high prices, low purchasing capacity, perennial food insecurity; retrogressive

⁴⁵ Source: *United Nations Population Division (UNPD), 2011*

⁴⁶ Please note that the estimates data on food production are generally poor

cultural and social practices. Climatic conditions with frequent droughts, insecurity and conflicts in some parts of the country make the situation even worse. Appropriate government policies are in place including the Agricultural Sector Development Strategy (2010 to 2020) and plans are under way to expand the area under irrigation to address food security. Other efforts like *Njaa Marufuku*, fertiliser subsidy, fishing farming, poultry improvement and livestock off-take are aimed at ensuring that farmers get value for their agricultural investment.

4.3 Goal 2: Achieve universal primary education

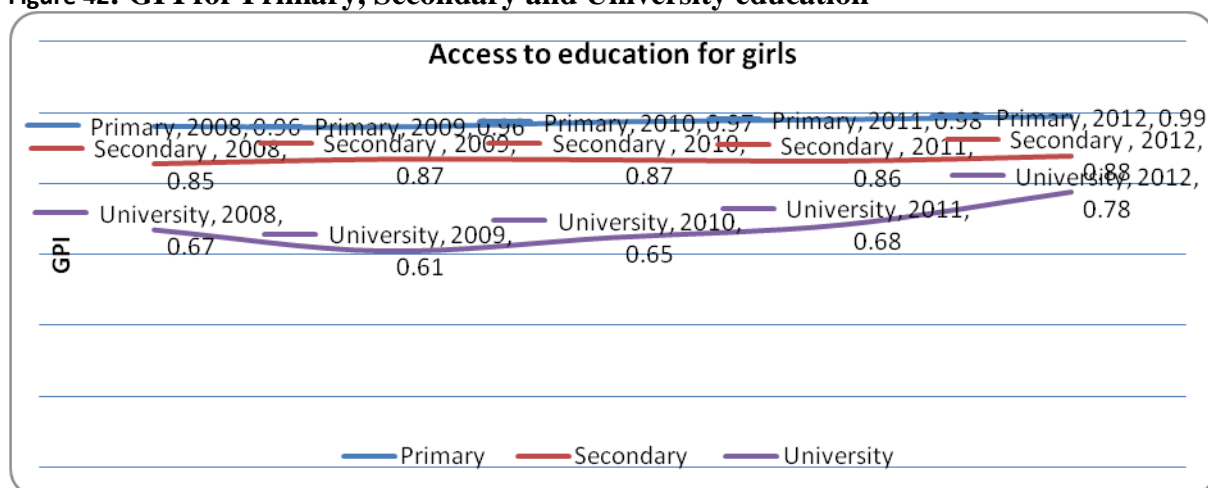
Kenya continued its implementation of free primary education during the period under review. Gross Enrolment Ratio (GER) increased from 110 in 2008/9 to 116 in 2012/3. Net Enrolment Ratio increased slightly from 93% in 2008/9 to 95.7% in 2012. Pupil Completion Rate remained constant at around 70-75%. Student performance improved over the period with the National Mean Score increasing from 51% in 2008/9 to 56% in 2012/3. School infrastructure benefited significantly from devolved funds with Constituency Development Fund allocations to constituencies. A lot remain still being achieved in terms of basic facilities like toilets for the girl child, lunch provision for pastoralist day schools and provision of water. The sector continued to suffer from lack of adequate teachers with pupil to teacher ratio increasing from 41 in 2008/9 to 45 in 2012/3.⁴⁷ Despite this ration still there exist disparities in terms of gender where in many schools it is at the extremes. The government has started subsidized education to public secondary schools although still due to poverty it is a challenge to many parents to afford the boarding requirements.

⁴⁷ Calculated from EMIS data

4.4 Goal 3: Promote gender equality and empower women

Proportion of girls accessing primary and secondary education has improved slightly over the period under review. The Gender Parity Index (GPI) for primary education increased from the already high of 0.96 in 2008 to 0.99 in 2012. GPI for secondary education increased from 0.85 in 2008 to 0.88 in 2012 while that of university education has increased from 0.67 in 2008 to 0.78 in 2012. GPI for teacher training has the highest performance at 1.02 in 2012 from 0.94 in 2008⁴⁸. Figure 44 shows the GPI for primary, secondary and University education on particular years. It is evident that GPI for primary has seen a slide improvement and that of University quite remarkable after 2011.

Figure 42: GPI for Primary, Secondary and University education



Senior public sector appointments of women have improved only slightly to 18% in 2011 from 17% in 2008. Judiciary leads with 44% and 38% of high court judges and magistrates being women. New appointments of county commissioners, Cabinet Secretaries and Principal Secretaries have been in line with constitutional requirements of 33%. The share of female parliamentarians in the new Parliament (2013 elections) is 18% - 64 in total out of 349, which includes 49 women representatives and five nominated members. Out of the 68 senators, 18 of them are

⁴⁸ Ministry of Education EMIS

women, the majority nominated as required by the constitution. In general, there is a serious challenge implementing the constitutional requirements of 33%. In 2007 the Women Enterprise Fund was created. It was meant to provide women in all constituencies' access to funds to improve or start enterprises and therefore achieve empowerment. By early 2013, over KES 1.4 billion had been disbursed to over 25,000 women groups in all the constituencies.

4.5 Goal 4: Reduce child mortality

The under-five mortality rates reduced significantly from 115 (per 1000 live births) in 2003 to 74 in 2008/9⁴⁹. Great strides in achieving fully immunized children less than one year have been made, improving from 71% in 2008 to 85% in 2012.⁵⁰ Kenya is, therefore, likely not only to achieve its MDG target of 90% full immunization of under one year olds, but also improvement in under five mortality rates.

However, it is important to note that neonatal mortality rate (NNMR) was 31% in 2008/9, an indicator that improved only slightly from 33% in 2003. It means that 60% of all children who die before they reach their first birthday die within the first month of life. It is closely linked to poor maternal health outcomes (Goal 5), which currently is the worst performing MDG in Kenya. It is, therefore, unlikely that the goal of reducing child mortality could be attained without significant improvement in maternal health targets under Goal 5.

4.6 Goal 5: Improve maternal health

Maternal mortality ratio increased from 414 in 2003 to 488 in 2008/9, against the MDG target of 147. Proportion of births attended by a skilled professional has not developed for the last twenty years and stand at 44%. Contraceptive prevalence rate

⁴⁹ KDHS (2003 and 2008/9)

⁵⁰ Division of Vaccination and Immunization, Ministry of Health

improved from 39% in 2003 to 46% in 2008/9, but the unmet need for family planning remains at 26%.⁵¹ The proportion of pregnant women who make one visit to ante-natal clinic was 92% while those who manage four visits were 47%. The performance of these indicators has not changed and had in some cases become worse. The funding for maternal health has been reduced and the initiatives, both government and development partner driven, have been few and uncoordinated. However, the government started implementing free deliveries in all public hospitals in May 2013 with a budget of KES 4 billion per year from the financial year 2013/4. Each constituency was to employ 30 nurses in the financial year 2013/4.

The Health Sector Social Fund (HSSF) established in 2007/2008 aimed at making affordable and access maternal health care to all. Those who are poor to get medical waiver while the able citizens to pay through National Health Insurance Fund (NHIF), which through this research has not been realized. The Constitution stipulates that reproductive health is a right. If the new government commits itself to improving maternal health, with targeted budgetary allocations and coordinated effort involving development partners and other actors, the poor performance in this MDG could be reversed.

4.7 Goal 6: Combat HIV/AIDS, malaria and other diseases

HIV/AIDS: As of December 2011, 1.6 million people were living with HIV⁵². HIV prevalence in 2010 (6.2%) is about 40% lower and the number of new HIV infections was less than one third of the epidemic's peak (1993). Surveys indicate positive behaviour change with less than 50% of Kenyans likely to have multiple sex partners. Condom use has more than doubled over the period.

⁵¹ KDHS 2003, 2008/9

⁵² All the data on come from **HIV/AIDS: Kenya Aids Epidemic update, 2012**

Slightly more than one third of deaths of people living with AIDS died of AIDS related causes in 2011. It is estimated that 1.1 million children in Kenya have lost one or both parents. As a result of declines in AIDS related mortality, the number of children orphaned due to AIDS has declined over the last several years, helping drive overall reduction in the number of orphans nationwide. HIV infected Kenyans are living longer as a result of increased treatment access. Proportion of the population with advanced HIV/Aids infection with access to retroviral drugs in 2011 was 83.1%. No user fees are charged for those accessing treatment in public health facilities and one in six of these plants are administering ARVs. Distribution of condoms increased by one third from 2007 to 2009 with a total of 15 million condoms

Kenya has one of the world's highest coverage rates for services to prevent mother to child HIV transmission at 69%. The proportion of HIV exposed infants who contract HIV has fallen to 50% from 27% in 2007 to 14.9% in 2007. Kenya is also a global leader in scaling up voluntary medical male circumcision for adult males with more than 230,000 procedures done from Nov 2008 to Dec 2010 reaching more than 60% of previously uncircumcised males in Nyanza. From 2007 through March 2011, food by prescription served 176,268 malnourished and vulnerable people living with HIV. Virtually all (97%) health facilities in Kenya offer basic pain relief for people living with HIV.

Malaria: Data on the incidence of death rates associated with malaria was not available. However, the proportion of morbidity cases caused by malaria had reduced from 31% in 2008 to 24% in 2012 (source: Ministry of Medical Services). Government health facilities provide insecticide treated mosquito nets for all pregnant women and children less than five years old. The proportion of pregnant women who

took an anti-malaria medicine for prevention during pregnancy was 66% in 2010, compared to 45% in 2007.

Tuberculosis (TB): Proportion of TB cases detected and cured under directly observed treatment short course (DOTs) was 85.86% in 2011. TB is showing signs of reversal with Kenya having exceeded WHO targets in case detection rate (70%) achieving 85%, and the WHO treatment success rate (85%) achieving 86%. Kenya was the first country in sub-Saharan Africa to achieve the global target for TB case detection (80%) and TB cure rate (85%). The percentage of TB patients tested for HIV rose from 83% in 2008 to 95% in 2009, surpassing national target for 2013 of 90%. It is worth to note that this MDG is heavily donor dependant and efforts should direct in ensuring sustainability especially in terms of ARVs and care givers for HIV/AIDS persons.

4.8 *Goal 7: Ensure environmental sustainability*

According to MDGs Status Report 2011, Kenya has for many years experienced reduction in forest cover attributed to human factors. This trend is slowly showing signs of reversal. A forest cover assessment conducted in 2010 showed the proportion of land area covered by forest to be 3.82%, which has since increased to 4% in 2011. It represents a significant improvement from the 1.7% cover previously reported. This increase is attributed to tree planting projects implemented by state and non-state actors. However, this is still far below the target of 10% coverage.

According to Carbon Dioxide Information Analysis Centre (CDIAC), Kenya is ranked 98th in the world in carbon dioxide emissions. These emissions have shown a downward trend for the period since 2008. On power generation, the government policy is to see a greater reliance on energy generated from clean sources such as

wind, solar and geothermal. The percentage of energy from geothermal stations has increased from 16% in 2008 to 20% in 2012.

Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source. Reasonable access refers to the availability of at least 20 litres per person a day from a source within one kilometre of the dwelling.⁵³

On a global level, the MDG drinking water target had been achieved by 2010 making the drinking water target to become one of the first MDG targets met. However, vast disparities exist. Coverage in the developing world overall stands at 86 per cent, but it is only 63 per cent in countries designated as ‘least developed’, and 61% in sub-Saharan Africa.

According to 2009 Census, the proportion of the population in Kenya having access to water from improved sources was 56%, which was below the average of 61% for sub-Saharan African. Malaria Indicator Survey⁵⁴ put this figure at 64% in 2010. Piped water averages around 20% in the period 2006 and 2010.⁵⁵ On sanitation, according to 2009 Census, the population with access to adequate sanitation facilities were estimated to be 65% with those connected through sewerage at 8%. 2009 Census data also noted that there was an increased of the slum population from 2.1 million in 2009 to 2.2 million in 2011. Slum upgrading projects are being implemented which are likely to improve living standard of people in slums including increasing access to safe water, adequate sanitation and better housing.

Kenya has not been left behind as a signatory to international environment protocols and agreements and hosts UNEP Headquarters. Despite this fact the country

⁵³ WHO and UNICEF, JMP, <http://www.wssinfo.org/>

⁵⁴ KNBS and NCPD, 2010

⁵⁵ Census 2009, KIHBS 2006, KDHS 2009, MIS 2010

has been crippled with environmental challenges from the destruction of the key regional water towers like the Mau forest, Mt.Kenya, Embutut forest, the Aberdare to the Cherangani hills. Squatter settlement menace, industrial development, commercial development and agricultural activities legally or illegally have contributed to major environmental challenges in the country. The effluent discharge from industries, coastal hotels and emissions from industries and factories has escalated increase in carbon emission adding to already fragile ozone layer destruction.

4.9 Goal 8: Develop global partnership for development

The proportion of Kenya's exports admitted duty free to developed countries increased from 90.56% in 2000 to 97.93 % in 2010 indicating increased market access for Kenyan exports. However, Kenya's imports grew faster than exports during the period, and the country is yet to realise an export oriented economy. The area that provided the highest growth and continued with this trend is information and communications sector. Telecom sector outperformed all other sectors of the economy in 2009/2010, achieving a growth rate of 23% by 2010 and contributing 13% of the GDP. The ICT sector has also outperformed many of the First MTP1 targets. The target for the proportion of the population with mobile phones in 2009/10 was 50% while the actual proportion was 63.5%. Internet costs per Mbps were targeted to be KES 2000 in 2009/10 while the actual cost had come down to KES 500.

The growth of mobile money has been phenomenal over the period. By August 2010, mobile money had enlisted over 12 million customers and nearly 20,000 agents countrywide. Within three years, mobile money had replaced traditional means of remitting funds by a large margin. By the end of 2010, Kenya had an

estimated 15 million mobile money customers, and mobile money exceed 20% of the GDP. Currently, mobile money agents outnumber bank branches by a factor of 20.⁵⁶

4.10 Conclusion

Funding to MDGs represented 22.6% of the overall cumulative GoK budget funding and development partners' assistance to Kenya between 2008/09 and 2012/13. The MDGs-related projects allocations grew by 61% during the five-year period. The share of the MDGs funding reduced from 27% to 22% of the total GOK budget and DP development assistance to Kenya. Proportion of government allocations reduced from 20% to 15% while development partner proportion of allocations reduced from 65% to 56% of the total during the five years. The primary recipients of the full funding were the following Goals: MDG 6, MDG 2, MDG 1 and MDG 7. The smallest share of the support was allocated to MDG 3. Closest to the attainment are MDG 2 and MDG 6. In the absence of baselines, targets and/or tracking data of a number of MDG indicators, it was not possible to reliably establish a correlation between the funding and performance of all the MDG concerned. The principal development partners supporting MDGs were the USAID, WFP, World Bank, DFID and African Development Bank, representing 66% of the overall DP support to MDGs.

⁵⁶ Ministry of Devolution and Planning, *Fourth Annual Progress Report 2011-2012*, Government of Kenya, 2013

CHAPTER FIVE

5.0 CONCLUSIONS, RECOMMENDATIONS AND PROPOSED POLICY INTERVENTIONS

5.1 *Introduction*

The rise of the South must be understood as the story of a dramatic expansion of individual capabilities and sustained human development progress in the countries that are home to the vast majority of the world's people. As many people move up the ladder, it creates a direct impact on wealth creation and broader human development in all countries of the world. There are new opportunities for Kenya to borrow and for creative policy initiatives that could benefit the most advanced economies as well.

An analysis of many approaches used by successful developing countries provides policy options for developing countries to replicate. Many world views can inform future development cooperation and constructive responses to the most severe global challenges. The goal is to accelerate broad-based progress that raises standards and expands people's choices in all aspects of human development.

Overall, the less than average performance of MDGs in Kenya may be attributed to reduced funding emphasis on MDGs related programs. However, there are two areas that benefited significantly from government and development partner funding focus. In these areas there seems to be a strong correlation between funding allocations and the achievement or high probability of achievement of these MDGs. The first is the government's funding allocations to free primary education, which has made it highly probable to achieve MDG 2. The second one is a significant development partner support to the fight against HIV/Aids, malaria and TB, which has contributed to the possibility of achieving MDG 6. On the other hand, very low funding emphasis was given to the worst performing MDG 5 on maternal health, as well to MDG 3.

Table 25 summarizes the MDG performance, funding to each MDG and the share of each MDG of the total funding allocated to MDGs. The study noted that the actual funding for every MDG grew (trend), and the growth was strongest for MDG 3, 6 and 8. Two of these, Goal 3 and 8 were the least funded MDGs. However, the recent policy and legal changes may result in some progress in MDG 3. Kenya has a lot to learn from Cuba on how it has been able to attain the highest literacy levels and maintained the best doctor-patient ratio in the world today.

Table 25: Summary of MDGs performance, funding and correlation

MDGs		Total Allocations 2008/09- 2012/13		Share of all MDGs (%)			Correlation	Key
MDG	Performance	KES	Trend	Total	GoK	DPs	Yes/No	
MDG 1		388	<input type="checkbox"/>	22%	22%	30%	Maybe	Very Good progress made
MDG 2		434	<input type="checkbox"/>	25%	42%	5%	Yes	Good progress made
MDG 3		3	<input type="checkbox"/>	0%	0%	1%	Maybe	Some progress made
MDG 4 - 5		607	<input type="checkbox"/>	35%	20%	8%	Yes	Poor results achieved
MDG 6						31%	Yes	
MDG 7		237	<input type="checkbox"/>	14%	13%	19%	Some	Very poor results to the extent of regressing.
MDG 8		66	<input type="checkbox"/>	4%	3%	6%	Yes	
TOTAL		1 565	<input type="checkbox"/>	100%	100%	100%		

The MDG 1 received a large proportion of the MDG funding despite this it performed poorly. On the other hand, the development partners emphasised on food security, agriculture and rural development. The GoK funding to this MDG was 21.7% of its MDGs allocations, but only 3.2% against allocations to all sectors. The government has consistently emphasized on funding for the free primary education, and the country has achieved positive results making Goal 2 achievable by 2015.

5.2 Conclusion by Goal

5.2.1 Goal 1: Eradicate Extreme Poverty and Hunger

The poverty indicators in Kenya have not improved while the period under review and food security is still a problem. Even if the funding allocations and

development partners were sizable and averaged 22% of the total funding to MDGs over the period, the results are not encouraging. The share of the GoK MDG funding of its total budget funding to all sectors was only 3.9%. Furthermore, the funding trend was decreasing. Part of the GoK allocations also included so emergency and relief food.

There seems to be no meaningful correlation between the funding and the performance of the MDG 1. Reasons for the poor performance, despite the significant support, may be various and could include policy-level issues, weak or wrong targeting of efforts, as well as implementation inefficiencies. Kenya needs to adapt best poverty practices undertaken by Cuba, Argentina, India and Brazil geared towards poverty eradication and food sufficient to all citizens. Kenya can learn from Germany and Nordic Countries on social programmes targeting the vulnerable and disadvantaged in the society.

5.2.2 Goal 2: Achieve Universal Primary Education

Primary school enrolment (both gross and net) continued to improve slightly although the quality challenges are experienced, including increasing pupil to teacher ratio. Significant GoK funding went to free primary education, and the trend was increasing throughout the period. Very little DP support was available (only 5%) to this MDG. The good results obtained under this Goal are consistent with the funding allocations by the Government, and MDG 2 is likely to be attained by 2015.

5.2.3 Goal 3: Promote Gender Equality and Empower Women

The gender related MDG indicators have not performed particularly well during the period under review, except for the tertiary education enrolment ratio of girls. The proportion of specific development partner support for gender and women

empowerment was the lowest during the period with only 1% of the total MDG support allocated. However, even if DPs did not report a significant amount of funding to specific projects focusing on gender, in most DP projects and programmes gender is a crosscutting theme. Recent supportive government policy and legal changes may achieve some progress here. The correlation between the poor performance of the Goal and the amount of funding seems probable.

5.2.4 Goals 4-6: Reduce Child Mortality; Improve Maternal Health, and Combat HIV/AIDS, Malaria and Other Diseases

The HIV/AIDS related indicators (Goal 6) have improved with the significant donor funding while maternal health indicators are improving. Goal 6 received the highest share (31%) of the donor support to MDGs. The two other health sector goals (4 & 5) related to child and maternal health have not benefitted much from the government or DP support. The reduced funding levels for MDG 5 are not only contributing to it being the worst performing MDs, but also hindering the achievement of MDG 4. The study concludes that focused and sizable funding towards Goal 6 has been able to contribute to the improvement of the HIV/AIDS, malaria and TB related indicators.

Kenya has done fairly well but still issues of commensurate facilities like beds for patients, maternity wards, health personnel; sanitation and waste disposal are wanting. In some areas, there is little community awareness on common services available in health facilities and time taken to access such services when need arises is of concern.

5.2.5 Goal 7: Ensure Environmental Sustainability

The share of the total allocations to MDG 7 increased slightly. According to the MDGs Status Report 2011, share of the population using improved drinking water

source was 39.5 %. According to earlier reports, the access to improved water source was 72% in 2009, and 66.6% in 2000. Forest cover in Kenya has increased from 1.7% in 2000 to 4.0% in 2011. The target is 6% by 2015. There is no data in the MDGs Status Reports on the level of forest cover in 2007, which makes it difficult to assess the performance of the indicator during the period under review.

5.2.6 Goal 8: Develop Global Partnership and Development

Public sector funding to this MDG has been minimal over the period under review. Donor support mainly directed for trade and financial sector development. Overall, support is found to have a substantial positive impact on most human development outcomes in Kenya. The study also concluded that a specific policy should be enacted to finance particular goals.

5.3 Suggested Recommendations and Policy Interventions

5.3.1 Introduction

This study aimed to establish the total funding to MDGs over a period under review and further establish the link to HDI in Kenya. The following recommendations were drawn.

5.3.2 Recommendations and Policy Interventions

1) MDGs did not receive as much priority in funding as other sectors. Share of MDGs in total GOK funding has been small and declining from 20% in 2008/09 to only 15% in 2012/13. The development partners did better, but their funds declined from 65 % % to 56%. Poorly performing MDGs did not receive additional funding (notably MDG 5, MDG 1). For the Post 2015 period, a more binding budgeting framework to address MDGs (mainstreaming MDGs) should be developed and implemented. GoK need to prioritize and focus resources on the worst performing MDGs. It includes MDG 5 on maternal health and the closely related MDG 4 on

- reducing child mortality. Also, new approaches to improve performance of MDG 3 are set. GoK should allocate much more resources to MDG 1.
- 2) Private sector could play a much bigger role in the MDGs, for example, in the development of ST&Is in the country. The good business environment in terms of policies, legal, institutional frameworks and appropriate international trade engagements can spur growth of the private sector with attendant positive results. Greater focus on building the right environment for trade, tourism and industrialization can be an opportunity to increase employment and reduce poverty thereby achieving MDG 1.
 - 3) Where the government continued to focus on MDG 2, development partners seemed to focus substantially on MDG 6. A clearly spelled out division of funding efforts between GoK and DPs in MDGs should agreed on.
 - 4) The lack of convergence in areas where good results are due to significant development partner support, the issue of sustainability arises. For example, with the global economic crisis and the possibility of shifts in development partner focus. The positive outcomes being experienced in malaria, TB and HIV/Aids may suffer unless the government shifts substantial resources to cover the gap. The government and the development partners should find ways of ensuring convergence of focus and synergies in the achievement of MDGs. It has the potential of not only achieving greater results but also ensuring that results remain sustainable. The latter require that where development partners have focused resources and achieved results, the government should plan to fill the gap when such funds are no longer available.
 - 5) MDGs (Post 2015 goals) should be explicitly included and prioritized in the County Integrated Development Plans and Budgets. It is important that devolved

governments not be only given the data to work with in setting and achieving targets, but also arming the public with the information to hold these governments to account.

- 6) Many current MDG indicators lack baselines and targets. Without baselines, targets cannot be set; without targets, managing performance is difficult. The frequency of surveys is not adequate MDGs focused surveys are not carried out. The government should implement a better monitoring and evaluation framework for MDGs with the support of development partners. This framework should include appropriate baselines and targets; more frequent, focused and well funded studies conducted; improved reporting on MDGs streamlined and coordinated between the government and development partners.
- 7) There seem to be discrepancies between the GoK development estimates and the DPs reporting. GoK and AEG should put more efforts in streamlining and coordinating development partner and government reporting to avoid the current discrepancies.
- 8) Enablers, particularly infrastructure development, have received growing focus, partly on the expense of other sectors. Although it is logical to assume that allocating funds to infrastructure such as roads and airports. It will eventually results in improving outcomes related to the achievement of MDGs. It is important that adequate funds are made available to programs directly supporting MDGs.

References

- Akonor, Kwame (2008). *Foreign Aid To Africa: A Hollow Hope*.
- Ali, A., Mwabu, G, and Thorbecke E. (2002) Poverty Reduction in Africa: Challenges and Policy Options, AERC Special Paper 36. AERC Nairobi.
- Baran, P. (1957). *The Political Economy Of Growth* (1968 edition). New York: Monthly Review Press.
- Bender D. and Lowenstein W. (2005). *Two Gap Models: Post Keynesian Death Moreover, Neoclassical Rebirth*. Institute of Development Research and Development Policy, Bochum.
- Bezuidenhout H. (2009). A regional perspective on Aid and FDI in Southern Africa.
- Boone, P. (1996). *Politics and the Effectiveness of Foreign Aid,*" Centre For Economic Performance Discussion Paper No. 272.
- Boone, P. (1995). *"Politics and the Effectiveness of Foreign Aid"*, Centre for Economic Performance, discussion paper no.272, 1995.
- Boone, P. *The Impact of Foreign Aid on Savings and Growth.*" Working paper, London School of Economics.
- Bourguignon, F., C. Diaz-Bonilla and Hans Lofgren (2007), Aid, service delivery and the MDGs in an economy-wide framework, mimeo, World Bank, Washington D.C.
- Bourguignon, François, Maurizio Bussolo, Luiz A. Pereira da Silva, Hans Timmer and Dominique van der Mensbrugghe. 2004. "MAMS - MAquette for MDGs Simulation: a simple Macro-Micro Linkage Model for a Country-Specific Modeling of the Millennium
- Bruns, B., Mingat, A. and Rakotomalala, R. (2003), Achieving Universal Primary Education by 2015 - A Chance for Every Child, Completion, World Bank, Washington D.C.
- Bulir A. and Hamann J.A (2005). *Volatility of Development Aid: From the Frying Pan into the Fire?* IMF.
- Burnside, C. and D. Dollar (2000), "*Aid, policies, and growth,*" American Economic Review, vol.90, p.847–868.
- Christopher, David Linebarger (2008). *Foreign aid and democracy: A quantitative analysis of the determinants of development assistance*. University of Nevada.

- Craig, B. and David D. (2000). *The American Economic Review*, Vol. 90, No. 4 pp. 847-868.
- Delfin S. Go & John Page, Africa at a turning point, Growth, Aid, and external shocks, The World Bank, Washington D.C, Chapter 3. Development Goals or MDGs". Mimeo. World Bank.
- Easterly William (2002). *Inequality Does Cause Unemployment"*, Centre for Global Development, Institute for International Economics.
- Elbadawi I.A and Mwega F.M (1997). *Regional Integration and Foreign Direct Investment in Sub-Saharan Africa*. Working Paper African Economic Research Consortium.
- Emma Mawdsley & Gerard McCann (2011). *India in Africa: Changing geographies of power*. Pambazuka Press.
- Halving Poverty between 1990 and 2015?, Working Paper 19. 2006, International Poverty Centre UNDP.
- Hansen H.F.Tarp and S.Vikkelso (1998). *Aid Effectiveness: A Survey of 30 years of Literature on Aid Savings, Investment and Growth Linkages*. Development Economics Research Group.
- Hansen, H. and F. Tarp (2000), "Aid effectiveness disputed," *Journal of International Development*, vol.12, p.375–398.
- IMF (2005) "The Macroeconomics of managing increased aid inflows: Experience of low income countries and policy implications. Processed, August, Policy Development and Review Department, International Monetary Fund, Washington, DC.
- Jeffrey Sachs (2005). *The End Of Poverty: How Can We Make It Happen During Our Lifetime*. Penguin Press, Chapter, 9, Page 135.
- Jonathan Glennie,(2008). *The Trouble with Aid: Why less could mean more for Africa*. International African Institute Royal African Society, Social Science Research Council.
- Kakwani and Son (2006). How Costly is it to Achieve the Millennium Development Goal.
- Kiringai, J., Thurlow, J. and Wanjala, B. (2006). A 2003 social accounting matrix for Kenya. IFPRI, Washington D.C.
- Lensink, R. and H. White,(2001) "*Are there Negative Returns to Aid, ?* *JDS* p.37, 42-65.
- Manda, D. K, Kimenyi, M. S., and Mwabu, G. (2000). A Review of Poverty and Antipoverty Initiatives. Social Sector Division, KIPPRA.

- Moyo. (2009). *Dead Aid, Why aid is not working and why there is a better way*, Penguin books limited.
- Moyo, D. (2009). *Why aid is not working and how there is another way for Africa*, Penguin books Ltd. London, 2009, Page 49
- New Partnership for African Development Report, Abuja, Nigeria 2001.
- Njeru J. (2003). *The Impact of Foreign Aid on Public Expenditure: The Case of Kenya*. African Economic Research Consortium.
- Oiro, M. W, Mwabu, G. And Manda, D. K. (2004), Poverty and employment in Kenya, Social Sector Division, KIPPRA Discussion Paper No.33, Nairobi.
- Ram, R. (2004). Recipient country's 'policies' and the effect of foreign aid on economic Growth in developing countries: additional evidence. *Journal of International Development*, vol.16, no.2, p.201–211.
- Republic of Kenya (2005a). MDG Status Report for Kenya 2005, Ministry of Planning and National Development, Nairobi Kenya.
- Republic of Kenya (2006). The Medium-Term Budget Strategy Paper 2006/07 – 2008/09. Ministry of Finance, Nairobi Kenya.
- Republic of Kenya (2002). Labour force survey.
- Republic of Kenya (2003). MDG Progress Report for Kenya 2003, Ministry of Planning and National Development, Nairobi Kenya.
- Republic of Kenya (2005b). A Needs and Assessment Report - Costing the MDGs, Ministry of Planning and National Development and UNDP, Nairobi Kenya.
- Republic of Kenya (2006). The Medium-Term Budget Strategy Paper 2006/07 – 2008/09. Ministry of Finance, Nairobi Kenya.
- Republic of Kenya (2006), Education Sector Report, Republic of Kenya.
- Ridell, R.C. (1987). *Foreign Aid Reconsidered*. Baltimore. The Johns Hopkins University Press.
- Rodney Walter (1973). *How Europe Underdeveloped Africa*. Bogle-L'Ouverture Publications, London and Tanzanian Publishing House, Dar-Es-Salaam.
- Sachs, Jeffrey (2005). *The End of Poverty: Economic Possibilities of Our Time*. New York: Penguin Group.
- Salvatore J. Babones and Christopher Chase-Dunn (2012). *Routledge International Handbooks of World Systems Analysis*. Individual Chapters, Routledge Publishers.

- Samuel A Ochola (2007). *Leadership And Economic Crisis In Africa*, Kenya Literature Bureau.
- Sen Amartya (1999). *Development as Freedom*. Oxford University Press.
- Svenson Jakob (2005) *Journal of Economic Perspectives*. Volume 19, No.3 2005- Pages 19-42.
- Thirlwall A.P. (1997). *The Economics of Growth and Development Selected Essays*. Edward Elgar Publishing Limited, Pg 260.
- Todora and Smith, "*Economic Development*", 2005, Page 47.
- Wallis William, "*Foreign Aid Critics Spreads theory far and fast*" *financial times*, 2007.
- Walt Rostow (1990). *Theorists of Economic Growth from David Hume to the Present: With a Perspective on the Next Century* (New York and Oxford: Oxford University Press.
- Walt W. Rostow (1960). *The Stages Of Economic Growth: A Non-Communist Manifesto*. London Heinmann.
- White, H. (1992). *The macroeconomic impact of development aid: A critical survey*" *Journal of Development Studies*, vol. 28: 163–240.
- Woods, Ngaire (2005). *The Shifting Politics of Foreign Aid*. International Affairs.
- World Bank (2003), Country Assistance Strategy for the Republic of Kenya, Africa Region. Washington D.C.
- World Bank (2005), Education Support Project, Project Information Document, No. AB1578, Africa Region. Washington D.C.

Government of Kenya Publications

- Agricultural Sector Coordination Unit (ASCU), Agricultural Sector Development Strategy, Medium-Term Investment Plan: 2013– 2017, February 2013.
- Agricultural Sector Coordination Unit (ASCU), An Assessment of the Absorptive Capacity for Development Funds in Agricultural Sector Ministries, February 2012.
- Development Estimates 2008/2009; 2009/2010; 2010/2011; 2011/2012; and 2012/2013: Details of Projects Funded through External Resources. Ministry of Finance, Republic of Kenya.

GOK Medium Term Expenditure Framework Sector Reports 2002-2013.

GOK annual budget estimated from FY 2008/9 to FY 2012/13.

Government of Kenya, (2010). *Constitution of Kenya, 2010*. Nairobi: Kenya Government Printer.

Government of Kenya (2008). *Vision 2030*. Government Printer, Nairobi.

Kenya National Bureau of Statistics and NCPD, Malaria Indicator Survey, 2010.

Kenya National Bureau of Statistics, Economic Survey: 2009, 2012 and 2013.

Kenya National Bureau of Statistics, Kenya Demographic and Health Survey (2003, and 2008/9) Ministry of State for Planning, National Development and Vision 2030, *MDGs Status Reports for Kenya: 2005, 2007, 2009, and 2011*.

Kenya National Bureau of Statistics, *Kenya Integrated Housing and Budget Survey, 2006*.

Kenya National Bureau of Statistics, *Kenya Population Census 1999, 2009*.

MDGs Status Reports 2003-2011.

Ministry of Devolution and Planning (2013). *Fourth Annual Progress Report 2011-2012*, Government of Kenya.

Ministry of Finance, annual budget estimates from FY 2008/9 to FY 2012/13.

Ministry of Finance, Budget Strategy papers, 2008/9, 2009/10, 2010/11, 2011/12.

Ministry of Finance, Republic of Kenya, Kenya External Resources Policy, November 2012.

Ministry of Finance, supplementary budget estimates from FY 2008/9 to FY 2012/13.

Ministry of State for Planning, National Development and Vision 2030, First Medium Term Plan of Vision 2030 (MTP) 2008-2012.

Ministry of State for Planning, National Development and Vision 2030, Monitoring and Evaluation Directorate, Third Annual Progress Report 2010-2011 on the Implementation of the First Medium Term Plan (2008-2012), April 2012.

Office of the Prime Minister, Ministry of Planning, National Development and Vision 2030 *"Economic Survey 2011"*, . Republic of Kenya, Government Printer Nairobi, 2011.

Other Publications

Alberto Alesina, David Dollar, Who gives foreign aid to whom and why?-
WB WP 6612.

Jensen P.S.M.Paldan, (2003). *Can The New Aid Growth Models be Replicated?*
World Bank WP.

OECD-ODA Annual Report, 2010.

Organization for Economic Corporation and Development (OECD) (2009a),
Development Aid at a Glance 2008: Statistics by Region, January 2009.

Soubbotina P. Tatyana (2004). *Beyond Economic Growth: An Introduction to
Sustainable Development*. The World Bank Washington DC, 2nd Ed.

The World Bank Group (2007). *Millennium Development Goals, Sub-Saharan Africa*.
United Nations Development Programme report 2001.

United Nations Development Programme, "*Human Development Report*", 2013.

United Nations Population Division, *UNDP Report*, 2011.

United Nations, "*World Investment Report*," New York 2010.

UN-OHRLLS "*Report of the Third Inter-Agency Consultative Group Meeting on the
Preparatory Process for the Comprehensive 10-Year Review Conference on
the Almaty Programme of Action*", United Nations, New York, 2013.

World Bank, "*World Development Indicators*," 2010.

World Bank, "*World Development Report*," World Bank, Washington DC 2013.

Annexes

Annex 1: List of Ministries and Government Agencies included

Below is the list of the ministries and government agencies included in the study. The second column is the name of the new ministry / agency established after the elections of 2013.

Old ministry / Government Agency	New ministry / Government Agency
1. Planning, National Development and Vision 2030 2. Local Government 3. Northern Kenya and Other Arid Lands 4. Gender 5. Regional Development 6. Special Programs	Devolution and Planning, The Presidency
7. Education (Primary)	Education
8. Finance	The National Treasury
9. Medical Services 10. Public Health and Sanitation	Health
11. Roads 12. Public Works 13. Transport	Transport and Infrastructure
14. Environment and Mineral Resources 15. Forestry and Wildlife 16. Water and Irrigation	Environment, Water and Natural Resources
17. Lands 18. Housing	Land, Housing and Urban Development
19. Information and Communications	Information, Communication and Technology
20. Youth Affairs and Sports	Sports, Culture and the Arts
21. Labour	Labour, Social Security and Services
22. Energy	Energy and Petroleum
23. Agriculture, 24. Fisheries Development 25. Livestock Development 26. Cooperative Development and Marketing	Agriculture, Livestock and Fisheries
27. Industrialization 28. Science and Technology	Industrialization and Enterprise Development
29. Trade 30. Tourism	Under the Ministry of East African Affairs, Commerce and Tourism
31. Justice	Under the Office of the Attorney General
32. Constituency Development Fund	Same as before

Annex 2: List of Development Partners Included

S/No.	AGENCY	COUNTRY/ORGANIZATION/ REGION
1	African Development Bank	AFRICA
2	Australian Agency for International Development (AusAID)	Australia
3	Belgian Embassy	Belgium
4	Canadian International Development Agency (CIDA)	Canada
5	DANIDA/Royal Danish Embassy	Denmark
6	European Investment Bank (EIB)	EU
7	European Union (EU)	EU
8	Embassy of Finland	Finland
9	Agence Française de Développement (AFD)	France
10	GIZ (through German Embassy)	Germany
11	KfW (through German Embassy)	Germany
12	Global Fund	-
13	IFAD	-
14	Development Cooperation Office - Embassy of Italy	Italy
15	JICA	Japan
16	Netherlands Embassy	The Netherlands
17	Norwegian Embassy	Norway
18	Korea International Cooperation Agency (KOICA)	South Korea
19	Embassy of Spain	Spain
20	Swedish Embassy	Sweden
21	UNAIDS	UN
22	UNDP	UN
23	UNFPA	UN
24	Department for International Development – UK (DFID)	United Kingdom
25	UNICEF	UN
26	USAID	United States of America
27	The World Bank Groups	WB

Annex 3: List of DPs whose details were obtained from GoK estimates

S/No.	Agency
1	China
2	Kuwait Fund
3	Saudi Arabia
4	BADEA
5	GAVI
6	OPEC