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A CASE STUDY OF AID EFFECTIVENESS IN KENYA

VOLATILITY AND FRAGMENTATION OF FOREIGN AID,
WITH A FOCUS ON HEALTH

Francis M. Mwegu



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INTRODUCTION

In September 2000, 149 heads of state and government endorsed the Millennium Development Goals (MDGs). With this endorsement they set themselves eight goals to be reached by 2015 (from the 1990 base), foremost of which is to halve the proportion of the world's people who were absolutely poor. The MDGs provide a departure from past approaches in addressing poverty. By focusing attention on a core set of interrelated goals and measurable targets, it is now easier to track progress and measure the impact of development interventions.

On many MDGs, although not all, sub-Saharan Africa (SSA) as a region has recorded progress, even though the rate and pace of the region's gains appear to lag behind other developing regions (United Nations, 2007). SSA faces a substantial shortfall in achieving the MDGs. Bridging the gap requires improved governance, increased public investment, enhanced productive capacity and economic growth, as well the creation of decent work. According to the UN Report, such strategies should adopt a wide-ranging approach that seeks to achieve pro-poor growth. This, in turn, requires comprehensive programmes of human de-

velopment, particularly in health and education, as well as building productive capacity and improving physical infrastructure. In each case, an effort should be made to quantify the resources required to implement these programmes. Developed countries need to deliver on their various commitments to increase aid to SSA. Contrary to the spirit of Goal 8 (developing a global partnership for development, with targets for aid, trade and debt relief), ODA declined between 2005 and 2006, and was expected to fall slightly in 2007 as debt relief declined.

The last decade or so has, however, seen a radical criticism of foreign aid. This has been driven by the perception that foreign aid has not produced the desired or expected results. This perception is based on two premises. The first is that foreign aid can only raise growth in a good policy environment. This premise is mainly based on evidence from cross-country regressions (Burnside and Dollar, 2000; World Bank, 1998). Hence foreign aid can be a double-edged sword. Where the economic and political environment is right, it can be very helpful in supporting economic and social progress (Lancaster, 1999). Where it is not, it will have no positive effect and will be wasted at best. At worst, it can set development back through

the potential negative economic and political impacts it may have.

The second premise is based on the finding that foreign aid cannot “buy” good policies through *ex ante* conditionality. This is because economic reforms induced by foreign aid are “time-inconsistent” and therefore lack credibility. Effectiveness is not changed by repeated donor-recipient interactions, since the threat to punish those who reverse policies by denying them future lending is itself not credible, due to the pressure on donor staff to continue lending. Empirical evidence on this premise that policies are exogenous is based on case studies, and econometric analyses (e.g. Burnside and Dollar, 2000).

If *ex ante* conditionality does not work, there are then two options: (i) donors can either redesign foreign aid contracts to improve the policies pursued by recipients; or (ii) switch to *ex post* conditionality or selectivity, with a focus on the recipient governments ownership of the aid-funded activities, and, since aid is fungible, give aid for budget support. Donors are increasingly moving towards the second option, while aid recipients are wary about this shift in foreign aid policy. Advocates of selectivity (e.g. Gunning, 2001) argue that, while improving *ex ante* conditionality may be feasible, it has a number of undesirable characteristics that justify biasing aid allocation in favour of countries with good policy environments. *Ex ante* conditionality, for example, works against ownership of reforms, undermines the incentive to develop policy-making capabilities, and undermines government accountability and confidence. Selectivity would also obviate the situation where donors bilaterally or through their influence over multilateral agencies allocate aid to achieve political objectives rather than development goals.

However, the environment for the management of foreign aid has improved since the late 1990s (Wangwe, 2003). First, there have been innovations for mobilizing wider participation in budgetary issues and an elevation of progress towards the achievement of targets (as through the Poverty Reduction Strategy Papers (PRSPs)). Second, the end of the Cold War means that allocations are less likely to be determined by geopolitics and this increases the chances of evolving a consensus around development issues among recipients and donors alike. Third, international peer pressure is being applied to improve aid effectiveness including harmonization of aid delivery systems, as in the OECD Development Assistance Committee (DAC). Fourth, initiatives are being taken to forge partnerships with the private international capital (e.g. participation in infrastructure investments) and in export development and market access, as in the Cotonou agreement and African Growth and Opportunity Act (AGOA). Fifth, the trend towards political openness in Africa and endorsements of efforts to achieve good governance at the pan-Africa level (as in the Africa Union and NEPAD) are likely to bring wide participation and ownership of programmes financed by foreign aid.

This case study focuses on three issues that influence the effectiveness of aid: aid volatility, aid fragmentation, and aid coordination and harmonization. As we explain, foreign aid to Kenya is highly volatile and fragmented. This paper therefore analyses the efforts currently under way to smoothen and coordinate international aid in the recipient country. This case study is part of a larger exercise that seeks to draw policy insights from the experiences of six countries in dealing with aid. In line with the overall thrust of the larger exercise, the Kenya case study investigates issues of aid volatility and fragmentation, disaggregated by sectors; and aid modalities and types of assistance. The case study features health as a tracer sector to

compare and contrast trends and experiences in dealing with aid volatility and fragmentation. Moreover, the study enlists and analyzes the issues associated with the coordination of overall and health related aid. The study makes a special effort to highlight the innovations and competencies that have been developed over time to respond to the challenge of very high levels of aid volatility and fragmentation in Kenya.

The objectives of the study are therefore to (i) assess the aid environment with a special focus on the volatility and fragmentation aggregate and health sector aid, and their impacts in terms of costs and gaps in the delivery of services; and (ii) assess the effectiveness of approaches and innovations that are put in place to smoothen and coordinate overall and health sector aid. Volatility and uncertainty over ODA flows; fragmentation of donor efforts; project proliferation and duplication; conflicting or dominant donor agendas; competition for staff; and high administrative and oversight costs are long-standing and well-known list of common complaints about aid (Moss et al., 2005). While most of these concerns are directly related to

the way aid is delivered and administered and are in principle fixable, in practice progress in alleviating them has proven to be slow and uneven.

This research has two methodological components: quantitative and qualitative. The quantitative component entails collecting and analyzing data from relevant research reports and databases, such as, OECD-DAC statistics. Additional information is gathered from donor, government, and other sources, including interviews.

The rest of the paper is organized as follows. The next section looks at the pattern and evolution of foreign aid to Kenya; a third section investigates aid volatility; a fourth section, aid fragmentation; and a fifth section, the coordination of foreign aid in the country. The next section analyses the nature and characteristics of aid to Kenya's health sector, including its coordination. The paper concludes with a summary and discussion of key questions of foreign aid management in the country.

PATTERN AND EVOLUTION OF FOREIGN AID TO KENYA

This section provides a brief overview of international aid to Kenya. It gives a feel of the magnitude and significance of aid to the country by comparing it to global trends. It looks at selected information that includes: (i) trends in international aid to Kenya since the 1980s; (ii) magnitude of international aid in relation to local economy; and (iii) magnitude of international aid in relation to other developing countries.

Total aid and its decompositions

Table 1 shows the evolution of foreign aid to Kenya, which shows that, since the 1980s, the country has experienced relatively unpredictable flows of international aid. According to OECD-DAC statistics, while Kenya experienced a dramatic build-up in nominal aid flows in the 1980s, there was a slackening of donor support in the 1990s. Nominal aid flows increased from US\$ 393.4 million in 1980 to an average peak of US\$ 1120.5 million in 1989-90, before declining to a low of US\$ 308.85 million in 1999, with some recovery thereafter in response to a new government in December 2002. Increased aid flows since 2002 are as a result of increased government borrowing to finance development projects on infrastructure as well as increased inflows of grants to support government efforts in social sectors and humanitarian responses to droughts following successful Consultative Group (CG) meetings in 2003 and 2005 (UNDP, 2006). The increase in foreign aid therefore reflected renewed donor confidence in the government's resolve for proper management of the economy and situating adequate government measures against graft and corruption.

In real terms, net ODA to Kenya accounted for US \$ 943 million in 2006, ranking 23rd among 150 aid recipient developing countries. These recent aid flows fall short of the historic high of 1989-90 when the net ODA stood averaged US \$ 1.616 billion (in 2006 constant terms) and continued to remain above US \$ 1 billion mark for each year until 1993. Since 1993, however, net ODA to Kenya started to decline dramatically, with two major episodes of "aid freeze" and donor withdrawals as the government reneged on its commitments to donors (Mule et al., 2002). Three stabilization programmes, for example, collapsed in rapid succession in the early 1980s. While the period 1983-90 saw a series of programmes concluded relatively successfully, the fourth programme collapsed in 1991, precipitating the aid freeze imposed by the donor consultative group in November that year. The fifth collapsed in the run-up to the 1997 general elections and the sixth in 2000. It is only after 2003 that the aid situation in Kenya has started to improve, with a gradual increase in net ODA. Hence, the drop in aid in the 1990s reflected Kenya's own falling out with donors over the implementation of Structural Adjustment Programmes (SAPs) and the general decline in aid to SSA following the end of the Cold War (McCormick et al., 2007).

Kenya's share of ODA among developing countries was 1.22 percent over 1980-2006 and the country's share of development aid to Africa was 3.34 percent over the same period. These shares have however declined substantially over time. The share of aid to developing countries declined from an average of 1.49 percent in the 1980s to 1.22 percent in the 1990s and was only 0.77 percent in the 2000-06 period. The same pattern is observed for Africa, with Kenya's share declining from 4.16 percent in the 1980s to 3.24 percent in the 1990s and was only 2.18 percent over the period 2000-06. Kenya is therefore not considered to be a

Table 1: Evolution and pattern of total aid to Kenya

Year	ODA at 2006 Prices US\$ Million	ODA at current prices, US\$ million	Kenya's share of developing countries ODA, percent	Kenya's Share of Africa's ODA, percent	ODA as share of GNI, percent	Bilateral as share of total ODA, percent	Budget as share of total ODA, percent
1980	836.72	393.44	1.2	3.8	5.84	70.1	4.1
1981	1015.62	446.48	1.4	4.3	7.85	80.0	0.0
1982	1115.87	481.59	1.6	4.6	9.00	70.1	17.4
1983	915.24	396.1	1.4	4.0	7.40	85.8	11.1
1984	988.02	402.93	1.3	3.7	7.38	81.0	4.7
1985	1016.97	426.66	1.3	3.5	7.16	82.0	12.2
1986	880.38	442.96	1.2	3.3	6.27	87.9	6.4
1987	926.21	557.18	1.3	3.6	7.29	80.5	4.1
1988	1263.78	832.03	1.9	4.9	10.69	73.0	14.9
1989	1623.18	1059.69	2.3	5.9	13.92	58.2	7.9
1990	1608.11	1181.29	2.1	4.7	15.35	62.6	3.2
1991	1168.68	916.46	1.5	3.7	12.33	65.8	9.0
1992	1083.52	883.02	1.5	3.6	12.67	57.7	3.3
1993	1132.17	906.02	1.6	4.3	19.97	45.3	0.0
1994	811.47	675.32	1.1	2.9	8.02	57.9	0.0
1995	766.48	731.36	1.2	3.4	9.18	61.1	4.3
1996	675.28	594.68	1.1	3.0	6.39	57.8	21.9
1997	555.74	447.78	0.9	2.5	4.60	67.1	0.0
1998	522.9	414.74	0.8	2.3	3.77	66.3	0.0
1999	379.76	309.85	0.6	1.9	2.52	82.3	0.0
2000	659.5	509.94	1.0	3.3	4.16	57.8	22.2
2001	642.17	461.55	0.9	2.8	3.59	58.6	0.0
2002	508.2	391.04	0.6	1.8	2.94	75.3	0.0
2003	603.46	521.45	0.7	1.9	3.51	62.2	0.7
2004	682.12	654.42	0.8	2.2	3.97	71.6	10.9
2005	785.98	767.08	0.7	2.2	3.86	68.1	0.0
2006	943.4	943.4	0.9	2.2	4.00	82.4	0.0

Source: OECD-DAC database; IMF, *International Financial Statistics*

high aid-dependent economy. At its peak in 1989-90, net ODA inflows averaged 14.6 percent of the gross domestic income, declining to 2.52 percent in 1999 and were 2.94 percent in 2002, before increasing to 4 percent in 2006. This indicates a decreasing importance of ODA to the economy, especially in the last decade. At 3-4 percent of GNI, Kenyan dependence on foreign assistance is low, compared to neighbouring countries.

Kenya received approximately 70 percent of its total aid from bilateral donors. The share of multilateral aid increased moderately in the 1980s and early 90s, primarily due to the disbursement of the World Bank adjustment lending under SAPs, but the bilateral share rose again since then with the decline in new adjustment lending after 1991. Bilateral aid has been mainly in the form of grants (72 percent of the total), with the share of grants increasing in recent years, whereas

multilateral aid has mainly been in the form of loans (86 percent). The principal source of multilateral loans has been the World Bank group, accounting for almost 80 percent of total loans in the study period.

There are obvious reasons why Kenya received such large inflows in the 1970s and 1980s, before their subsequent decline (O'Brien and Ryan, 2001). Generally speaking, the primary motivations for providing aid are developmental (to promote economic growth and poverty alleviation in poor countries); commercial (to cement commercial and financial relations with the aid recipient, open markets, and ensure opportunities for investors, contractors, and suppliers from the aid-giving countries); and political (to maintain the allegiance of governments that are politically aligned with the donor, an especially prominent feature of aid during the Cold War).

Kenya was a logical candidate to receive aid for all the above reasons (O'Brien and Ryan, 2001). First, the government's management of the economy was prudent and the economic track record was relatively good, at least through the 1970s. Despite a mixed record on economic policy reforms and macroeconomic outcomes in the 1980s, Kenya still performed better than most African countries. Second, Kenya was for many years a relatively attractive locale for foreign direct investment, at least within SSA context; it especially attracted consumer goods industries targeted at the East African market before the collapse of the East African Community in 1977.

Third, throughout the Cold War years, Kenya consistently aligned itself with the West both economically and politically. However, the end of the Cold War, which essentially eliminated the geo-political motivation for foreign aid, coincided with a weakening of economic reform efforts. There was, as well, a hardening of po-

litical lines within the country just as donors were adding "good governance" and democratization to their criteria for judging the worthiness of aid recipients. The result was an intensification of the "stop-go" relationship between donors and the Kenyan government, which has persisted to the present.

Country Programmable Aid (CPA)

CPA is defined as aid available to programming in the recipient country. It excludes emergency and food aid, debt forgiveness, administrative costs, support for NGOs and technical cooperation. This section therefore disaggregates overall aid into these various sub-components to work out how much aid actually goes into development programs.

Table 2 shows that Kenya has increasingly relied on emergency and food aid. In nominal terms, the country received US \$ 13.01 million in the 1980s (0.25 percent of total ODA), this increasing to US\$ 190.24 million in the 1990s (3.14 percent of total ODA). In the period 2000-06, the country received US\$ 461.21 million (7.36 percent of total ODA). The last period had extended droughts (2000-01 and 2004) that had a direct bearing on the proportion of external assistance received as emergency response and disaster management.

Bilateral donors also provided debt forgiveness of prior ODA debt of \$114.53 million in the 1980s (2.17 percent of total ODA) and \$593.12 million in the 1990s (9.76 percent of total ODA). Over 94 percent of the debt forgiveness was in 1990 alone. Debt forgiveness over 2000-06 amounted to US\$ 101.25 million (1.55 percent of the total ODA). While Kenya has appeared as a candidate for debt relief under the Highly Indebted Poor Countries (HIPC) Initiative, it has not received the HIPC debt relief because it did not have

a good track record with the IMF/World Bank programmes, nor has it conducted an independent debt sustainability analysis to assess its burden (Martin and Johnson, 2003). As well, the ratio of the net present value of its external debt to exports is about 110 percent, which is below the minimum eligibility criteria of 150 percent (Kenya and UNDP, 2003).

The reported administrative costs by donors over the last decade are minimal, amounting to US\$ 11.78 million over 1997-2006 (0.18 percent of total ODA over that period). Non-governmental organizations (NGOs) also have acted as channels or recipients of ODA, receiving funds for investment from official donors for use in development programmes or for redistribution to other NGOs. Table 2 also shows that it is only recently that support for NGOs has been substantial.

A large proportion of bilateral grant aid is also given for technical assistance. The absolute amounts expended for technical assistance have remained high. During the 1980s, technical assistance amounted to US\$ 222 million, accounting for 4.22 percent of the total ODA. This increased to US\$ 842.94 million in the 1990s, or 13.9 percent of the total ODA. Over the period 2000-06, the amount was US\$ 1531.67 million, or 23.4 percent of the total ODA (Table 2).

Technical cooperation is comprised of grants to nationals receiving education or training at home or abroad, and payments to consultants and advisers. Much of technical assistance is therefore money that the country does not receive into government coffers, since it is paid directly to the consultants, or to education and training institutions outside of Kenya, by the aid-giving country or international agency.

Overall, the results in Table 2 show that the share of CPA has substantially declined over time. In the 1980s,

the share of CPA was 90.5 percent, this declining to 68.8 percent in the 1990s and was only 63.2 percent over 2000-06. The decline was even more for bilateral aid: from an average of 89.3 percent in the 1980s to 58.8 percent in the 1990s and to 39.8 percent in 2000-05 (Table 3). Table 3 also show that the share of CPA increased dramatically in 2006 (81.8 percent) explained by a large increase in bilateral aid that was not offset by increased emergency and food aid to the country.

Emerging players in aid

Not reflected in the above analysis is aid from countries that do not belong to the OECD - DAC. Of these, China is probably the most significant, especially in the area of infrastructure assistance (McCormick et al., 2007). We also discuss the evolution of private aid in the country.

Chinese development assistance to Kenya

In the last two decades, China has moved to increase its assistance to African countries “to the best of its ability.” Since the mid-1990s, China has increasingly used foreign aid to achieve broader strategic objectives, including strengthening links with resource-rich African economies. Hence the biggest beneficiaries in SSA are Angola, Nigeria, Sudan, and Zimbabwe which account for over 80 percent of the total Chinese aid to the region. As a share of the overall development support to SSA, the amount of foreign aid given by China to many individual countries is small, although this has substantially increased in recent years.

In Kenya, loans and grants from China became significant in size after 2002 when a new government was elected, when China’s share in total aid exceeded 1 percent (Figure 1). Since then, China appears in

Table 2: Country Programmable Aid (CPA) for all donors in Kenya

Year	Total ODA, US\$ million	Emergency and food aid, US\$ million	Debt forgiveness, US\$ million	Administrative costs by donors, US\$ million	Support for NGOs, US\$ million	Technical cooperation, US\$ million	CPA, US\$ million	CPA/Total ODA percent
1980	351.90	0.17	11.50		..	7.04	321.69	91.4
1981	250.77	0.00	12.58		..	1.20	224.41	89.5
1982	520.67	3.12	10.74		..	10.19	485.88	93.3
1983	331.82		13.40		..	18.33	286.69	86.4
1984	445.22	2.31	7.25		..	25.95	402.47	90.4
1985	242.39	0.98	6.75		2.49	3.75	224.15	92.5
1986	355.42	4.81	13.24		1.36	12.54	311.58	87.7
1987	747.68	0.60	14.44		..	81.28	636.92	85.2
1988	842.64		15.90		..	32.42	778.42	92.4
1989	1178.29	1.01	8.73		..	29.29	1130.53	95.9
1990	1415.14		558.91		..	33.09	264.24	18.7
1991	834.77	1.32	..		0.65	56.21	777.24	93.1
1992	662.28	32.88	0.28		..	183.96	444.88	67.2
1993	450.26	28.00	0.14		..	24.17	397.81	88.4
1994	353.26	13.26	3.41		..	79.15	254.04	71.9
1995	496.19	9.06	2.45		0.52	72.60	409.63	82.6
1996	613.59	4.97	1.39		0.12	154.98	450.85	73.5
1997	499.51	13.59	0.36	0.10	0.03	50.68	434.41	87.0
1998	293.66	77.50	11.65	0.08	..	75.24	117.53	40.0
1999	443.18	9.66	14.53	1.56	..	112.86	290.05	65.4
2000	959.02	50.43	9.93	1.10	0.01	158.73	728.89	76.0
2001	471.89	22.91	11.87	3.75	0.02	133.49	288.00	61.0
2002	300.85	19.99	10.21	0.10	0.63	152.76	107.58	35.8
2003	721.98	23.03	11.39	0.44	1.79	137.50	538.24	74.5
2004	1424.04	61.48	34.45	0.78	10.63	246.60	1046.29	73.5
2005	1101.66	62.86	11.97	2.39	1.47	316.83	695.62	63.1
2006	1560.52	240.51	11.41	1.47	6.50	385.76	909.96	58.3

Source: OECD-DAC CRS database

Note: Data reported as commitments, current US\$

Kenyan national statistics among bilateral donors whereas before then, it was classified in the category of 'other donors' (Onjala, 2008). As a ratio of total loans and grants in Kenya, China accounted for 1.23 percent of the total in 2003, 1.15 percent in 2004, and with the share increasing to 8.25 percent by 2005 (UNDP, 2006). Hence, China has risen from among the lowest contributors of development assistance in Kenya to become one of the largest by 2005, second

only to the European Union. This should however not be taken as a trend. Aid disbursed to Kenya by different donors varies greatly from year to year, depending on the country's institutional capacity to absorb funds and delays in project preparation and tendering (Chege, 2008). With the exception of 2004, the grant component of China's loans and grants is relatively high.

Table 3: Country Programmable Aid (CPA) for bilateral donors in Kenya

Year	Total ODA, US\$ million	Emergency and Food Aid, US\$ million	Debt Forgiveness, US\$ million	Administration Costs, US\$ million	Support for NGOs, US\$ million	Technical Cooperation, US\$ million	CPA, US\$ million	CPA/ Total ODA, percent
1980	225.04	..	11.50	..	..	2.35	212.34	94.4
1981	166.33	0.00	12.58	..	..	1.20	150.05	90.2
1982	367.59	2.73	10.74	..	..	3.70	337.55	91.8
1983	224.95	..	13.40	..	..	16.57	187.75	83.5
1984	359.26	0.97	7.25	..	..	23.79	344.81	96.0
1985	222.41	0.98	6.75	..	2.49	3.75	206.89	93.0
1986	288.23	4.81	13.24	..	1.36	6.42	189.49	65.7
1987	576.30	0.60	14.44	..	..	80.68	530.06	92.0
1988	568.02	..	15.90	..	..	31.21	523.00	92.1
1989	684.02	0.96	8.73	..	..	29.12	648.74	94.8
1990	1180.84	..	558.91	..	..	25.59	565.97	47.9
1991	388.27	0.78	..	..	0.65	55.31	204.23	52.6
1992	441.44	23.63	0.28	..	..	183.26	393.81	89.2
1993	282.94	25.19	0.14	..	..	23.74	182.23	64.4
1994	229.76	11.01	3.41	..	..	75.38	142.41	62.0
1995	383.74	4.02	2.45	..	0.52	72.41	228.94	59.7
1996	224.74	4.02	1.39	..	0.12	148.20	169.13	75.3
1997	293.32	11.61	0.36	0.10	0.03	50.06	206.05	70.2
1998	213.70	19.62	11.65	0.08	..	75.21	68.43	32.0
1999	267.50	8.26	14.53	1.56	..	112.44	86.65	32.4
2000	448.21	47.89	9.93	1.10	0.01	156.96	253.87	56.6
2001	303.93	18.31	11.87	3.75	0.02	132.74	121.94	40.1
2002	265.33	15.47	10.21	0.10	0.63	151.08	99.92	37.7
2003	392.05	23.03	11.39	0.44	1.79	137.50	117.63	30.0
2004	683.77	56.69	34.45	0.78	10.63	228.60	271.96	39.8
2005	732.61	60.38	11.97	2.39	1.47	316.80	291.53	39.8
2006	1185.19	206.93	11.41	1.47	6.50	360.76	966.85	81.6

Source: OECD-DAC CRS database

Note: Data reported as commitments, current US\$

Figure 1: Percent share of Chinese foreign aid to Kenya

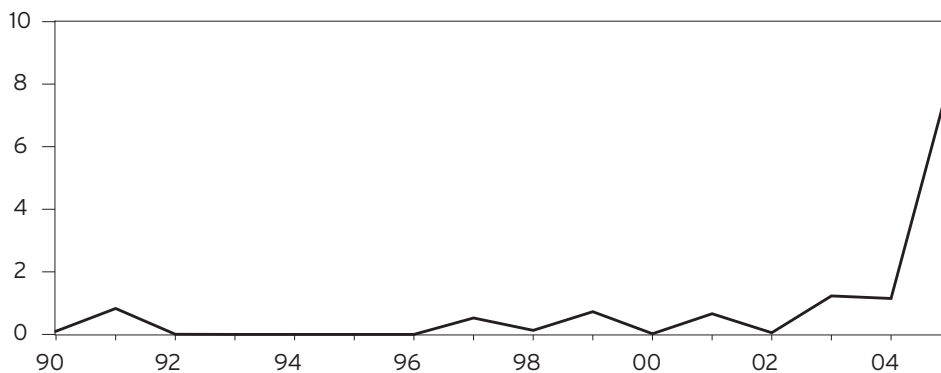
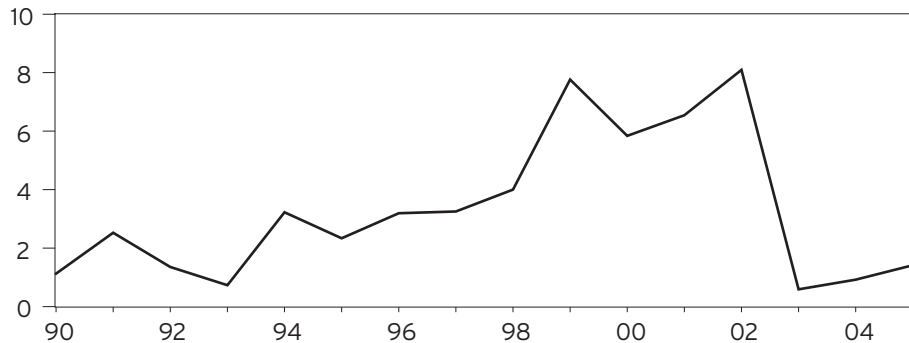


Figure 2: The percent Share of NGO Aid to Kenya



As with OECD-DAC ODA, development assistance from China had been very volatile and the number of Chinese-supported projects has ranged over 3-5 during 2000-06. Development aid from China has mainly supported investment in infrastructure, equipment, and plants; academic and technical training; and humanitarian relief. This aid was utilized in road construction projects, modernization of power distribution, rural electrification, water, renovation of international sports centre, medical and drugs for fighting malaria, and construction of a malaria research centre. China has a long history of awarding scholarships to Kenyan students wishing to undertake their studies in China in diverse fields. About 100 scholarships are given by the Chinese government to Kenyans each year, twenty of which are in medical-related fields (Onjala 2008). In terms of technical training, approximately 500 people from the public and private sectors benefit every year.

Private sector aid

Information on private sector aid to the country is quite limited. Figure 2 shows the share of northern NGOs foreign aid over 1990-2005 according to the UNDP (2002, 2006). NGO foreign aid accounted for average of 2.95 percent in the 1990s, increasing to 3.90 percent over 2000-05.

Over the more recent period (2003-05), NGOs' foreign aid was distributed as shown in Table 4, with the available data suggesting high volatility.

A similar pattern is observed over 1990-2002 when UNDP (2002) gives a more detailed classification of NGOs' aid to Kenya as seen in Table 5. The data suggest that more generous NGO donors had more volatile aid flows with their coefficients of variation above the average for the group. The five most stable foreign aid flows over 1990-2006 were from Save the Children Fund, AMREF, Aga Khan Foundation, World Vision and Children's Christian Fund.

Table 4: NGOs' foreign aid distributions

NGOs from:	US\$*	US\$*	US\$*
Austria	2084	2000	1900
Denmark			994
Finland	1083	3037	966
Italy			2238
Netherlands			3510
Total	3167	5654	9608

Source: UNDP (2006)

* in thousands

Table 5: Summary descriptive statistics on NGOs' aid to Kenya, 1990-2002

	Average aid over 1990-2002, US\$*	Std deviation	Coefficient of variation
World Vision	7154.2	3045.9	0.43
Plan International	6015.3	3574.9	0.59
Ford Foundation	4405.6	2705.7	0.61
Actonaid	4354.5	3597.0	0.83
Christian Children Fund	3768.0	1674.0	0.44
Oxfam UK	2945.0	2557.7	0.87
Rockefeller Foundation	2608.4	1647.7	0.63
Charities	2369.1	2100.7	0.89
Food for the Hungry	2135.3	2054.7	0.96
Norwegian Church Aid	1705.0	782.5	0.46
Catholic Relief Services	1638.9	1259.4	0.77
Lutheran World Relief	1292.9	1252.2	0.97
Aga Khan Foundation	1265.3	377.2	0.30
Save the Children Fund	1010.0	221.0	0.22
CARE	851.7	377.0	0.44
MAP International	519.9	302.0	0.58
Trickle Up Programme	159.0	126.4	0.79
AMREF	115.7	30.1	0.26
Total	22801.2	9650.1	0.42

Source: UNDP (2002, 2006)

* in thousands

VOLATILITY OF AID

Foreign aid has been erratic in terms of commitments and unpredictable in terms of both the timing and the volume of funding. Among reasons for the volatility (Ali et al., 1999), donors may use aid to advance a political agenda driven by the political concerns of their domestic electorates which vary over time. Also, donor procedures for disbursement may be so cumbersome that even when funds are committed, there may be long and unpredictable lags before governments are able to utilize these resources. Volatile or unpredictable aid flows do little to bolster good governance, coherent government expenditure, or the development of sound institutions accountability in recipient countries—hence the need for specific donor coordination with a view to committing long-term, predictable flow of resources (Woods, 2005).

Extent of volatility of total aid and its components in Kenya

Evidence suggests that aid to Kenya is highly volatile. Volatility of overall aid (at current prices) was 24.1 percent compared to 17.2 percent for Africa and 13.9 percent for all developing countries during 1980-2006. ODA in real terms was less volatile, at 20.3 percent.¹

Table 6 shows the relative volatilities of the CPA components over 2000-6 when the country received aid on all the analyzed categories. During this period the volatility of ODA in the DAC database was 39.8 percent (compared to 40.7 percent over the entire study period, 1980-2006). The most stable component of DAC-ODA during this period was technical assistance and CPA, with the other components highly volatile, a pattern observed when the longer time period is considered. The table also shows that, except for CPA, ODA was more stable over 2000-06.

Table 7 on the other hand shows that only about 60 percent of both committed CPA and DAC-ODA were disbursed in 2000-06. The data show an increase in the disbursement ratio, from 5.2 percent in the 1980s to 34.9 percent in the 1990s for DAC-ODA. While a similar pattern obtains for technical cooperation over 2000-06 (51 percent), the other CPA components were substantially or over-disbursed, with a share of 97 percent for emergency and food aid, 142 percent for debt forgiveness, 210 percent for administrative costs and 610 percent for ODA support for NGOs.

Figure 3 shows data on the discrepancy between aid programmed into the budget and the amount actually disbursed, *ex post*, both as a proportion of government revenue (ODABREVC and ODAAREVC, respectively). Over the study period, budgeted aid averaged about 15.6 percent of government revenue while disbursed aid averaged 10.5 percent, leaving a gap of 5.1 percent. The figure shows that in the 1980s and 90s, budgeted aid was typically higher than actual disbursed aid, with a more mixed record in 2000-06.

The low disbursement ratios for overall ODA in the country (57 percent for grants and 70 percent for loans in 2005) reflect long and bureaucratic delays in tendering procedures; poor reporting and accounting for funds utilized; and failure by the government to meet agreed upon obligations such as counter-funding once commitments are signed for (UNDP, 2006).

The effects of aid cyclicity

Based on budget data from Kenya's *Economic Survey*, ODA has been more volatile than government revenue, expenditure, and GDI. ODA for example had a volatility coefficient of 0.8; revenue 0.1; expenditure 0.5; and GDI 0.1 over 1981-2006. This is supported when volatility is measured by the coefficient of variation (CV).

Table 6: Relative volatilities of the CPA-DAC-ODA components

	2000-06	
Administrative costs on donors	98.9 percent	100.2 percent (1997-2006)
Emergency and food aid	92.7 percent	99.7 percent (1991-2006)
Aid forgiveness	64.2 percent	70.3 percent (1992-2006)
Aid to NGOs	115.2 percent	115.2 percent (2000-2006)
Technical assistance	25.2 percent	43.3 percent (1980-2006)
Country programmable aid (CPA)	49.5 percent	47.3 percent (1980-2006)

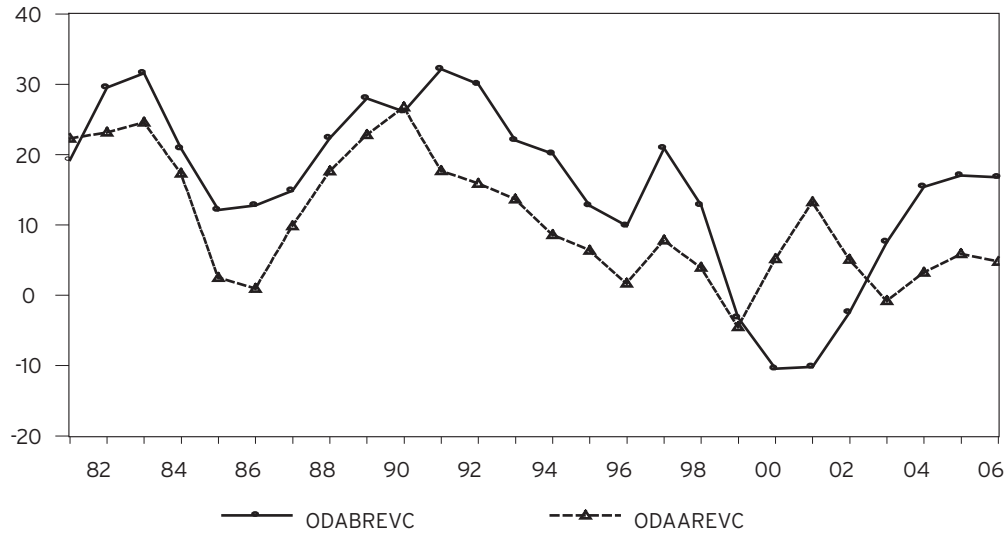
Source: OECD-DAC database

Table 7: Share of disbursed to committed ODA to Kenya

	Total DAC ODA, percent	Emergency and food aid, percent	Debt for- giveness	Administra- tion cost, percent	Technical cooperation	Support for NGOs, percent	CPA, percent
1984	6.28						
1985	8.19						
1986	6.61						
1987	3.91						
1988	4.29						
1989	1.80						
1990	14.67						
1991	31.11	47.00					
1992	35.30	7.56			1.28		
1993	38.31	9.83			1.73		
1994	40.88	8.70			4.92		
1995	35.80	2.38			3.38		
1996	27.31	50.46			4.51		
1997	25.50	9.85	22.81		10.10		
1998	63.58	5.93	0.46		53.17		
1999	36.17	46.93	2.39		40.84		
2000	17.84	8.82	100.03	23.41	23.55	100.00	16.33
2001	59.66	115.61	84.31	249.37	48.58	594.72	59.28
2002	106.96	182.13	195.07	667.18	68.27	1397.39	141.00
2003	64.11	128.05	199.98	151.64	49.52	725.79	61.10
2004	44.19	89.34	103.20	212.07	33.23	178.38	41.69
2005	60.88	80.47	161.19	86.92	60.94	1242.74	55.69
2006	60.04	76.04	151.22	80.66	73.39	33.89	49.48
Average	34.49	54.32	102.07	210.18	31.83	610.42	60.65
Average over 2000-06	59.10	97.21	142.14	210.18	51.07	610.42	60.65

Source: OECD-DAC database

Figure 3: Discrepancy between budgeted ODA and actual ODA disbursement in Kenya, both as percent of revenue



ODA for example had a CV of 1.109; revenue 0.831; expenditure 1.105; and GDI 0.903 over 1981-2006.

We measure cyclicity by the correlations of detrended data (smoothed by the Hodrick-Prescott filter). The correlation coefficients in Table 8 suggest that foreign aid was counter-cyclical with government revenue, expenditure, and GDI. Granger-causality coefficients (not shown) suggest that an increase in government revenue was on average accompanied by reduced aid as the government reneged on policy conditionalities, and adopted a policy of reducing aid dependence. The increase in revenue, in turn, Granger-caused an increase in expenditure and GDI, producing the counter-cyclical effects for these two variables.

On whether there is evidence that volatility changes the composition of public spending away from long-term, risky projects as some theorists have suggested, there is no direct empirical evidence from Kenya to

support this. Uncertainty makes decision-making difficult by undermining forward planning, inducing the government to favour quick-yielding projects. We show (below) a close correlation between the decline in foreign aid and government investment. The substantial decline in aid dependence in recent years (to 5-10 percent of the budget) means that the impact of aid volatility on the composition of public investment may not be a major problem in the country.

Government responses to aid volatility and decline over time

Both the government and the donors have recognized the problem of aid volatility. At the CG meeting of April 2005, for example, the government stressed the need for greater predictability of donor funding (Kenya, 2005). The donors, for their part, pointed out the importance of overcoming the obstacles in disbursing donor resources that have already been

Table 8: Correlation coefficients, Kenya 1981-2006

	ODA	Government revenue	Government expenditure	GDI
ODA	1.000000	-0.651007	-0.387593	-0.548803
Government revenue	-0.651007	1.000000	0.755337	0.556835
Government expenditure	-0.387593	0.755337	1.000000	0.523251
GDI	-0.548803	0.556835	0.523251	1.000000

committed. Some of the donors mentioned the role that budget support can play in helping to restructure the budget, and urged the government to implement the reforms that would unlock this form of financing. Looking ahead, they also vigorously called for making the budget formulation process more inclusive by involving them in the discussions of the government sector working groups.

In the Partnership Principles signed by the government and 17 donors in September 2007, the latter committed themselves to: provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules; and consult with the government and other donors prior to terminating or suspending support to ongoing projects and programs. The government would rely to the maximum extent possible on transparent budget and accounting mechanisms. Both parties agreed to implement harmonized diagnostic reviews and performance assessment frameworks in public financial management.

One impact of aid volatility and the decline of ODA to Kenya over time has been to create a recurrent cost problem as the composition of aid has moved away from programme aid (mainly funded by multilateral donors) into project aid (mainly funded by bilateral donors). The government has therefore occasionally

pleaded with donors to provide more programme aid to ameliorate the problem. As pointed out by Herfkens (1999), one reason why ODA has failed to be more effective is that donors want their contributions to be visible through, for example, investing in education and health facilities. However these are often run-down because no one thought of the recurrent cost problem.

The Kenya government has repeatedly expressed preference that aid be channelled directly to the exchequer system, with only approximately 30 percent of aid commitments reflected in the national budget while 60 percent are direct payments by the donors (UNDP, 2006). As argued by the Minister for Finance in the 1994 Budget Speech on the problem of donor funds being tied to specific projects:

It has meant that we have to go short on operating and maintenance funding to existing facilities in order to attain our deficit target. The result has been that infrastructure has deteriorated while new, similar infrastructure is being installed. This is not good economics. Development in the true sense of the word, comes from the operation of existing facilities...We, therefore, would wish donors to be supportive in the efficient operation of the high priority facilities which have already been constructed. Potholes on main highways

discourage new investors much more than new roads in other areas attract them...Even grant funds tied to specific projects cannot be fully absorbed. Some of them may call for matching allocation on the part of the Government. Facilities built with the use of donor grants will call for operations and maintenance expenditure in the future which donors are unwilling to fund.

This argument is supported at the aggregate level. Based on analysis of the two-gap model (see Easterly, 2001), Mwega (2004) found the relationship between ODA and investment to be positive and much stronger than that between ODA and imports, although the coefficient was much smaller than one (0.374). From these results, it was quite clear that it is the savings gap that had been the binding constraint to growth in Kenya since the 1980s.

The study also found the relationship between foreign aid and public fixed investment highly significant since the 1980s (t -value=3.313), with the decline in ODA accompanied by a drastic decline in public investment during the study period. Njeru (2004) also found a strong statistical relationship between ODA and government development expenditures, with a shilling increase in ODA leading to 57 cents increase in government development spending over 1970-99. ODA was therefore almost equally shared between recurrent and development expenditures, even though all ODA in Kenya is recorded on the development expenditure vote. This is consistent with the results above that only a fraction of ODA is spent on investment. Mwega (2004) also showed a positive but non-significant relationship between foreign aid and private fixed investment since the 1980s as both also generally declined during the study period. Hence, the decline in foreign aid has been accompanied by a decline in public investment, so that part of the decline in ODA

may have undermined the country's growth potential through the crowd-in effects on private investment (Kenya and UNDP, 2003).

One reaction to aid volatility and the decline in aid since the late 1990s has been a reluctance by the government to factor in programme aid in the budget. Because of growing unpredictability of external resource flows channelled through the budget, the government has in the recent past excluded donor budgetary support from its annual budget strategy and beefed measures for local resource mobilization. Consequently, the country has substantially reduced aid-dependence, with government revenues having increased dramatically after the December 2002 elections. As stated by the Minister for Finance in the 1998/9 Budget Speech, "although some programme grants and loans may materialize during the course of the year, if and when such additional resources materialize, I will use them for reducing our outstanding domestic debt."

Despite increased development assistance after 2002, this is to a large extent reiterated a decade later in the 2008/9 Budget Speech, which noted, "consistent with our financial independence strategy, we have not factored in uncommitted budget support...I have confirmed commitments amounting to Kshs. 33.8 billion in grants and Kshs. 47.4 billion in loans to finance development projects."

Combined, these aid flows amounted to 10.7 percent of the anticipated total expenditure over 2008/09 and 41.3 percent of the gross development expenditures, with the latter accounting for about a quarter of total government expenditures. Foreign assistance accounted for about 5-10 percent of the total budget in 2002-7 (Chege, 2008) and about 60 percent of development budget (UNDP, 2006).

Costs of volatility

One cost of volatility is reflected in the deviations from actual plans, discontinuation of projects, and under-provision of services. Mwega (2008) studies in detail four large aid-supported infrastructure projects, looking for their institutional spillovers and potential role in transformation mechanisms beyond the economic impacts of planned physical outputs. These transformation mechanisms include ideas influencing policy, transfer of knowledge and lessons learned, organizational capacity to plan, implement and operate, and human resources development in general. To capture these effects, projects at least five years old were selected.

Three out of the four selected projects were frustrated by financial uncertainties.

a. The Bura Irrigation and Settlement Scheme (BISS)

This project was funded mainly by the World Bank and the European Development Bank. Bilateral finance in the form of grants and soft loans was also provided by the UK, Finland, Holland and Japan (Howells, 1985). BISS was a large project, projected to cost about US\$ 98.4 million in 1977. There were however major delays from the onset of the implementation of the scheme in practically all administrative areas as well as major revisions on scheme design. As a result, costs soared, rising to about US\$ 121.7 million at 2000 prices (Inocencio et al., 2005).²

Construction of Bura started in 1979 and the first settlers moved in 1981. However, about that time the project began to run into financial difficulties. Inflation, devaluation, underestimations and unforeseen expenditures led to rapidly rising costs. With a fixed aid package, Kenya's share of the costs rose from KSh160 million (20 percent) in 1977 to KSh 1 billion (45 per-

cent) by 1982. The government was unable to meet its obligations on many contracts that led to substantial delays and costly claims for damages.

In 1983, a decision was made to curtail the scope of the project by about half, reducing the number of settler families to 2,500 and the cost to KSh 1.50 billion. This was despite the fact that irrigation and water treatment works had already been substantially completed for the full population, the main outstanding works being houses, schools, and the fuel-wood plantations. The aid agencies agreed to provide 100 percent financing for the remaining construction to ease the cash flow problems. According to government officials, a key reason for the failure of BISS was that it was scaled back, leading to limited exploitation of scale economies, increasing the operations and maintenance costs of the project. In addition to the severe financial problems, the project suffered from many conceptual, technical, and institutional deficiencies.

One cost of volatility is reflected in the deviations from actual plans, discontinuation of projects, and under-provision of services.

There are now efforts to rehabilitate the scheme with loans from the Arab Funding Institutions: namely, Kuwait Fund for International Development, the Arab Bank for Economic Development in Africa (BADEA), and the Organization of Petroleum Exporting Countries Fund for International Development (OPEC-OFID). According to the National Irrigation Board (NIB), which came back to manage BISS in 2005, the sustainability of the project would be achieved by asking the beneficiaries to pay for the operations and maintenance costs of the scheme. In early 2008, NIB was in the process of hiring consultants to determine how much farmers should pay. Farmers would be ad-

vised on what crops to grow, based on their relative returns, with NIB facilitating farmers' connection to markets. Commercial farmers would also be encouraged to lease land as part of the efforts to make the scheme self-sustaining. The enhanced use of the gravity system would also lower the operation and maintenance costs.³

b. The Third Nairobi Water Supply Project (NWSP)

NWSP was co-financed by the Japan Bank for International Cooperation (JBIC), the World Bank, the African Development Bank (AfDB), and the European Investment Bank (EIB), with EIB and JBIC maintaining their financial autonomy. The main actor was, however, the World Bank, with the other donors taking little part in the monitoring of the project. NWSP is one of Japan's largest projects in Kenya's social sector (Japanese Yen 5.342 billion, about US\$ 38.321 million).⁴

While Phase I of the project was successfully completed, the other phases have not been implemented since 1994. The project was expected to cost \$11 billion, with Phase I costing \$5 billion. The NWSP ('Chania 3') was expected to be followed by another project ('Chania 4') to bring more water into the Ndaka-ini Dam. This phase, however, was not implemented. Donors were discouraged by poor governance in the country. The election of a new government in December 2002 has not changed the situation.⁵

c. The Tana Delta Irrigation Project (TDIP)

The Japanese Government has devoted one of the largest amounts of foreign aid resources in Kenya to the Tana Delta Irrigation Project I and related investments (about US\$ 149.710 million). However, after the project was completed in December 1997, the site

sustained enormous damage in the same month from floods caused by the *El Nino* phenomenon. The *El Nino* phenomenon caused extraordinarily heavy rains, and the resulting flooding in the lower Tana caused flood protection banks that had been constructed by the Kenyan government and TARDA in 1989 to the east and west of the project site to collapse at various locations.

Only about 30 percent of the project has been rehabilitated so far, according to the 2006/07 Medium Term Expenditure Framework. Lack of finances and possible financiers has limited the pace of the rehabilitation. According to JBIC officials, the rehabilitation of TDIP following its destruction by the 1997 *El Nino rains* was not done because of a shortage of funds as JBIC was involved in other projects. There were also concerns about Kenya's external debt sustainability as well as its worsened governance and policy environment.

d. The Nyeri Water Supply System

This is the only project where the government and the donor objectives were satisfactorily achieved. In June 1996, the Nyeri Municipal Council put a request to the Germany Agency for Technical Cooperation (GTZ) to support the privatization of Council's Water and Sewerage Department. The policy of GTZ since the 1980s has been to build local capacity first before investment in water projects. It is only in 2003 that KfW agreed to fund the US\$10.5 million rehabilitation of the Nyeri town water system.

This approach was a major success for, as discussed above, technical cooperation is one of the most stable components of foreign aid. Support and funding by German development agencies (GTZ - capacity building and KfW - investment) is considered an example of successful water commercialization in the country.

The approach has been used as a model for management of water service provision in the country as a whole. The Nyeri case is often taken as an illustration of how successful and national institutions are cre-

ated to include greater private sector participation and to ensure their financial involvement in urban service provision (RTI International, 2005).

FRAGMENTATION OF AID

This section discusses fragmentation externalities, along with discussions on why fragmentation is becoming a major problem in the country's context. Special emphasis is placed on working out the extent and impact of fragmentation. The availability of many donors and projects can in principle be positive, as these donors have different strengths and weaknesses. Access to several donors thus provides recipient countries with diversification and some assurance of a steady flow of resources (McCormick et al., 2007). However, the proliferation of donors and projects may undermine the effectiveness of aid and waste human and financial resources in the recipient countries by creating overlap, duplication, and inconsistency across aid projects and programmes. Fragmentation can have economic costs in the form of high workload and transaction costs as well as in the form of proliferation of sub-optimal service providers. It can have social costs where aid beneficiaries do not receive uniform services due to differences in standards and quality of different service providers.

With aid fragmentation, donors impose a huge number of missions. Recipient countries have to wine and dine donors instead of focusing on what they should be doing: running their countries and trying to develop their own policies. Micro-management of aid implies different procedures for accounting that a country has to cope with. Donors have gone behind the ministers for finance and planning, adopting regions, creating enclaves and running them without bothering to talk to governments, and recruiting with high salaries the best civil servants for their administration, thus undermining the countries institutional capacity. Lack of donor coordination means that donors frequently initiate projects that require counterpart funding or future financing from the government

without considering if such funding is likely to be available (Lancaster, 1999).

Hence, while aid may be effective in a good policy environment, it may nevertheless be the case that, beyond a certain amount, it becomes detrimental at the margin (Collier, 1999). The government becomes so overwhelmed by aid projects that the business of government becomes dominated by the need to satisfy donors, replacing the need to satisfy citizens. Collier (1999) however found that the levels at which foreign aid have a negative effect on growth in Africa (about 30 percent of GDP) is much higher than the levels of aid that African countries receive.

Overall, the costs associated with aid fragmentation can be grouped into three broad categories (Svensson, 2006). The first is the increased transaction costs associated with numerous and diverse donor rules and procedures for managing aid projects and programmes. The second cost arises from the fact that in many cases, foreign aid projects are associated with large fixed costs and high returns to scale. These returns to scale are unexploited due to aid proliferation, and to the extent that projects are complementary, coordinated efforts may be needed to maximize the benefits from such projects. The third cost arises from the fact that aid fragmentation undermines the recipient's financial ability and administrative capacity for example by providing project rather than programme aid, generating a recurrent cost problem or by distorting the incentives faced by local bureaucrats by inducing them to focus on donor projects to the neglect of their other responsibilities. Amid a growing cacophony of donors, very little space is left for local agencies to build, coordinate among themselves and strengthen local governance (Woods, 2005).

Aid fragmentation in Kenya

Fragmentation in Kenya, measured by Hirschmann-Herfindahl Index, stood at 0.1 compared to 0.3 for all developing countries and 0.22 for Sub-Saharan Africa in 2006.⁶ Hence aid fragmentation is much higher in Kenya than Africa and developing countries in general. Table 9 shows that the average Hirschmann-Herfindahl index increased from 0.12 in 1980s to 0.18 in the 1990s (hence resulting in reduced fragmentation), before declining to 0.13 in 2000-06 (increasing fragmentation to about its former level). The number of bilateral and multilateral donors listed in the OECD-DAC database increased from an average of 17 in the 1980s to 19 in the 1990s and to 27 over 2000-06. The actual number of public and private donors is speculated to be currently much higher than this, which poses a big challenge of aid coordination.

McCormick et al. (2007) analyzes the extent of aid fragmentation in two sectors in Kenya: the industrial and the “governance” sectors. Aid to the industrial sector mainly supported micro and small enterprises entrepreneurship (32.6 percent); micro finance (14 percent); investment climate and overall private sector development (30.2 percent); and trade and tourism development (14 percent) over 2000-05. Aid to the “governance sector” supported a wide range of activities from ethics, integrity, and anti-corruption (6.5 percent); democracy, human rights and rule of law (44.6 percent); justice, law and order (10.9 percent); public safety and security (3.3 percent); constitutional development (1.1 percent); legal sector reform (7.6 percent); capacity for strategic leadership and change management (31.5 percent); and public sector reform (5.3 percent).

In both sectors, there was a significant increase in the number of donors and projects. As seen in Table 10, the number of donors increased from 6 in 2000 to 11 in 2005 in the industrial sector; and from 4 in 2000 to

17 in 2005 in the “governance” sector, so that the total number of donors in the two sectors increased from 10 in 2000 to 28 in 2005.

Similarly, the number of projects funded by these donors increased from 8 in 2000 to 33 in 2005 in the industrial sector; and from 5 in 2000 to 79 in 2005 in the “governance” sector; hence the largest increase in both the number of donors and projects occurred in this sector. There was therefore a multiplication of projects, resulting partly from an increase in the number of donors; and partly from an increase in the number projects supported by individual donors, with projects multiplying more rapidly than donors. Table 10 also shows a large increase in the number of project implementation agencies, from 5 in 2000 to 13 in 2005 in the industrial sector; and from 2 in 2000 to 27 in 2005 in the “governance” sector, ranging from government ministries, international, regional, and local organizations. Overall, the number of implementation agents in the two sectors increased from 7 in 2000 to 40 in 2005.

Is fragmentation a problem in reality? Fragmentation is a problem if there are high transaction costs, large economies of scale in projects, or high fixed costs. The literature does not offer consensus as to whether proliferation has adverse effects on the economy or not (Clements 2005). McCormick et al. (2007) however believe it is a major problem in Kenya, noting, “government interviews and our own observations suggest that proliferation had all the expected effects: multiple meetings involving high-level officials, high levels of administrative effort, pressures on financial and administrative systems, and so forth.” These effects raise transaction costs, undermining the effectiveness of aid, and hence the country could benefit from donor coordination. More research is needed to assess the impact of aid fragmentation on project-level outcomes.

Table 9: Aid fragmentation in Kenya

	Herfindal Index	No. of bilateral donors	No. multilateral donors	Total No. of donors
1980	0.15	11	4	15
1981	0.12	13	5	18
1982	0.1	13	4	17
1983	0.11	12	6	18
1984	0.14	13	3	16
1985	0.1	14	3	17
1986	0.11	14	5	19
1987	0.11	14	3	17
1988	0.11	13	2	15
1989	0.17	14	5	19
1990	0.18	15	3	18
1991	0.17	15	4	19
1992	0.17	13	2	15
1993	0.15	14	3	17
1994	0.11	15	3	18
1995	0.16	16	3	19
1996	0.29	15	5	20
1997	0.25	17	3	20
1998	0.1	17	3	20
1999	0.18	17	3	20
2000	0.2	18	5	23
2001	0.1	19	6	25
2002	0.17	21	5	26
2003	0.1	20	9	29
2004	0.14	22	6	28
2005	0.1	22	7	29
2006	0.11	21	5	26

Source: OECD-DAC database

Table 10: Active projects by donor by year in Kenya's industrial and governance sectors, 2000-2005

	Industrial Sector						"Governance" sector					
	2000	2001	2002	2003	2004	2005	2000	2001	2002	2003	2004	2005
USA/ USAID			3	4	7	8				1	2	2
Germany/ GTZ	1	1	2	3	3	2	1	2	3	3	5	5
UK/ DFID				1	1	4	2	2	3	2	3	5
France/ AFD						3						
Denmark/ DANIDA	1	1	1	1	1	3					1	2
Netherlands						1					1	2
Finland											1	3
Norway											1	1
Sweden/ SIDA							1	1	3	2	3	3
Canada/ CIDA											2	2
Oxfam											1	1
UNDP	2	2	2	2	7	5		1	1	1	25	30
World Bank/ IDA	2	3	4	2	2	2	1	3	2	4	13	13
EC/EU	1	2	2	2	2	2		1	1	1	3	3
IFAD	1	1	1	1	1	1				1	1	1
ILO	1	1	1	1	1	1						
UNICEF											6	9
UNFPA											2	3
ADB											1	1
No. of projects	8	10	15	17	26	33	5	8	11	15	63	79
No. of donors	6	6	7	9	9	11	4	6	6	8	17	17
No. of implementation agencies	5	7	7	7	13	13	2	4	7	8	22	27

Source: McCormick et al. (2007)

AID COORDINATION IN KENYA

The endorsement of the Paris and Rome declarations in the recent past has set in motion efforts to enhance Kenya's capacity for ownership of aid coordination; to harmonize and align Kenya and donors procedures on aid delivery; to eliminate duplication; and to enhance the cost effectiveness of aid in the country (UNDP, 2006). According to UNDP, the Paris and Rome declarations also included commitments towards monitoring of results and mutual accountability for resources; enhancement of public financial management, procurement and fiduciary safeguards; as well as planning, budgeting and performance assessment frameworks. These commitments serve as important avenues for increasing the impact of aid in reducing poverty, enhancing growth and catalysing the achievement of MDGs.

This section analyses the various coordination mechanisms and processes that have been put in place in Kenya. Given the more than 35 multilateral and bilateral donor agencies active in Kenya, donor coordination has been a continuing challenge. Each donor has its own programme priorities, procurement and disbursement procedures, and regular program and policy discussions with the government. All of these make heavy demands on the time of senior government officials. At the same time, the Kenyan government has until recently demonstrated little effort or inclinations to better coordinate donor activities (O'Brien and Ryan, 2001).

Aid coordination began to be formalized with the establishment of the DAC in 1960s, and by the mid-1980s, some 20 countries had Consortia or Consultative Groups, mostly under the aegis of the World Bank (McCormick et al., 2007). These were oriented to macro-economics and major sectoral issues, with annual meetings involving senior officials

of the recipient country, but very much donor-driven. In recent years, donors have agreed to reduce the transaction costs by harmonizing operational policies and procedures as agreed in the Rome Declaration of 2003 (OECD, 2003) and the Paris Declaration of 2005 (OECD, 2005), although it is too early to say if these declarations are actually followed by changed donor practices (Svensson, 2006).

Aid coordination in Kenya involves the Kenyan government and donors. The World Bank organized a Consultative Group (CG) in the country in the early 1970s (O'Brien and Ryan, 2001). This group met regularly throughout the 1970s and 1980s, normally once every two years. In the 1990s, there were CG meetings in 1990 and 1991. With the suspension of donor aid in November 1991, a formal CG was not held until November 1993. Meetings were also held in 1994 (two), 1995 (informal) and 1996, but with the slowing down of reforms circa 1996, there were no further formal CGs until 2003. According to McCormick et al. (2007), the Moi regime was indifferent to coordination, citing one donor as saying, "this was evident in the 1990s when the initial co-ordination efforts were mounted by the donors. They brought negative reactions from Government, and many donors in turn, began to avoid the country."

McCormick et al. (2007) describe in detail the aid coordination efforts in Kenya since the early 2000s based on a literature review and interviews with donors and government officials.⁷ According to the study, the period 2000-2005 saw significant changes in both donor harmonization and the interactions between donors and the Kenyan government. Initially, little was happening as many donors had withdrawn their support from the government and were re-directing their attention to NGOs. Only a few donors, such as Sweden, UNDP, and the World Bank, maintained their

relationship with the government, though at reduced funding levels.

At a CG meeting held in November 2003 in Nairobi and jointly chaired by the World Bank and the Kenya government, one of the key outcomes was agreement on the importance of enhanced donor harmonization and alignment, with the Economic Recovery and Strategy (ERS) Paper promulgated earlier in the year and its investment programme (IP) setting the development priorities to which the external assistance programmes needed to be aligned (UNDP, 2006). The government and the donors agreed that there was need for regular donor-government meetings, and that the government should work towards a single annual timetable to integrate the ERS Paper and the budget processes. Moreover, the government promised to draw up an external aid policy; while the donors agreed to produce an annual report that would describe the progress they were making on harmonization. All agreed that there was need to discuss the donor coordination mechanisms.

A direct outcome of the 2003 Consultative Group meeting was the establishment of the Harmonization, Alignment, and Coordination Group (HAC) in February 2004, which was chaired by the Swedish ambassador to Kenya (DAC, 2006; HAC, 2006; UNDP, 2006). HAC has become the main donor force for coordination and alignment. Membership of this group grew from 7 to 15 by 2005⁸. A secretariat has been established with funding from its members and managed by UNDP (UNDP, 2006). Among other activities, HAC had established within government a budget support coordinating group and a joint technical working group. It entered into a dialogue with the government aimed at agreeing on a set of partnership principles in line with the country's external aid policy. The group also entered into the process of preparing a Kenya Joint Assistance Strategy (KJAS).

Since its inception, HAC has been very active, meeting every two weeks. Efforts by HAC include sponsorship of learning missions for government officials with best practice countries; championing efforts for KJAS; capacity building at the External Resources Department in terms of establishment of a secretariat; and assistance on a government-donor interactive website to assist in tracking and monitoring foreign aid resources and facilitate an effective reporting system (UNDP, 2006). One of the major initiatives of HAC is the development of a KJAS for 2007-2012. This would replace the individual donor assistance strategies. Once operational the KJAS would reduce transaction costs associated with dealing with multiple donors such as missions and field visits, meetings, accounting and reporting and staff time; and enhance the effective delivery mechanisms for results-oriented activities (UNDP, 2006). Table 11 gives some of the targets contained in the draft KJAS (June 2007).

Nevertheless, it is clear that not all donors are equally enthusiastic about participation. Discussions in the HAC seemed to favour rationalizing aid by having each donor concentrate on only a few sectors. Yet, as one respondent pointed out in the McCormick et al. (2007) study: "Whereas the spirit of donor coordination requires only a limited number of donors in a given sector, donors often want to be in as many sectors as possible."

In addition to HAC, the Donor Coordination Group (DCG) was revived after the 2003 CG meeting and it continues to meet the government regularly to ensure that their financing is closely aligned with the government's sector strategy, including through sector-wide approaches (UNDP, 2006). DCG consists of heads of donor and UN Agencies and their staffs in Nairobi and is co-chaired by the World Bank and UNDP.

Table 11: Selected KJAS targets

	2005 Baseline	Targets 2012
Quality of public financial systems	3.5	4.0
Aid reported on budget	91 percent	95 percent
Coordinated capacity development	60 percent	50 percent
Use of country PFM systems (aid flows)	47 percent	65 percent
Use of country PFM systems (donors)	72 percent of donors	90 percent of donors
Parallel project implementation units	17	6
In-year predictability	44 percent	72 percent
Untied aid	77 percent	More than 77 percent
Use of Program-based approaches	45 percent	66 percent
Coordinated missions	9 percent	40 percent
Coordinated country analytical work	32 percent	60 percent

UN agencies participate in aid coordination in Kenya through UNDP's membership in HAC, but the UN also maintains its own strategic planning processes for coordinating and harmonizing aid from various UN agencies operating in the country (McCormick et al., 2007). According to a UNDP respondent cited in the McCormick et al. (2007) study, the UN system is based on the agreements set out in the Rome Declaration. For Kenya, this involved a Common Country Assessment, conducted in 2001/2002, which identified challenges and priorities that deserved new and continued programmatic focus from the UN System. This led to the preparation of the United Nations Development Assistance Framework (UNDAF), to serve as the framework for coordinating UN system development assistance to Kenya for the period 2004-2008.

At a subsequent CG meeting held in April 2005, the participants reiterated their commitment to making aid effectiveness a high priority (Kenya, 2005). The meeting welcomed the considerable progress that had been made since the CG meeting held in November 2003. Key achievements included establishment of the

donor HAC Group. Participants noted that significant progress had been made in aligning with government strategies in some sectors, such as in the "governance" and education sectors, for which sector-wide approaches were either being implemented or in the advanced stages of preparation. They also welcomed plans to consider such support for other sectors, such as agriculture, water, private sector development, and the work on monitoring and evaluation. Donors also emphasized that they would increasingly rely on government management and financing arrangements as the capacity of the government improved. Several donors mentioned that they were considering programs of budget support that would rely heavily on government systems.

The meeting recognized that progress during 2004 would not have been possible without government leadership. Especially noteworthy were the government's adherence to a schedule of bi-monthly meetings of the Kenya Coordination Group; establishment of a focal point to coordinate budget support; and preparation of the annual progress report for the

Investment Programme of the ERS (IP-ERS) that had assessed the implementation progress of the government's development strategy. Agreeing to a new budget preparation timetable and preparing the Budget Outlook Paper and the Budget Strategy Paper also marked significant steps forward. The presentation of the draft government external aid policy at this CG meeting was also greeted positively, with the paper eventually published in 2007.⁹

The Partnership Principles were also signed in September 2007 (Kenya, 2007), with the donors agreeing on the following issues.

- To the extent possible, adopt the KJAS as part of their cooperation planning in the place of individual country assistance to reduce transaction costs to the government.
- Implement where possible common arrangements for planning, funding, disbursement, monitoring, evaluation, and reporting to government on donor partner activities and aid flows. Increased use of programme-based aid modalities can contribute this effort.
- Work together to reduce the number of separate, duplicative missions, and diagnostic reviews; and promote joint training to share lessons learned to build a community of best practices.
- Jointly carry out sector reviews with the stakeholders to comprehensively review policy, strategy, performance, and capacity needs, on a schedule jointly decided with the government.
- Observe to the extent possible a quiet time during the May 1 - June 30 period to allow the government to prepare its annual budget. During this period, donors would discourage missions from headquarters.

In addition to participating in these donor-led structures, the government has its own set of internal aid

coordinating mechanisms (McCormick et al., 2007). The Ministry of Finance has the major responsibility for coordinating external resources. The minister is charged with overall ODA policy coordination and management. He also, in collaboration with line ministries, solicits ODA funding and signs all ODA contracts. The External Resources Department (ERD) carries out tasks ranging from identifying sources of external funding to facilitating the line agencies in monitoring and evaluation. The ERD has reorganized its structure into twelve divisions which cover all projects from a particular country or donor group. ERD also has a programme coordination unit, disbursement unit, and technical assistance unit. Other organs/departments within the Ministry of Finance are charged with ensuring policy consistency, linking with donor sector working groups, evaluating the appropriateness of ODA from a debt management perspective, and releasing ODA funds to the implementing agencies. The ERD HAC Committee consists of ERD's divisional heads and is chaired by the director of ERD. The committee sets the government agenda and ensures that the issues of donor coordination as provided for in the Paris Declaration receive adequate attention.

Finally, the Ministry of Planning and National Development, through its National Monitoring and Evaluation Unit, undertakes the monitoring and evaluation of aid projects. Through its Central Planning Unit, the Ministry of Planning and National Development is responsible for coordination, planning, and analysis of donor projects at the line ministries.

From the above discussion, it is quite clear there are many processes in Kenya for coordination. An issue is whether these are complementary to each other or overlap and contribute further to waste. Our assessment is that these processes are complementary. Overall coordination has involved three types of ef-

forts: harmonization among donors, intra-government harmonization, and donor-recipient alignment. Efforts on all three fronts have been increasing, especially since the promulgation of the Rome and Paris Declarations in 2003 and 2005 respectively. The Kenya Coordination Group, chaired by the Ministry of Finance, have since 2004 provided regular opportunities for the government and donors to discuss matters of mutual concern. Donors meet among themselves each month in the DCG, chaired by the World Bank. The HAC group, a sub-set of DCG, and which includes the Ministry of Finance, covers 90 percent of all of official development assistance to Kenya and joined together to prepare the KJAS. Some 16 sector donor groups coordinate dialogue and program support at the sector level. Three-quarters of these are currently involved in developing sector-wide approaches with

government counterparts with the aim of further reducing duplication and waste. HAC therefore exists at two levels: as a donor group, under DCG; and as an integral part of the External Resources Department (ERD) of the Ministry of Finance.

Most of the coordination efforts however involve official donors. While OECD donors are increasingly working together in Kenya, many new donors remain outside the harmonization framework. These include the non-OECD bilateral donors such as China and India, vertical funds, foundations, and international NGOs which have been working independently of the broader donor community. Efforts are under way to bring these non-HAC members to the harmonization process.

FOREIGN AID TO KENYA'S HEALTH SECTOR

This section discusses the role of foreign aid in Kenya's health sector with a focus on its volatility and fragmentation as well as efforts at aid coordination in the sector. Globally, proliferation of aid channels is particularly pronounced in the health sector. In fact, more than 100 major organizations are involved in the health sector, a much higher degree of proliferation than in any other sector (IDA, 2007). According to the IDA study, insufficient clarity of mandates and roles for the various donor organizations, associated with the earmarking of much such aid, makes it difficult to reconcile with the development of a holistic approach to health systems and sustainable financing at the country level. The effectiveness of increased ODA financing for health will therefore rest on finding an appropriate balance between providing resources for disease- and intervention-specific health programs and strengthening health systems. Work on health systems and sustainable financing requires a substantial increase in coordination and harmonization in the health sector. This needs to be done in a manner that enhances inter-sectorality and country focus, while strengthening recipient country leadership and ownership of ODA financed efforts in the health sector.

Pattern and evolution of aid to the health sector; its volatility and fragmentation

Health services in Kenya are financed from funds derived from various sources: government, donors, firms, and households. Foreign assistance is a significant source of finances in the sector. In early 2000s, donors financed 16 percent of the total health expenditures in country, involving 17 agencies (Kenya 2003). The involvement of donors was even more intensive in the financing of HIV/AIDS programmes, with donors

contributing over 51 percent of all expenditures in the sub-sector. This raises two issues: first, whether such spending is sustainable given that this high share was calculated prior to the influx of large-scale funds such as the Global Fund, PEPFAR, etc.; and second, whether donor funding for HIV/AIDS has crowded-out the availability of finances for other programmes such as on malaria (Kenya 2003).

Table 12 shows Kenya devoted 5.6 percent of its ODA to the health sector over 1980-2006, compared to 4.6 percent for Tanzania (despite its initial socialist orientation); and 6.5 percent for Uganda (despite its volatile history). Over time, an increasing share of Kenya's ODA went to the health sector, from 3.2 percent in the 1980s, to 5.6 percent in the 1990s to 9.2 percent in 2000-06. In Tanzania, the share ODA going to the health sector increased from 1.7 percent in the 1980s, to 6.7 percent in the 1990s before declining to 5.8 percent in 2000-06. A similar pattern is observed in Uganda with the share ODA going to the health sector increasing from 3.7 percent in the 1980s, to 9.1 percent in the 1990s before declining to 6.7 percent in 2000-06

Table 13 shows that there was little project investment ODA to the sector in the early 1990s. However, a large proportion of ODA (on average 36.7 percent) was devoted to project investment over 1990-2002 as ODA embargoes were imposed on the country. Since then, except for 2005 (27 percent), the share of ODA devoted to project financing has been minimal (on average 3.6 percent).

Table 13 also shows that only about 62.6 percent of committed ODA was disbursed since the 1990s, with the share increasing slightly from 59.9 percent in the 1990s to 66.5 percent in 2000-06, undermining the predictability of the ODA. As discussed above, the low disbursement levels reflect low implementation

Table 12: The share of ODA to the health sector in Kenya and neighboring countries

	Kenya			Tanzania			Uganda		
	Total committed health ODA, US\$ million	Total committed ODA, US\$ million	Share of health ODA, percent	ODA to health sector, US\$ million	Total ODA, US\$ million	Share, percent	ODA to health sector, US\$ million	Total ODA, US\$ million	Share, percent
1980	2.271331	447.644787	0.5	9.2	607.1	1.5	1.4	188.8	0.7
1981	7.169443	350.026714	2.0	22.7	498.9	4.6	0.0	144.8	0.0
1982	26.152701	660.585338	4.0	4.5	539.0	0.8	9.0	176.5	5.1
1983	8.117347	398.162477	2.0	3.8	428.0	0.9	5.0	218.2	2.3
1984	6.510373	590.223719	1.1	1.7	314.0	0.6	9.9	300.5	3.3
1985	13.180586	281.14336	4.7	3.0	315.3	1.0	0.9	90.5	1.0
1986	16.291659	388.015946	4.2	25.3	691.6	3.7	0.2	91.0	0.3
1987	58.423155	747.67559	7.8	11.5	1063.9	1.1	21.6	374.9	5.7
1988	17.930573	842.640721	2.1	11.6	916.7	1.3	55.0	409.6	13.4
1989	46.716003	1234.827201	3.8	20.2	1185.4	1.7	11.2	227.9	4.9
1990	30.006041	1415.14391	2.1	77.1	1234.1	6.2	37.5	669.2	5.6
1991	33.657188	869.398793	3.9	29.8	1312.5	2.3	71.2	586.0	12.2
1992	36.228518	662.276167	5.5	57.2	994.8	5.8	43.5	678.4	6.4
1993	9.502421	450.262626	2.1	18.8	1260.8	1.5	83.5	548.4	15.2
1994	13.698975	353.263137	3.9	11.9	608.7	2.0	12.1	608.4	2.0
1995	64.669457	496.186529	13.0	15.2	493.1	3.1	80.2	495.5	16.2
1996	28.870927	614.446407	4.7	64.5	577.1	11.2	64.8	421.7	15.4
1997	11.512619	499.507534	2.3	66.6	975.0	6.8	34.9	644.4	5.4
1998	41.914121	293.66475	14.3	50.9	929.8	5.5	62.0	749.5	8.3
1999	17.013267	443.183525	3.8	177.2	800.4	22.1	33.5	675.2	5.0
2000	91.410569	959.024687	9.5	49.1	1266.2	3.9	109.9	1023.8	10.7
2001	82.540297	471.892681	17.5	82.2	1636.6	5.0	43.3	1002.7	4.3
2002	16.968448	300.853923	5.6	62.2	1226.7	5.1	12.8	846.4	1.5
2003	33.643855	728.57793	4.6	122.0	1559.6	7.8	114.5	1018.1	11.2
2004	92.33648	1430.719004	6.5	189.7	2032.3	9.3	52.8	1464.6	3.6
2005	146.721788	1101.656952	13.3	119.8	1821.7	6.6	183.3	1396.1	13.1
2006	110.928831	1560.51919	7.1	84.2	2655.6	3.2	29.2	1214.2	2.4

Source: OECD-DAC database

capacity with a limited ability of the government to meet the agreed conditions on a timely basis to enable the release of funds from donors; unpredictability of aid; and conditionalities that come with some aid. Withholding of funds due to governance issues is often linked to weaknesses and abuse of procurement and financial management systems, so that the recent

procurement legislation might be expected to ease some of these problems (UNDP, 2006).

The volatility index for the health ODA (on a commitment basis) was 4.53 percent over 1980-2006. The volatility index for total committed ODA was 0.43 percent, so that ODA to the health sector was much

Table 13: Disbursed versus committed and project investment ODA to the health sector in Kenya

	ODA Disbursed US\$ million	ODA Committed, US\$ million	Share of committed ODA disbursed, percent	ODA for project investment (disbursed), US\$ million	Share of project investment ODA (disbursed), percent
1990	9.2	30.0	30.6	0.0	0.0
1991	10.7	33.7	31.9	0.0	0.0
1992	8.0	36.2	22.1	0.0	0.2
1993	10.3	9.5	107.9	0.0	0.0
1994	4.0	13.7	29.0	0.0	0.0
1995	3.9	64.7	6.0	0.0	0.0
1996	9.8	28.9	33.9	5.7	58.2
1997	19.7	11.5	170.9	8.3	42.3
1998	21.5	41.9	51.3	7.6	35.3
1999	19.5	17.0	114.9	10.0	51.2
2000	8.1	91.4	8.9	1.7	20.6
2001	19.0	82.5	23.1	5.0	26.4
2002	22.2	17.0	131.0	5.1	22.9
2003	36.0	33.6	107.0	0.8	2.2
2004	43.3	92.3	46.9	1.3	2.9
2005	75.4	146.7	51.4	16.1	21.3
2006	107.6	110.9	97.0	6.0	5.6

Source: OECD-DAC database

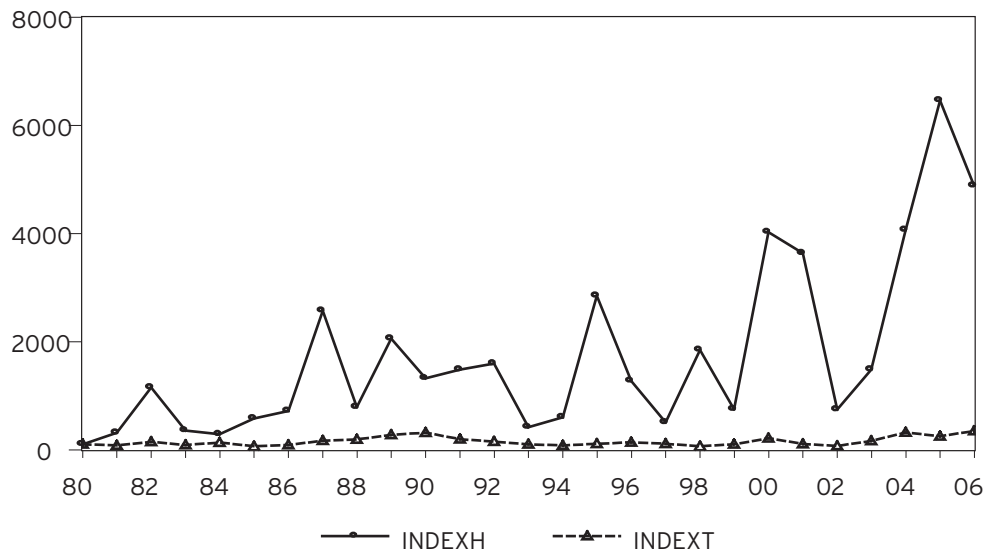
more volatile. Over 1998-2006 when both series were available, bilateral ODA to the health sector was more volatile (6.2 percent) than multilateral ODA (4.4 percent). The corresponding index for health ODA was 3.5 percent and that for total ODA 0.38 percent so that both types of ODA was less volatile during the latter period.

Why has health aid been more volatile than total aid? The answer is quite obvious from Figure 4 which shows the evolution of the indices of committed overall aid as well as aid to the health sector (1980=100). While donor support has remained generally small in Kenya's overall budget (about 5-10 percent), donor support comprises a significant proportion of activities in the health sector, with Kenya ranked as one of

the largest recipients of health aid in the world (ranked 11th in 1996-96, \$61 million; ranked 6th in 1999-2001, \$116 million; and ranked 9th in 2002-04, \$153 million). This support has substantially increased over time, given the challenges faced by the sector as well as increased global awareness of these challenges. While total committed aid increased by a factor of about 3.5, health aid increased by a factor of about 48. As expected, this increase was not smooth, giving foreign aid to the health sector a higher volatility index.

Health sectors in Africa are typically supported by a large number of donors. Table 14 shows that, in Kenya, Tanzania and Uganda, the average number of DAC donors was 9-10 over 1980-2006, with their numbers increasing over time, from 3-5 in the 1980s; to 8-10 in

Figure 4: Indices of health and total aid in Kenya (1980=100)



the 1990s; and to 16-17 in 2000-06. Excluding NGOs, UNDP (2006) reports 28 donors in Kenya's health sectors over 2003-2005: 12 multilateral and 16 bilateral (see Appendix, which also shows their various activities). Donors in the sector were involved in HIV/AIDS programmes, sector and reproductive health planning, primary health care, disease control campaigns, population policy implementation, and so on.

Among DAC members, Table 14 also shows the fragmentation index for health ODA in Kenya versus Tanzania and Uganda. The average index for Kenya was 0.42 compared to 0.37 for Tanzania and 0.41 for Uganda, so that the ODA to the sector was less fragmented in Kenya than in Tanzania, and only slightly so for Uganda. The data show a systematic increased in aid fragmentation in Kenya, with the index declining from 0.57 in the 1980s; to 0.40 in the 1990s; and to 0.28 over 2000-06. A similar pattern is observed in Tanzania and Uganda, with the index for Tanzania declining from 0.41 in the 1980s and 1990s to 0.28

over 2000-06 and that of Uganda declining from 0.54 in the 1980s to 0.37 in the 1990s and to 0.26 over 2000-06.

Donor coordination in the health sector

In Kenya, there have been attempts recently to align sectoral distribution of external resources with the priorities in ERS and MDGs. Infrastructure, health and HIV/AIDS have received the largest share of foreign aid resources (UNDP, 2006). The health sector has gained prominence due to the emerging recognition of the challenges posed by malaria and HIV/AIDS and the international response to these challenges. The outcome was that, prior to the post-election crisis in December 2007, Kenya was making good progress towards health MDGs with a decline in the downward trend in health status indicators of the population observed in the 1990s (DPHK, 2008). Immunization coverage improved from 59 percent in 2003 to 63 per-

Table 14: HHI of ODA to the health sector in Kenya and in neighboring countries

	Kenya		Tanzania		Uganda	
	HHI	No. of donors	HHI	No. of donors	HHI	No. of donors
1980	0.31	4	0.42	5	0.65	2
1981	0.41	4	0.33	6	ERR	0
1982	0.27	6	0.29	5	0.66	4
1983	0.48	5	0.53	3	0.83	2
1984	0.60	4	0.52	5	0.47	4
1985	0.69	3	0.38	4	1.00	1
1986	0.48	5	0.57	6	0.34	3
1987	0.78	6	0.28	7	0.53	6
1988	1.00	1	0.25	5	0.61	5
1989	0.26	9	0.51	6	0.34	4
1990	0.67	5	0.42	7	0.31	7
1991	0.85	4	0.77	5	0.31	12
1992	0.20	9	0.41	9	0.42	6
1993	0.37	7	0.32	8	0.28	7
1994	0.25	7	0.24	8	0.51	7
1995	0.30	11	0.37	9	0.36	8
1996	0.51	7	0.61	10	0.34	12
1997	0.37	8	0.26	14	0.25	10
1998	0.25	14	0.35	11	0.38	13
1999	0.24	12	0.38	13	0.57	13
2000	0.34	15	0.24	17	0.23	18
2001	0.22	16	0.53	15	0.21	14
2002	0.29	15	0.16	14	0.29	12
2003	0.26	16	0.36	18	0.29	18
2004	0.23	18	0.31	20	0.33	18
2005	0.38	18	0.25	17	0.29	19
2006	0.22	15	0.16	17	0.19	15

Source: OECD-DAC database

cent in 2005, and increased further to 71 percent by 2006/07. HIV prevalence declined from 6.7 percent in 2003 to 5.9 percent in 2006 and further to 5.1 percent in 2007. Child mortality in high risk areas declined by 44 percent due to effective malaria control, and there have been measurable increases in TB case detection and cure rates. The government was by 2005 spending about 9 percent of the budget on health and was promising to raise it more in the future. Despite this, the public spending on health remains short of both

the spending target set in Abuja (15 percent) and that recommended by the WHO. There has also a shift in resource allocation from curative to preventive care, while expanding immunization coverage (UNDP, 2006).

Kenya's aid coordination also includes sectoral working groups (SWGs), designed to bring together donors operating in particular sectors to share ideas and coordinate their activities. These are part of the

overall coordination structure and their chairs are given terms of reference by the HAC secretariat. Nevertheless, they have been described by McCormick et al. (2007) as “loose networks without clear terms of reference.” Another respondent cited in the study was less concerned about terms of reference. Arguing that donor coordination had partly resulted in competition between donor projects with some pet projects getting lost, she said that donors have to negotiate with government ministries in order to ensure that their pet programs/projects are included in the strategic plans of the relevant government ministries. Strategic donor interest in particular sectors was seen as one reason why coordination is difficult. Another is differences in organization. Some aid agencies like DFID are quite decentralized, while others like JICA are centralized. This, according to one donor cited in the study, makes joint decision-making difficult.

The health sector therefore has engaged in a fledgling sector-wide approach (SWAp) with partners and government harmonizing and aligning support behind one plan, one monitoring and evaluation framework, and one resource envelope (DPHK, 2008). A revamped SWAp is planned to be established during the KJAS period (2007-2012) According to the KJAS which was launched in September 2007, donors and the Ministry of Health have endorsed the key elements of the Second National Health Sector Strategic Plan and have been working together to implement it, with donors harmonizing their support. In addressing HIV/AIDS, donors have agreed to align their support behind one action program, one national AIDS coordinating authority, and one country-level monitoring and evaluation system.

SUMMARY AND KEY CHALLENGES

This case study focuses on three issues that influence the effectiveness of foreign aid: (i) aid volatility; (ii) aid fragmentation; and (iii) aid coordination and harmonization.

Volatility of foreign aid in Kenya

Foreign aid to Kenya has been highly volatile. Based on OECD-DAC data and measuring volatility by dividing the root mean squared error by the mean of the relevant aid flows during the corresponding period (after smoothing the series with the Hodrick-Prescott filter), volatility of overall aid (at current prices) was 24.1 percent compared to 17.2 percent for Africa and 13.9 percent for all developing countries during 1980-2006. ODA in real terms was less volatile, at 20.3 percent. During 2000-6, the volatility of ODA reported by the DAC was 39.8 percent. The most stable component of DAC-ODA during this period was technical assistance and CPA, a pattern observed when a longer time period is considered. Except for CPA, ODA was more stable over 2000-06.

Only about 60 percent of both committed CPA and net ODA were disbursed in 1980-06. The data show an increase in the disbursement ratio, from 5.2 percent in the 1980s, 34.9 percent in the 1990s to 51.1 percent in 2000-06 for DAC-ODA. While a similar pattern obtains for technical cooperation over 2000-06 (51 percent), the other CPA components were substantially or over-disbursed, with a share of 97 percent for emergency and food aid, 142 percent for debt forgiveness, 210 percent for administrative costs, and 610 percent for ODA support for NGOs.

One reaction to aid volatility and the decline in aid since the late 1990s has been a reluctance by the

government to factor in programme aid in the budget. The government has in the recent past excluded donor budgetary support from its annual budget strategy and beefed measures for local resource mobilization. Consequently, the country has substantially reduced aid-dependence, with government revenues having increased dramatically after the December 2002 elections. Foreign assistance accounted for about 5-10 percent of the total budget in 2002-7 (Chege, 2008), and about 60 percent of development budget (UNDP, 2006).

One cost of volatility is reflected in the deviations from actual plans, discontinuation of projects, and under-provision of services. Mwega (2008) studies in detail four large aid-supported infrastructure projects, looking for their institutional spillovers and potential role in transformation mechanisms beyond the economic impacts of planned physical outputs. Three out of the four selected projects were frustrated by financial uncertainties: the Bura Irrigation and Settlement Scheme (BISS); the Third Nairobi Water Supply Project (NWSP); and the Tana Delta Irrigation Project (TDIP). The Nyeri Water Supply System is the only project studied where the country and the donor objectives were satisfactorily achieved.

Aid fragmentation in Kenya

Fragmentation in Kenya, measured by Hirschmann-Herfindahl Index, stood at 0.1 compared to 0.3 for all developing countries and 0.22 for Sub-Saharan Africa in 2006. Hence aid fragmentation is much higher in Kenya than is the case for Africa and developing countries in general. The average index increased from 0.12 in 1980s to 0.18 in the 1990s (hence resulting in reduced fragmentation), before declining to 0.13 in 2000-06 (increasing fragmentation to about its former level). The number of bilateral and multilateral donors listed in the OECD-DAC database increased

from an average of 17 in the 1980s to 19 in the 1990s and to 27 over 2000-06. The actual number of public and private donors is speculated to be currently much higher than this, which poses a big challenge to aid coordination.

McCormick et al. (2007) analyzes the extent of aid fragmentation in two sectors in Kenya: the industrial and the “governance” sectors. Overall, the total number of projects in the two sectors increased from 13 in 2000 to 112 in 2005. There was therefore a multiplication of projects, resulting partly from an increase in the number of donors and partly from an increase in the number projects supported by individual donors. Projects thus multiplied more rapidly than donors. There was also a large increase in the number of project implementation agencies from 7 in 2000 to 40 in 2005. According to the study, the proliferation of donors and projects had all the expected effects: multiple meetings involving high-level officials, high levels of administrative efforts, pressures on financial and administrative systems, and so on.

Aid coordination in Kenya

Aid coordination in Kenya involves the Kenya government and donors. The World Bank organized a Consultative Group (CG) in the country in the early 1970s (O’Brien and Ryan, 2001). This group met regularly throughout the 1970s and 80s, normally once every two years. In the 1990s, several CG meetings were held, with the last held in 1996. With the slowing down of reforms, there were no further formal CG meetings until 2003. According to McCormick et al. (2007), the Moi regime was indifferent to coordination.

At the CG meeting held in November 2003 in Nairobi, one of the key outcomes was agreement on the importance of enhanced donor harmonization and alignment, with the Economic Recovery and Strategy (ERS)

Paper prepared earlier in the year and its investment programme (IP) setting the development priorities to which the external assistance programmes needed to be aligned to (UNDP, 2006).

A direct outcome of the 2003 Consultative Group meeting was the establishment of the Harmonization, Alignment, and Coordination Group (HAC) in February 2004, which was chaired by the Swedish ambassador in Kenya (DAC, 2006; HAC, 2006; UNDP, 2006). The HAC Group has become the main donor force for coordination and alignment. Membership of this group has grown from 7 to 15 by 2005.

In addition to HAC, the Donor Coordination Group (DCG) was revived after the 2003 CG meeting and it continues to meet with the government regularly to ensure that their financing is closely aligned with the government’s sector strategy, including through sector-wide approaches (UNDP, 2006). DCG consists of heads of donor and UN agencies and their staffs in Nairobi and is co-chaired by the World Bank and UNDP.

At a subsequent CG meeting held in April 2005, the government and donors reiterated their commitment to making aid effectiveness a high priority (Kenya, 2005). This was formalized in the Partnership Principles signed in September 2007 (Kenya, 2007) in the context of the Kenya Joint Assistance Strategy (KJAS); and the Kenya External Resources Policy, which was also promulgated in 2007. KJAS brings together 17 donors in the interest of coordination among themselves and harmonization of their programs with those of the government.

These new administrative devices are expected to raise both the levels of aid and the capacity to use it more effectively. It is however too early to assess the effectiveness of donor coordination and alignment

in the country as the processes are quite recent. It is difficult to tell whether these coordination and alignment efforts will bear fruit and increase the effectiveness of foreign aid in the country.

What are the obstacles to coordination of aid and effective division of labor across different players engaged in financing and delivery of services? At the 2005 CG meeting, the government pointed out challenges to harmonization, including the disconnect between central and line ministries; the use of financial management agencies; the lack of decentralized donor missions; excessive donor involvement in some sectors; and low disbursement rates from donor-funded projects. The government therefore called for donors to increasingly move towards budget support; to release budget support through a combination of fixed tranches and variable tranches; to avoid political conditionalities and to rationalize other conditionalities; and to support the government's efforts to create capacity.

On the other hand, the donors recognized that harmonization was not going to be easy, given the multiplicity of partner aid philosophies, procedures, and practices. They agreed to work towards harmonizing and simplifying their own systems, processes, and procedures. They said they would continue to work towards sector-wide approaches. They offered to work towards overcoming obstacles to quicker disbursement of already-committed funds and to making their assistance more predictable. Some donors said they would also adopt a joint multi-annual programming approach as soon as possible.

Foreign aid to Kenya's health sector

Foreign aid to Kenya's health sector is also highly volatile, more so than overall aid. The volatility index

for the health ODA (on a commitment basis) was 4.53 percent over 1980-2006. The volatility index for total committed ODA was 0.43 percent, so that ODA to the health sector was much more volatile. Over 1998-2006 when both series were available, bilateral ODA to the health sector was more volatile (6.2 percent) than multilateral ODA (4.4 percent). The corresponding index for health ODA was 3.5 percent and that for total ODA 0.38 percent so that both types of ODA was less volatile during the latter period.

Only about 62.6 percent of committed ODA to the health sector was disbursed since the 1990s, with the share increasing slightly from 59.9 percent in the 1990s to 66.5 percent in 2000-06, undermining the predictability of the ODA.

Health sectors in Africa are typically supported by a large number of donors. The average number of DAC donors in Kenya, Tanzania, and Uganda was 9-10 over 1980-2006, with their numbers increasing over time, from 3-5 in the 1980s; to 8-10 in the 1990s; and to 16-17 in 2000-06. Excluding NGOs, UNDP (2006) reports 28 donors in Kenya's health sectors over 2003-2005: 12 multilateral and 16 bilateral. Donors in the sector were involved in HIV/AIDS programmes, sector and reproductive health planning, primary health care, disease control campaigns, population policy implementation, and so on.

The average fragmentation index for Kenya was 0.42 compared to 0.37 for Tanzania and 0.41 for Uganda, so that the ODA to the sector was less fragmented in Kenya than in Tanzania, and only slightly so for Uganda. The data show a systematic increased in aid fragmentation in Kenya, with the index declining from 0.57 in the 1980s; to 0.40 in the 1990s; and to 0.28 over 2000-06. A similar pattern is observed in Tanzania and Uganda, with the index for Tanzania de-

clining from 0.41 in the 1980s and 1990s to 0.28 over 2000-06 and that of Uganda declining from 0.54 in the 1980s to 0.37 in the 1990s and to 0.26 over 2000-06.

In Kenya, there have been attempts recently to align sectoral distribution of external resources with the priorities in ERS and MDGs. Infrastructure, health and HIV/AIDS have received the largest share of foreign aid resources (UNDP, 2006). Kenya's sectoral working groups (SWGs) are part of the overall coordination structure and their chairs are given terms of reference

by the HAC secretariat. Nevertheless, they have been described by McCormick et al. (2007) as "loose networks without clear terms of reference." The health sector therefore has engaged in a fledging SWAp with partners and government harmonizing and aligning support behind one plan, one monitoring and evaluation framework, and one resource envelope (DPHK, 2008). As in overall aid, it is too early to assess the effectiveness of the SWAp in Kenya's health sector, with the health SWAp expected to be fully established and revamped during the KJAS period (2007-12).

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APPENDIX: DONOR ACTIVITIES IN KENYA'S HEALTH SECTOR, US\$ (THOUSANDS)

		2003	2004	2005
Multilateral: UN Agencies				
IFAD/ UN	HIV/AIDS			100
UNDP	HIV/AIDS	1291	470	637
UNFPA	HIV/AIDS		378	371
	Reproductive health planning	1597	1754	925
	Total	1597	2132	1296
UNICEF	HIV/AIDS	13338	878	2444
	Primary health care	1839	2950	3029
	Control campaigns	1269	1015	2648
	Total	16446	4843	8121
UNIFEM	HIV/AIDS	134	56	
UNODC	HIV/AIDS	20	6	379
WFP	HEALTH & HIV/AIDS	347	987	
WHO	Sector policy planning			178
	HIV/AIDS	300	627	616
	Primary health care (maternal and child health, nutrition)	670	292	1134
	Reproductive health planning and management	305	114	215
	Immunization and other diseases control campaigns	2523	2340	1986
	Population policy implementation			73
	Curative health			68
	Total	3798	3373	4270
World Bank	Planning and management	12100	5100	3600
	HIV/AIDS/sector policy planning	8600	19560	10600
	Total	20700	24660	14200
Multilateral: Non-UN system				
AfDB	Health & HIV/AIDS		800	
	Sector policy			234
	Total	0	800	234
BADEA	HEALTH & HIV/AIDS	1143		
EU	Sector policy and planning			4353
Bilateral				
Austria	HEALTH & HIV/AIDS	173	160	
Belgium	HIV/AIDS			727
	Reproductive health planning and management	803	885	1343
	Total	803	885	2070
Canada	HEALTH & HIV/AIDS		3173	863
Denmark	Sector policy and planning	7290	5154	7936
	Primary care/ nutrition		2204	
	Total	7290	7358	7936
Finland	Curative health	300	452	530
France	HEALTH & HIV/AIDS		76	153
Germany	Population policy implementation	436	3022	7033
	Reproductive health planning and management	915	535	1363
Germany	Total	1351	3557	8396

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		2003	2004	2005
Ireland	HEALTH & HIV/AIDS	408		
Italy	HIV/AIDS			489
	Immunization and other diseases control campaigns	2135	2694	262
Italy	Total	2135	2694	751
Japan	HIV/AIDS			1690
	Sector policy and planning	583	3169	
	Reproductive health planning and management			1320
	Total	583	3169	1320
Norway	Reproductive health planning and management	347		
	HIV/AIDS	179		
	Total	526	0	0
Poland	Primary care		7	4
Spain	Sector policy and planning		96	28
Sweden	Sector policy and planning		4116	5835
UK	HIV/AIDS	9023	14153	13120
	Sector policy/ immunization and other diseases control/ reproductive health	16805	11371	29901
	Population policy implementation	1457		
	Total	27285	25524	43021
USA	HEALTH & HIV/AIDS	36663	55695	61100
NGOs from:				
Austria	HEALTH & HIV/AIDS	668		800
Finland	Curative health	292	554	269
	Primary health care			304
	Total	292	554	573
Italy	HIV/AIDS			1099
	Preventive health			313
	Total	0	0	1412

Source: UNDP (2006)

ENDNOTES

1. The volatility measure was calculated by dividing Root Mean Squared Error by Mean of the relevant aid flows during the corresponding period after smoothing the series with the Hodrick-Prescott filter. Volatility was therefore calculated by $\frac{\sqrt{\sum Y - (HPY)^2 / (n - 2)}}{(1/n) \sum Y}$, where Y is the actual aid variable and HPY is the Hodrick-Prescott smoothed series.
2. According to the World Bank Statement of Loans for February 2007, its component (approved in 1977) was US\$ 34.00 million, of which US\$ 28.85 million was disbursed and US\$ 5.05 million was cancelled. The loan has been fully repaid by the government.
3. Some stakeholders pointed out that use of the gravity system limits the area that can be irrigated, so that this may not be a panacea to the problems facing the scheme.
4. Based on an average exchange rate of Yen 137.96 per US dollar in 1989.
5. According to estimates by the Athi Water Services Board (AWSP) which manages water provision in Nairobi and surrounding areas, demand for water currently (2007) stands at 337,487 cubic metres, while only 248,000 cubic metres is reaching consumers. Demand is set to increase to 574,000 cubic metres by 2015, and over one million cubic metres by 2030.
6. The Hirschmann-Herfindahl index is measured by $\sum (Y_i / \sum Y_i)^2$, where Y_i is donor i's ODA to Kenya, as reported in the DAC ODA database.
7. This pre-empts the need for further field-work in this area.
8. Canada, Denmark, UK, EC, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, UNDP, USA, and the World Bank.
9. In spite of relying heavily on foreign aid, particu-

larly on the development budget, the government had never previously articulated an aid policy. This is needed to “domesticate” the principles; and second, to mitigate three critical risks attendant to lack of an aid policy (Mule et al. 2002). First, when under budgetary pressure, closing the budget becomes the overriding consideration: sound technical analysis and frank assessment of the political feasibility are often sacrificed. Second, availability of aid enables the government to postpone the imperative to improve efficiency, particularly in the social sectors (education and health). Third is the risk of Dutch disease, with foreign aid appreciating the exchange rate, undermining the external competitiveness of the economy.



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