Government institutions, public expenditure and the role of development partners:

Meeting Kenya’s environmental challenges

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Meeting Kenya’s environmental challenges

Summary

This study looks at the present arrangements within the public administration in Kenya that aim to safeguard the natural environment. Existing strategy documents, institutional structures and current financing levels are all reviewed to assess the response that they provide to the many environmental challenges facing the country. At a time of widespread food shortages related to prevailing drought conditions there is urgent need for efficient and effective public action on the environment.

Much effort has gone into various institutional reform processes in recent years. New institutions have been created and additional funding sources developed. The rise of internally generated revenue, as a major source of funding for environmental agencies is noteworthy, although this has brought with it a range of operational challenges and diverts attention away from an important source of funding for these organisations, namely government’s recurrent budget.

Recent changes to budget preparation and the introduction of a multi-year budgetary system offer considerable potential to link policy, planning and budgeting in a more coherent way than has been the case in the past. However, much remains to be done at sector level to secure this system, as there appears to be a continuing separation between the planning of activities and budget planning in various strategy and planning documents.

Particular governance difficulties in the environment domain are also analysed. The cross-sectoral character of environmental management constitutes a major challenge to implementation. The existing institutional framework has made it difficult to deal with this very effectively and has tended to create an unhelpful climate of institutional rivalry. There is a widely held view that the influence of the National Environmental Council remains limited.

These sector coordination difficulties are partly related to the strong compartmentalisation of public sector management, with many ministries pursuing their own specific mandates. It is also reflected in the way the national budget is allocated and managed. But cross-sectoral coordination and harmonisation are also challenged by unresolved tensions between economic development objectives and environmental sustainability. Such tensions are particularly acute in a country where poverty remains prevalent and the pressure on natural resources is significant.

Development partners have a key role to play in helping to secure environmental sustainability. In this regard, the report highlights several ways in which the effectiveness of development cooperation might be improved. The report concludes by identifying the five following issues that merit further investigation to secure better environmental outcomes:

- Strengthening of the MTEF process across the government administration;
- Investing further in the institutional structures to ensure they fulfil their mandates;
- Securing better coordination across sectors on environmental matters;
- Continuing support for the legal reform process; and
- Moving towards sector budget support as the default aid modality for the environment sector.

These actions would assist the public sector secure its role in safeguarding the natural endowment of Kenya, and thereby ensure that national economic development is set on a sustainable trajectory.
1. Introduction

The purpose of the study is to analyse and document experience in transferring environmental policy priorities from national plans to budgets, and through into government implementation programmes. In addition, the study discusses how donors can facilitate and support such processes in the context of growing interest in programmatic support.

1.1 The study

This research complements a larger study on environmental public expenditure and development cooperation undertaken in Ghana, Mali, Mozambique and Tanzania. The broader study is reported upon elsewhere (e.g. Lawson and Bird, 2008).

The present study draws on 12 days of field work in Nairobi, Kenya. The approach taken consisted of the compilation of documentation on the institutional framework and public expenditure in the environment sector as well as individual semi-structured interviews with key informants, many of whom are directly involved in public environmental management. The list of people interviewed is presented in Annex I.

During such a brief exercise there are bound to be limitations to the research. For example, this report does not cover environmental management at local government levels (municipalities, provincial and district levels), or private sector interventions and practices. Furthermore, the analysis was constrained by the scarce and fragmented information available on public environmental expenditure.

This report is structured in six chapters. After this brief description of the study, the introduction proceeds with an overview of the country context. Chapter 2 reviews the institutional framework governing the environmental sector in Kenya. Chapter 3 analyses public environmental expenditure and Chapter 4 describes resource allocation for three of the country’s environmental agencies. Chapter 5 draws implications for the role of development partners. The final Chapter summarises the main issues emerging from the analysis in the previous chapters and concludes with recommendations for further work.

1.2 The country context

The development of national environmental policy is essentially a political process. The socio-political context of the national recovery after the 2008 post-election disturbances has had a considerable impact on both national actions and on the positions adopted by development partners. It has diverted considerable resources away from the challenges of long-term development. Any resolution process is also highly political. This may help to explain the reduced attention being given to technical planning processes, with focus now being directed at achieving national reconciliation.

At the sub-national level, political differences and lack of agreement over key environmental issues remain apparent, as in the highly polarised situation over the rehabilitation of the Mau forest.
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The socio-economic context

Kenya experienced reasonably high economic growth during the first two decades after Independence, leading to significant improvements in livelihoods. However, since the 1980s economic performance deteriorated and per capita incomes started to decline. Measured by 1982 constant prices, per capita incomes fell from US$ 271 in 1990 to US$ 239 in 2002. By 2001, over half of the Kenyan population lived below the abject poverty line of one US dollar a day. Approximately two million people were unemployed by 2002, the majority being young people many of whom had some education but no skills. At the same time, incidences of official corruption and abuse of public resources dominated the media.

The 2002 General Elections were held and won on a platform of change. The new coalition government was able to entrench into the Constitution a commission to fight corruption and develop a new national strategy, the Economic Recovery Strategy for Wealth and Employment Creation (ERS), which was launched in June 2003. However, after two years in power, and despite strong economic growth, divisions in this coalition widened leading to a bitter collapse, leaving one wing of the ruling alliance to join with the former ruling party to form a government of national unity.

The political situation did not remain stable for long and political leaders engaged in a long drawn out and divisive campaign leading up to the General Elections of December 2007. Before these elections took place, the opposition divided into two, adding to the fragmentation. With three main political parties and a host of smaller parties all competing for power, the country went into the elections critically divided.

The conduct of the campaigns left a lot to be desired, as parties used all manner of schemes to lure voters, including the use of tribal platforms. The tribal factor and desire for power was so strong that ethnically motivated violence broke out across the country. It was only after a period of sustained violence that a negotiated settlement was reached between the parties, with the formation of a coalition government that included the creation of a position of prime minister with two deputies.

Despite all this political upheaval, the Kenyan economy experienced a period of strong economic growth from the early 2000s, achieving a growth rate of over six per cent in 2006/07. Sustained economic growth took place across the whole economy: notably in agriculture, tourism, manufacturing, wholesale and retail trade, telecommunications, as well as in the social sectors. This broad-based economic growth led to a reduction in poverty levels from 56 per cent in 2002 to 46 per cent in 2006. However, the economic situation has recently become more difficult with the emerging global financial crisis, together with a serious drought that has resulted in widespread food shortages.

Continuing high rates of economic growth underpin the government’s latest development strategy, Vision 2030, with its goal of securing a growth rate of 10 per cent per annum from 2012, on average, over the period up to 2030. This rate of growth will depend to a large extent on the implementation of good policies and the building of strong and effective national institutions. Such growth also retains strong linkages with the country’s natural resources and will therefore need to be underpinned by strengthened environmental management.

The environmental context

Kenya has an important natural resource base, with high biodiversity. With a land area of just under 60 million hectares, land-use is largely pastoral in the drier parts of the country and agricultural in the moister areas. Over 80 per cent of the country is categorised as arid or semi-arid lands (ASALs) that have particularly vulnerable ecosystems.

Environmental concerns are significant, with the twin weather-related hazards of drought
and flooding prevalent (UNEP, 2009). Deforestation, coastal modification and agricultural practices in fragile ecosystems all contribute to an increase in the disastrous consequences of what were once simple weather hazards. For example, deforestation of mountain slopes has led to faster run-off resulting in frequent floods in the western part of the country that drains into Lake Victoria.

The context of extreme poverty puts strong pressures on natural resources, since these represent the main source of subsistence for the majority of households. The country is still predominantly a rural economy. Fuelwood remains the major source of energy, especially for rural people who make up approximately 80 per cent of the total population.

**Development assistance**

Official development assistance to Kenya (excluding debt relief) has seen considerable variation in the level of donor commitments over the last ten years, with a low of US$ 400 million in 2002 reaching an all time high of almost US$ 2 billion five years later, in 2007. However, the actual disbursements of aid funding have lagged behind. For example, only 63 per cent of the 2007 commitment was realised (Figure 1). The cost of the overall year-on-year volatility, which has been a characteristic of aid delivery to Kenya over many years, is reflected in deviations from actual plans, the discontinuation of projects, and the under-provision of services (Mwega, 2009).

Budget Support as an aid modality has hardly developed, with only one donor, the European Union, having disbursed two tranches of general budget support. The latter tranche unfortunately coincided with the social upheaval after the 2007 General Elections and was much criticised by some EU Members States. This aid modality relies on a high level of political understanding between donor and recipi-

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**Figure 1. Kenya total aid flows, 1998-2007**

![Graph showing Kenya total aid flows, 1998-2007](http://stats.oecd.org/qwids/)
ent, which in the aftermath of the elections was considerably undermined. Further budget support in the immediate future therefore appears unlikely. In the short-term, efforts may need to focus on other forms of programmatic support to secure greater harmonisation amongst donors.

Many Development Partners seem set to continue providing support, at least for the moment, through project investments. This continues to be a challenge both to them and also the government bureaucracy, especially in situations where capacity to manage the parallel structures associated with projects is constrained.
2. Environmental institutional setting: Policies and stakeholders

This chapter provides an overview of the institutional framework governing the environmental sector. It summarises government policy objectives and priorities, and describes the scope and roles performed by prominent players in the sector. It also analyses policy dialogue and coordination mechanism that are in place.

2.1 Government policy and strategies

Despite the absence of a comprehensive environment policy in Kenya, there has been much activity in recent years devoted to preparing new environmental strategies and national plans. Considerable resources appear to have been devoted to ensuring such development takes place in a participatory way, to ensure broad ownership of the development process. This is in keeping with international best practice. However, prioritisation appears weakly developed in some strategy and planning documents, undermining their value as tools to guide implementation.

The legal basis for the conservation of environmental goods and services is clearly set out within the overarching framework legislation, the Environmental Management and Coordination Act (EMCA) of 1999. However, sector statutes have yet to be aligned with the EMCA – despite ten years having passed. This suggests there may be institutional interests protecting the status quo, which will require strong political leadership to overcome. In the meantime, the current arrangements create potential for competition and conflict between different government agencies.

Vision 2030

Environmental management is one of the themes addressed under the social pillar of the Vision 2030 strategy, the Government’s long-term development blueprint that was launched in 2008. A number of challenges are listed, although these tend to focus on ‘green’ environmental issues, rather than ‘brown’ issues. The latter might be expected to rise in prominence as urbanisation is expected to occur at a rapid rate, rising from 21 per cent in 2007 to 33 per cent by 2030 (UNPD, 2008). This will likely change quite significantly the nature of the environmental issues that will warrant attention by government.

However, as Vision 2030 states, the institutional arrangements for addressing environmental issues are not robust at present: ‘Kenya’s current institutional framework to manage the environment is characterised by fragmentation. Various aspects of environmental policy cut across different institutions. Although the Environment Management and Coordination Act of 1999 was a major landmark, with the primary objective of improving coordination and management of the environment, legislation of relevant laws and regulations have not yet been completed.’ (Vision 2030, p. 104).

Four strategic areas for government action are identified to help realise the national vision for the environmental sector.
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These are (i) conservation of natural resources, (ii) pollution and waste management, (iii) high-risk disaster zone management and (iv) environmental planning and governance.

Four ‘flagship’ projects are also identified to be undertaken as priority actions:

- Water catchment management
- Secure wildlife migratory routes
- Develop a national waste management system
- Land cover and land-use mapping

**First medium term plan (2008 – 2012)**

The Vision 2030 strategy will be implemented through a series of 5-year, medium-term rolling plans, with the first covering the period 2008-2012. All programmes contained within this first medium-term plan (MTP) have been designed with the aim of lessening poverty and increasing equity in wealth distribution. This is reflected in the 5-year target of reducing the incidence of poverty from the 2006 level of 46 percent to 28 percent by 2012. This plan was prepared in the aftermath of the civil unrest that followed the December 2007 General Elections and represents the collective view of the Grand Coalition Government.

Environment, water and sanitation are treated as a single theme in the first 5-year plan, in contrast to their separate treatment in Vision 2030. The emerging environmental issues and challenges that are described relate, but do not match, those identified in the Vision 2030 strategy document. Water and sanitation issues assume a higher prominence as a result of these two themes being merged with the environment, and perhaps also because of their immediate and highly visible social impacts.

**Water issues**: Kenya is a water scarce country, yet water is a vital requirement in hydro-power generation, which accounts for 72 per cent of the country’s electrical power generation. The government has implemented far reaching reforms in the water sector within the legal framework provided by the Water Act 2002. Various water institutions have been established that separate the functions of policy formulation, service delivery and regulation of water supply. In addition, the introduction of a Sector-wide Approach to Planning (SWAp) has been initiated, aimed at improving coordination in the sector.

**Forestry issues**: Kenya is now described as a low forest cover country, having lost considerable areas of natural forest through deforestation. At present less than two per cent of the land area has natural forest cover. Forest loss is believed to have had a major impact on the five major water catchments in the country (the ‘water towers’ of the Mau Escarpment, Mt. Kenya, Aberdare Ranges, Cherangani Hills and Mt. Elgon).

The MTP lists a total of 12 flagship projects for the period 2008-2012, of which two are repeated, leading to 10 separate projects. These are:

1. Rehabilitation and protection of indigenous forests in the five water towers
2. Secure wildlife corridors and migratory routes
3. Preparation of a national spatial plan (land use master plan)
4. National waste management system
5. Rehabilitation, regeneration and restoration of Nairobi rivers
6. Water resources information management
7. Water harvesting and storage programme
8. Urban sewerage programme
9. Water storage and harvesting (similar to 7.)
10. National water supply and sanitation
11. Water resource information management (same as 6.)
12. Irrigation and drainage

In addition, a further eight projects are listed as additional programmes to be implemented in support of the reform agenda. All these projects (together with several others) are costed with an indicative budget, although there is little evidence of prioritisation, as the flagship projects are found within a larger number of other pro-
grammes. It is also difficult to track the flagship projects under the Water and Sanitation theme. The flagship projects for environmental management are reproduced in Table 1; interestingly, the source of funds for three out of the four programmes is described as coming from public-private partnerships.

Table 1. Medium Term Plan: Implementation matrix for environmental management programmes

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Rehabilitation of water towers</td>
<td>KFS, ADB, MWI, WRMAAs</td>
<td>PPP</td>
<td>52</td>
<td>52</td>
<td>40</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>2.</td>
<td>Secure wildlife corridors</td>
<td>MOL, MEMR, KWS, MOLG</td>
<td>PPP</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>4.</td>
<td>Waste management programme</td>
<td>MOPHS, NCC, NEMA, KEPSA etc.</td>
<td>PPP</td>
<td>39</td>
<td>39</td>
<td>39</td>
<td>34</td>
<td>29</td>
</tr>
</tbody>
</table>

Environment, Water and Sanitation Sector Plan (2008-2012). Final draft (expected to be completed by April 2009)

Sector level plans then identify programmes and projects to be implemented over the period of the first MTP. For the Environment, Water and Sanitation Sector, the plan begins by identifying the following major challenges to the environment in Kenya: environmental degradation, poor water quality, availability and accessibility, declining forest resources, poor solid waste management and the effects of climate change. Importantly, the plan acknowledges that inadequate institutional capacity and low levels of environmental education are two factors that contribute to low enforcement of environmental policies and regulations.

There appears to be considerable consensus over the major environmental problems that the country faces within these various national plans. In addition, the proposed solutions to these constraints are largely consistent between the different planning documents, with for example, the programmes proposed in the Medium-Term Plan and the Sector Plan coinciding. Where there appears to be a less strong connection is at the level of indicative budgets, such as in the implementation matrix of the Medium Term Plan and the Strategic Plan, where significant divergences occur.

2.2 National institutional players

The last ten years has also been a period of institutional inflation, with many new government bodies being created, each holding differing mandates for environmental policy formulation, regulation and service delivery.

This institutional reform process has taken one direction, namely the creation of new parastatals in an attempt to secure separation of organisational function. However, there are a number of important, and significant, nuances across the environmental domain. The most significant is in the water sector, where two autonomous public agencies have been created: one to regulate the management of water resources and the other to regulate the provision of water and sewerage services. This distinction has yet to be repeated elsewhere.

A conflation of mandates has occurred, such as in the authority given to securing water catchment rehabilitation being allocated to the Ministry of Forestry and Wildlife as well as
Meeting Kenya’s environmental challenges

to the Ministry of Water and Irrigation, apparently without clear lines of responsibility having been agreed.

Of equal concern is the ability and capacity, both legally and managerially, to enforce compliance and secure fee payments. Many environmental laws lack the same force of the law as enjoyed by the Kenya Revenue Authority. For example, the recently created Water Resources Management Authority (WRMA) has not been able to collect water charges from either the Kenya Electricity Generating Company (KenGen) or the Nairobi City Council. This raises the issue as to whether collection of such revenues should be delegated to the Revenue Authority.

Overall, it is an open question whether the public administration has been strengthened by the institutional reform process. Conditions of instability appear to have been inadvertently promoted through:

1. the creation of parastatals that offer better terms than elsewhere in the public service, attracting key skills out of the policy areas of the public administration;
2. the weakening of policy leadership that ensues; and
3. the challenges for coordination and collaboration that then arise, especially where mandates cut across ministries and agencies.

This has been further affected by the frequent change in ministerial portfolios, which has a significant impact on policy consistency, as well as on institutional memory and administration. The rapid turnover of senior managers has similar effects, as it takes such staff some time to accumulate the requisite knowledge.

**National Environmental Management Agency**

The National Environment Management Authority (NEMA) was established under the Environmental Management and Coordination Act (EMCA) No. 8 of 1999, as the principal instrument of government in the implementation of all policies relating to the environment. The Authority became operational on 1st July 2002, following the merger of three government departments.

NEMA has far-reaching, multiple statutory functions and responsibilities, listed in Section 9(2) of the Act. However, its main function is...
to coordinate the environmental management activities undertaken by other government agencies, not to carry out all the environmental functions itself. This is proving a challenging endeavour, especially as the financial model of each agency provides a strong incentive to build up any income generating opportunities, such as arise through the permit system.

Kenya Forest Service

The Kenya Forest Service (KFS) is a new semi-autonomous body that began operation in 2007. It operates under an expanded mandate compared to the previous Forest Department, to oversee the management for all types of forests (state, local authority and private) as set out in the Forests Act, 2005. This expanded mandate means the KFS has to work closely with a wider spectrum of stakeholders than in the past, some holding diversified interests and motives and this has proved to be an enormous challenge.

The KFS faces a number of difficulties in securing its institutional future. For example, the proposed Forest Policy has not yet been approved by Parliament; knowledge of the 2005 Forest Act remains poor; and the necessary subsidiary legislation and national standards are not yet in place. In addition, it has yet to establish its funding base, a situation which is compounded by the national logging ban that covers both natural and plantation forests.

A major challenge facing KFS lies in strengthening its governance structures. The KFS is currently establishing Community Forest Associations (CFAs), Forest Conservation Committees (FCCs), Forest Zones and Forest Conservancies. To put all these new governance structures in place requires considerable resources, which are not yet present.

2.3 Development partners and funding modalities

Since 2002, 17 donors have provided support for environmental protection. The number of donors providing grant aid has increased each year, from seven in 2002 to 10 in 2007. Clearly, the environment is favoured by bilateral donors, something that is well recognised by government and agency staff. A total of US$ 375 million (constant 2006 prices), equivalent to Kshs 2.72 billion, has been disbursed over the six year period, again on an increasing trend. All of this external assistance has been channelled through project support.

More broadly, total donor spending for environment protection, forestry, water and sanitation has increased substantially over the last six years, from a total of US$ 5.84 million in 2002 to US$ 21.79 million in 2007 (Table 2).

Table 2. Official developmental assistance to environmental protection, forestry and water & sanitation, 2002–2007 (Donor disbursed funds, US$ millions, constant 2006)

<table>
<thead>
<tr>
<th>Sector (DAC classification)</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>Total</th>
<th>per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>General environmental protection (DAC code 41000)</td>
<td>4.30</td>
<td>2.41</td>
<td>3.74</td>
<td>7.14</td>
<td>9.21</td>
<td>10.71</td>
<td>37.51</td>
<td>42.8</td>
</tr>
<tr>
<td>Forestry (DAC code 31200)</td>
<td>0.36</td>
<td>1.58</td>
<td>1.36</td>
<td>1.52</td>
<td>1.26</td>
<td>0.74</td>
<td>6.82</td>
<td>7.80</td>
</tr>
<tr>
<td>Water and sanitation (DAC code 14000)</td>
<td>1.18</td>
<td>1.11</td>
<td>3.14</td>
<td>12.77</td>
<td>14.74</td>
<td>10.34</td>
<td>43.28</td>
<td>49.4</td>
</tr>
<tr>
<td>Total</td>
<td>5.84</td>
<td>5.10</td>
<td>8.24</td>
<td>21.43</td>
<td>25.21</td>
<td>21.79</td>
<td>87.61</td>
<td></td>
</tr>
</tbody>
</table>

2.4 Policy dialogue and coordination mechanisms

The National Environmental Council (NEC) is the national policy forum where policies and priorities for the protection of the environment are determined. It was established under EMCA in 1999 to secure coordination among the various ministries that are involved in environmental matters. However, it appears to face a number of constraints and, as a result, the implementation of policy priorities and compliance with legislation is compromised. One consequence of this lack of coordination is the institutional rivalry that exists between the various government environmental organisations.

Permanent Secretaries of some of the sectoral ministries identified in EMCA as key players openly admit not to be aware of what NEC does, nor do they attend its meetings. Such a situation means they are not involved in the formulation of environmental policies and therefore cannot be expected to implement them. This can only increase the disconnect between those policies stipulated in various planning documents (Vision 2030, the Medium Term Plan) and the prioritisation of programmes and activities by ministries and agencies.

The NEC is not resourced through the national budget. There is no separate sub-vote for supporting this institution, despite it being a statutory body of ten years standing. Without such resources, it is not surprising that it has not had the impact that was expected of it in the EMCA.
3. Public environmental expenditure

This chapter analyses public environmental expenditure in Kenya. It starts with a description of the national budget process and then goes on to describe how environmental issues have been taken up in the budget. Two additional sources of public revenue are also briefly described, namely internally generated funds of the parastatals and donor support.

3.1 The Budget process

The national budget provides, to a large extent, the financial resources that allow the implementation of public environmental actions. Understanding the budget process is therefore a necessary prerequisite to any evaluation of the efficiency or effectiveness of such actions.

Under the Constitution of Kenya, the Minister for Finance is required to ensure that the available public resources are managed prudently and that the intended services are delivered. For this reason, the Minister must table the budget before Parliament by the 21st of June each year. In addition, during the course of the year he has to keep Parliament briefed on the status of the budget. More broadly, the Executive is required to ensure the budget is prepared and is ready for presentation to Parliament and also advise on its implementation after approval. It is also required to:

- maintain aggregate fiscal discipline by ensuring policy changes are consistent with fiscal norms and programme objectives;
- increase efficiency in resource allocation; and
- promote the efficient delivery of services.

Kenya has adopted the Medium Term Expenditure Framework (MTEF) approach to prepare its budget. This is a modern budgeting process, based on a three-year rolling plan.

What distinguishes the MTEF approach is that it combines a focus on fiscal sustainability with policy priorities of government and starts the reconciliation of the two, including the use of ceilings, in a strategic phase at the outset of the annual budgeting process. It represents an iterative process of decision-making, using rolling baselines (Figure 2, overleaf) that reconciles these allocations, costs and new policies with available resources.

Key to this process is the development of a macro-economic framework, which outlines the overall resource envelope. This forms the basis for setting national priorities and determining expenditure prioritisation. The MTEF is therefore an attempt to link policy, planning and budgeting. This process of budgeting was adopted by the Government in 1999, replacing the previous system of budgeting which was incremental based. The current process requires sector Ministries to prepare their budget estimates based on Programme Based Budgeting (PBB).

The MTEF budget process is preceded by national plans that spell out the broad macroeconomic policies of government. In the recent past, preparation of the budget has been guided by the Economic Recovery Strategy Paper (ERS).
Implementation of the ERS came to an end in December, 2007, after which the guiding document has become Kenya Vision 2030, which is the Government’s long-term development blueprint.

3.2 Overview of the budget cycle

The current Budget Process has three main stages, namely: (i) formulation of the budget; (ii) approval; and (iii) execution and oversight.

Budget Formulation

The responsibility for formulating the budget lies with the Executive and proceeds in the following stages:

**Macro target setting:** On the basis of identified policy priorities, forecasts are made using a macro economic model, referred to as the Kippra-Treasury Macro-Model. Various variables are estimated using this model and projected over the medium term. These projections are carried out by the Treasury and the Ministry of Planning, National Development and Vision 2030. A macro framework is then generated, which gives the indicative resource envelope, the overall aggregate expenditures and other targets such as the expected level of domestic borrowing and flow of external resources. These details are then released to ministries through the Budget Outlook Paper (BOPA).

**Review of sectoral priorities:** The MTEF approach supports both top-down and bottom-up processes to budgeting. The top-down process is the macro target setting stage, whereas the bottom-up approach is the review and preparation of sectoral reports which lead to the identification of sectoral priorities. In these sectoral reports ministries are required to review their performance over the past year in order to inform the budget proposals for the next budget period. For budget purposes, the government is categorised into ten sectors, with each sector made...
up of government ministries considered to have similar functions. Since 2008, Environment, Water and Sanitation has been recognised as a separate sector.

The sector work is launched in early September after which accounting units embark on reviewing their expenditure through Ministerial Public Expenditure Reviews (MPERs). Based on these findings, ministries/accounting units make proposals on policy changes in the medium term. Ministries then proceed to prepare budget proposals through sector consultations on the basis of the Sector Working Groups, as specified in the Budget Guidelines. Within each sector, line ministries share the resources as indicated in the BOPA. The sector consultations culminate in sector public hearings, a forum which offers the opportunity for wider public consultation on budget preparation.

Based on sector reports and the MPERs, which summarise the key issues, the national Budget Strategy Paper (BSP) is then prepared. Ministerial ceilings are firmed up and communicated to the line ministries through the BSP.

Financial Programming: This stage involves the preparation and approval of the itemised budget. Ministries prepare three-year forecasts based on the ceilings issued by Treasury and submit their draft budget to Treasury for review and approval. The Budgetary Supply Department in the Treasury normally reviews the drafts to ensure that the ministries have conformed to the sectoral priorities and the Treasury guidelines. Once approved, the Budget Supply Department consolidates all the ministerial draft budgets into the National Budget. The budget is then approved by the Economic and Budget Steering Committee, the Permanent Secretary to the Treasury, the Minister for Finance and the Cabinet, ready for presentation to Parliament for approval.

(ii) Budget Approval

Parliament begins by partially approving the presented Budget, through the Vote on Account, which allows Ministries to spend up to half of the funds presented in their Budget proposals. At this stage, the overall budget policies of the government as proposed in the national budget (together with past performance) are discussed. When the proposals are finally approved through the Appropriation Act, the budget becomes a statutory instrument that has to be adhered to by all institutions involved in budget execution i.e. the spending agencies.

The Budget proposals are presented before Parliament during the second or third week of June each year, while the financial year starts on 1st July each year. Parliament may take up to three months to discuss the budget, being required to formally approve the budget by the 31st October. Once tabled, the detailed proposals are discussed by two Parliamentary Committees: those on expenditure by the Committee of Supply, those on taxation by the Committee of Ways and Means. Thereafter, they are approved and government is authorised to tax and spend the money as allocated.

(iii) Budget Execution

Budget execution starts on 1st July based on the authority granted by the Vote on Account. Between July 1st and the time when the Budget is approved, the Government cannot spend more than 50 per cent of funds in the proposal tabled before Parliament. In addition, during this stage proposals cannot be amended. However, once approved, the Government can subsequently prepare a supplementary proposal (in December) and seek further approval by Parliament.

After the end of the financial year, the Controller and Auditor General is required to audit the budget execution and file a report in Parliament through the Minister for Finance. In Parliament, two committees scrutinise the audit reports. The Public Accounts Committee examines the accounts of Government while the Public Investment Committee scrutinises accounts and reports of public or state corporations. Each of these committees then table their
Meeting Kenya’s environmental challenges

report, together with recommendations, before the whole House.

3.3 How environmental issues have been taken up within the budget process

The Budget Outlook Paper

As described in the previous section, the budget process is guided by two important papers: the Budget Outlook Paper and the Budget Strategy Paper (BSP). The Budget Outlook Paper describes the financial framework for the medium-term, which is the basis for determining the overall resource envelope. It also contains the indicative sectoral resource envelopes. The Budget Strategy paper, on the other hand, provides firmed up ministerial ceilings. These papers are produced by the Ministry of Finance working closely with the Ministry of Planning, National Development and Vision 2030, but with limited consultation of other stakeholders.

The Budget Outlook Paper (BOPA) is a strategic tool for strengthening the preparation of budgets and the management of public resources. It aims to ensure that budgetary expenditure is consistent with agreed national and sectoral spending priorities. As a result, the BOPA attempts to improve the link between policy, planning and budgeting; and also increase the transparency and accountability in the use of public resources. The BOPA provides sector ceilings only, so as to allow the Sector Working Groups flexibility to develop and agree on ministerial ceilings.

Due to several years experience when the government had to adjust the budget because donor budget support was not forthcoming such resources are presently excluded from the budget. However, project-based loans and grants from development partners, once confirmed, are included (Government of Kenya, 2007a). The absorption of such development finance is a major issue, with the absorption rate for the foreign-financed part of the development budget as low as 43 percent in 2006/07 (Government of Kenya, 2008a).

The 2007 BOPA took its strategic priorities from the Economic Recovery Strategy (ERS). The second main pillar of the ERS referred to equity and poverty reduction, although no explicit mention was made of environmental objectives. In contrast, the 2009 BOPA is embedded in the first Medium Term Plan, 2008-2012, of Vision 2030. The increased priority given to environmental issues within these national planning documents is reflected in the identification of water, sanitation and environmental management as key areas of the social pillar:

- **Water and sanitation.** ‘The Government will aim to conserve water and enhance ways of harvesting rain and underground water. Specifically, it will aim to rehabilitate hydro-meteorological data gathering network, construct multi-purpose dams and construct water and sanitation facilities to support a growing urban and industrial production.’ (Government of Kenya, 2008a, p. 10).

- **Environment.** The Government will continue to promote environmental conservation, improve pollution and waste management through public-private partnerships initiatives, and enhance disaster preparedness as well as capacity to adopt global climatic changes’. (Government of Kenya, 2008a, p. 10).

Ministerial Public Expenditure Reviews

Ministerial Public Expenditure Reviews (MPERs) provide an important input into the preparation of the Medium Term Expenditure Framework (MTEF) and the annual budget. The review process involves collection and analysis of data on each Ministry’s development and recurrent expenditure. Some insights into resource use within the Ministry of Environment and Mineral Resources can be found in the Ministry’s 2008 MPER report (Government of Kenya, 2008b). The report highlights the following constraints that the Ministry is facing:
• Weak monitoring and evaluation mechanisms
• Under-provisions in the budget on major items that support operations and maintenance e.g. transport expenses, telephone, etc.
• Liquidity problems in the Districts
• Low operations and maintenance (O&M) provisions
• Lengthy tendering procedures

The 2008 report also acknowledged that those involved in the preparation of the MPER lacked capacity and needed further training in financial information management, with a view to developing a database for the MPER (thus moving away from the current manual data management). This would ensure data accuracy and comparability in future. Training in budgeting was also an identified need, with a view to strengthening the budgetary process. Other types of training may also be required to improve the management of programmes and adherence to work plans.

The 2008 MPER report highlighted the poor performance in the collection of internally generated funds within the MEMR. The targets were hardly realised because of under provision for O&M to facilitate the collection of these funds (AiA: Appropriations in Aid). AiA collected has been much reduced because of court cases and administrative bottlenecks. One prominent case has involved Kenya’s single pulp and paper mill, Pan African Paper Mills, which has affected the collection of forest fees.

**The Medium Term Budget Strategy Paper**

The Medium Term Budget Strategy Paper (BSP) provides the resource envelope for the annual budget and the next two years under the MTEF. It sets both sector and ministerial ceilings in line with the strategic objectives of the Vision 2030 and other national policy commitments. Two general constraints with the overall MTEF process were identified within the 2007 BSP that have an effect on environmental spending (Government of Kenya, 2007b):

• Expenditure projections continue to not reflect a detailed costing of programmes and/or sector priorities
• The utilisation of development funds, especially for externally funded projects, was low.

These constraints highlight the challenges in making the transition from incremental-based to programme-based budgeting. Such a move also highlights the importance of improving predictability of resource flows from both domestic and external sources.

The shift of the environment portfolio from the Agriculture and Rural Development sector to a separate sector (with Water and Sanitation) in 2008 is reflected in the increased attention that environmental matters receive in the 2008 BSP compared to the 2007 BSP. Environmental spending priorities are made explicit for the first time in the latest report:

‘Environment – the Government will continue to promote environmental conservation, improve pollution and waste management through public-private partnership initiatives, and enhance disaster preparedness as well as capacity to adopt global climatic changes.’ (Government of Kenya, 2008c, p.15).

**The 2009 Environment, Water and Sanitation Sector MTEF report**

The Environment, Water and Sanitation sector paper documents a resource requirement for this sector during the 2009/10 FY of Kshs 48.3 billion, with recurrent expenditures of Ksh 12.7 billion and development expenditures of Ksh 35.6 billion. This compares unfavourably with the Budget Outlook Paper projected ceiling for the sector, which indicated a ceiling of Kshs 22.6 billion (Recurrent 5.4 billion and development Ksh 17.2 billion). This suggests a deficit of Kshs 25.7 billion. With less than half of the proposed annual programme funded, a considerably reduced level of activity can be expected should this sector deficit not be
addressed (Government of Kenya, 2009). Overall, it appears that the prioritisation process remains incomplete, in terms of matching the proposed work programmes to the available financial resources.

Table 3, which is taken from the 2009 Environment, Water and Sanitation MTEF report (Government of Kenya, 2009) shows considerable variance between estimates and actual expenditure in the MEMR between 2005/06 and 2007/08. One reason is that most of the districts did not receive funds on time due to late disbursements. Development estimates in 2007/08 were affected by the World Bank-supported Sustainable Land Management Project, which was included in the books but not implemented. In addition, actual expenditure in 2007/08 is likely to have been influenced by the post election crisis.

MEMR had received very low allocations in the Productive sector where the ministry had previously belonged. This has an implication when comparing the Ministry’s allocation in the context of the current sector of Environment, Water and Sanitation, where it clearly remains the junior partner.

As recorded in the draft 2008 PEFA assessment (Helvet et al., 2008), there is evidence that the public finance management institutional framework in Kenya is under transition, and that a number of important improvements are being implemented by government. As a result, the budget is becoming a more credible instrument in terms of budget allocation, revenue collection and distribution of resources. These general improvements can be expected to have a positive impact on public environmental actions and likely lead to significant gains in this sector, as in others.

3.4 The role of parastatals and internally generated funds

In Kenya, parastatal expenditure and non-tax revenues represent more than 10 per cent of total State expenditure. There are a total of 161 parastatals, which are also referred to as Statutory Bodies and State Corporations. They include semi-autonomous government agencies, trust funds and public enterprises. In the environment sector there has been a strong growth in parastatals. The first of these, the Kenya Wildlife Service, was established under the 1989 Wildlife (Conservation and Management) Act. This was followed by the National Environment Management Authority (NEMA), created by the Environmental Management and Co-ordination Act in 1999 and then by the Kenya Forest Service and the Water Resources Management Authority, both created under legislation since 2000. All these institutions prepare their own Annual Estimates.

Under the Public Audit Act 2003, Statutory Bodies and State Corporations are required to submit their financial accounts to the Ministry of Finance, Line Ministries and the Kenya National Audit Office within three months of the end of their financial year. However, the Ministry of Finance does not maintain a list of those parastatals which have complied and those that have not submitted their accounts. The NEMA Annual Reports and Accounts for

<table>
<thead>
<tr>
<th>Ministry</th>
<th>2005/06</th>
<th>2006/07</th>
<th>2007/08</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revised Estimates</td>
<td>Actual Expenditure</td>
<td>Revised Estimates</td>
</tr>
<tr>
<td>MWI</td>
<td>6,183</td>
<td>6,183</td>
<td>8,586</td>
</tr>
<tr>
<td>MEMR</td>
<td>2,189</td>
<td>1,124</td>
<td>2,820</td>
</tr>
<tr>
<td>Total</td>
<td>8,372</td>
<td>7,307</td>
<td>11,406</td>
</tr>
</tbody>
</table>
2003 through to 2006 all contain the National Audit Office’s statement recording the late submission of the financial statement. The NAO also recorded that for 2006 and 2007 NEMA operated without a budget approved by the relevant authorities.

The semi-autonomous position of the parastatals allows these institutions to raise their own revenue through internally generated funds (IGF). This may take the form of licences and approval fees, as well as user-fees charged to those who consume or use facilities. Examples include levies made by NEMA on investors for conducting environment impact assessments; licence fees that KWS charges investors who build lodges in national parks; and user fees charged for entry into the parks. While this has proved to be a popular source of funding it carries serious operational challenges, which include:

- inadequate data on the revenue base
- risks of encouraging environmental degradation through the pressure to raise revenue
- risks of neglecting important monitoring and protective activities that do not generate revenues
- it is particularly prone to external disruptions
- weak enforcement provisions in the laws

### 3.5 Donor financial support

Following the 2005 Paris Declaration on Aid Effectiveness and the Accra conference in July 2008 there has been growing international consensus that in terms of aid modalities general budget support offers the best conditions for national ownership over the development process. However, general budget support requires that the recipient country can demonstrate a well functioning public finance management system. In the absence of such a system, most donors provide development assistance through project interventions, as continues to be the case in Kenya. Budget support also requires a high level of political trust between donors and the recipient country government, which can be seriously undermined by periods of national crisis, as happened in Kenya following the 2007 elections.

Donor support given as revenue grants and loans is provided on the budget, using treasury systems. However, support provided as Appropriations in Aid (AiA), both as grants and loans, is disbursed by donors using other payment systems. In 2007/08 more than half of all aid flows (or Kshs 49.2 billion out of a total of Kshs 81.7 billion) were provided as AiA. Hedvall et al. (2008) report that government officials have difficulties in getting reliable reports on the disbursement of AiA. Much of the financial assistance provided as AiA is reported late, in different formats or not at all. This is acknowledged as a problem and there are on-going efforts to reconcile AiA between donors and the Treasury.

Many of the agencies in the environment sector receive support from donors, sometimes involving several projects, but compared to other sectors, the total amount is small. When the projects are many, this poses a major challenge to those agencies that have limited capacity. For example, the Kenya Forest Service currently has nine projects funded by seven development partners. This is an agency which has had its mandate substantially increased but has not been able to increase its staffing levels. The coordination of several donors and projects can stretch limited personnel capacity. In addition, donor funding can introduce vulnerabilities, especially when support is conditional on the fulfilment of obligations at the national level. All these and other challenges affect agencies’ capacity to implement projects on time, leading to low utilisation of available funds.
4. Resource allocation and spending by environmental agencies

This chapter examines the funding position of three national environmental agencies and seeks to identify their main sources of funding. The chapter concludes with a commentary on the low absorption of resources in the development budget.

The nature of public spending on the environment

Acquiring an accurate picture of government’s spending on the environment is a challenge. Any analysis is faced with the task of defining which parts of the government administration possess an environmental remit. This is not an easy task due to the cross-cutting nature of many environmental issues.

The 1991 Draft International Covenant on Environment and Development defined ‘environment’ to mean ‘the totality of nature and natural resources, including the cultural heritage and infrastructure essential for socio-economic activities’. Environmental issues therefore go beyond environmental protection to include the management of natural resources and the manner by which they are utilised by individuals and society (Okidi, et al., 2008).

This report adopts this broad interpretation of the environment, being both a ‘sector’ and a cross-cutting theme.

Considerable investments have recently been made by each of the national environmental agencies in Kenya, namely NEMA, the KFS and the KWS. However, a direct comparison of budgetary allocation and spending over a number of years is far from straightforward. It has not been possible in the time available to collate a consistent set of data across the relevant institutions over a uniform time period. It should therefore be stressed that the analysis presented here is indicative.

4.1 The National Environment Management Authority

The National Environment Management Authority (NEMA) secures its financial resources through four sources of funding, each of which has its own characteristics. These sources are: the government’s recurrent grant, the government’s development grant, internally generated funds and donor funds (Tables 4 and 5).

The city council of Nairobi improving access to better sanitation facilities by constructing more facilities within common areas. Michael Mwangi/UNEP
The general picture is that NEMA has been able to secure from Treasury its recurrent grant since becoming an autonomous agency in July 2002. (It is worth noting that in its first year of operation it was only able to spend 85 per cent of the recurrent budget allocated.) The recurrent grant remains - by a considerable margin - the main funding source, although the actual income from this source appears to be on a declining trend (Table 4).

With regard to the development budget, the picture is much less clear. Government’s Estimates of Development Expenditure record no approved development expenditure in 2003/04 and 2004/05, yet the Annual Reports and Accounts of NEMA record development grants being received in those years. Overall, the development grant has seen significant differences between the approved and actual budget. The vulnerability of this funding stream to significant change is noteworthy, particularly as considerable investment would have been required in the years reviewed, coinciding as they did with the period when this new institution was being established.

There was strong early growth in internally generated funds, although at its height in the FY 2006/2007 it represented only 22 per cent of the Authority’s annual income. The research team understands there is now policy pressure to cap the level of licence fees, so that such costs do not act as a disincentive for development projects. It is therefore unlikely that this funding source will ever dominate revenue flows to the Authority.

There appear to be quite substantial challenges with the absorption of donor funds coming into NEMA. This was highlighted in FY 2007/08 when more than half a billion Kenyan Shillings was approved from donor funds. The Annual Report has yet to be published, but the research team was informed that the take-up of these funds was approximately 20 per cent, despite the funding source being first highlighted in the Development Estimates of 2006/2007.

Table 4. NEMA: approved estimates, 2003/04-2007/08 (Kshs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Recurrent Grant</th>
<th>Development Grant</th>
<th>Internally Generated Funds (AiA)</th>
<th>Donor Grants</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003/04</td>
<td>243,528,615</td>
<td>0</td>
<td>0</td>
<td>18,900,000</td>
<td>262,428,615</td>
</tr>
<tr>
<td>2004/05</td>
<td>292,528,615</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>292,528,615</td>
</tr>
<tr>
<td>2005/06</td>
<td>273,657,305</td>
<td>10,307,918</td>
<td>0</td>
<td>39,830,044</td>
<td>323,795,267</td>
</tr>
<tr>
<td>2006/07</td>
<td>283,657,305</td>
<td>39,210,000</td>
<td>60,000,000</td>
<td>60,000,000</td>
<td>442,867,305</td>
</tr>
<tr>
<td>2007/08</td>
<td>259,357,307</td>
<td>71,435,459</td>
<td>111,000,000</td>
<td>557,624,554</td>
<td>999,417,320</td>
</tr>
</tbody>
</table>

Table 5. NEMA: actual income, 2003/04-2006/07 (Kshs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Recurrent Grant</th>
<th>Development Grant</th>
<th>Internally Generated Funds (AiA)</th>
<th>Donor Grants</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003/04</td>
<td>220,078,148</td>
<td>7,413,420</td>
<td>11,434,778</td>
<td>2,883,056</td>
<td>241,809,402</td>
</tr>
<tr>
<td>2004/05</td>
<td>287,127,627</td>
<td>9,060,000</td>
<td>45,259,393</td>
<td>17,686,501</td>
<td>359,133,521</td>
</tr>
<tr>
<td>2005/06</td>
<td>273,657,305</td>
<td>15,056,615</td>
<td>78,521,861</td>
<td>14,622,590</td>
<td>381,858,371</td>
</tr>
<tr>
<td>2006/07</td>
<td>266,616,475</td>
<td>4,194,096</td>
<td>106,702,992</td>
<td>11,532,082</td>
<td>389,045,645</td>
</tr>
</tbody>
</table>

The research team was also informed that the source of this unprecedented donor grant came from the European Commission’s general budget support grant. This is highly significant. In previous similar research carried out in other countries (Lawson and Bird, 2008) no evidence was found of environmental agencies securing additional resources from the increased discretionary funds associated with general budget support. It is therefore an important signal of environmental management issues having secured greater political backing in Kenya than elsewhere.

**The National Environmental Action Plan Framework**

NEMA is currently preparing the country’s second National Environment Action Plan, which together with its draft Strategic Plan offers the opportunity for medium-term financial planning. The first NEAP was prepared in 1994 and much has changed in the intervening time. The present draft presents an ambitious agenda that responds to the challenge of meeting the Millennium Development Goals and Kenya’s long-term development blueprint, Vision 2030. The draft NEAP provides interesting insights into the level of the challenges facing NEMA in terms of its strategic allocation of resources and spending priorities. The estimated cost of implementing the NEAP Framework (that involves many agencies and government departments) over a five year period is put at Kshs 103 billion.

Whilst the plan comprehensively documents the many challenges and proposed interventions to secure better environmental outcomes, the level of budgeting that underpins the proposed activities appears quite superficial. For example, the NEAP framework implementation matrices provide no evidence of how budget estimates were derived and give no indication of the timing of the proposed activities, other than stating 2012 as the timeframe for all 94 ‘priority issues’. There is no strong evidence of prioritisation among these issues, although at a higher level the planned resource allocation suggests an implicit prioritisation towards the strengthening of environmental management within human settlements (e.g. pollution control and waste management) (Table 6).

Another issue of concern is that the proposed interventions list within the main text of the action plan is not consistent with the proposed implementation activities within the matrix. Although there is some overlap between these two listings, it is not complete and at times difficult to follow. This suggests a continuing separation between planning and budgeting.

**Table 6. Summary of NEAP framework implementation matrices**

<table>
<thead>
<tr>
<th>Implementation strategy theme</th>
<th>Nos. of priority issues</th>
<th>Total Budget (Kshs millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade, industry and services</td>
<td>41</td>
<td>66,985</td>
</tr>
<tr>
<td>Human settlement and infrastructure</td>
<td>5</td>
<td>19,000</td>
</tr>
<tr>
<td>Environment &amp; Natural Resources</td>
<td>30</td>
<td>9,306*</td>
</tr>
<tr>
<td>Environmental hazards and disasters</td>
<td>10</td>
<td>4,695</td>
</tr>
<tr>
<td>Governance, legal framework, institutional arrangements and policies</td>
<td>5</td>
<td>1,300</td>
</tr>
<tr>
<td>Environmental information, networking and technology</td>
<td>3</td>
<td>750</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>94</strong></td>
<td><strong>103,036</strong></td>
</tr>
</tbody>
</table>

*There is a discrepancy in the NEAP implementation matrix between the total budget figure and the total of all the sub-programmes (Kshs 15,552 million) for this theme.

**4.2 The Kenya Wildlife Service**

The first observation to make is that the funding level of the KWS is at a quite different level from that of NEMA (Tables 7 and 8). Whereas the annual operating budget of NEMA was approximately KShs 400 million in 2007, that of the KWS was close to KShs 3 billion. Although they are both charged with safeguarding the national environmental patrimony they are very different organisations.
The government provides a significant recurrent grant to the KWS of approximately three quarters of a billion Shillings each year. The actual amount secured from the Approved Estimate has declined from approximately 90 to 80 per cent over the last five years.

The Service’s internally generated revenue does not appear in the Approved Estimates of Recurrent Expenditure (e.g. Government of Kenya, 2007c). Yet this revenue represents the largest source of recurrent funding, having consistently provided two-thirds of the Service’s income over the last five years. Total IGF reached a peak of Kshs 2.5 billion in 2006/2007 before dropping by 24 per cent the following year. This came about because of the much reduced park entry fees (which constitute well over 90 per cent of IGF), brought about by the lower number of international visitors to Kenya, following the early 2008 civil unrest.

Development grants, from both government and donors, are quite difficult to track, with significant differences between what is recorded in the Government’s Estimates and the Service’s Annual Reports. It is not clear why such large discrepancies exist.

### 4.3 The Kenya Forest Service

The newly formed Kenya Forest Service (KFS) has a much increased mandate compared to the previous Forest Department. The latter was formerly responsible for government forests only, yet the KFS has had its mandate extended to include both Community Forests and private forests. Despite this expansion, the revenue base has not been expanded significantly (Tables 9 and 10). As a result, it is facing considerable constraints, both human and material, to discharge these new responsibilities. This
represents an important disconnect between policy and budgeting.

The financial record of the Forest Department is difficult to trace; the research team was unable to discover the level of internally generated funds that had been collected in recent years, despite the acknowledged importance of this funding stream to a parastatal. As was the case for the other environmental agencies, the recurrent budget remains the most significant source of funds. There are considerable discrepancies under both the government’s development grant and donor funding. For the former, the level of recorded income is considerably less than that recorded in the Annual Estimates, whilst in the latter case the recorded income from donor grants is far greater than that recorded going through the Treasury, indicating very considerable sums being ‘off-budget’. As a result, donor funds have low visibility.

4.4 The low absorption of the development budget

Across all of the environmental agencies, there is low absorption of financial resources from the government development budget.

The fact that national strategy documents have not adequately prioritised environment is one reason why development funds have not been forthcoming from Treasury. For example, the key anchor of the budget in the early 2000s was the Poverty Reduction Strategy Paper which did not adequately prioritise environment. Then when the ERS was introduced, in 2003, priority was given to the economic pillar, with its focus on the immediate problem of securing economic growth. Consequently, the environment was not given a high ranking and therefore received low allocations. Besides this problem, the MEMR 2008 MPER highlights ‘delays in exchequer
Resource allocation and spending by environmental agencies

and AIE releases should be avoided as much as possible to ensure the timely availability of financial resources...’ (MEMR, 2008). This suggests there have been delays in release of funds to the MEMR constraining operations.

Since 2008, when the Vision 2030 came into force as the overarching development blueprint, there appears to be a more central role given to environmental actions in the policy discourse, although in terms of resource allocation the environment sector continues to receive a very small amount of the national budget.

Some of the other reasons that explain the low resource allocation to the environmental sector include:

- The tendency in the budgetary process to focus on immediate and politically visible issues, e.g. current food shortages, not how to improve environmental conditions to ensure more food in the future;
- In terms of its status within the government administration, the ministry of environment lacks political clout and therefore does not receive adequate consideration. The problem is compounded by the political sensitivity of many of the issues that affect environment (such as the deforestation of major watersheds);
- Lack of budgetary prioritisation within the institutions themselves. For example, in the NEAP framework document there is a marked inconsistency between outlined budgets and proposed activities. This disconnect between planning and budgeting may indicate to the Treasury that the sector does not really understand what realistic needs are. National resources may then be allocated to other Ministries that are better at prioritising their activities and presenting realistic plans and budgets;
- Low resource expenditure of both Government and donor funds, as indicated in the Sector MPER, is an indication of low absorption rates. This can lead to financial managers at Treasury believing that the sector may not need the funds that have been requested, which in turn leads to reduced allocations;
- The tendency by line ministries to seek as many resources from the Treasury in the belief that during negotiations some cutting back will occur;
- Delays in procurement.
5. Implications for the role of development partners

This chapter discusses how development partners could be more effective in supporting environmental management at different levels of development cooperation. Five levels of interaction are considered: (i) internal (across agency departments/teams); (ii) with other donors; (iii) with government as a whole; (iv) with core environmental government functions; and (v) with non-governmental stakeholders.

This chapter draws heavily on the analysis of one of the countries from the larger study on environmental public expenditure and development cooperation. This earlier research in Mozambique (Cabral and Francisco, 2008) identified many of the same challenges that face development partners in Kenya.

5.1 Internal policy coherence

Internal policy coherence should be considered as a prerequisite for an effective interface with domestic stakeholders. This may seem an obvious point but it is one that is often overlooked. Development partners’ sectoral policies and practices (such as support to agricultural or infrastructural development) should be consistent with policy positions and practices in the environment domain.

The tensions between economic development and environmental protection objectives are likely to be significant in a country, such as Kenya, with a relatively low socio-economic profile and, consequently, strong pressure on natural resources. Development partners fund much public investment in Kenya and have, therefore, a great responsibility in assisting the management of such tensions.

An environmental assessment of each donor’s country strategy could be a first step in building stronger coherence between the donor environmental policy and policies in other fields of cooperation.

5.2 Harmonisation across Development Partners

Harmonisation across development partners is one of the widely accepted pre-conditions for effective aid. However, harmonisation does not mean that all agencies need to be doing similar things. Rather, what is required is regular interaction that ensures overall coherence, consistency and, to the extent possible, complementarity of work (with division of labour which makes the most of agencies’ comparative advantages).

In an area like the environment, however, harmonisation is challenged by the cross-cutting nature of the themes in hand and, in particular, by the fact that some of the most difficult environmental policy challenges lie outside the mandate of environmental agencies. For these reasons, harmonisation efforts should not be restricted to those agencies (or agency sections) which carry out environment protection/awareness activities.

Flash floods wash out a section of a road in Baringo District. Christian Lambrechts/UNEP
But it should also include the agencies dealing with economic activities of relevance to environmental management. Examples of these would be agricultural technology, energy policy, and investment in infrastructure. Besides, in a country such as Kenya with high unemployment, supporting income generation programmes can help reduce pressure on environmental degradation.

It is thus important that the Environment Donor Coordination Group, and other groups that debate environmental policy in Kenya, have a broad perspective on environmental challenges and engage agencies (or agency sections) working directly in areas of strategic importance to sustainable environmental management.

### 5.3 Managing environmental policy dialogue with the whole of government

The cross-cutting nature of environmental governance demands that policy dialogue is held with the whole of government, or at least with all those government agencies of relevance to the environmental issue in question.

With regards to sector working groups, it is worth noting that although treating environment as a policy area of its own gives visibility to environmental issues, it increases the risk of separating environmental management from other sector policy debates. As a result, environmental actions may remain confined to a few activities of limited reach.

### 4.4 Focusing capacity building efforts on core environmental functions of government

Despite the volume of resources invested on capacity building, national institutional capacity remains weak and core environmental functions (such as regulation enforcement, supervision and monitoring) are not being performed effectively. This is partly because of the institutional complexity of the sector. But another reason for failure may be related to the fact that donor-funded capacity building initiatives tend to be geared towards the delivery of project outputs (often pre-defined by the funding agency) rather than focused on the performance of core environmental functions of government.

Donors therefore need to focus their capacity building efforts on improving the performance of the core environmental functions of government and strengthening the institutional links across sectors and levels of government where such functions are located. This will require, first of all, greater clarity about core environmental functions in Kenya and their institutional location – i.e. an institutional map of the environmental functions of government. MEMR and NEMA are expected to be at the centre of such a map, which would include key institutions such as the Ministries of Water and Irrigation, Tourism and Wildlife, as well as agencies such as the Water Resources Management Authority. Such an exercise could build on the very thorough 2007 functional analysis of the MENR and NEMA (MENR, Danida and Sida, 2007).

Given the cross-cutting nature of the environment, core functions are likely to be shared with a number of administrative units/levels of government and hence the links between those various units/levels also need to be well understood.

### 5.5 Strengthening demand for sound environmental governance

In addition to measures to improve the supply side of environment policy there is also scope for strengthening the demand for better environmental policies.

One of the key sources of demand for environmental policy are parliamentarians and cross-party parliamentary committees that have the remit for overseeing governmental action. There is emerging awareness of environmental issues within Parliament, but this has yet to be expressed in terms of calls for transparent accounts on budgetary allocations and spending on environmental activities.
Most politicians are widely involved in grassroots activities, which have the potential to safeguard or compromise environmental assets. Therefore, their buy-in is critical to securing better environmental outcomes. Providing them with appropriate information could assist MPs play a more prominent role in environmental stewardship.
6. Conclusions and recommendations

This last chapter summarises the main emerging issues from the analysis in the previous sections and concludes with five recommendations for further study.

Overall, what this study points to is the need to focus less on addressing environmental issues directly and give greater weight to the public administration, so as to improve the efficiency of the national response to such issues. Highly skilled environmental specialists already exist within the public service; the challenge is to empower such people through the creation of an enabling environment. What this study has identified, in particular, is that such an environment would require improved capacity to produce implementable, realistic and prioritised annual work plans, which are affordable and that feed seamlessly into the multi-year budgetary system and the sector’s various strategic plans.

6.1 Environmental policy priorities and budgets

The current political crisis, first with the nationwide social unrest and now with the country experiencing drought conditions and widespread food shortages, clearly sets the overarching national policy context within which the public administration has to operate. These recent challenges understandably appear to have led to a ‘fire fighting’ response within government, diminishing the resources available for longer-term strategic thinking. This applies across all sectors and includes the treatment of environmental issues.

Within most of the recent planning documents that have been prepared by environment agencies, there appears to be a strong divide between the planning of activities and the planning of budgets, with the latter often having been given scant attention. This separation diminishes the value of both processes.

The Ministry for Planning, National Development and Vision 2030 is working closely with the Ministry of Finance to ensure that the MTEF is aligned with the priorities in the Vision 2030 and MTP 2008-2012. This is a major undertaking that has to be rolled out at sector, ministry and sub-ministry or district levels. The process is clearly incomplete, and depends in part on the development of ownership of the process within each ministry. Considerable investment will be needed to help strengthen the linkages between planning and budgeting.

Programme-based budgeting is at an early stage and so far change has not been that dramatic. This is especially the case in ministries that complain of a lack of technical skills to handle programme budgets and therefore there is a tendency to continue with the use of incremental budgeting. Instability also continues over the financial year due to a lack of finance, and the challenges of managing risks associated with multi-year budgeting are yet to be addressed. However, with the introduction of the MTEF there is now a credible framework to strengthen the links between policies and budgets. In particular, the MTEF/budget process offers an important opportunity to strengthen prioritisation between different policy options.
Whilst much attention has been given to the review of policy and strategic planning, the harmonisation of legislation across the environment domain remains badly in need of being addressed. Some laws are presently in conflict with each other and those that were supposed to have been repealed during the reform process remain on the statute books. The result is cases of overlapping mandates that create potential for institutional competition and conflict.

6.2 Environmental institutional setting

The present institutional arrangements highlight the importance of coordination. Too much focus appears set on ministry or agency action and not sufficient regard is being given to strengthen existing coordination mechanisms between the various players that have an environmental remit. The NEC should be creating high-level consensus across sectors but it is not. Equally, NEMA has yet to secure its coordination role with respect to the action of other lead agencies. As a result NEMA appears to have little authority for challenging sector policies that threaten environmental sustainability. In the present economic climate, with so much attention being given to securing high rates of economic growth, strengthening of NEMA’s coordination leadership position will require strong political backing. This is essential to relieve NEMA of the need to engage in various enforcement actions, in areas where other agencies are mandated to take action but do not act.

There is now a process underway to seek clarity of mandate between various institutions. Two outcomes are expected from this process: (i) to align and separate the role of each lead agency and (ii) to identify the linkages between these agencies. This will be an important process to see through to completion.

The creation of parastatal Authorities and Services responsible for environmental regulation and management is a development that should be critically reviewed. The institutional origin of these environmental agencies can be traced back to government departments that relied solely on the consolidated fund. The creation of semi-autonomous parastatals has been part of government reform programmes in many countries. However, one effect of this reform has been the apparent distancing of these organisations from the mainstream public administration and the reforms that have focused on improving government practice.

In Kenya, donor intervention in the environment sector is characterised by conventional projects with parallel financial management structures and international technical assistance components. Being spread across a range of sectors this makes coordination of environmental issues and policies difficult to establish. However, there have been some efforts to promote sector-wide policy dialogue and coordination, including the creation of an Environment Donor Coordination Group.

6.3 Public environment expenditure

Fragmentation of the budget is a serious issue for all the environmental agencies that have been examined. This has led to a lack of transparency in terms of the total financial envelope within which agencies have to operate. Donor-funded development projects that are off-budget are also poorly visible and contribute to this lack of clarity.

Each parastatal has been encouraged to create its own Internally Generated Funds – as part of the so-called ‘service culture’. With regard to financing these institutions, it is not the concept of self-financing that is at stake, although the principle of self-financing underpins this institutional arrangement. The challenge is more to determine the right blend of funding from different sources. It is noteworthy that very little attention appears to have been given to this issue. What little financial projections that have been made appear quite superficial, as was described to the study team by the CEO of the Water Resources Management Board (WRMA). This has led to some examples of gross under-
funding, as in the case of WRMA. Of concern, in the context of this study, are:

1. the capacity of environmental agencies to project revenue from internally generated funds accurately;
2. their ability to enforce collection, and the costs of enforcement; and
3. The effects that external factors may have on such revenue sources, as with the current reduction in international tourists affecting the revenue from park entrance fees, experienced by the Kenya Wildlife Service. (The target income from this source was Kshs 3 billion in 2007/2008; the achieved figure was Kshs 1.9 billion, a shortfall of 37 per cent).
4. The risk of agencies paying too much attention to revenue generating areas while ignoring important areas that do not generate any revenue, a situation that could happen in areas such as wildlife protection and environmental monitoring.
5. In the case of natural resources, such as forestry and fisheries, there is also the risk of over-licensing to raise more revenue and thus encouraging degradation, as has happened in several other countries.

During the formation of these agencies, there was a tendency to over-estimate revenues that could be raised through user-charges. For example, when WRMA was proposed as an autonomous body, it was estimated that it could raise over Kshs 2 billion a year. In the two years since its launch it has not been able to raise more than Kshs 500 million per annum, which has made it difficult to achieve its original objectives. This problem is not peculiar to WRMA, but affects most parastatals due to poor collection capacity and lack of skills in this area.

Continuing project support acts as a relatively easy alternative to normal budget funding for government ministries and their agencies, and this limits the incentive for them to strengthen their case during the annual budget round.

6.4 Recommendations

In such a short study it is difficult for the research team to propose a comprehensive list of recommendations for action that would lead to improved environmental regulation and management. However, five issues stand out, each of which merits further investigation.

(i) Strengthening the MTEF process

Introduction of the MTEF and associated programmed-based budgeting represents a major change to financial planning in the public sector. This approach offers a strong, coherent framework to link policy, strategy and budgeting together. However, specific technical assistance will be required, over at least the lifetime of one MTEF period of three years, to strengthen this financial planning process. The most urgent need is to provide support for staff training and mentoring on multi-year budgetary systems. There is scope for considerable cross-sectoral collaboration in this regard. In fact, such a programme of support would have to be cross-sectoral to be successful, coordinated by the Ministry of Planning.

There is also urgent need for inter-agency co-ordination in cases where several ministries and agencies have overlapping mandates. Such a case involves the management of water catchments areas. At least three ministries, namely, Environment, Forestry and Wildlife, and Water and Irrigation, are all responsible for the same environmental assets. In addition, the Ministry of Energy has some responsibility on account of the power generation function of these catchment areas. To ensure co-ordinated funding and synergy in the use of resources allocated to all the players, it will be necessary to strengthen the co-ordination and collaboration on budget proposals for their related activities.

Also, to be credible with the Treasury, the programmes developed in response to major environmental challenges need to be based on sound analytical studies of the costs (and benefits) involved. This has not been strongly
apparent in the costed programmes that have featured within various strategy documents. The separation already observed between the planning of activities and the planning of budgets needs to be closed, with far greater attention given to the latter.

(ii) Strengthening the new public institutions

Were the parastatals not already in existence, there would be a strong case to examine critically the advantages of this institutional arrangement over what it has replaced, namely government departments. However in the environmental sector the decision has been made, and these institutions are in existence. However, their future appears far from certain and this is an area of enquiry that requires immediate attention. First and foremost, the financial position of each parastatal should be evaluated and, at its simplest, expected income compared with expected expenditure. This would require a strategic exercise to identify, and prioritise the various mandates held within an agency (and to determine how these mandates are linked to other agencies’ mandates). Such an exercise would support, and fit into, any larger programme that aims to review institutional mandates. Projecting the likely revenue from each funding stream is an important first exercise that needs to be completed for all agencies. It is quite remarkable that this does not appear to have been completed already.

Other innovative funding mechanisms, such as the proposed endowment trust fund of the Kenya Wildlife Service, should be evaluated as part of this review of institutional financing. However, it would seem to be a mistake not to give paramount importance to support environmental agencies secure higher levels of funding from the government recurrent budget.

Promoting the expansion of recurrent budgets, is likely to entail actions in the following areas:

• At the Ministry of Finance level, efforts to programme a steady expansion over the medium term of recurrent budgets for environmental agencies and functions.
• For environmental and natural resource agencies, measures to improve the quality of recurrent budget formulation and execution, whilst controlling the use of project finance. Of special consideration is the need to recognise the vulnerabilities that may arise from extensive reliance on internally generated funds.
• For public service ministries, measures to improve the terms and conditions of the technical and management cadres, so as to avoid the need for project “top-ups” and salary supplements, as well as to reduce the loss of staff to local and international organisations.
• For development partners, actions to control the use of project finance in support of environmental actions, to make available sector budget support where necessary and, where appropriate, to provide technical assistance to budget formulation and execution.

(iii) Securing environmental coordination across sectors

The National Environment Council (NEC) is the ‘sleeping beast’ associated with national environmental governance that urgently needs to be brought to life. Such a transformation will depend in part on political leadership (see below), but one small initiative that could be secured almost immediately is to obtain budgetary recognition of the NEC, so that budgetary funds can be earmarked to support the Council and its secretariat. This would give the NEC both capacity and recognition as an inter-ministerial body, whose role is primarily to co-ordinate activities that go beyond the Ministry of Environment.

It is significant that previous research has found inter-ministerial committees on the environment to be either weak or non-functional (Lawson and Bird, 2008). In large part, the reason for this is ascribed to the fact that these committees have been headed by Environment Ministers or their
Conclusions and recommendations

equivalents, rather than at more senior levels of Government, such as at the Prime Ministerial or Vice Presidential level. Hence, securing involvement at the very highest levels of government may be a necessary first step towards coordinated actions on the environment. Using a crisis narrative may be the best strategy to galvanise action and the most obvious opportunity is the present challenge of responding to climate change.

Strengthening the role of NEC needs to be accompanied by measures to raise the level of national awareness on the impact of environmental degradation to both the economy and peoples’ lives.

(iv) Continuing support for the legal reform process

The legal reform process that led to the introduction of a whole raft of new environmental legislation since the late 1990s needs continued support. Achieving clarity between different statutes and the preparation of the enabling subsidiary regulations need to be achieved. At present the general impression gained is that of a job half-done.

(v) Changing the nature of development assistance

Although the over-riding political context is not a promising one at the present time, those development partners who have signed the Paris declaration on aid effectiveness need to consider ways of moving away from project-based interventions towards more programmatic forms of aid delivery. Acknowledging that general budget support may be a ‘step too far’ at present, development partners should consider sector budget support arrangements. This aid modality offers considerable advantages over multi-donor basket funds and traditional project interventions, as it relies on government systems rather than on the continuing use of parallel accounting arrangements, with all the additional costs that such arrangements bring.

There may be lessons to be learned from a similar initiative that has been established recently in Ghana. The Natural Resources and Environmental Governance (NREG) program is a sector programme supported by the World Bank, the EC and a number of bilateral agencies with funds channelled through the Ministry of Finance to support the forestry and wildlife, mining, and environment sector ministries. This is a model of sector budget support that development partners and their government counterparts in Kenya should examine.

Clearly what is needed is more detailed planning to manage the transition towards the use of budget support instruments for the environment. This process needs inputs from budget support specialists to help address the quite complex decisions and trade-offs involved. There is scope for feasibility and design studies for Budget Support for the environment. These studies would need to consider:

- appropriate funding levels;
- appropriate indicators and disbursement modalities;
- accountability mechanisms and channels;
- the ways in which a multi-dimensional strategic dialogue on the environment should be built up;
- the ways in which sector working groups might most effectively be structured; and
- specific capacity building measures for development partners, government and other stakeholders to help these new approaches to work effectively.

The remaining challenge is to empower the public administration of Kenya to fulfil its necessary leadership role that will safeguard the natural environment upon which the future economic and social development of the country depends.
Annex 1. List of people interviewed, Nairobi 17th – 27th February 2009

Tuesday, 17th Feb

Mr Henning Nohr  
Deputy Head of Mission  
Royal Danish Embassy

Ms Chihenyo Kang’Ara  
Programme Officer  
Royal Danish Embassy

Ms Anne Angwenyi  
Programme Officer  
Royal Danish Embassy

Ms Wambui Gathathi  
Programme Officer  
Royal Danish Embassy

Ms Susanne Kirkegaard  
Environmental Programme  
Royal Danish Embassy

Wednesday, 18th Feb

Mr David Stower  
Permanent Secretary  
Ministry of Water & Irrigation

Mr Peter Mangiti  
Head, Donor Coordination  
Ministry of Water & Irrigation

Mr Lawrence Simitu  
Director, Water Services  
Ministry of Water & Irrigation

Mr John Nyaoro  
Director, Water Resources  
Ministry of Water & Irrigation

Mr James Yatich  
Ag. Director, Land Reclamation Dept.  
Ministry of Water & Irrigation

Mr David Kiboi  
Principal Economist  
Ministry of Water & Irrigation

Mr Jackson Kinyanjui  
Director, External Resources Dept.  
Ministry of Finance

Ms Monica Asuna  
Officer, External Resources Dept.  
Ministry of Finance

Mr Erastus Wahome  
Desk Officer, Europe  
Ministry of Finance

Mr Ambrose Orwa  
Desk Officer, Europe  
Ministry of Finance

Thursday, 19th Feb

Meeting with the Environment Donors Coordination Group

Mr David Mbugua  
Director  
Kenya Forest Service

Ms Lucy Kiboi  
Deputy Director  
Kenya Forest Service

Mr Antony Weru  
Finance Director  
Kenya Forest Service

Ms Anastasia Muasya  

Kenya Forest Service

Friday, 20th Feb

Mr Ibrahim Laafia  
Head of Section, Macroeconomics, Governance & Private Sector  
European Union

Mr John Olum  
CEO  
Water Resources Management Authority (WRMA)

Dr Ayub Ndaruga  
Director, Environment  
National Environment Management Authority (NEMA)

Dr Kennedy Ondimu  
Director, Environmental Planning  
NEMA

Mr David Cheruiyot  
Director, Finance & Administration  
NEMA

Dr Sambili  
Permanent Secretary  
Ministry of Planning,

Monday 23rd

M.A. Wa-Mwachai  
Permanent Secretary  
Ministry of Forestry & Wildlife
Dr Alice Akinyi Kaudia  Environment Secretary
Ministry of Environment and
Mineral Resources (MEMR)

Richard Mwendandu  Director, MEAs
MEMR

Patrick Osare  Director, Administration
MEMR

Mr Gathara  Director, Policy
MEMR

Tuesday, 24th

Dr Romano Kiome  Permanent Secretary
Ministry of Agriculture

Mr Julius Kipng’etich  Director
Kenya Wildlife Service

Mr Bernard Kaaria  Head of EIA
Kenya Wildlife Service

Mr Edwin Wanyonyi  Head of Resource Mobilisation
Kenya Wildlife Service

Mr Joseph Osewe  Head of Productivity Improvement
Kenya Wildlife Service

Dr Kennedy Ondimu  Director, Environmental Planning
NEMA

Mr David Cheruiyot  Director, Finance & Administration
NEMA

Mr Benson Ochieng  Director
Institute for Law and
Environmental Governance

Prof. Albert Mumma  Professor
University of Nairobi

Wednesday, 25th

Mr Stefan Falk  Senior Public Sector Specialist
The World Bank

Thursday, 26th

Mr Torban Lang  Chief Economist
Development Associates,
Copenhagen

Friday, 27th

Debriefing meeting at the Ministry of Finance with the Environment Donors Coordination Group (EDCG)
### Annex 2. Financial data


#### Budget sub-vote 215

Kenyan Shillings

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All Estimate data extracted from Government Estimate Books and Actual income data extracted from NEMA Annual Report and Accounts
## 2. Budget allocation for Forestry Development (2003/04 to 2008/09)

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**Note:**
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- Actual income data provided by the Kenya Forest Service
Meeting Kenya’s environmental challenges

Budget sub-vote 5551, 464 and 213
Kenyan Shillings

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All Estimate data extracted from Government Estimate Books
Actual income data extracted from the KWS Annual Reports
References


Ministry of Environment and Natural Resources, Ministry of Foreign Affairs, Denmark and


