



**MILLENNIUM
CHALLENGE
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

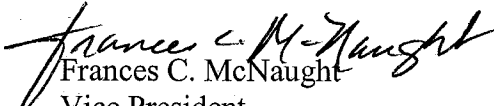
FRANCES G. McNAUGHT
VICE PRESIDENT, CONGRESSIONAL AND PUBLIC AFFAIRS

We wish to provide a courtesy notification that the Board of Directors of the Millennium Challenge Corporation (MCC) has approved Threshold Program assistance for Kenya of up to \$12,723,000 in FY 2004 MCC program funds. In addition, up to \$890,610 will be made available to USAID for administrative expenses associated with the Threshold Program.

MCC's Threshold Program is designed to assist Millennium Challenge Account (MCA) candidate countries that are committed to undertaking the reforms necessary to improve their policy performance and potentially qualify as countries eligible for MCA Compact assistance.

The attached summary outlines Kenya's program. Members of MCC's staff are available to meet with you to discuss the planned program. If you or your staff would like to arrange a meeting, please contact Mackenzie Coon at (202) 521-3719. The attached summary is being sent to the Congress on February 16, 2007.

Sincerely,


Frances C. McNaught
Vice President
Congressional and Public Affairs

Enclosure:
As stated



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Threshold Program Summary

Country	Kenya
Budget	\$12,723,000
Fiscal Year Funding	2004
Estimated Program Duration	2 years
Indicator Focus	Corruption
Principal Objectives	Combat Corruption through Strengthening Public Procurement Systems

Background:

The MCC Board of Directors has approved a two-year, \$12.7 million Threshold Program with Kenya. Kenya's Threshold Program seeks to reduce public sector corruption by overhauling the public procurement system, with a specific concentration on health care procurements throughout the supply chain. A new public financial management reform strategy, which includes a public procurement component, is being implemented by the Government of Kenya and supported by a coordinated group of donors to reduce opportunities for corruption. The Kenya Threshold Program supports Kenya's broader reform efforts and complements other donor efforts.

Program Components

Reform the Public Procurement System: A 2005 "Independent Procurement Review," conducted jointly by Kenya and the European Union, identified several critical problems with the current procurement system. Among the weaknesses identified were weak oversight institutions, a lack of transparency, poor linkages between procurements and expenditures, delays and inefficiencies and poor records management. The Kenya Threshold Program is designed to address each of these weaknesses through the following activities.

1. Strengthen the capacity of the newly created Public Procurement Oversight Authority through enhanced technology, exchange programs, and training of staff.
2. Develop and roll out an e-procurement system in five key ministries — Office of the President, Education, Roads and Public Works, Energy and Health.
3. Develop and implement new procurement regulations and guidelines.
4. Institute proper records management protocols for public entities.

Improve Health Care Procurement and Delivery: The Government of Kenya has identified the Ministry of Health and its medical supplies procurement and delivery body, the Kenya Medical Supplies Agency (KEMSA), as being particularly susceptible to waste, fraud and abuse throughout the

procurement and delivery process. Through the following activities, the program will also focus on strengthening transparency and accountability in the health sector to reduce opportunities for corruption.

1. Strengthen KEMSA's procurement capacity and accountability.
2. Improve supply chain management of public health resources.
3. Establish capacity within the Ministry of Health to monitor KEMSA's procurement function and assess compliance.
4. Strengthen the supervision of medical supplies delivered to rural health facilities.

Monitor and Evaluate the Kenya Threshold Program: The Kenya Threshold Program will use several monitoring and evaluation mechanisms, employed internally and externally, to assess its performance. These will include an emphasis on data gathering, the measurement of outcomes along with inputs, quality control, and sustainability.

Highlights of Expected Results:

1. Improve Transparency, Accountability, and Corruption in the Public Sector. Baseline: 3 of 6 (2005). Target: 3.5 of 6 (2008). Source: World Bank Country Policy and Institutional Assessment.
2. Reduce undocumented extra payments or bribes connected with the awarding of public contracts. Baseline: 3.7 (2006); Target: 4.3 (2008). Source: Global Competitiveness Report.
3. Reduce the extent to which the health sector is affected by corruption. Baseline: 2.9 (2006). Target: 2.4 (2008). Source: Transparency International Global Corruption Barometer.

Implementing Partner: The United States Agency for International Development will oversee implementation of the Kenya Threshold Program on behalf of MCC.