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Kenya: Joint Staff Advisory Note of the Poverty Reduction Strategy Paper

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KENYA

Joint Staff Advisory Note (JSAN) of the Kenya Vision 2030 First Medium-Term Plan (MTP) 2008–12

Prepared by the Staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)

Approved by Obiageli Ezekwesili (IDA)

Saul Lizondo and Michele Shannon (IMF)

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I. Overview

1. **This Joint Staff Advisory Note (JSAN) reviews the Kenya Vision 2030 (the Vision) First Medium-Term Plan (MTP) 2008–12 prepared by the Government of the Republic of Kenya**. The MTP was prepared in 2007, but was only submitted to the International Development Association (IDA) and the International Monetary Fund (IMF) on October 9, 2009, in the context of preparation for the World Bank Country Partnership Strategy 2010–13 for Kenya**.**

2. **The MTP follows the government's previous plan, the Investment Programme for the Economic Recovery Strategy for Wealth and Employment Creation (IP-ERS) 2003–07.** A JSAN of the IP-ERS was discussed by the Executive Boards of the World Bank and the IMF on May 6 and May 10, 2004. Annual Progress Reports on the IP-ERS for 2003/04 and 2004/05 were submitted to the Bank and IMF and subsequently discussed by the Executive Boards on February 22, 2007. While broadly similar to the IP-ERS, the MTP differs in that it is derived from the longer-term Vision 2030.

3. **The Vision 2030 is the long-term economic development strategy launched in early 2007 after a broad-based consultation process.** It reflects a general consensus for the country's broad goals for growth, social equity, and governance. The MTP lays out the country's development program for the period 2008–12. By the time it was issued in 2008, Kenya had witnessed the 2007 post-election violence, and a Grand Coalition government has been subsequently established. Kenya was also hit by the spillover effects of the international economic crisis, with the result that most of the macroeconomic assumptions underlying the MTP are no longer realistic.

4. **The Vision and the MTP are structured around three pillars—economic, social, and political.** The economic plan focuses on six sectors: tourism, agriculture, manufacturing, trade, information technology, and financial services. The social pillar concerns education, health, environment, water and sanitation, population, urbanization and housing, and gender, vulnerable groups, and youth. Finally, the political pillar addresses efforts to improve governance and the rule of law along with decentralization plans. The pillars rest on cross-cutting themes which constitute the foundation of the envisaged economic transformation. The themes include investment in physical infrastructure and information and communications technology; land and public sector reforms; human resource development, labor and employment; and security, peace building and conflict resolution. The cross-cutting themes are intended to nurture the economic transformation and assist in creating international competitiveness through more efficient productivity at the firm and household level, with government support.

5. **Staffs find that the objectives of the MTP are generally compelling and well-considered on a sector-by-basis, but less so on a holistic basis.** The sector-specific plans are generally compatible with the government's objective of meeting Millennium Development Goals (MDGs). However, the overall plan suffers from two main weaknesses. First, there is a marked lack of prioritization of the many programs outlined. Second, the numerical goals identified in the plan, such as the growth rate of investment, are highly optimistic in light of past experience. This means that some of the headline targets may not be met. Consequently, these targets are best viewed as aspirations rather than practical targets which could inform planning and promote accountability.

II. Background

6. **Kenya is in the midst of a challenging period.** The dispute over the December 2007 elections and subsequent violence led to the formation of the current Grand Coalition government, which is now seeking to simultaneously hold those responsible for the violence accountable, undertake a promised constitutional reform, and advance on the broad goals of promoting pro-poor growth and improving public services. Despite widespread hopes in 2003 that the transition of power with elections would mark a new beginning for governance, recent surveys show that majorities of Kenyans still have low levels of trust in governmental institutions. In a 2008 survey conducted by the Afrobarometer organization, just under half (48 percent) of Kenyans surveyed said that "most" or "all" government officials are involved in corruption, and an additional 43 percent said that "some" are corrupt. Political cleavages reflect in part ethnic tensions, which themselves have been exacerbated by government policies, political competition, and the violence of early 2008.

7. **Kenya's economic performance improved considerably in the 2004–07 period.** Sound economic policies, coupled with a favorable external environment, contributed to an average real GDP growth of 6 percent, peaking at 7 percent in 2007. Progress was, however, stalled in 2008 due to a series of adverse developments. Post-election violence in early 2008 affected economic activity while inflation accelerated due to the supply disruptions and dislocations and an accommodative monetary policy. Rising international prices, particularly of fuel and fertilizer, along with poor rainfall in October–November 2008, exacerbated the decline in maize production and resulted in a food shortage. Later in the year, the spillover

effect of the global financial crisis slowed export growth, tourism receipts, remittances, and private capital inflows. As a result, real GDP growth fell to 1¾ percent. To address the exogenous shocks, Kenya requested financial assistance from the IMF under the Rapid Access Exogenous Shocks Facility in the amount of about US$200 million in May, 2009.

8. **Since 2008, economic policy has aimed to be counter-cyclical.** Fiscal policy in 2008/09 was largely targeted at protecting key expenditures on infrastructure and poverty reduction, while supporting aggregate demand in a slowing economy. The stance is projected to continue in 2009/10, with a stimulus package that targets key infrastructure projects. Total debt is now about 40 percent of GDP, reflecting a substantial decline in external debt from 75 percent in 1992–93 to about 20 percent currently, which was achieved without debt relief; and public and external debt indicators show a low risk of debt distress. Monetary policy has broadly aimed at supporting output against the backdrop of the economic slowdown resulting from the global financial crisis and other exogenous shocks that Kenya faced. The financial sector has been resilient despite the global financial crisis. A recent Financial Sector Assessment Program (FSAP) update concluded that the banking sector remains well-capitalized and adequately provisioned, but that weaknesses remain, especially with respect to the supervision and regulation of cross-border transactions, increasing regionalization of the banking system, and regulation of pension schemes.

III. Poverty Trends and Characteristics

9. **The MTP described the profile of poverty in Kenya, drawing chiefly on the most recent household survey, conducted in 2005–06.** The 2009 World Bank Poverty Assessment was based on the same survey. Available poverty estimates predate the post-election instability and recent food and international economic crises and consequently do not reflect their impact. The overall poverty rate is 47 percent, and the extreme poverty rate is 20 percent. Poverty is higher in rural areas (50 percent) compared to the urban areas (34 percent). The poverty rate by the official account is essentially unchanged from the level of 1981.

10. **The MTP highlights the role that inequality has had in driving social tensions in the country.** The Plan identifies large disparities in income, access to education, health and land, clean water, and adequate housing and sanitation. It also notes that in urban areas, poverty rates are far higher among female-headed households (46 percent) than among households headed by men (30 percent). Overall, income inequality is high in Kenya: the Gini coefficient of 45.2 is similar to that of Rwanda and Uganda and far above those of two of its other neighbors, Tanzania and Ethiopia. National figures show a widening of inequality between 1997 and 2005.

11. **The most recent evidence shows that the trends in nonmonetary measures of welfare have been positive.** Preliminary results from the 2008–09 Kenya Demographic and Health Survey (KDHS) show a sharp decline in child (under age 5) mortality to 74 deaths per 1,000 live births, down from 115 in 2003. Likewise, infant (under age 1) mortality declined from 77 to 52 deaths per 1,000 live births over the same period. Additionally, the introduction of free primary education appears to have increased primary attendance rates,

and official data show a recent decline in HIV prevalence among adults, although both findings await confirmation from analysis of the KDHS data.

12. **The MTP's diagnosis of the needs for poverty reduction is similar to that in existing analytic work.** Among the key issues for poverty reduction identified in the MTP and the Bank's Poverty Assessment are diversification, access to credit, inequality in land ownership, and infrastructure. Diversification of household activities is found to be a positive driver out of poverty. Access to credit remains weak, with 70 percent of Kenyans unable to secure any form of credit, but recent financial innovations, including the widespread use of mobile phones for transactions, hold the promise of transforming finance for the poor. Rates of poverty are particularly high among landless agricultural laborers, and inequality in land access is a high profile issue due to the illegal appropriation of public lands over several decades; the Bank's analysis shows that inequality in land ownership further increased between 1997 and 2005. Finally, improved infrastructure is associated with movements out of poverty and particularly highlights the importance of road investments, both to connect lagging rural areas to leading urban areas and also to connect those living in urban slums to opportunity elsewhere within their cities.

13. **The MTP appropriately focuses on a comprehensive land reform agenda aimed at improving property rights, land distribution, as well as utilization.** Key elements of the agenda include the establishment of a land registry and land information management system to provide more durable property rights and improved security of tenure for landowners. A *National Land Use Master Plan,* expected to provide a framework for the utilization and development of national, regional, and local area land, would be developed through an integrated and participatory approach. These elements would be complemented by accompanying legal and institutional reforms at national and subnational levels, which would provide roadmaps for effective, efficient, and equitable delivery of services; devolution of land administration and management; and improved access to land administration and management by the poor. Staffs consider that the implementation of this comprehensive program could provide long lasting solutions to the problems of property rights and land use, inequity in access, and land ownership.

IV. Poverty Reduction strategy

Macroeconomic Framework

14. **Kenya is able to point to a number of achievements in macroeconomic policy.** The country has a history of strong and stable macroeconomic policies, especially since the early 2000s. Additionally, low fiscal deficits have been maintained since the 1990s. Finally, the country has reduced its total debt levels without undergoing debt relief.

15. **The MTP targets an increase in the annual real GDP growth rate from 4.5 percent in 2008 to 10 percent by 2012, with corresponding growth targets by sector.** In pursuit of the objectives, the authorities plan to implement macroeconomic and structural policies that promote growth and stability. Fiscal policy aims at a gradual decline in the fiscal balance so as to achieve a domestic debt to GDP ratio of 18.3 percent by 2012/13, from 22.2 percent in 2007/08. Public financial management reform would strengthen

macroeconomic stability and improve public sector performance and service delivery. Monetary policy would focus on delivering low inflation, while financial sector policy reforms would support an increase in the level of national savings to sustain growth. External sector policy would focus on increasing capital inflows to finance growth, as well as increasing the accumulation of foreign reserves to serve as a buffer from potential shocks.

16. **Staffs endorse the authorities' objective of increasing Kenya's growth but believe that targeted growth rates are unlikely to be achieved.** The targets were already extremely ambitious when developed in 2007 as part of the Vision 2030 Strategy, and they were not revised to take account of the global economic crisis, which reduced economic growth in 2008–09 and continues to depress near-term growth prospects. In the medium term, Kenya is still subject to downside risks from weather-related shocks, the political environment, and a slower-than-expected recovery in global economic conditions. Staffs would caution against overly ambitious projections, and are of the view that the coverage of macroeconomic aspects of the plan could be strengthened by a consistent framework that takes into account the risks that Kenya faces. This would allow a thorough assessment and a fuller quantification of the main macroeconomic implications of the overall strategy and related policy challenges to its implementation.

17. **Staffs welcome the objective of increasing total investment, and its private-sector driven focus, but would caution on the unrealistically high investment rates.** The projected growth in investments, from 22.9 percent of GDP in 2007/08 to 32.6 percent by the end of the plan period, is expected to be driven by flagship projects and initiatives that would act as growth drivers in agriculture, manufacturing, business process outsourcing, and financial sectors. Staffs commend the authorities for a strategy whose key focus is on private sector-led growth, as this would leverage the strength of Kenya's robust private sector. However, staffs note that the underlying approach is directed at accelerating the growth of more capital intensive projects and could disproportionately benefit certain geographic areas. Staffs are of the view that building a level playing field would provide a more solid basis for accelerating economic growth. It would also be more compatible with equitable social development while supporting more broad-based and sustained growth with a wider spread and distribution of growth benefits.

18. **The discussion of the financing of the government-funded initiatives could be strengthened.** Domestic financing is projected to rise only modestly since a target on the domestic debt-to-GDP ratio puts an upper bound on this source of financing. The plan therefore assumes that the Medium Term Expenditure Framework (MTEF) budgetary process could be strengthened to reallocate and accommodate public spending on the flagship projects. Staffs would caution on exaggerating the scope for reallocation within the budget to meet the initiatives. If, as a result of shortfall in expected financing, domestic borrowing bears the brunt of the financing requirements, this could put upward pressure on interest rates, lead to crowding out of the private sector, and could pose significant risk of a return to adverse debt dynamics, with domestic debt and debt service costs rising. Staffs commend the authorities' plans to explore public-private partnerships (PPPs) but recommend that due consideration be given to costs, financing, and tax obligations, as under certain circumstances, long-term financial leases, such as PPPs, could be equivalent to nonconcessional financing.

19. **The assumptions underlying foreign financing could benefit from further refinement.** The MTP projects increases in both official external support (mainly project support) and in private sector commercial financing. The issuance of a benchmark sovereign bond is expected to increase private inflows into the economy. Staffs are of the view that the projected donor flows for official financing are optimistic, relative to recent historical trend. Staffs recognize that the issuance of a benchmark sovereign bond could provide a signal for commitment to pursuing prudent macroeconomic policies. Staffs caution, however, that an international bond is not without risks, especially given current market conditions, high carrying cost, and foreign exchange risk. In addition, high reliance on foreign direct investment flows, especially if in the form of debt, and corporate borrowing from abroad to finance the private sector initiatives could, together with public sector financing, worsen overall debt dynamics. Staffs are of the view that given the objective of gradually reducing domestic debt during the plan period, concessional loans are the first best option for financing the public-investment component of the MTP, and the authorities are advised to reengage donors and avoid excessive external borrowing.

20. **The MTP could benefit from further analysis of the possible impact of the plan and its financing mix, as currently designed, on macroeconomic stability.** For example, the inflow of private and official capital needed to support the desired rise in investment is likely to exert upward pressure on the real value of the shilling, if not import intensive. Staffs advice is to carefully manage and smooth out the impact of externally financed nontraded portion of the investments so as to mitigate the possible appreciation pressures. More generally, a potential upward pressure on the shilling needs be managed through a consistent and comprehensive macroeconomic strategy and a set of structural policies to ensure external competitiveness. Staffs recommend that the sectoral strategies should be grounded in an overarching macroeconomic and policy framework. This framework should stress the importance of maintaining macroeconomic stability and improving economic competitiveness by creating a favorable business climate. This would in turn require sustained efforts in key areas of the plan.

Governance, Public Finance Management, and Public Sector Reforms

21. **Poor governance remains a critical problem in Kenya.** The MTP provides a forthright description of the weaknesses and low public confidence in governance and rule of law, particularly following the events of the 2007 elections. The Government of Kenya recognizes the centrality of improving governance—rule of law, accountability, and promulgation and implementation of laws—to sustaining economic growth, and has articulated its commitment to addressing this agenda. The strategic areas outlined in the Vision and the MTP, and identified as central to the transformation of the governance system include (a) rule of law; (b) public participation; (c) decentralization; (c) transparency and accountability; (d) public administration and service delivery; and (e) security, peace building and conflict management.

22. **The MTP identifies the centrality of political cohesion to the overall governance agenda and for economic transformation.** The Plan would focus on a constitutional reform, culminating in a new draft constitution; an independent Truth, Justice and Reconciliation Commission that addresses issues arising from the disturbances of 2007; an

Electoral Review Committee to investigate all aspects of the 2007 Presidential election; and a permanent Ethnic and Race Cohesion Committee to deal with grievances from inter-ethnic relations. Staffs endorse the attempt to address grievances from the past, as this would foster national cohesion and provide a sound basis for moving forward as well as a stable environment for the achievement of economic objectives. Staffs, however, caution that critical institutional players such as the Parliament and the Judiciary need reforms to restore efficiency, trust, and confidence that are essential to long-term stability and growth, and the lack of consensus in the coalition government could limit the capacity to address fundamental issues. Staffs encourage the authorities to forge ahead and achieve a durable political consensus which would aid the achievement of economic growth objectives.

23. **Transparency of public financial management is essential in the implementation of the MTP.** Staffs note that in the recent past, there has been progress in various areas of public finance management. New legislation and practices have been implemented in the areas of public procurement, debt management, linkages between macroeconomic objectives, and fiscal planning including budget formulation, integrated payroll and personnel database (IPPD), internal and external audit. Nevertheless, some aspects of the MTP, especially the planned incentives for investors in the flagship projects, could complicate the achievement of sound public finance management principles. Staff would caution against creating special incentives or privileges for certain sectors. Thus, all projects should be subject to similar budget scrutiny and selected through the regular budget prioritization processes (especially the MTEF) without special budgeting, ring-fencing, or fast-tracked decisions. Earmarking revenues for certain flagship projects and placing them outside the regular budget should also be avoided, as it may create distortions in the budget prioritization process, especially as budget priorities may evolve over the period. Furthermore, it is important that all flagship projects be subject to the same procurement policies, in line with recent reforms to improve transparency of the procurement process.

24. **Staffs commend the authorities' commitment to strengthen accountability and transparency in the public sector, as these are necessary foundations for economic progress.** The MTP plans to build on the Results for Kenyans Reform Programme, which was conceived and designed over the 2004–2006 period. The program goal at that time was to transform the inefficient, process-driven public administration system into a new culture of results-based management (RBM), driven by policy goals and focused on outcomes and results representing improved public services for Kenyans. The program has contributed to a shift toward more openness and transparency in the Kenyan public sector. Staffs endorse plans to entrench the reforms in the MTP, especially plans to further promote results-based management within the public service through performance contracting, improved public access to information and data; introducing civilian oversight around the key legal, justice and security institutions; and strengthening Parliament's legislative oversight capacity. Jointly, these should strengthen public administration, deepen accountability and strengthen macroeconomic management. Staffs recommend that performance measures for the achievement of these objectives be more explicitly stated in the implementation plan, with more precise performance indicators and milestones.

Structural and Social Sector Reforms

25. **On a sector-by-sector basis, the MTP presents a well-considered plan.** Given limited resources, it will be necessary to prioritize among the many ambitious components the MTP lays out for each sector. This section of the JSAN reviews the MTP's content in a select set of sectors: infrastructure, agriculture, health, education, gender, financial services, and tourism.

26. **The MTP seeks to build on the improvements in infrastructure undertaken under the IP-ERS, particularly in regards to the transport network, and stresses the importance of shifting budgetary resources from recurrent expenditures to infrastructure.** The emphasis on infrastructure is in line with work done by the Bank and partners under the umbrella of the Africa Infrastructure Country Diagnostic (AICD). Work under the AICD credits infrastructure investment as being responsible for more than half of improved growth in the Africa region as a whole. Additionally, the Bank's 2009 Kenya Poverty Assessment shows that improved infrastructure is associated with movements out of poverty. Staffs commend the plans to double the resources on infrastructure during the MTP period. The MTP describes the negative impact the poor status of the water supply and sanitation sector has on human health, the environment, and the economy. However, the MTP does not deal with the important question of how sector funding for water will be channeled.

27. **Concerning agriculture, both the MTP and the newly formulated Agricultural Sector Development Strategy (ASDS) focus on policies and programs geared towards enhancing food security, productivity and value addition, development of Arid and Semi Arid Lands (ASALs), strengthening of producer organizations and their linkages with markets, and legal and policy reforms.** Staffs encourage the government to accord high priority to reforms to improve delivery of services in order to raise productivity in the sector and to manage better the natural resource base. Investments in irrigation and livestock marketing infrastructure will also be needed to unleash the potential of the ASALs. The initiated review of the legal framework in the sector as well as reform and privatization of parastatals (e.g., the sugar factories and livestock parastatals) should also be fast tracked.

28. **The case for the education and training sector is well articulated in the MTP, which lays out new goals to build on a major accomplishment under the IP-ERS: the large increase in primary enrollment achieved by the elimination of school fees**. The plan outlines steps to improve efficiency, which include (i) differentiating staff norms between primary and secondary education levels and between high and low potential areas; (ii) reducing teaching loads at secondary level; (iii) sharing teachers across schools; and (iv) retraining and redeploying teachers. Staffs note that the lack of prioritization and reference to a financing framework is a weakness and that while the emphasis in the plan is on education access, Kenya also faces the challenge of improving quality and ensuring the relevance of education and training.

29. **The MTP priorities for the health sector are generally in line with those identified by development partners, but there is a notable lack of prioritization among many admirable goals.** The Vision 2030 and MTP goal for the health sector is to contribute

to improving the overall livelihoods of Kenyans by providing affordable and high quality health care to all citizens. This is to be achieved by devolving funds and management of health care to districts and communities, and shifting focus and resources from curative to preventive care. Priority health outcomes include reducing the incidence of HIV/AIDS, malaria, and TB, and lowering infant, child, and maternal mortality rates. Flagship projects for the health sector as set out in the MTP include rehabilitation of health facilities; strengthening procurement and distribution of essential medicines and medical supplies through KEMSA; establishing a community-based information system; developing and implementing human resources for health; developing equitable healthcare financing mechanisms to increase access for the poor; and de-linking the ministries of health from service delivery. Addressing inequities in access to care, and systems strengthening and capacity building at all levels of the sector to improve the efficiency and quality of service delivery are also identified as priorities.

30. **Staffs welcome the strong focus on gender equality.** Attaining gender balance in all sectors and programs is an overriding commitment of the MTP, and specific strategies are proposed to redress the gender gaps in the education sector, improve the representation of women in decision-making processes through affirmative action policy measures, improve women's limited access to credit, reform land policy, address gender based violence and widespread retrogressive cultural practices such as female genital mutilation, and reduce maternal mortality. This comprehensive approach is commended. Gender-sensitive strategies are less evident for the agricultural sector and to expand the opportunities for women to benefit from modern sector wage employment. The MTP acknowledges the prevalence of poverty among female-headed households (46.2 percent) as compared to male-headed households (30 percent).

31. **The main objectives of the MTP in the financial services sector are to stimulate savings and deepen financial intermediation.** Implementation of measures to increase bank deposits would result in an increase in the savings rate from around 17 percent to 30 percent of GDP by the end of the plan period. There are also plans to lower the share of population without access to finance by around 15 percentage points, and increase stock market capitalization by 40 percentage points. A key assumption of the plan is that up to 10 percent of GDP in savings for investment could be raised from remittances, FDI, and sovereign bonds. There are plans to facilitate the transformation of the small banks in Kenya to larger, stronger banks through increases in capitalization, and the financial markets would be deepened by raising institutional capital through pension fund reforms and expanding bond and equity markets, as well as tapping international sources of capital. Staffs commend the authorities for the ambitious plan, and the recognition of the importance of the financial services sector to economic development. However, it is unclear if the objectives can be achieved, given the proposed actions and legal and regulatory framework. One recommendation toward improving the MTP for the financial sector is to better link actions and reforms to this target and the broader targets of the plan which currently include (i) improving access to finance; (ii) enhancing the efficiency in the delivery of financial services; and (iii) diminishing the likelihood of a financial crisis. Pension reform, including of the National Social Security Fund (NSSF), is important in this regard. Money-losing pension plans, such as the NSSF, are equivalent to dissaving; therefore, an increase in national saving levels could begin by relevant reforms in the financial sector.

32. **The MTP targets expansion of the tourism sector in terms of increased new arrivals and income generated.** Tourist arrivals have been rising again after the severe dip following the December 2007 elections, but it remains unclear how much discounting/dropping of prices has occurred and whether this has resulting in increased spending per tourist. The Ministry of Tourism has set up a task force for sustainable tourism, which will be putting forward concrete recommendations toward policies for protecting wildlife and better organizing the parks. It is unclear how each of the proposed measures in the MTP—including the flagship programs, other programs and the legal and regulatory reforms—will contribute to meeting targets and address major constraints in the sector. Moreover the strategy lacks a clear sense of prioritization and it is unclear how the proposed actions will contribute to resolving the identified challenges and constraints.

V. MONITORING AND EVALUATION

33. **Monitoring and evaluation will be conducted through the National Integrated Monitoring and Evaluation System (NIMES), administered by the Ministry for Planning, National Development and Vision 2030, which will produce quarterly and annual progress reports.** A handbook of indicators, published as a separate volume from the MTP, lays out the performance and monitoring framework for measuring key outcomes. The framework, which is divided into four main blocs, indicates outcome measures by year for the national socioeconomic and governance objectives, the flagship projects, and gender monitoring, and indicators for performance on sub-national, districts and constituency level targets/objectives. The framework also provides for progress reports on an annual or quarterly basis, depending on the specified frequency of monitoring of the performance indicators, and indicates the responsible agency for reporting.

34. **Staffs endorse the framework for monitoring and evaluation, as well as the frequency of planned progress reports.** Staffs welcome the inclusion of specific annual milestones for the indicators over the life span of the MTP. The identification of specific agencies charged with reporting performance on the outcome indicators would provide a strong basis for demonstrating the effectiveness of specific agencies in meeting their mandate, and the efficiency with which resources are deployed. Staffs are of the view that most of the annual quantitative outcome indicators need to be realigned, to take account of the change in the baseline as a result of the adverse economic developments of 2008, which has impacted some indicators and milestones. In addition, the framework as it applies to subnational and gender-related objectives appear incomplete, and would need to be updated in key areas.

35. **The institutional arrangement for monitoring and evaluation needs to be strengthened.** Though the framework identifies key agencies responsible for monitoring, staffs note that most of the monitoring and evaluation (M&E) data would be generated under the umbrella of the National Statistical System (NSS), which is headed by the Kenya National Bureau of Statistics (KNBS). Reforms of KNBS have been encouraging but remain incomplete, and the agency has not made sufficient progress in aspects of national accounts and external sector data, which are within its primary responsibility. Staffs are reassured by the fact that key sources of M&E information such as the 2008–09 Demographic and Health Survey, the 2009 national population census, and an upcoming new round of the Integrated

Household Budget survey, expected for 2010–11, would be available in the near- and medium-term analysis. Nevertheless, and without further progress in reforms planned for KNBS, evaluation of progress on the MTP may be challenging in some areas.

VI. RISKS AND CONCLUSIONS

36. **Weak governance, an uncertain political future, and exogenous shocks are major risks that could impact on the MTP.** While the government has made progress on governance initiatives, perception of corruption remains very high. The 2007–08 post-election violence and the subsequent negotiations which lead to a coalition government have left the political establishment focused on plans for constitutional reform and the next election. This situation has created an uncertain environment, particularly as viewed by potential investors, visitors, and clients outside Kenya, and it appears to be constraining progress on structural reforms. To the extent that a large component of the MTP is expected to be driven by foreign financing, lower-than-expected investor and donor interest could jeopardize the achievement of key elements of the MTP. Finally, exogenous shocks loom as a problem in the long term, as the country is susceptible to perennial drought, and changes in terms of trade. While the MTP would contribute to a diversification of the Kenyan economy, which would improve its resilience to shocks in the medium term, the authorities could consider strengthening their engagement with development partners to help them to achieve this objective.

37. **The international economic crisis and post-election instability have brought down Kenya's growth rates from the high levels seen from 2005 to 2007.** Near-term growth prospects continue to be depressed, though the medium-term outlook is broadly balanced. Nevertheless, the country is able to point to a number of recent accomplishments of great relevance for the poor, including the elimination of primary school fees and a decline in child mortality. Given this trajectory, Kenya Vision 2030 and the MTP present a blueprint for the future.

38. **Staffs recommend that as the authorities commence the implementation of the MTP and preparation of the first Annual Progress Report, attention be focused on the following issues highlighted in this advisory note:**

- updating the underlying macroeconomic framework to take account of: the recent decline in growth and subsequent changes to the baseline scenario due to the global financial crisis; the over-optimistic growth targets, investment plans, and financing assumptions; and the key risks that Kenya faces, especially from exogenous shocks;
- strengthening the poverty analysis, with updated information about the dynamics of poverty and inequality;
- further strengthening the discussion of structural reforms, including governance, public financial management, and public sector reforms;
- prioritizing the sector programs, and improving the synergy between them and the overarching objectives of growth and poverty reduction; and
- strengthening the monitoring and evaluation framework, especially with respect to the performance measures and indicators for subnational governments.

In considering the MTP and this JSAN, do Directors concur with staffs' identification of risks to the Plan? Do Directors agree with the staffs' conclusions on areas in which the MTP could benefit from further analysis or revisions? Do Directors concur with staff views on strengthening, monitoring, and evaluation of key outcomes of the MTP? Do Directors concur with staffs' recommendation that Kenya strengthen its engagement with development partners?