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Kenya: Joint Staff Assessment of the Poverty Reduction Strategy Paper

The attached Joint Staff Assessment (JSA) of the Poverty Reduction Strategy Paper Progress Report for Kenya, prepared by the staffs of both the World Bank and IMF, was submitted with the member country's Poverty Reduction Strategy Paper (PRSP) or Interim PRSP (IPRSP) to the Executive Boards of the two institutions. A JSA evaluates the strengths and weaknesses of a country's poverty reduction objectives and strategies, and considers whether the PRSP or IPRSP provides a sound basis for concessional assistance from the Bank and Fund, as well as for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative. The Boards then decide whether the poverty reduction strategy merits such support.

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Republic of Kenya

Joint Staff Assessment of the Economic Recovery Strategy

Prepared by the Staffs of
The International Monetary Fund and the International Development Association

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I. Overview

1. **The Investment Program for the Economic Recovery Strategy for Wealth and Employment Creation (IP-ERS) that the government of Kenya has recently submitted to the Fund and World Bank is Kenya's poverty reduction strategy paper.** The IP-ERS provides the framework for implementing the government's Economic Recovery Strategy for Wealth and Employment Creation, issued in June 2003. It describes the participatory process, provides an overview of poverty in Kenya, and presents the government's strategic vision, objectives, and priority actions for stimulating economic growth, reducing poverty, and promoting human development in line with the Millennium Development Goals (MDGs).

2. **The IP-ERS reflects an extensive process of consultation.** It rests on the three interlinked pillars of economic growth, equity and poverty reduction, and governance, each of which is essential to poverty reduction. Its primary strengths lie in its strong emphasis on improving governance and restoring the rule of law, and the scope of the participatory process through which the strategy was prepared. Also important is its focus on results through inclusion of a comprehensive monitoring and evaluation framework with targets that refer to the MDGs as benchmarks and a time frame for achievement.

3. **The staffs note, however, that the IP-ERS has some shortcomings that will need to be addressed during implementation, including in the preparation of the first Annual Progress Report.** First, its analysis of poverty needs to be strengthened by expanding the information base through surveys and strengthening the analysis of the determinants of poverty. Second, the strategy could better prioritize policy actions to accelerate growth and reduce poverty and provide a more precise identification of core

pro-poor spending programs. Third, a sector strategy for health remains to be formulated, and a strategy for education completed that would map out programs for accelerating the pace for achieving MDGs. Fourth, the strategy could better articulate a process for the prioritization of public actions that are in turn linked to the budget and medium-term expenditure framework. Fifth, the actions contemplated to build capacity in key areas need to be clearly spelled out, including the envisaged support from the donor community. Sixth, systems for monitoring poverty outcomes are weak and need to be strengthened. Finally, the outcomes of the future consultation processes and poverty diagnoses need to be better described, linked to, and reflected in, the selection of targets, policy priorities, and budget allocations.

II. Participatory Process

4. **The IP-ERS is the result of a broad-based participatory process that has included consultation with parliament, civil society, nongovernmental organization (NGOs), private sector representatives, development partners, and other stakeholders**. The previous government initiated work on the draft PRSP. A steering committee that included all the stakeholders was formed at the national level to guide the process. In 2002, consultations were undertaken in 70 districts of the country to establish priorities at the local level. These were noteworthy for including the poor in the consultations through participatory poverty assessments carried out in ten districts. A draft PRSP was prepared in 2002, which reflected the outcomes of the consultations. It had not been formally submitted to the Bank and the IMF by the time of the parliamentary and presidential elections in December 2002 that brought a new government to power.

5. **The National Rainbow Coalition administration that assumed power in December 2002 began immediately to articulate its own strategy to revive the economy, create employment, and reduce poverty, drawing heavily on its election manifesto and the earlier extensive consultations on the PRSP undertaken by the previous government**. The new government presented the first draft of its strategy to a large workshop in February 2003 that included nearly all ministers and permanent secretaries, and many representatives of development partners, the private sector, NGOs, and civil society. In the following months, a large number of smaller meetings were held to seek feedback from a broad range of civil society organizations (trade unions, professional and industry groups, financial institutions, pastoralist associations, and women's organizations), the parliament, and development partners. The consultations, many of which were televised, also included local government representatives. Groups were invited to provide their perspectives on the main causes of poverty and the interventions required to address them. The government presented its ERS in June 2003, which reflected the feedback it had received during the participatory process. The government then prepared an Interim Investment Program for the ERS to provide a results-based framework for implementing the strategy, which it presented in November 2003 to the National Investment Conference, organized jointly by the government and the private sector and involving over 2,000 participants. The IP-ERS formed the basis of discussion at the Consultative Group meeting held in November 2003, which also included a wide range of participants from NGOs and the private sector. The IP-ERS that

has been submitted to the Bank and the Fund for joint staff assessment reflects the outcome of this participatory process.

6. **The IP-ERS does not describe how the concerns of stakeholders have influenced the formulation of the IP-ERS and the associated economic reform agenda.** It could have included a summary of the participatory process (especially among central ministries, parliament, and subnational governments), differences of views among the various stakeholders, major issues raised, and a description of how the process influenced the policy priorities and budgetary allocations laid out in the strategy.

7. **A participatory approach will continue to guide implementation of the IP-ERS.** In this regard it will be important to ensure that the National Economic and Social Council soon be fully functional.

III. Poverty Diagnosis

8. **The poverty diagnosis in the IP-ERS document is based on very limited information.** Evidence on income poverty comes from the 1997 welfare-monitoring survey. Moreover, the series of household surveys undertaken in the 1990s are not comparable. As a result, information on income poverty trends over the past decade is not available. More recent and comprehensive data would help in designing policies and programs to reduce poverty, as illustrated by the ongoing poverty mapping exercise.

9. **These data limitations imply that the poverty diagnosis does not establish very clear links between policies, slow economic growth, and persistent poverty.** While the IP-ERS document reviews the factors that have been associated with poverty (household size, location, education, and gender), more analysis is needed to understand the fundamental determinants of poverty, particularly the links between poverty and economic activity. Data from the 1997 welfare-monitoring survey do not permit such detailed analysis because of its neglect of household income. The Kenya integrated household budget survey is being designed to rectify this. The diagnosis of poverty could also be strengthened by analyzing the impact of past policies on income-earning opportunities in Kenya, especially for the poor. In addition, some of the structural reforms mentioned in the IP-ERS could benefit from an ex ante poverty and social impact analysis, as was stressed in the JSA of the Preparation Status Report (2003).

10. **The staffs welcome the discussion of the deterioration in the nonincome dimensions of poverty.** More is known about these aspects of poverty than of other aspects, primarily because of the series of demographic and health surveys that have been conducted, the most recent of which was concluded in 2003. The staffs welcome the candor of the IP-ERS document in highlighting the serious challenge posed by the deterioration in mortality, morbidity, and nutrition rates. They propose, however, paying more attention to understanding the factors behind these adverse trends. Such analysis would permit the government to focus on the key actions required to improve health and nutrition outcomes.

11. **The staffs welcome the plans of the government to rapidly deepen its knowledge of poverty and inequality in Kenya.** The 2004/05 integrated household

budget survey will provide critical data for estimating the incidence, depth, distribution, and trends of poverty, and provide the basis for undertaking a comprehensive poverty assessment in 2005/06. The intended use of quick-monitoring survey instruments, such as the Core Welfare Indicators Questionnaire every two to three years, will provide rapid feedback on the effectiveness of government policies and programs. Participatory poverty assessments will combine quantitative with qualitative data and provide insights into the determinants and dynamics of poverty. Activities of the Poverty Analysis and Data Initiative, which aims to establish close links between data producers, researchers, and policymakers, will also help to address gaps in knowledge.

12. **The understanding of the geographical variations in poverty has grown considerably as a result of the production of poverty maps in 2003**. These maps show not only the provinces with high proportions of poor people, but also the subdistricts within provinces with such concentrations. This information could be used in the future in developing programs to target the poor. The staffs note that available poverty maps are incomplete because they do not present information for the North Eastern province, as the welfare-monitoring survey did not include this region. Data from the planned Kenya integrated household budget survey will be used to produce a complete poverty map in the future.

IV. Poverty Reduction Strategy

13. **The results-based IP-ERS, which rests on three pillars, provides a suitable basis for reducing poverty**. The three pillars of the IP-ERS are (a) economic growth, supported in part by reforms of financial services and an expansion of investments in infrastructure; (b) equity and poverty reduction, which would be aided by actions to improve the access of the poor to basic services (education, health, and HIV/AIDS) and the revival of agricultural growth; and (c) governance, including strengthening public safety, law, and order. The staffs agree that these areas of focus are key to addressing the root causes of poverty, and that the policies and programs laid out in the IP-ERS document are broadly consistent with the government's objective to reduce poverty. The focus on tackling the concerns of the poor in the arid lands is particularly welcome and is one of the key outcomes of the participatory process. In addition, the staffs encourage the government to identify a limited number of additional priority actions that would have the greatest impact on growth and service delivery to the poor and begin to carefully monitor their impact on poverty trends. Furthermore, the quality of service delivery to poor groups in society should be closely monitored.

A. Targets, Indicators, and Monitoring

14. **The IP-ERS document defines medium- and long-term goals for poverty reduction linked to the MDGs, establishes indicators of progress, and sets targets for many of the goals**. These are specified in a detailed matrix that summarizes priority actions in key sectors. While appearing to be modest, given the poor performance of the economy during the past 20 years, the targets are appropriate. The matrix, however, provides only medium-term targets for many of the goals and, for some goals, no targets at all. The staffs would encourage the authorities to specify annual targets, disaggregated where possible by gender, to facilitate monitoring and preparation of annual IP-ERS

progress reports. The staffs welcome the government's intention to specify soon, in consultation with stakeholders, a short list of key indicators to be monitored that would also be incorporated in the annual progress report of the IP-ERS.

15. **Once implemented, the monitoring and evaluation framework should provide an adequate basis for tracking progress and demonstrating the outcomes and impacts of government policies and programs.** The framework will provide critical feedback to the government on the efficiency of spending and the effectiveness of policies and programs in contributing to specific development outcomes. The staffs acknowledge the many actions that the government has taken to strengthen its capacity to collect and analyze data and to monitor and evaluate the impact of its policies and programs. The preparation of the Statistics Strategic Master Plan is welcome, because this will provide a framework for coordinating, in the future, donor support to the sector. The staffs believe that multidonor Statistical Capacity Building Credit (StatCap), planned for Bank Board approval in 2004, should help to ensure the establishment of the monitoring systems required to regularly produce and disseminate data required for detailed assessment of poverty and evaluation of public policy. The staffs recommend that the government actively develop and institutionalize mechanisms for participatory monitoring and evaluation, focusing especially on service delivery to the poor. The government's intention to develop a public information access policy that will specify the types of information to be released and the mechanisms through which such information will be made available would be important in this regard.

16. **The challenge will be to ensure that the results of the monitoring and evaluation system are reflected in policy formulation and budget decisions**. The staffs note the intention of the government to strengthen links between the results of monitoring and evaluation operations and policy formulation, and recommend a more detailed discussion of how this would be achieved in the first annual progress report. The staffs note that the monitoring and evaluation unit (the secretariat of the National Economic and Social Council) has been established within the Ministry of Planning. Appointment of the members of the National Economic and Social Council will be an important next step. The council is expected to play a key role in overseeing the implementation of the IP-ERS and in advising the government on the refinements to the policy and budget management system required to achieve the objectives of the IP-ERS.

17. **The staffs recommend that the government develop concrete plans and timetables for the reporting of key data**. Development partners would welcome continued preparation and sharing of quarterly progress reports on budget execution, in addition to annual progress reports on IP-ERS implementation. This would provide the basis for a regular dialogue, based on a shared understanding of economic developments, and would ensure that partners respond early and transparently with respect to prospective aid commitments and disbursements. Harmonizing the reporting system with the timetable for the budget and medium-term expenditure framework (MTEF), as well as for the PRGF reviews, will be important to ensure that the information is used in budget decisions and to allow development partners to use the government's own planning, budgeting, and monitoring systems, instead of setting up their own.

B. Macroeconomic Framework

18. **The IP-ERS rightly emphasizes the need for the government to stimulate economic growth through higher public and private investment so as to significantly reduce poverty while maintaining macroeconomic stability.** The Fund and World Bank staffs welcome the core objectives of the fiscal strategy, namely, to increase pro-poor expenditure—supported by increased donors concessional assistance and grant flows and expenditure restructuring--, while containing debt stock within a sustainable and prudent level. However, the IP-ERS would have benefited from a more detailed explanation of the factors that are likely to support a sharp expansion in private and public savings and investment, as well as the sectors that are likely to benefit. The high case scenario is predicated on a better response to policy reforms alone. In the view of the staffs, a more relevant specification of the high case scenario would have linked it to a faster pace of policy and institutional reforms supported by even larger inflows of concessional assistance with significant grant content.

19. **The staffs recommend that the government prepare a detailed medium-term fiscal strategy in the first year of implementation of the IP-ERS to underpin its MTEF**. The fiscal strategy should be consistent with the macroeconomic framework underlying the IP-ERS, especially its broad fiscal objectives, instruments, and assumptions. It would also clearly articulate a policy toward contingent liabilities that pose a major risk to the government's finances, including the National Social Security Fund, the proposed social health insurance scheme, parastatal debt, and unfunded government pension obligations, and explain how shortfalls in revenues or financing would be addressed. The staffs urge the authorities to take into account the short-term revenue losses associated with trade liberalization when formulating the fiscal strategy. The fiscal strategy should include details about the government's plan to restructure public spending so that it is more pro-poor and pro-growth, specifically including projected spending on the main MTEF categories, disaggregated into recurrent and capital expenditures Development partners, in the context of the public expenditure review (PER) process, are ready to provide technical support to help the government further articulate its fiscal strategy.

20. **The staffs suggest that the annual progress report emphasize the importance of improved management of Kenya's external debt**. This is needed to achieve the country's projected high external financing requirements without increasing its external vulnerability, and jeopardizing its debt sustainability position. Furthermore, developments in external debt management should be covered in the first annual progress report.

21. **The IP-ERS could have been strengthened by a fuller discussion of the accompanying public sector wage policies and the civil service reform agenda, particularly in light of the prevailing wage pressures**. Building on the work of the Committee of Officials, the staffs urge the government to complete the principal elements of a public sector wage policy and the associated civil service reform agenda by the time of the presentation of the budget for financial year 2004/05. They also suggest that a more detailed reform agenda be included in the first annual progress report that contains specific plans for rationalizing public services. In addition, the main parameters of pension reform should be clearly spelled out.

22. **The staffs recommend that the annual progress report present a clearer and more complete picture of the financing requirements and how they are expected to be met.** In this regard, it is suggested that the financing framework be improved by providing more detailed coverage of; the projected annual financing for both the investment program and other government expenditures, broken down by financing source (for example, domestic revenue, expenditure restructuring, domestic borrowing, and external aid). The staffs note that for Kenya to reconcile increased investment with the goal of declining debt ratios, substantial external support in the form of grants may be necessary.

C. Public Expenditure Management Reform

23. **The IP-ERS includes a program to reform public expenditure management**. The staffs welcome the government's commitment to open up PERs to other stakeholders and to strengthen its role in the medium-term expenditure and budget process by institutionalizing PERs as regular annual exercises. The staffs note however that the PER and the MTEF processes have not, in the past, been used effectively to shift budgetary allocations to priority areas. The challenge now will be to ensure that the results of the PER and the MTEF processes are used to inform budget preparation. The staffs welcome the steps the government has taken to achieve this objective, including the establishment of a high-level steering committee to oversee and guide the PER process. This, in turn, should facilitate the preparation of a budget that more clearly reflects IP-ERS priorities. The staffs suggest that the PER clarify the definition of "core poverty programs" to ensure closer linkage between the increase in expenditures on these programs and the poverty and other social welfare targets. The staffs urge the government to complete the MTEF review so that its findings can be implemented during nest year's budget cycle and adhere much more strictly to the related budget preparation calendar to allow more time for the preparation and discussion of ministerial public expenditure reviews. The staffs note the progress that has been made in estimating the costs of priority programs, most notably in primary education, and urge the government to strengthen its capacity to cost other important IP-ERS programs. .

24. **The staffs endorse the reforms outlined in the IP-ERS document that are intended to strengthen budget execution.** The government, in consultation with donors, is developing an action plan for enhanced financial management that will strengthen financial controls and provide more accurate and timely information on government spending. Relatedly, it has presented to parliament three important bills on financial management, auditing, and procurement that will together significantly improve economic governance in Kenya. The staffs urge the government to rapidly implement the enhanced financial management action plan, enact the two bills (public financial management and procurement) that have not yet been passed by parliament, and report on adherence to improved public expenditure management in the first annual ERS progress report

D. Structural and Sectoral Policies, Policies for Social Inclusion and Equity, and Governance

25. **The staffs welcome the government's plans to undertake needed financial sector reforms to mobilize funds for investment, improve fiscal management, and strengthen governance.** Given the importance of financial intermediation to the economy, placing financial institutions on a sound financial and commercial footing will bring more effective competition to the sector. The annual progress report should describe planned actions to reduce lending spreads and improve access to finance, while maintaining market-determined interest rates. The discussion should explain how major impediments to the efficient functioning of the financial system—outdated infrastructure, deficiencies in the legal framework, and an inefficient judiciary—will be addressed in a coordinated manner. As for access to finance, the staffs recommend that the government develop, by the end of 2004, an efficient and effective strategy to provide financial services to currently underserved groups, including small and medium size enterprises, and that the recapitalization of development finance institutions await the formulation of such a strategy.

26. **The staffs welcome the government's commitment to increase private sector participation.** However, recognizing the importance of open and informed public discussions of the privatization strategy, the annual progress report could outline the different modes of divestiture (outright sale, concessions, and leasing arrangements) that could help to accomplish the divestiture objectives. The report could also indicate the approach selected by the government for individual public enterprises to be privatized. Equally important, the report could provide more information to the public about the heavy costs to the Kenyan taxpayer stemming from the inefficiencies of the parastatal sector which preempt resources that could be spent on pro-poor programs. The annual progress report could also indicate areas where poverty and social impact analysis would be especially useful to inform the policy dialogue on the trade-offs between policy choices. The Bank and other donors are willing to support the government in conducting such poverty and social impact analyses.

27. **Other measures are planned to promote private sector development.** These include reforming the legal and regulatory framework, restructuring the trade system, including in the context of the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), lowering administrative barriers to trade and investment, improving the general security situation in the country, and strengthening governance. The staffs endorse the reforms that have been made in these areas and note the recent pickup in private sector investment. They recommend, however, giving more prominence in the first annual progress report of the IP-ERS document to the consideration of how a more open trade system could contribute to growth and poverty reduction, based on an early completion of the government's trade policy strategy paper. Important cross-cutting and sectoral issues, such as standards, trade facilitation, and sectoral adjustment, could also be addressed in the document.

28. **The recognition of agriculture as a key sector to stimulate economic growth and reduce poverty is welcome**. The decision to move toward a more demand-driven research and extension system should help strengthen links between farmers, extension

service providers, and researchers and thus help to improve the livelihoods of small farmers. The current agricultural policies, particularly those aimed at protecting farmers who market maize and sugar, have a devastating impact on the vast number of poor, both rural and urban, who are net buyers of these goods (80 percent of maize farmers are net buyers of maize, for example). The focus on improved governance of cooperatives and improved transparency and accountability of Kenya's marketing boards is welcome. The staffs welcome the recent launch of the strategy for revitalizing agriculture and suggest that the first annual progress report describe progress in developing the regulatory and institutional framework of the agriculture sector, reducing the direct role of state enterprises in marketing and production, and progress in liberalization. Notably, this would include disposal of the central Kenya meat commission plant near Nairobi, and support for the small scale decentralized private sector abattoirs in the ASAL areas.

29. **Employment creation was a key post-election concern of the government.** In this regard, while the annex to the IP-ERS document includes objectives, outcomes, and outputs, the main text would have been strengthened by including a more detailed discussion of labor market policies and of the government's strategy for promoting the growth of small and medium-sized enterprises. Issues that could be addressed in the coming year include reforms of the labor market regulatory framework, the strategy and mechanisms for job creation, policies for removing labor market rigidities and other impediments to employment growth, reforms of minimum wages, and the regulatory framework and financing arrangements needed to facilitate the expansion of small and medium-sized enterprises. The staffs recognize that the quantitative basis for analysis is limited and welcome the inclusion in the Statistical Master Plan of the labor force survey and other specialized surveys that are expected to contribute to policy formulation in these areas.

30. **The staffs endorse the broad approach of the IP-ERS to ensure that all Kenyans have access to basic services and to focus more attention on vulnerable and disadvantaged groups.** The strategy calls for providing free primary education, increasing access to basic health services continuing efforts to reduce the spread of HIV/AIDS, and removing barriers to increased productivity of rural farm and nonfarm enterprises. The arid and semiarid lands program aims at reducing poverty in a particularly disadvantaged region. The staffs strongly endorse the prominence the government has given to addressing the needs of pastoralists, a previously neglected but particularly vulnerable and poverty-stricken group. The strategy could be deepened by discussing how to extend the approach to other poor communities in Kenya, in the context of the strategies for health, education, and roads

31. **The staffs strongly support the government's strategy for improving access to free primary education and agree with the government's call to improve the efficiency with which available resources for education are used, as Kenya already spends a very high proportion of its budget and GDP on education.** The free primary education program that the government implemented as its first act in office in January 2003 resulted in an increase in enrolment of 1.5 million students. As a result, Kenya is likely to meet the MDG for education, provided suitable programs are developed to meet the needs of pastoralists and to overcome cultural barriers that discourage parents in some communities from sending girls to school. The second challenge for the government is to

expand secondary education to meet the growing demand from primary school graduates. To further strengthen the government's strategy of financing the expansion of education by using resources more efficiently, the staffs recommend including in the annual progress report a discussion of the financing of tertiary education. Reforms to improve the efficiency of spending and level of cost recovery in the tertiary sector will be necessary to ensure that government spending on education is pro-poor. The staffs also suggest that the government work on targeting the building and rehabilitation of primary schools for poorer communities.

32. **The staffs welcome the government's decision to prepare a comprehensive strategy on health that recognizes the need to sharply increase health expenditure on the poor while tackling inefficiencies and misallocations in resource use.** The staffs believe, however, that the government will need to considerably strengthen the analytical base for the proposed health strategy. The decision on the proposed national social insurance scheme should await the completion of the health strategy paper. In particular, the health strategy should include a thorough economic and social analysis to evaluate whether a compulsory national health insurance scheme is the most cost effective and best targeted approach for delivering badly needed services to the poor. In the meantime, given the urgency of ensuring that next year's budget addresses the needs of the poorest and most vulnerable Kenyans, funding for clinics serving the poor in both the urban slums and rural areas should be increased significantly. The staffs suggest that the first annual progress report discuss the main recommendations of the health strategy paper, which is scheduled to be completed by the end of 2004, as well as the plans for implementing the strategy.

33. **The government's multisectoral approach to reducing the spread of HIV/AIDS is demonstrating results.** The staffs welcome the recent decline in the HIV/AIDS prevalence rate among women attending prenatal clinics from a peak of 10.2 percent in 2002 (corrected estimate) to 9.4 percent in 2003. They support the government's intentions to continue focusing on prevention, especially among the most vulnerable groups. Implementing the plans to dramatically increase the number of patients with access to antiretroviral drugs will be challenging. This will require that the capacity to handle large numbers of patients be strengthened. The strategy could be strengthened through a discussion of how this would be achieved and how equal access to these drugs by the poor would be ensured. The staffs recommend that the first annual progress report discuss progress in developing measures to increase the capacity to effectively use resources for responding to HIV/AIDS, especially given the promise of substantial increases in donor resources for addressing HIV/AIDS in the future.

34. **The treatment of environmental issues needs to be strengthened.** Improved environmental management in Kenya is critical to stimulate growth; reduce risks to health, life, and property; and, generally, to improve the quality of life. In the view of the staffs, the IP-ERS document could pay more attention to this important cross-cutting issue. The annual progress report should discuss plans to improve management of water resources, forests, wildlife, soils, and pollution control, drawing on results of studies that development partners are supporting.

35. **The implications of the gender dimension of poverty need more attention.** While the IP-ERS document recognizes that women have unequal access to opportunities and assets, little is said about the implications of such inequality for growth. Yet, considerable microeconomic evidence, and growing macroeconomic evidence, suggests that gender inequality directly limits growth, output, and productivity in Kenya, notably in agriculture, where women provide about 70 percent of the labor requirements. Building on the recommendations of the recently completed World Bank study on gender, the next ERS progress report should identify, and report on implementation of, the measures needed to support women's efforts to more fully realize their own potential and, in turn, to contribute to Kenya's economic development.

36. **The staffs commend the government for its commitment to eliminating corruption, restoring the rule of law, and bringing about equitable development that favors all citizens**. The government should also implement the recommendations of the forensic auditors it has employed to review financial transactions in a number of government programs and parastatals to prevent future abuses. More could be said in the annual progress report of how access by the poor to the judicial system will be enhanced, for example, through the establishment of alternative dispute resolution mechanisms.

E. Risks to the Strategy

37. **In the staffs' view, successful implementation of the IP-ERS faces three major risks.** First, capacity for implementation and coordination within the government needs to be significantly strengthened. Difficulties in producing a final IP-ERS document and weaknesses in that document largely reflect capacity constraints. The IP-ERS specifies a number of measures that will be adopted to strengthen capacity, including establishing an IP-ERS steering committee comprising all permanent secretaries and the Kenya Government-Donor Coordination Group. These measures will help, but more must be done to strengthen institutions, including improving incentives for performance. The World Bank, Fund, and other development partners, who are already providing substantial support for capacity building in their respective areas of expertise, are ready to deepen their support for the implementation of the IP-ERS. The second major risk is that a political consensus behind difficult reforms, such as the privatization of parastatals and civil service reform, may take longer to build, thereby delaying the reforms that are needed to reduce poverty. Building a consensus requires not only a good technical understanding of how policies affect growth and poverty, but also an effective communications strategy to enlist support for reforms among stakeholders and specific measures to address the concerns of potential losers from reforms. The third major risk is the vulnerability of the Kenyan economy to external shocks, including terms of trade shifts (particularly in coffee and tea), security-related events, severe weather, and shortfalls in donor inflows. Further diversifying the economy will help reduce vulnerability to external shocks; the implementation of policies to achieve this diversification as well as targeted measures to manage risk will help. The World Bank, Fund, and other development partners are ready to help the government identify and implement measures to mitigate and better manage risks.

F. Views of Other Development Partners

38. **Other development partners active in Kenya broadly endorse the government's economic development strategy**. They echo the concerns of the World Bank and the Fund regarding weaknesses in the presentation of some important policy reforms in the fiscal, financial, and parastatal areas and call for a deeper analysis of the dynamics of poverty and inequality and their links to various economic growth paths and policy alternatives. Some development partners also recommend that the government explicitly address issues of inequality and identify measures to reduce it. The development partners encourage the government to demonstrate its commitment to pro-poor spending in its forthcoming budget and to set specific, time-bound targets for improvements in public financial management. Of great importance is to translate the priorities of the IP-ERS into the MTEF and the budget. Development partners support the call for developing strategies for health and education that identify programs and policies to hasten progress towards achieving the MDGs. They agree with the government on the importance for growth of attracting private sector investment, and recommend that the government develop a concrete program to achieve this objective. On the monitoring and evaluation framework, development partners agree that specification of a set of core indicators (linked to the MDGs where appropriate) and annual targets is important to facilitate the annual review of the ERS and an eventual move to budget support by interested donors.

G. Recommendation

39. The staffs of the World Bank and the IMF consider that this IP-ERS document provides a sound basis for World Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.