

INTERNATIONAL MONETARY FUND AND  
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF KENYA

**Assessment of the Interim Poverty Reduction Strategy Paper (PRSP)**

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

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1. **Government commitment to poverty reduction.** The interim PRSP is the product of a consultative process between the government, development partners, private sector representatives, and civil society represented by various nongovernmental agencies. It is grounded in a National Poverty Eradication Plan (NPEP), which was a Kenya-led exercise involving extensive consultation and concluded prior to the launch of the PRSP initiative. The NPEP, which was prepared in 1999, covers the period 1999-2015 and provides a national policy and institutional framework for action against poverty as well as concrete targets for reducing poverty that are consistent with the International Development Goals. The consultative process on the interim PRSP included a four-day National Consultative Forum to discuss the initial draft interim PRSP. The forum was attended by about 300 participants, including parliamentarians of various parties and representatives of the private sector, nongovernmental organizations, development partners, media, women's groups, and research institutions. Highlights of the proceedings were televised, and the details were extensively reported in both English and local language papers. The interim PRSP went through a number of rounds of redrafting to incorporate comments from stakeholders. In this context, the staffs of the World Bank and the Fund provided suggestions for the consideration of the authorities, with a view to improving the focus of early drafts of the interim PRSP. The preparation of the interim PRSP is closely linked to the reforms in the budget process, in order to ensure that poverty priorities articulated in the PRSP feed directly into a recently initiated medium-term expenditure framework (MTEF).

2. In response to rising levels of poverty and deteriorating social indicators, the government demonstrated its commitment in tackling these problems by preparing the NPEP. It has reiterated its strong commitment to poverty reduction in the interim PRSP. In particular, it acknowledges that one of the key problems leading to the increase in poverty is poor governance. Reforms are being implemented to improve governance. In this regard, a significant recent development has been the appointment of a group of individuals from the private sector and international organizations to key civil service posts which is implementing a wide-ranging set of measures to improve the management of public administration and finances and governance more generally. The scope of these reforms will

need to be broadened and their implementation accelerated in the context of the formulation of the PRSP.

3. **Poverty analysis and monitoring.** The poverty analysis in the interim PRSP is based on the results of the Welfare Monitoring Surveys of 1994 and 1997, as well as the 1996 Participatory Poverty Assessment and provides a reasonably good starting point for describing poverty in Kenya. In addition to providing a detailed description of the characteristics of the poor, such as landlessness, poor health, and limited education, it covers the geographical distribution of poverty, the rural-urban divide, and gender gaps in Kenya. The poverty analysis identifies a number of reasons for the poverty situation, including the virtual neglect of important areas, such as primary (rural) health care, early schooling and primary education, and water and sanitation. Other important factors are corruption and poor governance and a number of gender-related issues. However, there has been a further deterioration of poverty indicators since the above-mentioned studies, as a consequence of poor economic performance, a worsening security situation, and the HIV/AIDS pandemic. Recent work identifies factors that have led to this deepening of poverty. It would be important that the full PRSP incorporate these results.

4. As the interim PRSP indicates, it is intended that this information gap will be filled during the preparation of the PRSP. The interim PRSP envisages the government setting up a preliminary monitoring and evaluation system to track the progress on poverty reduction and improvements in social indicators. An effort has been made to set goals/targets for core social indicators, such as infant mortality, maternal mortality, and gross primary and secondary enrollment rates. Progress in reducing income poverty is to be tracked by biannual household surveys on income and consumption and by Participatory Poverty Assessments. A new household survey is planned for late 2000 or early 2001. Disaggregation by gender, by region, and by rural/urban residence is planned for most indicators. To give backing to the government's commitments in this area, it is important that the structure and setup of the Central Bureau of Statistics (CBS) be in line with these information needs and that sufficient resources be provided. To catalyze the support of development partners in strengthening socioeconomic statistics, it is also important to reestablish the CBS/donor committee. A weakness of the interim PRSP is that it lacks attention to the roles of other institutions, such as line ministries, in the monitoring process, as well as the necessary organizational reforms of CBS itself. In addition to monitoring the various dimensions of poverty as proposed in the interim PRSP, it is important to set up a system to monitor the effectiveness of public expenditures in providing public services to the poor.

5. **Overall poverty reduction strategy.** The interim PRSP presents a broad outline for reducing poverty that is grounded in the long-term plan for poverty reduction laid out in the NPEP. The poverty reduction strategy comprises five elements to: (a) facilitate sustained, rapid economic growth; (b) improve governance and security; (c) increase the ability of the poor to raise their incomes; (d) improve the quality of life of the poor; and (e) improve equity and participation.

6. The elements of the strategy aim to address the underlying causes of poverty in Kenya. The focus on governance is of particular relevance in the Kenyan situation. Without fast and decisive actions in this area, there is little hope that the other strategies will yield any tangible results. The interim PRSP also identifies preliminary quantitative targets for various dimensions of poverty, such as educational attainment and health status. In the full PRSP, it would be essential to develop and refine further the quantitative targets for the reduction of income and other dimensions of poverty as well as of income inequality in order to provide appropriate benchmarks against which Kenya's progress can be evaluated. It is also desirable that the full PRSP link these quantitative outcome indicators to the intermediate output indicators that measure the results of public policy actions.

7. **Macroeconomic framework and three-year policy matrix.** The macroeconomic framework and three-year policy matrix included in the interim PRSP, which cover fiscal years 2000/01–2002/03, are consistent with the goals for poverty reduction, in particular by promoting more rapid growth and the maintenance of macroeconomic stability. The framework, which is appropriately ambitious, has been discussed with Fund and World Bank staff and is expected to be presented to the IMF Board in July 2000 in the context of a Poverty Reduction Growth Facility (PRGF)-supported program. The macroeconomic framework builds on the achievements in stabilization since 1998 and aims to use effectively the increased flow of donor funds and privatization receipts to reduce the domestic debt burden and excessively high interest rates as this will help in promoting higher private-sector-led economic growth. It appropriately recognizes the need to avoid excessive increases in domestic demand, which could put at risk the economic program by giving rise to inflationary pressures, unsustainable external current account deficits, and losses of international reserves. In this context, the interim PRSP appropriately sees some room for donor-funded increases in the fiscal deficit above the baseline scenario. However, it is important for the government to exercise caution in increasing the fiscal deficit at the beginning of the program because of the limited prioritization and lack of implementation capacity. The macroeconomic framework clearly recognizes the dependence of attaining the above stated goals on the speed and success of the privatization program.

8. The interim PRSP is cognizant of the essential role of the reform of public sector institutions for consolidating fiscal stability and improving the quality of public service provision. The actions already taken to scale back the size of the public sector, including the merging of ministries, reform of the civil service, restructuring and privatization of public enterprises, and reform of the budget process as well as expenditure management, need to be advanced as an integral part of the full PRSP.

9. The three-year policy matrix correctly recognizes that the shift to the higher growth path will require not only the envisaged reduction in domestic real interest rates but also the implementation of supply-side measures that address existing constraints on economic activity in Kenya. These include measures that address pervasive governance problems, correct regulatory distortions in various markets, especially in agriculture, redirect public resources toward the rehabilitation of infrastructure, and improve the efficiency and governance of state-owned banks and utilities through privatization. While the measures to

improve governance (and their timetable) are well articulated in the interim PRSP, the remaining supply-side measures will need to be developed and prioritized more fully, and implemented more decisively if the growth targets envisaged for the medium term are to be attained.

10. **Governance issues.** The interim PRSP acknowledges the critical importance of improving governance and a list of specific actions is attached to the interim PRSP. Four priority areas are identified: combating corruption, especially through the strengthening of the Kenya Anti-Corruption Authority (KACA); greater transparency in procurement; greater enforcement of financial accountability through improvements in accounting and audit functions; and the adoption and implementation of a code of ethics for all public servants. Other governance-related issues covered in the interim PRSP include improving public sector management, and achieving a predictable and impartial justice system. The proposed reforms have been discussed with Bank and Fund staff and are appropriate as a basis for improving governance.

11. **Sectoral poverty reduction strategies.** The interim PRSP focuses appropriately on preliminary sectoral poverty reduction strategies in the following areas: (a) physical infrastructure, including roads, energy, information, transport and communication, building and construction, and water and sanitation; (b) human resource development, including education, health, population, labor and employment, and social security; (c) agriculture and rural development, including agriculture, water, forestry, environment, and lands; (d) tourism, trade, and industry; (e) public administration, including public sector reform, local government reform, and parastatal reform; and (f) public safety, law and order.

12. The preliminary strategies for these sectors over the medium term include policy changes, budgetary reallocations toward priority areas, and institutional reforms. For example, in the education sector the ultimate objective is to achieve universal primary education over the long run and to enhance access to educational opportunities for the poor at the post primary level by improving the targeting of subsidies to the poor and by reducing the cost of education to households through a streamlining of the curriculum, thus reducing expenditures on books, teachers, and exams. Attention will also have to be paid to enhancing and monitoring the quality and relevance of education. In the health sector, the government has laid out a plan to shift public support from centralized hospital care to decentralized primary health care. In the water sector, the key strategies are to shift resources and their management to the communities and promote private sector participation. An important priority is also the expansion of rural roads, as this would increase economic opportunities for the poor through enhanced access to markets and employment. The interim PRSP also includes concrete actions and the creation of the institutional framework to combat the spread of HIV/AIDS.

13. The challenge in developing the PRSP lies in the prioritization of sectoral poverty reduction strategies and activities in terms of identifying and implementing actions that will have the highest impact on growth and poverty reduction, and costing them so as to take into account financial and human resource constraints while integrating them better into the

macroeconomic framework. The interim PRSP lays out a clear strategy for a participatory process that should be designed and managed so as to provide the inputs for the prioritization of sectoral strategies.

14. At present, the flexibility of the government to reallocate resources toward poverty areas is constrained by a large wage bill and heavy debt-service burden. The government's medium-term strategy thus focuses on a significant reduction in the size of the civil service, based on the ongoing rationalization of government functions. In order to mitigate the negative social effects that could result from retrenchments, the government will provide transitional financial support and other benefits to the affected groups. These reforms, combined with pay reform, will allow the government to attract and retain qualified personnel and improve service delivery. More generally, it is important that the government consider measures that would allow reallocations of expenditures toward priority areas, especially nonwage expenditures, as these are sharpened and more narrowly defined through the consultative process for the preparation of the PRSP, in which communities and stakeholders are expected to bring in their views on priorities. It is expected that next year's MTEF, which will be based on the PRSP, will lay out a credible strategy for expenditure reallocations.

15. In view of the above institutional constraints, restructuring the budget toward priority poverty areas, and in particular nonwage inputs, will be a gradual process. In this context, the immediate focus is to increase the efficiency of expenditure and improve its targeting to the poor. Except for a 20 percent increase in funding for primary education (excluding teacher salaries), with significant funds set aside for the purchase of textbooks, the 2000/01 budget contains limited reallocations toward priority areas. However, the government is implementing a series of measures that benefit the poor without requiring increases in budgetary allocations. These include a streamlining of primary and secondary curricula to make education more affordable and less taxing on poor households, a more equitable distribution of teachers across schools to ensure that all children have equal access to teachers, decentralizing medical personnel to the districts, and greater community involvement in water schemes and road maintenance and construction.

16. **Consultation.** In the process of developing the interim PRSP, the government has drawn from past poverty analyses, and a National Consultative Forum has been held. This national consultation moved the government from a limited consultative stance to the understanding that a substantive participatory process is useful and necessary. This new stance is well reflected in the plans put forth for participation in the full PRSP. One of the key features of the proposal is the decision to undertake intensive consultations, particularly with the poor, running from the local to national level focusing on prioritization of strategies and how to achieve accountability. This will build on the participatory poverty diagnosis exercises that have been carried out in the past years and are already available. The government is encouraged to continue discussions of this interim PRSP with its external development partners at an early stage in the development of a full PRSP. The document presents a dynamic learning approach, which should allow development of substantive multi-sector strategies to reduce poverty over the medium term under the full PRSP.

17. **Institutional issues.** Effective institutional arrangements to carry forward the participatory agenda will be key to long-term success. At this point, the government is on its way to establishing a robust and effective arrangement. The Ministry of Finance and Planning (MFP) has the primary responsibility for the preparation of the PRSP and carries out its work within sectoral groups whose members are drawn from line ministries and departments in addition to the MFP. The Kenya Institute for Policy Research and Analysis is represented in the Macroeconomics Sectoral Working Group.

18. In addition to the PRSP secretariat located in the MFP, there is also a Poverty Eradication Unit in the Office of the President; this unit has prepared the NPEP, coordinates specific antipoverty projects, and conducts analytical work on poverty. Effective cooperation and coordination arrangements between these two units are essential to make the best use of government's limited human resources in this area and to forge a lasting consensus around the PRSP between these two units. The credibility of the full PRSP is also very much dependent on whether it is viewed by civil society as inclusive. Therefore, the creation of a national steering committee with the capacity to create an inclusive stakeholder agenda is critical. A key assumption is that the government will have the mechanisms to disseminate information to the public. A special effort to define a PRSP communication strategy is necessary so that the intentions of the PRSP will be understood by all. Lastly, it must continue to be recognized that systematic participatory monitoring is essential to create accountability and transparency over the long term.

19. **Time frame.** The government's timeline envisages the completion of the full PRSP by May 2001, thus providing ample time for a full-fledged consultative process. Since it is expected that the PRSP will be directly reflected in the MTEF and the government's budget for 2001/02, it is appropriate to target the completion of the PRSP shortly before the MTEF for the period 2001/02-2003/04 and the budget for 2001/02 are finalized.

20. **Risks to the proposed strategy.** In the past, most poverty reduction efforts in Kenya have suffered from the effects of poor governance, which often derailed the implementation of reforms. Although the government has initiated significant reforms to improve governance, severe problems still persist and are to be addressed as a central element of the reform agenda proposed in the interim PRSP. The government has also identified a list of poverty-related priority expenditures that will be protected from cuts in the case of resource shortfalls. However, it would also be desirable that the full PRSP more fully analyze the risk of revenue shortfalls and possible implications for the implementation of the PRSP. On the participatory process, there is a danger of fostering expectations that cannot be met because of financial and human resource constraints. Most poverty plans in Kenya have suffered from this problem, and every effort should be made to avoid a repetition. Other risks to the strategy include the impending energy crisis, the danger of food shortages in certain parts of the country because of drought conditions, and the risk of increased insecurity in certain regions. Finally, the government must take every care to prevent its pre-election activities from derailing the program.

21. **Conclusion.** The government has undertaken a commendable effort to develop the interim PRSP in a broad-based participatory process. The key challenge in producing the full PRSP lies now in the prioritization of these activities through a participatory process that also takes into account financial and human resource constraints on the implementation of the PRSP. In the period ahead, the staffs of the World Bank and Fund will emphasize the following points:

- the importance of strengthening socioeconomic statistics by providing adequate resources to the Central Bureau of Statistics (CBS), so as to strengthen poverty analysis, undertake a more comprehensive diagnosis of the causes of poverty, and monitor the effectiveness of poverty reduction programs;
- the need to fully articulate supply-side measures to achieve the medium-term growth objectives;
- the importance of prioritizing (under the full PRSP process) expenditure, costing identified poverty programs, strengthening the links between poverty reduction objectives and proposed policies, and incorporating them into the macroeconomic framework; in this regard, the importance also of maintaining macroeconomic stability while completing the ongoing rationalization of government functions to reduce the wage bill and make room for spending in priority sectors;
- the need to continue and deepen the consultation process by, inter alia, establishing a national steering committee with the capacity to create an inclusive stakeholder agenda encompassing the poor; and
- the need to consolidate recent progress in the governance area, as this has been identified as one of the main reasons for the failure of past poverty reduction programs.

The authorities appear committed to addressing these weaknesses in the coming months, and the staffs of both the World Bank and the IMF stand ready to assist the authorities in this process.

22. The staffs of the World Bank and the IMF consider that this interim PRSP provides a sound basis for the development of a fully participatory PRSP and for World Bank and IMF concessional assistance. In this regard, the staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.

**Key PRSP-Related Events: June 2000 - June 2001**

<b>Event</b>	<b>Date</b>
Joint Staff Assessment of Interim PRSP	07/00*
Poverty Reduction and Growth Facility	07/00*
Joint Staff Assessment of Interim PRSP	08/00**
Economic and Public Sector Reform Credit	08/00**
Consultative Group Meeting	11/00
First Review under the PRGF and the Conclusion of the Article IV Consultation for 2001	03/01
Public Expenditure Review	05/01
Full PRSP	05/01*/**
Country Assistance Strategy	05/01**
MTEF and Annual Budget Presented to Parliament	06/01

Note: \* Presentation to Fund Board  
\*\* Presentation to Bank Board