

*A More Equitable,
Prosperous, and
Competitive*

KENYA

Country Assistance Strategy 2004 - 2007



WORLD BANK GROUP

“The approval by the World Bank Board of Directors of a new Country Assistance Strategy (CAS) for Kenya, under which Kenya has been upgraded from a low case program to a higher, base case lending program, is encouraging indeed. It gives us confidence that the reform path which we have embarked on will put this country back on the road to sustainable growth and development.”

*Hon. David Mwiraria,
Minister for Finance*

“What is even more significant than the much larger sums that the World Bank has committed, is the improved working relationship between the World Bank and the government, providing a platform for meaningful engagement on development efforts. The broad consultations that preceded this CAS as well as its wide public dissemination exemplifies the Bank’s renewed policy to promote candid and open dialog, essential for sustainable development.”

*Makhtar Diop,
World Bank Country Director*

Country Assistance Strategy Highlights

Kenya's economic performance worsened markedly in the 1990s due to inefficient use of public resources, soaring costs of doing business, deteriorating security conditions and a significant fall in external capital inflows. Poor governance practices led to a deterioration in the Bank Group's relations with Kenya, and for several years assistance was generally limited to social development and emergency operations.

The new government, elected in December 2002, has started to reverse the poor governance practices of the past and enacted several key pieces of anti-corruption legislation, creating a much better environment for sustainable development to occur. It has moved to improve public sector management and prepared its Investment Program for the Economic Recovery Strategy for Wealth and Employment Creation (IP-ERS) with the full participation of parliament, NGOs, development partners and other stakeholders.

Kenya's Economic Recovery Strategy

The country's Economic Recovery Strategy is built on three interlinked pillars:

- *Strengthening economic growth* by maintaining sound macroeconomic management, improving fiscal policy, and encouraging private sector participation in development.
- *Enhancing equity and reducing poverty* by providing universal free primary education, improving access to basic health care, expanding productive capacity in agriculture, and supporting programs to reduce poverty in Kenya's most disadvantaged communities - the arid and semi-arid lands and the urban slums.
- *Improving governance* by reforming the judiciary, improving security, and reforming public administration to achieve increased transparency and accountability.

This joint World Bank-International Finance Corporation (IFC) CAS - the difference between these different organizations is explained below - is closely aligned with the government's IP-ERS and proposes to help Kenya achieve its development objectives through four key areas of support:

- Strengthening public sector management and accountability
- Reducing the cost of doing business and improving the investment climate
- Reducing vulnerability to the environment and strengthening community development capacity, and
- Investing in the education and health care of its citizens.

Lending Program

This CAS envisages a base case funding program - a step up from the previous low case scenario - under which the Bank Group will undertake operations in key sectors identified in the IP-ERS, presenting four or five projects a year to its Executive Board. The emphasis in the first two years of the program will be on restoring infrastructure, increasing agricultural productivity and providing technical assistance and support for capacity building.

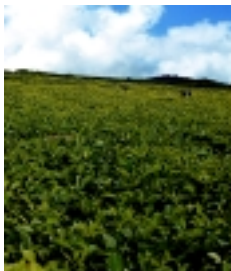
The CAS also includes a “non-lending” component that supports analytical work in a number of sectors as the starting point for discussion of critical areas of public policy. These include trade, the financial sector, and agricultural policy. They can be the foundation stone of future development projects.

CAS Preparation

The CAS is the principal strategic document that guides the Bank Group’s funding program in a country. It indicates the level and composition of assistance to be provided, analyses the socio-economic context, and explains what performance indicators are required for sustained support. While the CAS is a World Bank Group document, it is developed through consultation with a cross section of stakeholders and is aligned to the government’s own development priorities.

The current CAS was approved by the World Bank Board of Directors on June 17, 2004 and covers the period July 2004 - June 2007. During this period, the World Bank expects to provide US\$ 870 million in grants and soft loans, assuming the current base case lending environment is sustained by government. The CAS identifies the economic, human development, and policy reform triggers that would bring about a change in the lending levels.

The funding will go towards supporting projects across a range of key sectors including agriculture, infrastructure, health and HIV/Aids, public sector reform, micro, small and medium enterprises, education, water, roads, aviation, and community development.



Where will the funds go?

Proposed lending scenarios, fiscal years 2004 - 07 (US\$ millions)

Operation	Base Case	High Case	of which	
			Low Case	IDA Grants ¹
FY04				
Northern Corridor Transport (Roads, Aviation, Transport, Safety)	207.0	207.0		
Water Services–Nairobi (Institutional Reform)	15.0	15.0		15.0
Agriculture Productivity (Crop Research, Extension Services)	40.0	40.0		13.0
Development Learning Centre	2.7	2.7		2.7
	264.7	264.7		30.7
FY05				
Financial and Legal Sector Technical Assistance	20.0	20.0	20.0	
Energy Sector Recovery (Production and Distribution)	75.0	75.0	75.0	
Statistical Capacity Building	20.0	20.0	20.0	
Programmatic Structural Adjustment Credit (PSAC)	75.0	75.0		
	190.0	190.0	115.0	0.0
FY06				
Financial Sector Adjustment Credit	65.0	100.0		
Education Sector-Wide Assistance Program	50.0	100.0	50.0	
Health Sector-Wide Assistance Program	30.0	80.0	30.0	
MAP (HIV/Aids)	20.0	20.0	20.0	
Public Sector Reform Technical Assistance (Private Sector Development/Local Government)	40.0	40.0	40.0	
	205.0	340.0	140.0	0.0
FY07				
PRSC (PSD/Local Govt, possibly Health)	100.0	200.0		
Western Kenya Community Driven Development/Reducing Environmental Vulnerability	45.0	45.0	45.0	
Water (Water Services Sector/ Water Resource Management), Slum upgrading	30.0	50.0	30.0	
	175.0	295.0	75.0	0.0
Joint IFC/PSD Initiative				
Micro Small and Medium Size Enterprises Project (FY05)	20.0	20.0	20.0	
Regional Projects				
EAC Trade and Transport (FY06)	5.0	5.0	5.0	
Lake Victoria (FY06)	10.0	10.0	10.0	
Total FY04-FY07:	869.7	1124.7	365	30.7



Under what terms does World Bank lend to Kenya?

The World Bank is an international development agency that lends at highly concessionary rates to member governments, spurred by its vision of seeing a world free of poverty. Assistance to Kenya is given by the Bank Group's International Development Association (IDA) which provides funding to countries with per capita GDPs of under US\$ 875. IDA assistance comprises of non-repayable grants, and soft loans (normally referred to as credits) which have a 40-year repayment period, including a 10-year period of grace. The credits are zero-interest loans and only attract a 0.75% administrative fee.

How does a country move up the ladder from a low case to a base case and then to a high case lending program?

The CAS indicates the broad areas of reform and economic performance required to move from one lending scenario to another. They are: strengthening public sector management and accountability; reducing the cost of doing business and improving the investment climate; reducing environmental vulnerability and strengthening community-driven development capacity; and investing in people principally through equitable and widespread access to health care and education. If the basic criteria for remaining in one lending scenario are not sustained, it is possible for a country to slip to a lower lending level.

How does the World Bank decide how much to give Kenya or any other country?

The Country Policy and Institutional Assessment (CPIA) is the instrument used to determine the amount of resources an IDA country receives. It measures 20 criteria including among others: economic management; environment for private sector and investment; gender, environment, and equity in the use of public resources; governance, and implementation performance.

Kenya's CPIA rating went up in 2003, due to reforms undertaken by government, allowing the World Bank to increase its support.

How does the Bank ensure that the money it provides is used for its intended purpose?

The Bank has a lot of experience in project financing that include rigorous monitoring and evaluation programs, as well as high financial accountability and reporting standards. Financial and anti-corruption safeguards are an integral component of all Bank projects. Bank-financed projects have a strong emphasis on results as the Bank has a responsibility both to its Board and to the Kenyan public to ensure that project finances actually help to improve lives and reduce poverty.

What does the Bank do if it detects any signs of corruption in a Bank-financed project?

Companies and individuals found to have broken the Bank's procurement or consultancy guidelines can be banned from participating in any further Bank-backed projects either temporarily or permanently. Actions could include forensic audits and even prosecution in court.

The Bank also publicly lists the names of the individuals or companies found to have breached its consultancy or procurement guidelines and publishes the resulting penalty on its website. The Bank is the only international organization that publicly lists the names of firms that have been sanctioned for having engaged in fraud or corruption. To date, more than 90 companies have been debarred from the Bank's roster.

What assistance is the Bank providing Kenya to help fight corruption?

First, the Bank contains measures and safeguards against corruption in everything it finances. These include requirements for regular audit, but also include measures for building the capacity of government and project implementation agencies to ensure professional and accountable execution of the operations financed by the World Bank.

The Bank also supports the government's efforts to create the legal and policy framework that supports anti-corruption efforts, including the legislation now before parliament for reform of procurement and public financial management. More specifically, the Bank is financing the government's reform of the legal and judicial system, in collaboration with other donors, in order to ensure the effectiveness of this vital sector.

How does the Bank guard against corruption in projects?

The Bank is a global leader in the fight against corruption and established in 1997 a special unit, the Department of Institutional Integrity, to fight graft. International best practice shows that successful anti-corruption programs are designed along the following four pillars:

FOUR PILLARS OF EFFECTIVE ANTI-CORRUPTION PROGRAMS			
Strong Political Accountability	Civil Society Participation	A Competitive Private Sector	Public Sector Management
<ul style="list-style-type: none"> ■ Political competition ■ Credible political parties ■ Transparency in party financing and asset declaration including conflict of interest rules 	<ul style="list-style-type: none"> ■ Freedom of information ■ Public hearings of draft laws ■ An active role for the media and NGOs 	<ul style="list-style-type: none"> ■ Competitive restructuring of monopolies ■ Economic policy reform ■ Regulatory simplification for entry of new businesses ■ Transparency in corporate governance ■ Strong business associations 	<ul style="list-style-type: none"> ■ A civil service based on meritocracy, not patronage and is adequately remunerated ■ Sound public expenditure management ■ Strong sectoral service delivery especially in health, education, and energy ■ Decentralization with accountability

How do you ensure development success?

In its six decades of experience across a wide number of countries, the Bank has recognized several factors commonly associated with successful development, which are listed in the table below:

FACTORS COMMONLY ASSOCIATED WITH SUCCESSFUL DEVELOPMENT				
Economic Growth	Good Governance	An Active Private Sector	Ownership	Empowerment
<ul style="list-style-type: none"> The countries that have reduced poverty are those that have grown the fastest. Successful development requires sustained periods of high per capita growth 	<ul style="list-style-type: none"> Good governance in both the public and private sectors fosters an environment where contracts are enforced, systems function, and markets operate effectively 	<ul style="list-style-type: none"> Small and medium-sized enterprises in a vibrant private sector play a significant role in generating employment opportunities for poor people 	<ul style="list-style-type: none"> Country ownership of the development agenda ensures there is widespread support for development programs 	<ul style="list-style-type: none"> All people should have the ability to shape their own destiny by being able to participate in the opportunities provided by economic growth, and have their voices heard in decisions that affect their lives

What is the difference between the term “World Bank” and “World Bank Group”?

The World Bank - which is owned by 184 member countries - refers only to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

“World Bank Group” incorporates the IBRD, IDA and three other agencies, the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Center for Settlement of Investment Disputes (ICSID).

All five agencies specialize in different aspects of development and use their comparative advantages to work collaboratively toward the same overarching goal - poverty reduction. The IFC, with whom this CAS is a joint undertaking, is empowered, unlike the World Bank itself, to work directly with the private sector.

What are the Millenium Development Goals?

The MDGs were adopted by 189 UN member states in the Millennium Declaration at the UN General Assembly of September, 2000. At this occasion, these countries looked back to 1990 and ahead to 2015, and gave themselves 25 years to produce substantial improvements in the quality of lives of their people, by achieving progress in these key areas.

THE MILLENNIUM DEVELOPMENT GOALS

1. Eliminate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat (halt and reverse) HIV/Aids, malaria, and other major diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

The World Bank publishes an annual World Development Report that tracks progress towards achievement of these development goals. The most recent report shows that many countries in sub-Saharan Africa, including Kenya, are not on track to achieve these goals by 2015.

What are the Bank's lending conditions?

The Bank provides funding to specific development projects based on proposals prepared by government. The Bank appraises these projects to determine a number of factors such as whether the projects have clear development objectives and

effective implementation, monitoring, and expenditure control policies. The Bank also assesses whether the institutional and policy framework to help ensure a project's success is in place. These are simply prudent lending requirements, following a process of due diligence, which is a regular exercise for any responsible lender.

How can I find out more about the Bank's programs in Kenya?

You can visit our website www.worldbank.org/kenya or come to our Public Information Center at our Upper Hill office that is open to the public on weekdays.

This center has many useful publications on the Bank, its programs and other development issues.

You can also access a database of over 2,000 international journals on a wide number of development and related topics.

Our contact details are on the back page of this publication.



Our Mission

*To fight poverty
with passion and
professionalism for
lasting results*



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