

The World Bank

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KENYA CONSULTATIVE GROUP MEETING 2005

Opening Address by the Chairman

Mr. Makhtar Diop

Country Director

Kenya, Eritrea and Somalia

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Your Excellency President Mwai Kibaki,

President of the Republic of Kenya,

Your Excellency, Vice-President Moody Awori

Honorable David Mwiraria, Minister of Finance,

and Members of the Government

Honorable Speaker of the National Assembly

Honorable Leader of the Opposition

Honorable Members of Parliament

Members of the Kenyan Delegation

Ambassadors, High Commissioners and Members of

the Diplomatic Corps

Heads of Delegation, Colleagues

Representatives of the Private Sector and Civil Society

Ladies and Gentlemen:

It gives me great pleasure to welcome you here today to this second CG meeting for Kenya.

I would like in particular to express my appreciation to His Excellency the President for honoring us with his presence here and for agreeing to deliver the keynote address that will set the tone for discussion of the vital issues of this meeting.

We are pleased to again be holding this important meeting for Kenya's future in Kenya. This allows the greater involvement of the President and his Government, as well as the Speaker of the National Assembly, parliamentarians and other stakeholders in Kenya's development process, including representatives of the private sector and civil society. Discussion in such an open and transparent forum will deepen the process of dialogue on the critical development issues facing Kenya today.

This CG meeting comes at a crucial time in Kenya's history.

IT IS NOT BUSINESS AS USUAL

The nature of the relationship between governments, its citizens, and its development partners is undergoing fundamental change based on the development lessons of the 1990s. Three lessons are particularly important. First, reforms to be sustainable must be fully owned and driven by countries. Second, the confidence of citizens

and of development partners in the government depends on the extent to which it is transparent and accountable. Third, institutions matter—the quality of governance depends fundamentally on institutions.

Today, mid-way through the term of the new government offers the opportunity to reflect on where Kenya stands in relation to these lessons. First, we recognize that the government has taken **ownership** of its development agenda through preparation and now implementation of its Investment Program for the Economic Recovery Strategy (or IP-ERS). This IP-ERS reflects the views of a wide range of stakeholders of the particular institutional endowments and the constraints that Kenya faces as it advances its development agenda, and sets out a roadmap for unleashing higher growth and managing it so that everyone benefits.

However, ownership to have its impact requires **accountability and transparency**. Lack of transparency and accountability of government actions has historically been reflected in the misuse of public resources; lack of inclusion of vulnerable groups in decision-making processes, which is leading to poverty and inequality; and deteriorating institutions. Third, **weak institutions** are allowing narrow political or economic interest groups to divert policies intended to promote the public good to their own uses.

The stakeholders acknowledge that the new government inherited deep-rooted problems from the previous regime. Through the

election of a democratic government, it is now in a process of economic and political transition. Uneven progress, however, in implementing the key reforms laid out in the IP-ERS, particularly concrete actions to eradicate corruption, is affecting the confidence of stakeholders in the government. We recognize that the fight against corruption is first and foremost a Kenyan problem to be solved by Kenyans, and we are pleased that the government has invited civil society and the private sector to be part of a consultative process on how to accelerate the effort to curb corruption in this country. We understand that the government in collaboration with civil society and the private sector will define tangible and monitorable actions that will serve as the bedrock of all efforts to eradicate corruption. Development will be happy to participate in the discussions and will be glad to contribute to designing the framework.

We wish to emphasize that creating solid, independent, and efficient institutions is not an end in itself. In this area of governance the various institutions will be judged not only on the process, but also on their outcome. In this particular area, it is critical that the three institutions—executive, legislative, and judicial—take their responsibility in achieving the goal. We hope that the executive without delays will speed up the implementation of key measures, such as completing investigations and audit, the judiciary to prosecute cases put before it without hesitation, and that parliament will put behind it political differences and support legislation to curb corruption. We hope that anti-corruption action plan that will be discussed later today will delineate the responsibilities of each of

these institutions and that a collective and transparent monitoring system will help in identifying the obstacles to reforms. I would like to note that while institutions are essential to achieving lasting results, people matter in the slowing down or accelerating the pace of reforms.

In the recent preparation of the miscellaneous bill and other bills such as the political party financing bill, Kenya is setting the benchmark for the legal framework to fight corruption. If the laws are enforced, Kenya will also be able to set the standard in the fight against corruption, which was the ambition declared by the government when it was elected. We also expect the international community to support this overall fight against corruption by implementing with determination the international agreement on corruption that is also part of the accountability so needed to achieve our common goals.

If 2005 becomes a year of action as mentioned by the Hon. Minister Kiraitu in a recent meeting, the development partners will strongly support the government in the implementation of the IP-ERS.

We note that time is rapidly running out for the government to implement the key reforms that, although politically difficult in the short run, will put the country on a permanently higher growth path. There simply is no short cut to reform. All transitions have costs. This year—2005—is a critical year. By 2006, implementing reforms

will become more difficult because political campaigning will begin in earnest. We urge you to seize the moment.

Following up from our last CG meeting, this gathering will focus on the critical issues required for widely-shared growth and measures to reduce inequality. What do we mean by shared growth? It is growth that creates benefits throughout society, including the poor, including those living in more remote rural areas, including women and youth. The benefits of shared growth are not only for the poor. They are for the entire economy, as once the isolated farmer and the unschooled girl gain the tools to participate in the economy, they will go on to contribute to its growth.

Our first session of the morning focuses on progress in implementing the government's IP-ERS. This shows progress in some areas, but far too little in others. While growth has picked up during the past two years from its previous dismal performance, it remains far too low for Kenya to cut poverty in half from 1990 levels by 2015, in line with the MDG. Exporters of flowers and cut vegetables continue to be world class, and are transforming the prospects of many rural communities. The growth in tourism in the face of continuing fears of international terrorism demonstrates the enduring appeal of Kenya's natural and cultural resources for travelers. The successful implementation of the free primary education project is permitting 1.3 children to attend school who would otherwise be shut out. The reform of water services that have created fully commercialized water companies is leading to improved service delivery, particularly in urban areas. The

commitment of your government, Mr. President, to stop the spread of HIV/AIDS is finally having a tangible effect. But much more remains to be done. Public and private investment remain low. Public sector wage pressures continue to limit the room for reallocation of the budget for priority investments and delivery of services to Kenya's poorest citizens. Reform of parastatals, public service reform, and many financial sector reforms are still in the design stage. The feeder roads, measures to improve market access, more secure land tenure, and improvements in capacity for trade are still needed to improve the prospects for isolated farmers.

To introduce this topic Hon. Prof. Anyang' Ny'ong'o, Minister for Planning and National Development will present the progress report on behalf of the Kenyan delegation, and Ambassador Hubert Fournier, Head of Delegation, France, will speak on behalf of development partners. We shall examine the critical issues raised during the first session in greater depth during the remaining sessions of the CG meeting. We very much hope that the progress report can be updated to reflect the discussions and in particular lay out a road map for implementing key reforms.

We all know that **private sector participation in the economy** is essential for growth, creation of jobs, and reduction of poverty and inequality. Kenya has a dynamic private sector, but weaknesses in the legal system, crumbling infrastructure, insecurity, regulatory hurdles, and poor governance have dramatically reduced Kenya's attractiveness as a place to invest and do business. The Investment

Climate Assessment recently issued by the Bank shows that the direct loss to crime represents 4 percent of annual sales revenue, and the indirect costs of security cost an additional 2.7 percent. Loss-making parastatals not only absorb public resources that would be better spent on public services, but they also prevent entry of possibly more efficient private players.

Improving the investment climate is the first topic for this afternoon. Ambassador Satoru Miyamura, Head of Delegation, Japan will present the statement on behalf of donors, the Hon. Dr. Mukisa Kituyi, Minister for Trade and Industry, will make a statement on behalf of the Kenya Delegation. We hope that the session will focus on two key issues: restructuring or privatizing parastatals, and eliminating unnecessary regulations to reduce obstacles for private sector investment.

A well-performing public sector is also vital for widely-shared growth. Of great importance is a budget process that is transparent, and that results in a budget that allocates resources to priority programs.

We welcome the government's **Budget Strategy Paper**, produced for the first time this year, as an important step in creating a more pro-poor budget. Stronger budgetary processes will certainly increase the confidence of the donor community in providing more substantial assistance to Kenya, including budget support.

This will be our topic this afternoon. Mr. Simon Bland, Head of Delegation for the UK, will make a statement on behalf of donors, while Mr. Joseph Kinyua, Permanent Secretary, Ministry of Finance, will make a statement on behalf of the Kenya Delegation. Here we will focus on the extent to which the new process is succeeding in clearly establishing sectoral spending priorities consistent with the overall budget ceilings.

We also welcome efforts of the government to **improve public expenditure management, governance, and fiscal transparency**. Key achievements include adoption of a revised budget timetable that allows for greater voice of parliament and civil society in the outcome, and in the strengthening of public audits. Critical reforms that include passage of the procurement bill, and speedier implementation of the Enhanced Financial Management Action Plan are urgently needed.

These issues will be discussed tomorrow morning. Mr. Derek Fee, Head of the EC Delegation, will provide the statement on behalf of donors, and Mr. Joseph Kinyua, Permanent Secretary, Ministry of Finance will speak on behalf of the Kenya delegation.

Creating a more responsive, efficient, and effective **public service** is another area where government has committed to do better. We welcome government's decision to establish a civil service that is both affordable and responsive to the needs of those it serves. Introducing a system of results-based management that links

compensation of key government officials with their success in attaining specific objectives will surely improve outcomes.

Introducing this topic, Mr. Paul de la Porte, Head of Delegation, UN, will make a statement on behalf of donors, and Hon. William Ole Ntimama, Minister of State for Public Service, will speak on behalf of the Kenya Delegation. They will highlight the need to link the objectives of results-based management with the IP-ERS and budget prioritization process, so that the three instruments work in a mutually reinforcing way.

We all know that investments in education and in health services—in human capital—contributes to economic growth in the long run. But, perhaps more important is the impact that increased access to social services can have on the lives of the poor and disadvantaged, by empowering people to take advantage of opportunities they would otherwise be deprived of.

After long decline in public spending on education and health services that resulted in widening disparities in access, the government of Kenya is again investing in its people. I have already mentioned the benefits of the free primary education program and of the actions to stop the spread of HIV/AIDS, both areas that are attracting considerable support of development partners. Health is certainly an area in which development partners are ready to significantly increase their support once the government adopts a

national health sector strategy. The preparation of a sector-wide approach is already underway.

Human Resource Development is the first topic of tomorrow. Jeffrey Borns, Head of the US Delegation, will present the issues on behalf of donors. Hon. Mrs. Charity Ngilu, Minister for Health, and Hon. Prof. George Saitoti, Minister for Education will speak on behalf of the Kenya Delegation. Here a key question is whether a policy framework for the health sector that the development partners can support—as for the education and the HIV/AIDS sectors—will be established.

In order for us to address Kenya's priority needs, we must work together, not separately. **Donor harmonization is a key topic before us.** I am pleased to report that considerable progress with donor harmonization has been made since our last CG meeting. The pace at which we can move, however, depends on the strong commitment and capacity of the government to lead donor coordination.

To open the discussion on these issues, Ambassador Bo Göransson, Head of Delegation, Sweden, will present a statement on behalf of donors, and Mr. Donald Kibera, Director, External Resources Department, Ministry of Finance will give a statement on behalf of the Kenya Delegation. We hope that during the session, we can agree on some practical proposals for enhancing donor harmonization in support of the objectives of the IP-ERS.

These discussions will be followed by a session on **donor support for Kenya's external financing requirements**. This year we are taking an innovative approach, providing information by sector, rather than by development partner. We are also providing concrete forecasts of what we hope to disburse from our new and ongoing programs during each of the next three years. We hope that this information will be much more useful to the government in its planning process than the “pledges” of the past. The forecasts are based on the assumption that the government will follow through and accelerate reforms and will overcome the implementation bottlenecks that are slowing disbursements.

We wish to emphasize that the level of our support will ultimately depend on the government’s success in implementing the IP-ERS, and especially, in tackling corruption.

Before finishing, Mr. President, I wish to call attention once again to this important moment in Kenya’s history. We have a democratically-elected government that still enjoys the support of Kenyans for change. And we have a donor community that is committed to aligning support behind the government’s IP-ERS to improve the effectiveness of aid. We have a civil society and a private sector who are willing to do their part to realize Kenya’s huge potential. Political will is now required to implement the reforms that Kenyans crave and deserve. We hope that over the course of the next two days we will be able to agree on the priority reforms and some realistic but

significant policies that can be implemented before the next CG meeting.

This is the decade for Africa. The U.K. Commission on Africa, the progress reports on the MDGs, and the IDA 14 replenishment are all aimed at bringing widely-shared sustainable growth to Africa. Kenya can benefit enormously from these resources with political commitment at the highest levels, the right policies, and strong institutions of transparency and accountability. Kenya must not let this opportunity slip by.

Thank you.

It is now my pleasure to turn to my co-chair, the Minister of Finance.