

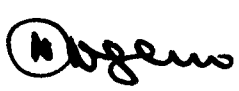


PROJECT DOCUMENT

Improving Targeting of Public Expenditure to the Poor

Implementing Partner: World Bank, Div AFTP2
Other Partners: Ministry of Planning and National Development
Project Period: August 2005 – July 2006
Proposal Amount: USD 120,000

The proposed project aims to improve equity and reduce poverty, and improved monitoring and targeting of public expenditures to the poor through: Phase-I data compilation and field work, supervision, travel, technical support, dissemination material and workshop; Phase-II dissemination material and workshop.

The funding of this project will further strengthen and provide additional opportunities for scaling up collaboration with UN colleagues, particularly in the context of Phase I fieldwork GIS data building exercise.

Approved on behalf of	Signature	Date	Name/Title
Ministry of Planning and National Dev.		7/9/05	Dr. Nehemiah K. Ng'eno Permanent Secretary
World Bank		6/7/05	Colin Bruce, Country Director Kenya, Eritrea & Somalia
LNDP		2/8/05	Mr. Paul Andre de la Porte, Resident Representative

A. Description of the policy reform for PSIA and rationale for selecting this reform

Background

One of the three key pillars in the Kenya PRSP is to improve equity and reduce poverty, and improved monitoring and targeting of public expenditures to the poor is seen as critically important towards achieving these objectives. To build up the information base and toolkit for supporting an evidence-based policy agenda, the World Bank – in close collaboration with the Government and development partners – has taken the lead in developing a recently completed poverty map for Kenya. This database, constructed by applying cutting edge statistical analysis using the population census and available household survey data, provides a map of poverty and inequality levels at unprecedented levels of geographic disaggregation up to the smallest administrative decision making units in Kenya, such as Districts (headed by 70 Government appointed Commissioners), Constituencies (210, each of which is represented by a Member of Parliament) and Sub-locations (6,800, each of which is headed by a chief).

With this information in hand the Government has now requested an analysis of the benefit incidence of public expenditure allocations across these decentralized units and has expressed an interest in active collaboration. This is important, as this analysis requires collaboration spearheaded by the Ministry of Planning and National Development to compile a detailed record of public expenditures by sub-headings and items as well as geo-referenced data on key public service facilities such as schools, hospitals and dispensaries. The analysis will be carried out as a key component of the Kenya Poverty Assessment which is being undertaken jointly with all key development partners and an eye towards providing key inputs in the next PRSP and a possible future joint-CAS to further improve donor harmonization.

PSIA Question

The successful implementation of national antipoverty programmes frequently rests on local level governments and administrations. Kenyan ministries make numerous budget allocations at the District level and the latter, in turn, are responsible for reaching their poor with the discretionary portion of these allocations. In other words, these central government agencies practice *de facto* geographic targeting of budget allocations – including core poverty, development and recurrent expenditures – between districts and within-district allocations of discretionary budgets are decided at the local level. For instance, about 38% of the total Government budget is accounted for by expenditures on education and some 90% of these are allocated at the sub-national and school level. Policy reforms and the recent move towards providing free primary education require substantive education budget realignments in response to subsequent enrollment rate increases (including teaching staff redeployment, school upgrading and building of new facilities) and targeting of school bursaries and feeding programmes to keep children from poor households in school. Improved targeting of the substantial portion of overall public expenditures financing the education sector can thus result in significant distributional and poverty impacts.

Similarly, the Constituency Development Fund (CDF) Act, 2003 and the subsequent establishment of the CDF through legislation posted in the Kenya Gazette Supplement No. 107 (ACTS No. 11) on January 9, 2004 requires that funds equaling no less than 2.5% of all ordinary Government revenue collected in very financial year is disbursed through the CDF (net of 5% emergency and 3% administrative costs) be divided equally among all 210 Constituencies and that the net remaining quarter be allocated according to each Constituencies' respective contribution to national poverty. Again, the analysis and development of optimal CDF targeting schemes along with procedural checks and balances to ensure transparent, effective and efficient implementation can result in substantial poverty impacts.

There is thus a consensus among development partners and the Government that PSIA to improve the targeting of public expenditures is a timely and necessary input to inform an evidence-based policy agenda and in anticipation of policy reforms towards further devolution of public expenditure decentralization. In addition, to having a direct bearing on the policy agenda in Kenya, the techniques developed and lessons learned from this PSIA exercise are anticipated to prove readily applicable in other developing countries.

To that end, a component of the project aims at furthering this dialogue in the region, which will be facilitated through PADI (the Poverty Analysis and Data Initiative) – a well established forum regularly convened by policy makers, data producers and researchers from Uganda, Tanzania, Kenya and Ethiopia – as well as an aim towards expanding consultations towards Rwanda and Madagascar; identified as key countries in which geographic poverty maps are likewise developed.

B. Operational instrument to which PSIA would be linked (CAS, CEM, PRSC, PA, PER, etc) and it's TTL.

This PSIA analysis will form a central part of the Kenya Poverty Assessment under preparation at the World Bank by Fred Kilby and Johan Mistiaen. The Poverty Assessment is one of five core AAA deliverables outlined in the Kenya CAS and aligned to the PRSP key pillar aiming at improving equity and reducing poverty. The Poverty Assessment in Kenya is being undertaken as a joint exercise in collaboration and consultation with all key development partners in the country.

C. Description of proposed analytical work

a. Data, methodology, tools

Phase I: Building up the database. With the census-survey based poverty and inequality map database already developed, the anchoring element of the database is already in place. A substantial part of the efforts can therefore be devoted towards building up a geographically disaggregated database of public expenditures. This will take place in very close collaboration with the Ministry of Planning and National Development, the Central Bureau of Statistics, and key Ministries, including Finance and Education. This data building exercise will draw on Treasury and ministerial spending allocation records as well as integration of geo-referenced facility-level data. Starting from the about 86% of schools, hospitals and dispensaries in Kenya that have already been mapped (geo-referenced using GPS devices), the project will commission field exercises and collection exercises to complete mapping of the key public service facilities in the country. Given the intensive collaboration and technical requirements for successfully building up the databases, it is anticipated that the bulk of this work will require active coordination and field supervision by facilitating Bank staff operating out of the World Bank resident mission in Nairobi.

Phase II: Implementing PSIA methodology. Several analytical tools will be utilized including (a) Geographical Information System analysis to match and compute facility accessibility and coverage indicators; (b) statistical analysis to identify key correlates; (c) regression analysis combining geographical poverty indicators and spending incidence techniques to compute targeting differentials (mean differences in spending to poor and non-poor); and (d) counterfactual poverty mapping and linear constraint optimization simulations to assess different geographical targeting schemes.

b. Timeframe

Phase I will be started immediately upon receiving funding and it is anticipated to be completed within 4-6 months. Given the FY06-07 Poverty Assessment timeframe, it is critical to commence Phase I implementation by August 2005. Phase II will be initiated as soon as Phase I is completed with preliminary results ready for discussion with Government and development partners by April 2006 in time for incorporation in the Government budget preparation cycle.

c. Plans, if any, to involve local agencies, including UNDP and the Belgian Government (where the latter applies).

The UNDP is one of the key development partners to participate in the Joint Kenya Poverty Assessment. Consultations to determine specific collaboration with UNDP on this component of the Joint Poverty Assessment have been initiated and will be undertaken during a May 19-20, 2005 joint workshop organized in collaboration and at the request of the Ministry of Planning and National Development. The partial funding through this project will further strengthen and provide additional opportunities for scaling up collaboration with UN colleagues, particularly in the context of Phase I field work GIS data building exercise – an area in which the UN in Kenya has considerable expertise.

D. Planned activities to engage with national authorities and other national stakeholders (on selection of reform, choice of approach, dissemination of results, etc)

The integrated database developed under phase 1 will be discussed and disseminated during a workshop with the Government and key development partners upon completion, anticipated by February 2006. A follow-up workshop will be organized in April 2006 to discuss the PSIA phase-II results in detail so that these can be incorporated both in the Poverty Assessment as well as the Government budget preparations.

E. Deliverables of PSIA by end FY (clarify whether these deliverables are additional, or inputs to other VPU outputs)

It is anticipated that the funds will be fully allocated before June 2006, by which time a draft of the Joint Poverty Assessment will be tables for discussion and review by the key stakeholders. Additional background documents and dissemination materials will be prepared and finalized thereafter.

CP Component: Capacity Building

Implementing Partner World Bank

<p>EXPECTED CP OUTPUTS AND INDICATORS INCLUDING ANNUAL TARGETS</p>	<p>PLANNED ACTIVITIES <i>List all the activities including monitoring and evaluation activities to be undertaken during the year towards stated CP outputs</i></p>	<p>EXPENDITURES <i>List actual expenditures against activities completed</i></p>	<p>RESULTS OF ACTIVITIES <i>For each activity, state the results of the activity</i></p>	<p>PROGRESS TOWARDS ACHIEVING CP OUTPUTS Using data on annual indicator targets, state progress towards achieving the CP outputs. Where relevant, comment on factors that facilitated and/or constrained achievement of results including: - <i>Whether risks and assumptions as identified in the CP M&E</i> - <i>Framework materialized or whether new risks emerged</i> - <i>Internal factors such as timing of inputs and activities, quality of products and services, coordination and/or other management issues</i></p>
<p>OUTPUT 1: INDICATOR 1.1 WITH TARGET FOR THE YEAR: INDICATOR 1.2 WITH TARGET FOR THE YEAR: INDICATOR 1.3 WITH TARGET FOR THE YEAR:</p>				
<p>OUTPUT 2: INDICATOR 2.1 WITH TARGET FOR THE YEAR: ETC.</p>				