

CONSULTATIVE GROUP MEETING FOR KENYA

Nairobi, November 24-25, 2003

Joint Statement of the Government of the Republic of Kenya and the World Bank

The Government of the Republic of Kenya held a Consultative Group (CG) Meeting with its donor partners for a first time in Nairobi on November 24–25. Parliamentarians, NGOs, the private sector, and other representatives of the civil society actively participated in the proceedings.¹ The meeting was formally opened by Kenya's President, His Excellency Mwai Kibaki. The Government of the Republic of Kenya and the World Bank jointly chaired the CG.

H.E. President Kibaki, welcomed the delegates and assured them that Kenya is committed to good governance, sound economic management and zero tolerance to corruption. He reiterated his Government's determination to giving top priority to fighting the scourge of HIV/AIDS. He stated that the priority areas for the Government are to rehabilitate and construct rural infrastructure; rehabilitate and reconstruct major trunk and international roads; strengthen Government capacity to provide services through civil service reform and capacity building; deepen the process of providing universal free primary education; provide health care, especially to the poor; strengthen institutions that provide security and combat terrorism; strengthen the rule of law; and support pro-poor interventions. The President noted that Kenya needs predictable donor assistance, and unless adequate support comes in time, gains made on democratization and public sector reform may be rapidly reversed. Hon. David Mwiraria, Minister of Finance in his opening statement highlighted the challenges facing Kenya. He emphasized that due to corruption, Kenyans have not been getting value for their money and that the Government is committed to instituting an effective accountable and transparency framework for the implementation of the budget.

Economic Growth and Measures to Reduce Inequality

The meeting recognized that growth is essential for poverty reduction and the achievement of the MDGs. Participants considered the Government's objectives to achieve higher levels of economic growth while reducing Kenya's high levels of poverty and inequality, that are outlined in its Economic Recovery Strategy for Wealth and Employment Creation (ERS). Participants noted that growth has been weak for the past

¹ The meeting was attended by delegates from Austria, Belgium, Canada, China, Denmark, Finland, France, Germany, Ireland, Israel, India, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, United Kingdom, and United States. International organizations present included, the African Development Bank, European Commission, International Monetary Fund, Nordic Development Fund, Saudi Fund for Development, Food and Agriculture Organization, International Labor Organization, United Nations Development Program, UNAIDS, UNIDO, UNHABITAT, UN High Commission for Refugees, World Food Program, and the World Health Organization. The Executive Director for Kenya at the World Bank was represented in the CG meeting.

ten years and that Kenya is today a very unequal society. They identified several critical areas for further discussion, including problems of agricultural production and rural development, land policy, export and trade policy, water and the environment, the health and welfare of Kenya's poor, the incredible burden borne by women, and the particular problems of Kenya's urban slums. Participants recognized the importance of creating an enabling environment for the private sector, improving the status of women, and of improving competitiveness by reducing the costs of utilities through reform of parastatals. They also stressed the importance of creating a better environment for attracting investment from both foreign and domestic investors.

Noting the importance of agriculture for growth and poverty reduction, the meeting agreed that measures to reduce the high costs of agricultural production were essential. Such measures include expanding rural financial services; strengthening research and extension services; improving rural infrastructure, especially feeder roads; improving management of land, forests and watersheds; and improving marketing, including by improving access to international markets. Addressing the fragmentation of land and reforming inefficient agricultural parastatals are critical.² Women are the majority of small farmers, so ensuring that they benefit from activities to raise the productivity of agricultural is critical. Finally, clearly defining the role of the state and the role of the private sector, NGOs, and others is key.

Improving access to land and enhancing security of tenure, especially for women, are important both to stimulate agricultural production and to reduce poverty. This will require developing transparent and efficient land delivery systems, creating accessible and affordable dispute resolution systems, and reallocating underutilized land to households that will use it effectively. Regularizing informal settlements in and around Nairobi is also important. These are long-term issues that the Government is addressing through the constitutional review process and through the development of a comprehensive land policy.

Regarding trade, participants welcomed the Government's decisions to move towards greater regional integration, especially in the context of the East African Community and of COMESA. The meeting also advocated moving towards a multilateral trade agreement in due course.

In theory, lowering trade barriers will benefit consumers and some producers that use imported inputs, and will ultimately lead to higher standards of living for most Kenyans. The transition to a more open economy will however harm some producers. Little is known about the actual level of effective protection in Kenya, and it will be important to fully understand the impacts and to develop programs to help people harmed to adjust. Poverty and social impact analyses can help here.

² In the written statement, development partners stated that an annual report on growth and poverty could serve as a monitoring document and also be the basis for donor coordination, while being part of the documentation for the next CG meeting.

Public Expenditure Management, Governance, and Fiscal Transparency

The meeting congratulated the Government on the substantial progress that has been made in certain areas that are essential to achieving the objectives of the ERS, including the efficient allocation of resources, the effective delivery of services, and attracting investment. Such measures include creating a Ministry of Justice, establishing the Kenya Anti-Corruption Commission in the Office of the President, replacing procurement officers and removing judges and magistrates, passing the Public Officer Ethics Act and the Anti-Corruption Act, and seeking adoption of legislation on public audit, the procurement and disposal of public assets, privatization, and financial management. Both the Government and partners agreed that strong implementation of the legislation will be key to success in the fight against corruption. In addition the Government informed partners that it is committed to completing the constitutional review process, and named a target date of June 2005 for this.

Participants recognized that more progress was needed in other key areas of reform, and in this regard welcomed the Government's commitment to develop a more rational, transparent, and inclusive budget process; to institutionalize the PER in all Government ministries and to ensure that its results are reflected in the medium-term expenditure framework and in budgetary allocations; to strengthen capacity of local Governments to operate effectively within a decentralized framework; and to reform the civil services. The challenge will be in implementing the reforms, so that budgetary allocations are truly pro-poor and public services are delivered effectively and efficiently. Development partners, civil society, and the Government agreed that all must work together to support of the reforms.

Development partners noted the importance of improved public financial management to ensure that resources are spent as intended. This was also of particular interest to potential and actual providers of budget support, who need to be able to demonstrate that the resources they provide are well spent. Several development partners expressed concern that progress in developing the promised public financial management action plan had fallen behind schedule, and urged the Government to give high priority to this. The meeting also welcomed Kenya's leadership in NEPAD, and, specifically, Kenya's willingness to benefit from the Africa Peer Review Mechanism under which countries will review the policies, standards and practices relating to political governance and the rule of law, economic growth, sustainable development and regional integration of countries that seek such review.

Public Sector Reform and Institutional Capacity Building

Reforming the civil service, local authorities, and public enterprises is important to attract private sector investment and improve the delivery of public services. Government is committed to undertaking the needed reforms. It is reviewing the core responsibilities of Government ministries and agencies and incentive structures for civil servants with the aim of significantly reforming the civil service. It is supporting the decentralization process through the Local Authority Transfer Fund and assistance for capacity building.

And it is committed to privatizing services that can be more efficiently provided by nonGovernmental actors by among other measures developing a comprehensive strategy to facilitate the privatization of public enterprises and the presentation to parliament for enactment of a privatization bill.

The meeting recognized the significant challenges of implementing such far-reaching reforms, which require both capacity and political will. At present, Kenya spends a higher proportion of GDP and a higher share of its budget on salaries than other countries in the subregion. Reducing the share of the wage bill to free resources for investment in infrastructure, necessary operations and maintenance, and delivery of essential services to the poor is a critical challenge. The Government intends to sustain the momentum in implementation through active dialogue with stakeholders and is confident that the desired outcomes will be achieved. Partners welcomed the Government's request for timely additional technical assistance to implement the reforms and agreed to respond promptly.

HIV/AIDS

The meeting welcomed the efforts of H.E. President Kibaki and the First Lady in the fight against HIV/AIDS and the progress being made in reducing slightly the HIV/AIDS prevalence rate during the past two years in Kenya. While this is encouraging news, the prevalence continues to rise in young women living in rural areas and the impact of HIV/AIDs will continue to rise as those infected fall sick. The meeting therefore emphasized that there is no room for complacency. The Government, development partners, civil society and the private sector must continue their successful efforts to prevent the spread of the disease, to build capacity to deliver effective treatment to those infected, and to provide assistance to families struggling to survive following the loss of loved ones. Priorities going forward include focusing on prevention, implementing measures to allow orphans to remain with their extended families and in their communities, and, most crucially of all, building institutional capacity to implement the national HIV/AIDS strategy. It will be essential that the changes being made to the institutional structure are designed and implemented in ways which ensure the full confidence of all stakeholders. Attention also needs to be paid to addressing concerns about the draft HIV/AIDS bill that has been presented to parliament before it becomes law.

Donor Harmonization

The meeting agreed on the importance of enhanced donor harmonization and alignment, with the ERS as its central focus and reference point. There was agreement on the need for regular donor-Government meetings, and that Government should work towards a single annual timetable which integrate the ERS and budget processes. The Government also said it planned to draw up an aid policy within one year. Development partners offered to assist with this if the Government would find this helpful, and also agreed to produce an annual report themselves that describes the progress they were making on of

harmonization in line with the Rome Declaration. Participants also agreed that there is a need to discuss the donor coordination mechanism.

The Government requested greater donor cooperation and harmonization of their reporting system on projects they finance. A significant part of the mentioned annual report could be on donor-Government relations. Government also raised the issue of the frequency of missions and they requested that partners rationalize and coordinate their missions to minimize their impact on Government resources. Participants agreed on the need for donors to present a calendar of missions to the Government. Government also discussed execution of projects: some projects are executed by agencies outside of Government, without a reporting system to Government, which it needs for budget execution. As commitments increase, Government will need to improve the implementation projects to ensure that the funds are used effectively.

Partners pointed out that they will support Government-led sectorwide policies and programs using the different instruments that are available, including project support, budgetary support, and basket funding. The Government stated that budget support was its preferred mode of assistance. At a sectoral level, there was agreement that line ministries should establish regular meetings to coordinate activities, which civil society and private sector representatives could also attend.