



1. Project Data :
OEDID: C2884
Project ID: P001334
Project Name: Structural Adjustment Credit
Country: Kenya
Sector: Other Non-sector Specific
L/C Number: C2884
Partners involved :
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2. Project Objectives, Financing, Costs and Components :

Objectives: The SAC objectives were to: (1) support government efforts to consolidate Kenya’s fiscal position and improve the country’s external position to sustainable levels; (2) improve efficiency of public expenditures through expenditure reallocation and improved implementation; (3) reduce size of public sector through accelerated privatization; (4) for SOEs that are not privatized, enhance efficiency through restructuring and divestiture; (5) reduce the size of the civil service and improve efficiency through ministerial rationalization and reorganization.

Costs and Financing: The credit was planned as a 2-tranche operation, with a first tranche of SDR 55.4 million (US\$79.8 million equivalent) disbursed upon effectiveness. A planned second tranche of SDR 61.9 million (US\$88 million) was not disbursed due to poor implementation. The credit was approved on June 18, 1996, became effective on June 24, 1996, and closed as scheduled on June 30, 1998.

3. Achievement of Relevant Objectives :

Macroeconomics: Achievement was uneven, with unsatisfactory performance in the first year of the SAC--prior to elections at the end of 1997. The situation subsequently improved, but performance overall was disappointing.

Efficiency of Public Resource Management: Financing of road maintenance improved, but goals of increasing non-wage spending in other areas (primary education, preventive health) and other reforms were not attained.

Accelerate Privatization: Most non-strategic SOEs designated in the project were privatized, although some key issues (insider ownership, lack of transparency) remain unresolved. **SOE Restructuring:** Restructuring of key parastatals (cereals, ports, railways, telecomms, power) and divestiture of some of their functions was partial and tentative. **Civil Service Reform:** considerable reduction in number of civil servants took place, but was more than offset by increase in the number of teachers (not covered in the SAC). Only one ministry of 12 completed rationalization program.

4. Significant Achievements :
There were no significant achievements.

- 5. Significant Shortcomings :**
- From 1980-92, there were 8 SACs in Kenya, with disappointing progress, weak compliance with conditionality, and frequent backtracking. Given this background, the Bank should have undertaken this project only with very strong government commitment and wide-ranging participation of civic society.
 - Despite explicit project efforts to broaden ownership of reforms, government commitment was at best partial and sporadic.
 - Kenya lacked economic governance strong enough to effectively carry out the stated policy objectives.
 - GOK actions on reform were “start and stop” in response to tranche conditionality.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Negligible	Negligible	
Sustainability :	Uncertain	Uncertain	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Deficient	Unsatisfactory	These ratings are essentially equivalent .
Quality of ICR :		Exemplary	

7. Lessons of Broad Applicability :

- Conditionality cannot substitute for strong government commitment in a politically sensitive program .
- A reform program must enlist broad support across multiple levels of government, as well as various components of civil society

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

ICR is exemplary. Management team went over SAC process thoroughly to derive lessons . Explanations are frank, cogent, and cover the subject extremely well . This ICR epitomizes the "self-learning" process.