Board Meeting of September 24, 1998
Statement by Pieter Stek

KENYA - COUNTRY ASSISTANCE STRATEGY

1. Overall approach endorsed

We welcome the CAS Kenya for its focus and commend the country team. It may be the most focused CAS we have come across, and its analysis seems quite adequate for the difficult situations we face in Kenya. We in particular welcome the efforts at consultation and participation. We agree that poor economic governance is the single most important bottleneck for sustained development. Given the poor record of policy implementation, the Netherlands supports the link between adjustment support and public sector reforms and full implementation of the agreed annual budget. It must be absolutely clear for GOK that donors seek actual implementation.

2. Poverty and gender

Given the poor performance of the Bank's portfolio in Kenya, we understand the Bank focus on governance instead of the normally overarching aim of poverty alleviation. After all, it appears a poverty approach would only be really possible once governance concerns were reduced. Nonetheless, more attention should be paid to poverty. We firstly want a deepening of the poverty analysis. Reference here is also made to the growing income disparity in Kenya as highlighted in the most recent UNDP's Human Development Report. The CAS should incorporate the likely effects of the WB's interventions on the poor, an issue raised in the 1998 OED evaluation. And rather than focusing entirely on income poverty, special attention should be given to non-economic aspects of poverty and social exclusion. And what effects do poverty and decreasing social expenditure have in terms of gender?

3. Scenarios

The analysis of macro-economic and political developments and the WB's own portfolio shortcomings, is commendable. But the strategy for 1999-2001 is less clear.
A. Low case.

On the one hand the CAS claims that in the low-case scenario, given the GOK's insufficient record of implementing measures that enhance economic governance, priority should be given to targeted, cost-effective interventions directly benefiting the vulnerable groups, including an increased use of partnerships with NGO's. On the other hand the Bank proposes to start the Agriculture Sector Investment Project (ASIP) of USD 27 mln. under the low case scenario. Does the Bank consider ASIP targeted and directly benefiting vulnerable groups and can the management ensure that no budget support will be provided within this project as long as conditions for the base case scenario have not been met by GOK?

Especially for bilateral, grant based funding, in case vulnerable groups cannot effectively be reached through government channels, we support increased use of partnerships with NGO's. In 1997 The Netherlands decided to minimize the number of projects executed with the Government and thus reduced the need for GOK counterpart funding.

B. Triggers need to be more explicit

With regard to the base case scenario we share the view of the Bank that improvement from low to base case conditions is difficult to foresee, reflecting the fragile political commitment to reform and the weak capacity for implementation. It therefore seems appropriate that the base case scenario contains a range of USD 300-500 mln., the actual volume of assistance depending on implementation of the reforms by GOK. We stress the need for full adherence by GOK to the minimum conditions mentioned as triggers in the CAS before starting the base case scenario. But these triggers should be formulated more explicitly. Can we be reassured there will be no pressure to lend? Will the Board be kept informed and will the possible progress on triggers be made explicit in any lending proposal? The third trigger in the key area of economic governance reforms, for instance, should focus less on the adoption of a comprehensive anti-corruption strategy, and more on its implementation. The "key indicators" mentioned in paragraph 60 are more explicit and deserve to be included in Table 1: Triggers for Base Case.

C. Domestic debt

We agree that high domestic debt (and the resulting high interest rate) is a major obstacle for economic growth. Reducing domestic debt could, through lower interest rates, help trigger private investment and economic growth. We would however caution against substituting domestic debt with concessional IDA lending. Would it not reward "bad" behaviour and set a bad precedent not only for Kenya but also for other countries? Could it not reduce the pressure for reform? It seems to be more logical to support GOK with more targeted sectoral budget support e.g. to assist GOK with a comprehensive civil service reform programme. The budgetary benefits of such a programme could then be used for reducing the stock of domestic debt.
D. El Nino

Finally, as you may recall, we abstained on the El Nino loan when this was discussed in the Board. During the debate on this loan it was pointed out that regardless of its emergency character, it was also a testcase for Kenya in terms of management and of involving the local communities. This idea of a test case cannot be traced in CAS.