Board Meeting of September 24, 1998
Statement by Surendra Singh

KENYA – COUNTRY ASSISTANCE STRATEGY

1. We are pleased to have this opportunity to discuss the Country Assistance Strategy for Kenya. At the outset, we would like to commend those who have prepared this well presented and candid document. It is evident from the text that Kenya is faced with a number of challenges. On the macroeconomic side, indicators such as inflation and fiscal deficits have registered positive trends. But, overall, the position is a cause for concern. GDP growth has declined, averaging only 2.2% in the 90s. Similarly, private sector investments have fallen, as also the domestic savings rate. In this context, a principal factor for decline in macroeconomic performance has been identified as rising real interest rates (40% in 1994).

2. In terms of poverty and social indicators, inequities are seen to be rising, with 43% of the population falling below the poverty line. In the health sector, the efforts made to increase life expectancy have received a major setback in the face of spreading HIV epidemic, and decline in per capita expenditures on health.

3. At the heart of this challenge lies the issue of governance, or more fundamentally, political and administrative commitment to reform, and in the provision of services in an efficient and effective manner. It is precisely this lack of commitment that led to weak ownership of the program envisaged in the last CAS. As a result, the portfolio has not performed well.

4. Given this backdrop, this document has been prepared on the basis of good retrospection. In moving forward, we believe that there are two important elements that would provide the basis for better returns through this proposed CAS. The first is that being in the midst of a crisis, the Government has recognized the inherent weaknesses that have constrained economic and social growth. It is only through such awareness that programs to restructure and reform the public sector and other institutions can be initiated. It is encouraging to note that the Government of Kenya has accepted the necessity of instituting such reforms. What is of fundamental importance is that there should be full commitment and ownership by Government of Kenya to the process. The Bank’s approach in this regard deserves to be encouraged.
5. The second factor that is critical to the process is that broad-based understanding of the issues confronting Kenyan society is being achieved through greater participation of other stakeholders. Reforms inevitably place costs and pains on certain segments of the society. It is important that such consequences are understood and accepted so that the process will be positively fostered. Such a participative and consultative approach as adopted by the Bank indeed provides the basis for strengthening the reform effort, and should be commended.

6. From the given circumstances, it would appear that revitalizing the economy will be a drawn out process. Difficult yet necessary decisions will have to be made, and commitments observed to ensure that growth and recovery are placed on a sustainable path. As has been the case with many other countries, a period of crisis can also be a moment of opportunity. We consider the CAS as an appropriate approach to creating and exploiting such an opportunity. We endorse the proposed strategy, and hope that through such an intervention, Kenya will begin to realize its full potential.