



Economic Commission for Africa

Second Meeting of the African Learning Group on the Poverty Reduction Strategy Papers

18-21 November 2002
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* Though not directly involved, the authors are not completely divorced from the PRSP process, Kiringai is a member of the Macroeconomic Working Group, MWG which formulates the Fiscal Strategy Paper of the MTEF Budget Public Expenditure Review secretariat, which works with the PRSP/MTEF secretariat to analyze public expenditure outcomes, a key input in the PRSP/MTEF budget process. Manda was part of the KIPPRA team that was involved in writing the PRSP background paper on the poverty situation in Kenya.

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The views in this paper are solely the author's; they do not necessarily reflect the views of the Economic Commission for Africa or its officers.

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LIST OF ABBREVIATIONS

CBS	Central Bureau of Statistics
CSO	Civil Society Organizations
DDCs	District Development Committees
ERD	External Resources Department
FSP	Fiscal Strategy Paper
GAP	Government Action Plan
GDP	Gross Domestic Product
IDGS	International Development Goals
IFIs	International Finance Institutions
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MDGS	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
MWG	Macro Economic Working Group
NGOs	Non Governmental Organizations
NPEP	National Poverty Eradication Plan
PER	Public Expenditure Review
PPA	Government of Kenya
PR&FB	Program Review & Forward Budget
PRGF	Poverty Reduction Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SWGS	Sector Working Groups
WMS	Welfare Monitory Survey

EXECUTIVE SUMMARY

The findings from the review indicate that the PRSP process has created an open dialogue between the government and the civil society creating a new partnership in development where none existed. The other positive outcome is that the PRSP increased media coverage of poverty and poverty related issues raising awareness among the general public. The process however, had some weaknesses namely; domination by government officers, inadequate time for consultations, which compromised the quality and lack of parliamentary representation.

Poverty diagnostics and its' causes are well enumerated in the published PRSP, it acknowledges the multifaceted nature of poverty which goes beyond income measures. However the main weakness observed is that the diagnostics results were not systematically applied to determine and sequence priority public actions and to design ameliorative poverty reduction programs and policies. The poverty diagnostics were not comprehensive enough and the analysis tended to be more descriptive.

The link between PRSP and MTEF need to be strengthened and made more explicit. This can be achieved through adopting a sector wide approach in the final budget product rather than the line agency approach, which is the current practice. This approach would further need to be complemented with a change in the product from line item to output/outcome.

A summary of the PRSP implementation matrix indicates that there is a huge financing gap estimated at about Kshs 70 billion. The financing requirement also reflects a front end loading of financing requirements, which is not appraised against financial and capacity implementation constraints. Though it is important that additional finance be mobilized to finance the core poverty programs identified in the PRSP, the bids need to be appraised against available resources. This would be possible if the fiscal strategy is finalized and communicated early in the process so that entitlements are clear to avoid the possibility of the PRSP degenerating into a wish list. In addition there is need to develop a negotiation mechanism that would be used to subject bids to a rigorous choice contesting.

Donors played two critical roles, facilitation and financing of the PRSP consultations. For the successful implementation of the strategy, the participation of development partners is essential. The magnitude of financing required for poverty programs is unlikely to be achieved without concessional financing from donors. Donors need to be prevailed upon to establish a reserve fund for poverty programs, which would also be used to smooth revenue shortfalls and enhance budget credibility. However, to increase the efficiency of such financing, the effort needs to be coordinated to avoid the complex procurement, disbursement and reporting procedures, which have hitherto slowed the absorption capacity of donor funds.

Kenya is still in the early stages of the PRSP and so too is the lesson learning. Capacity constraints were identified among the CSOs and within government. The skills required to attain the 'best practice' standards need to be developed over time for all stakeholders involved in the process. There is therefore an urgent need to draw up a "Capacity Building Action Plan (CBAP)", for all aspects of the PRSP, consultations, costing of programs, developing of indicators, developing of negotiation framework and monitoring and evaluation--as part of the institutionalization of the process.

1. Introduction

Growth in national income is necessary, though not sufficient, for poverty reduction. A PRSP should be embedded in a long-term development strategy--to ensure sustainability-- backed by a comprehensive implementation strategy that starts with a clear understanding of the role of GoK and takes into account all resource constraints. The successful implementation of the PRSP is thus heavily dependent on the success of the three-year rolling MTEF.

In 1963, the Government of Kenya (GoK) identified illiteracy, disease, ignorance and poverty as the main problems to be addressed in order to achieve sustainable national development. The Government has tried to address the above problems through National development Plans, Sessional Papers, Presidential Commissions, Task Forces and various studies. The first three post independence decades saw some improvement in some social and economic indicators such as health status and educational attainment. However, in the last one decade, educational attainment, health and poverty status of Kenyans have shown a declining trend thus necessitating the preparation of the Poverty Reduction Strategy Paper (PRSP).

Poverty situation in the country has worsened with more Kenyans becoming poorer and poorer. The total number of poor Kenyans has increased from 11.5 million in 1994 to 12.6 million in 1997. Results from Welfare Monitoring Surveys (WMS) show that the poor constituted 46.3 %, 43.84% and 52.3% of the Kenyan population in 1992, 1994 and 1997 respectively. Urban poverty situation has also been deteriorating, with 49.2% of the urban population being poor in 1997 compared to 29.0 % in 1994. There are disparities across provinces with Central Province having the least poor population (31.4 percent) in 1997 and Nyanza Province the highest (63.1 percent) poor population.

Table 1: Overall Poverty Estimates for Kenya, 1992-97

Region	1992	1994	1997
Central	35.9	31.9	31.4
Coast	43.5	55.6	62.1
Eastern	42.2	57.8	58.6
Rift Valley	51.5	42.9	50.1
North Eastern	-	58.0	-
Nyanza	47.4	42.2	63.1
Western	54.2	53.8	58.8
Nairobi	26.5	25.9	50.2
Rural	46.3	46.8	52.9
Urban	29.3	28.9	49.2
National	46.3	43.84	52.3

Source: Economic Survey 1994, 1997

According to Kenyan poverty assessment studies, the five leading manifestations of poverty include begging and dependence on external assistance especially for food; poor shelter and clothing; poor health; engagement in odd jobs; child dropout from school; child labour; and idleness. Most of the households participating in poverty assessment studies felt that poverty had worsened over time. Appendix 1 gives poverty estimates by district.

Associated with the increased poverty is the decline in primary school enrolment and the deteriorating health status of Kenyans. For instance, the gross primary school enrolment

declined from 92.19 percent in 1990 to stand at 86.91 percent in 1999. Over the same period, Central, Eastern and Western provinces had an average gross enrolment rate of over 90 percent whereas North Eastern Province had a gross primary school enrolment of less than 30% over the same period. Appendix 4 gives gross primary schools enrolment rates by province. Between 1992 and 1999, the health status of Kenyans has worsened. Infant and under five mortality rates increased from 51 and 74 in 1992 to 74 and 112 in 1998 respectively. Life expectancy, from early 1990s, had a declining trend declining from 60 years in 1993 to 51.02 in 1998. Female and male average years of living declined from 58.40 and 55.30 in 1992 to 51.88 and 50.20 in 1998 respectively. The declining health status is partly due to HIV/AIDS. HIV/AIDS has emerged as one of the most serious diseases facing the developing world, and Kenya is among the sub-Saharan African countries where the epidemic has had a big economic and social impact. According to NASCOP (2001), urban adult prevalence was 18.1 percent in 2000 whilst rural adult prevalence was 12.5 %. The Economic Survey (2002) shows that the national HIV prevalence rate has declined from 13.5 % in 2000 to 13.0 in 2001.

In December 1999, the Boards of the World Bank and the IMF approved the PRSP approach to reduction of poverty in low-income countries. Poverty Reduction Strategies were expected to be country-driven, results-oriented, comprehensive and long-term in perspective, and to foster domestic and external partnerships in line with the principles that underpin the Comprehensive Development Framework (CDF). PRSPs are a description of a country's macro, social and other policies and programs designed to promote growth and reduce poverty. Thus PRSPs are expected to be the outcome of a broad based consultative process between governments and stakeholders in society and serve as the main framework for donor assistance. Due to this, the preparation of the PRSP has been the agenda of all low-income African countries such as Kenya.

The process of developing a PRSP is aimed at putting countries in the lead in terms of devising and driving their own development strategies and agenda. However, most of these countries lack experience, institutions and capacities for carrying out the exercise. This then requires that African countries developing PRSP will learn by doing for quite some time. To facilitate and accelerate the learning process, there is need for assistance from international organizations such as Economic Commission for Africa (ECA) and the exchange of experiences on the PRSP process among these countries. On the basis of these new developments and in consultation with member countries the ECA has established a PRSP Learning Group (PRSP-LG), which is annual forum for African countries to exchange information and to discuss issues relevant to PRSP process. The first PRSP-LG meeting was held in the last quarter of the year 2001. In preparation of the second PRSP-LG meeting the ECA has commissioned preparation of background papers on various areas of the PRSP process in member states.

This study on the various aspects of the PRSP in Kenya is, therefore, one of the background papers commissioned by the ECA as a key input to the 2002 round of PRSP-LG. The paper broadly analyses the five aspects of the Kenyan PRSP. These include the PRSP process; the content of the PRSP; public finance aspects of PRSP; the role of donors; and capacity building. The specific objectives of what is to be done in each of the broad areas are stated in the terms of reference.

In undertaking this review our task was made easier by availability of similar reviews, which though did not focus specifically on the PRSP process, were nevertheless relevant to the subject matter. We also interviewed some of the people directly involved in the PRSP to augment recommendations especially in the area of capacity building. Also the role of donors was not

very explicitly documented in the documents reviewed and thus the need to interview those who participated in the process.

The remaining part of the paper is organized as follows. Section 2 looks at the PRSP process in Kenya and section 3 is a review of the content of the PRSP. Section 4 considers the public finance aspects of PRSP while section 5 examines the role of donors. Section 6 considers issues concerning capacity building. Section 7 summarises and concludes the paper.

2. The Poverty Reduction Strategy Paper (PRSP) Process

Kenya's PRSP document has been prepared with multiple objectives directed towards the goal of reducing poverty and increasing economic growth in the country. The specific objectives of the PRSP are: linking policy, planning and budgeting; identifying national development objectives and priorities; improving the quality expenditures leading to efficiency gains; harmonization of the financing framework; and monitoring and evaluation. Thus, the PRSP is a product of broad-based and in-depth consultations among all key stakeholders, in particular the poor, at all levels. It is build on previous efforts aimed at poverty alleviation and in particular the Interim PRSP which identified interim measures and strategies necessary for facilitating sustainable and rapid economic growth, improving governance; raising income opportunities of the poor; improving the quality of life; and improving equity and participation.

The PRSP is linked to the long-term vision outlined in the National Poverty Eradication Plan (NPEP) which proposes a fifteen year time horizon to fight poverty and has adopted the International Development Goals (IDGs), which aim at reducing global poverty by half by 2015. The National Poverty Eradication Plan (NPEP) was prepared by the Poverty Eradication Commission in the Office of the President in 1998 and launched in 1999. It describes the extent of poverty and sets poverty reduction targets. The NPEP was developed using relatively progressive participatory elements. On the other hand, the PRSP is a short-term strategy, which seeks to implement the NPEP in a series of three-year plans. The Medium Term Expenditure Framework (MTEF) is linked to the PRSP by providing budgetary allocations to specific measures set out in the PRSP.

The PRSP process was intended to, allow broad participation of all stakeholders (mainly the Government of Kenya, private sector and civil society) in the PRSP preparation, encourage donor staff to be open minded and responsive to home-grown solutions, and focus collective attention on agreed set of poverty reduction strategies. The process was expected to reflect Kenya's circumstances and characteristics given the diversity of its biophysical and socio-economic settings.

Participation is the process through which stakeholders can influence and share control over priority setting, policy making, resource allocations and access to public goods and services. Participation in poverty reduction strategy improves government accountability to the people and, as a result, increases the overall governance and economic efficiency of development activities. It also ensures community driven development, which treats people and their institutions as assets and partners in the development process. Experience has shown that given clear rules of the game, access to information and appropriate support, poor men and women can effectively organize to provide goods and services that meet their immediate priorities.

The main objectives of the consultation process are; to facilitate an intensive and wide- ranging consultation process; to promote participation of all; to increase transparency and accountability to the public from the planning to delivery stages; to reach consensus with various stakeholders on policies and priorities for poverty reduction. Others are: to develop a gender responsive poverty reduction strategy; to enhance ownership of the PRSP; to reach agreement of monitoring and evaluation plan for the PRSP; to develop an action plan on poverty reduction; and to seek support from development partners on the implementation of PRSP (Ministry of Finance and Planning, 2000).

The Government launched the PRSP consultations process on 6th November 2000, with the PRSP Secretariat in Ministry of Finance and Planning as the lead agency. The PRSP process was broad-based with consultations at the national, regional, district and divisional level in the country. A national framework consisting of: divisional consultations; district consultative forums; provincial workshops; national consultative and stakeholders forums; thematic groups; and sector working groups were formed to ensure inclusiveness and broad-based participation. Box 1 in Appendix 5 shows a summary of the structure of the consultation process in Kenya.

Nine Sector Working Groups were formed for production of the full PRSP. These working groups included; Agriculture and Rural Development; Human Resource Development; Information and Technology; Public Administration; Public Safety, Law and Order; Physical Infrastructure; Tourism, Trade and Industry; National Security; and Macro Working Group. Also eight thematic groups, whose inputs supplemented the work of the Sector Working Groups were formed. These included Gender, Governance, HIV/AIDS, Media, Pastoralists, Youth, Finance and Disability. The district consultations, district PRSP and Participatory Poverty Assessment (PPA) reports were submitted to the Sector Working Groups and the Thematic Working Groups who included the inputs and priorities emerging from the districts and communities in their reports. It was expected that outputs from the PRSP process – PRSP priorities - which are linked to the district and community inputs – would be used to determine priorities in the allocation of budget resources under a MTEF rolling plan.

The district consultations were organized in three categories – comprehensive, general and in-depth consultations. Comprehensive consultations were conducted in all districts(over 50) with an average of 200 participants in addition to participants in sub-district level meetings. General consultations were held in 45 districts with an average of 150 participants. In-depth community level consultations were carried out in the form of Participatory Poverty Assessments (PPAs) in 10 districts under AMREF co-ordination. There was diversified participation in the district consultation seminars with representative targets of at least 30% women, 10% youth, 20% government, 10% private sector, 10% disabled, and 20% community leaders.

A PRSP Secretariat within the Ministry of Finance and Planning was created to support the steering committee and to conduct the process. It consisted of treasury officers who are responsible for the MTEF design, two delegates from the NGO- council, one from the private sector and one DFID officer representing the donors. The National Consultative Forum/National Stakeholders Forum was broad based and held three forums- the first to discuss the Interim PRSP, the second was for information dissemination while the last discussed draft PRSP. The National Steering Committee was responsible for directing the process and revising the PRSP draft.

The process received continuous policy guidance from the cabinet, the Cabinet Sub-Committee on Economic Management, the National Consultative Forum and the National Steering

Committee. The Economic Governance Group (EGG) comprising of technical arms of donor organizations were represented in most organs, which oversaw the consultative process.

2.1 Some Elements of Emergent Good Practice

- (i) The participatory process in the PRSP preparation in Kenya has created a more open dialogue within the government and some parts of the civil society than had previously existed. It is an evolving process where a country, as well as partners, learn more about effective ways to address the challenges faced. This can change the way stakeholders and government do their business and hence accommodate each other.
- (ii) The PRSP process has resulted in considerable opening up of government, with the consultation and meeting with national stakeholder creating dialogue between key stakeholders (especially the private sector) and facilitating more effective dissemination of information. The PRSP process facilitated increased public participation in the debate on poverty and wider national socio-economic development issues. Also the district consultation forums, for the first time, opened up space for ordinary people to participate in decision making on how development should be planned and how resources should be utilized.
- (iii) The opening up of space for civil society to participate in the PRSP process is reported to have assisted in creating a new partnership between GoK and civil society in national development. Government officials now have a new appreciation of the important role played by the civil society, NGOs and the private sector in the preparation of the consultative seminars and the finalization of the PRSP reports and follow up activities (see Hanmer et al 2001).
- (iv) Other benefits due to the PRSP process include: enthusiastic participation and good will at the community level; frank and open nature discussions; development of better working relations of communities and NGOs with local governments in some districts; new information about priorities of the poor; social capital building, networking and information sharing opportunities; integration of cross-cutting issues and specific themes, which were raised very effectively through consultations; and identification of actions with recourse to existing institutions and funds. The participating NGOs also got experience of engaging with national and sector-level policies in poverty reduction work.

2.2 Weaknesses and Recommendations

- (i) Dominance by Government officials in consultative fora. Despite the fact that consultations were broad based, the domination of the process by government officials in some of the districts tended to limit the space for the common people to air their views freely. The donors, NGOs civil society and the private sector had one representative each in the PRSP Secretariat. Although not a serious problem, the dominance of the secretariat by government officials could easily overshadow representation from the civil society.

- (ii) Lackluster co-ordination. In some districts, the tight time schedule is thought to have limited the level and quality of participation and also introductory information for districts and divisions on PRSP was only available to participants at this level just before the one-day workshops. It is not clear which poor groups participated at this level. Furthermore, although members of parliament were requested to participate as stakeholders at district levels, parliament had no clear institutional engagement with the process.
- (iii) Poor Facilitation of the Poor. The PRSP process was expected to be a well-facilitated participatory process that enables poor people to express their realities and priorities and this was expected to become a part of accepted goods development practice. Although there was participation during the PRSP process at lower levels (constituencies, divisions and districts), the poor people participated more in the 10 districts where PPAs were carried out. In the other districts, most participants were hand picked by government officials and the poor rarely participated. The extent to which community level consultation have influenced the thinking process in terms of policy formulation or have contributed to the deliberations of the Sector Working Groups is not well known as there is little analysis – if any- which has been done on the consultation reports. This means that the linkage between the actual suggestions and recommendations in the consultation reports and the Sector Working Group priorities is not clear.
- (iv) Lack of transparency. The documentation was not available in local languages thus isolating most of the poor and the illiterate from the PRSP process. Most of the documents produced have not been circulated to the stakeholders, and when they have been distributed for discussion they have not been made available in a timely manner (i.e. with sufficient lead time). This has led some observers to comment that the government is more concerned with the opinions of the Britton Woods institutions than local stakeholders. Also there wasn't sufficient time to synthesize the information collected from the districts and it not clear how much of this was incorporated in the PRSP. Of course, most of this is incorporated in the district PRSP but it is not clear how they were linked to the PRSP at the national level.
- (v) Poor macro-economic and poverty linkages. During the process social issues were separated from economic issues and the poor and civil society had very little input into the macroeconomic issues. Consultations in the MWG was dominated by Government who considers their work confidential, refusing to share it with any stakeholders. The exclusion of the poor and other stakeholders from the MWG led to information asymmetry between different PRSP stakeholders.
- (vi) The ownership of the question. The GoK was seen as taking lead in the PRSP process rather than the ownership of the document. It is argued that what was unfortunately important for the GoK was to satisfy the World Bank and the IMF so that Kenya could get access to credit facilities. This leads to the lack of genuine broad-based ownership of the process and the final document.

2.3 Participation in monitoring, priority setting and resource allocation decisions

Monitoring requires the selection of indicators and targets to be monitored, in line with priority public actions and capacity. It also requires the development of a sustainable monitoring and evaluation system that has the capacity, resources, independence, and the incentives structure

to objectively monitor progress. The participatory process of domestic stakeholders and external development partners in the preparation and monitoring of PRSP is expected to contribute to broader country ownership of the strategies, facilitate implementation, and strengthen governmental accountability.

The success of the PRSP will greatly depend on a sound and systematic accounting and auditing system that ensures that strategies and priorities identified are efficiently implemented so as to achieve the desired outcomes. The monitoring and evaluation system should provide a continuous tracking and feedback mechanisms to all stakeholders in the process especially the poor themselves. A poverty monitoring system is needed to track key indicators over time and space and see if they change as a result of the strategy. The tracking of public expenditures and outputs and quick monitoring of household well-being need special attention. Participatory data collection methods and qualitative information give different perspectives and should not be overlooked.

In many developing countries, much M&E takes place without adequate development of in-country capacity and without strong links to key decision-making processes. The Monitoring and Evaluation (M&E) system in the Kenyan PRSP is participatory in the sense of embracing a wide range of stakeholders in the public sector, civil society, the private sector and the general public. The strategy seeks to:

- (i) Assess whether priorities agreed upon in the PRSP receive the required resources necessary for their implementation.
- (ii) Assess efficiency in the implementation of the budget
- (iii) Assess the efficiency of utilization of resources geared towards poverty reduction
- (iv) Assess the effective participation of all stakeholders in the implementation of the PRSP and
- (v) Carry out periodic impact assessments of the various interventions and initiatives and programs undertaken by stakeholders in the process

M&E is to be coordinated by a broad based National Technical Taskforce under the leadership of the PRSP/MTEF Secretariat. The National Technical Taskforce for M&E, that is yet to be formed shall have dedicated full-time officers without any other duties to manage the system. Given the fact that PRSP in Kenya is less than 2 years old, there is little evidence available on what poverty reduction strategies are having on poverty outcomes.

M&E process of the PRSP involves the following issues, which need to be mentioned. Traditional poverty monitoring tools – household surveys and participatory assessments- can produce careful results on impacts but often with a time lag and without immediate policy relevance. There is need for a key role for tools that provide quick feedback on processes and outcomes, and that can be used to inform decisions. The PRSP highlights the use of modern statistical techniques, which allows regular smaller surveys on carefully chosen proxy variables to give more frequent information updates than the large and expensive WMSs. It appears that Kenya has yet to develop/use such modern statistical techniques.

The main issue from the Monitoring and Evaluation Thematic Group was lack of appropriate M&E statistics, indicators and standards. The top priority from this thematic group was to develop statistics, indicators and standards for monitoring and evaluation in all the sub-sectors. This is yet to be done although it is in the process of being developed.

Monitoring of the PRSP was to be based on a comprehensive set of indicators derived from the implementation matrix. The PRSP gives some selected monitorable indicators. Although most of the PRSPs are clear about indicators and targets for monetary poverty reduction and for education and health, few have developed a set of monitorable indicators for other non-monetary areas. For example the Kenya PRSP, governance, natural resource management and security indicators have not been developed. These types of indicators are difficult to quantify and measure.

For stakeholders – public sector, civil society, the private sector and the general public – to participate fully in the M&E of the PRSP, opening up budget systems to public scrutiny is necessary. This should be done by publishing information on budget formulation, budget execution, and public accounts. This is yet to be implemented.

Our first impression is that capacity for poverty monitoring is still weak. For instance Central Bureau of Statistics (CBS) does not have the capacity to produce timely and accurate macroeconomic and poverty data. Also the demand for preparation of the PRSP has to some extent been donor driven and has not paid due regard to CBS to be able to fulfill its core functions.

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2.4 Institutionalizing Poverty Reduction

The biggest impediment for institutionalizing poverty reduction in Kenya is the country's political environment. The institutional conflicts in the administration/coordination of PRSP and NPEP within the Government is one of the unresolved problems. The administration/coordination of the PRSP is by the Ministry of Finance and Planning while the administration/coordination of NPEP is done in the Office of the President. There are some indications that as long as the PRSP is not controlled, under NPEP, within the Office of the President, influential stakeholders within the Government will continue to resist it. On the other hand, there are fears that a stronger role of the Poverty Eradication Commission, under Office of the President would weaken the role of the Treasury, and possibly lead to less donor support for the process.

In Kenya's institutional set up for poverty eradication, the top organ is the National Poverty Eradication Commission (NPEC), which draws up the long-term 15-year strategy, for poverty reduction. The 15-year strategy is operationalised through the three-year medium term PRSP consultation process and financed through the three year rolling MTEF.

After PRSP preparation with a broad-based consultation process up to the community level, a danger for the institutionalization of community participatory strategies could emerge if the expectations raised during PRSP consultation process are not met. Therefore, there is need of participation and support from all stakeholders for the broad based feedback process.

Institutionalizing sustainable poverty reduction policies needs appropriate participation of the relevant democratic institutions apart from consultations of the stakeholders. PRSP needs to be approved by formal political structures in the country and bypassing parliament for instance is not a solution. The launching of the Kenya's consultative process was marked by a boycott of the process by sections of the Country's Members of Parliament.

There are plans to reform the district Development Committees (DDCs) to make them more effective instruments in poverty reduction. There are plans to get elected chairmen of DDCs instead of district commissioners. This may make DDCs more transparent and accountable to the local people.

There is also competition between NGOs and civil society institutions and the central government for donor resources and the former are taking a rising role in socio-economic and political development activities among the communities. This is more apparent especially with the shift by donors in recent years to channel resources through NGOs and civil institutions – which are perceived to be more effective and less corrupt. The competition brings friction between politicians and NGOs and civil society institutions. But there seems to be change of attitude, which may be partly attributed to the collaborative efforts between the stakeholders during the PRSP consultative process.

In spite of the challenges, the Kenya-PRSP has elevated public participation in the debate on poverty and wider national socio-economic development issues. The district consultation forums have opened up space for ordinary people to participate in decision making on how development should be planned and how resources should be utilized. Other spin-off effects of the PRSP and the national institutions are: increased media coverage of poverty and related issues thus raising awareness of poverty among the general public; the consultative process has provided a good opportunity for NGOs, civil society and other stakeholders, the government and other stakeholders to work together; and the consultative process has generated an enormous amount of community level data that, if effectively processed, could change the country's planning in terms of priorities and new insights.

3. The Content of the PRSP

Generating good poverty diagnostics, selecting appropriate targets and indicators, and generating capacity for monitoring progress in poverty reduction over time are the key elements of the PRSP approach. A PRSP is expected to include analyses about the causes of and trends in poverty, quantitative targets for poverty reduction and short term indicators for monitoring progress toward those targets, and a description of the institutional arrangements for monitoring and evaluation, which may include participatory monitoring.

3.1. Poverty diagnostics

The Kenyan PRSP uses both quantitative and qualitative information for poverty diagnostics. It contains extent and magnitude of poverty, nature and characteristics of the poor and determinants of poverty. There is also poverty analysis by region. The PRSP compares poverty levels over time especially for the 1990's and uses both the 1994 and 1997 Welfare Monitoring Surveys (WMS) data to analyze poverty levels and variations across regions.

The Paper acknowledges the multi-faceted nature of poverty and thereby considering the nature and characteristics of poverty beyond income measures of poverty. The poor in Kenya are clustered into certain social categories which include: the landless; people with disabilities; female headed households; households headed by people without formal education; pastoralists in drought prone Arid and Semi-Arid Land (ASAL) districts; unskilled and semi-skilled casual labourers; AIDS orphans; street children and beggars; subsistence farmers; urban slum dwellers;

and unemployed youth. The PRSP identifies some of the causes in rural areas as low agricultural productivity and poor marketing - which is attributable to traditional farming methods, low soil fertility, unpredictable weather conditions, poor and inadequate extension services, high cost of inputs, low quality seeds and lack of credit facilities. Other causes include insecurity; unemployment and low wages; bad governance; landlessness; inadequate roads; the cost of social services; high cost of education; HIV/AIDS; gender imbalance and disability.

Despite the significant advances in poverty data and analysis in PRSP, analysis of the impact of the policy actions of the poor appears to be limited. The PRSP often listed policy actions, which had no clear connection to poverty diagnostics. The diagnostic results about who is poor and why they are poor were not systematically applied to determine priority public actions, their sequencing, and design ameliorative programs or policies. Poverty reduction strategies would benefit more from policy relevant groupings of households, particularly for the rural population. Grouping subsistence farmers together is not enough as there are variations across regions and agricultural enterprise. More analysis of the linkage of public policy and poverty diagnostics are necessary. The PRSP has not paid much attention to the transmission mechanisms linking the different socioeconomic groups to the growth and development process.

The poverty diagnostics were not comprehensive enough as some areas were not well covered. Although North Eastern Province is one of the provinces with the highest poverty rates, no comprehensive analysis of the extent of poverty in the region was done. The PRSP notes that, "efforts will be made to establish the extent of poverty in the North Eastern Province of Kenya" (Kenya PRSP pp. 14). If analysis of the extent of poverty was to be made later on then it would be interesting to know how the policy actions designed are connected to the poverty diagnostics in this area.

The PRSP gives detailed causes of poverty but this tends to be descriptive. PRSP would benefit from further investigation of causal relationships. This will enable isolation of magnitude of the impact of each factor and then link the same to the proposed policy actions.

The base year for the PRSP is year 2000 while poverty estimates used in the PRSP are for the year 1994 and 1997 based on Welfare Monitoring Surveys (WMS) data for 1994 and 1997. Given that there no poverty estimates for the base year, it makes it difficult to evaluate changes in poverty attributable to the poverty reduction strategies. It also signifies lack of capacity within GoK to come up with timely and fairly accurate poverty estimates an issue that is likely to affect M&E.

High degrees of inequality in income distribution can have a negative effect on growth and increase poverty (see Person and Tabellini 1989. Kenya has the highest degree of income inequality among the low-income countries in the world and the fourth highest world overall (World Bank 1997). The estimated Gini-coefficient for Kenya is 0.57, which is the highest among the 22 poorest countries in the world, and only lower than those of Guatemala, South Africa and Brazil. Reducing income inequality is important because it can benefit the poor both immediately and in the long term through facilitating economic growth. But it seems that the issue of disparities in the distribution of resources and inequality in general were not analyzed in details in the PRSP. The paper has concentrated on economic growth as the vehicle of poverty reduction.

3.2 The Macroeconomic Framework

The Kenyan PRSP gives an overview of past economic trends starting with the 6.6% average annual growth rate of the period 1964-1972 and the declining trend growth in the subsequent years to 2.4 % in the period 1990-2000. The main contributing factors for the economic decline cited include: declining levels of investment; unemployment; declining productivity and competitiveness and a weak incentive structure for the private sector. The macroeconomic framework allows for a pro-poor strategy that puts emphasis on a growth process that directly addresses poverty and leads to sustainable poverty reduction. According to the PRSP, the GoK policy focus will be on several aspects of pro-poor growth strategy, which include: (a) promoting access to markets and market opportunities for the poor through infrastructure provision, access to credit, and employment; (b)improving the overall effectiveness of public resources geared towards poverty reduction; (c) protecting and enhancing the security of the poor and vulnerable groups by addressing development challenges in marginal areas; (d) allocating increased resources to human capital development; and (e)generating employment, improving productivity and improve conditions in the labour market.

Several weaknesses have been identified in the formulation of the macroeconomic framework underpinning the PRSP. We highlight five of them. First, the general observation is that the “consultations” in this area were limited to the Macroeconomic Working Group (MWG), consisting mainly civil servants and excluding other stakeholders. Second, though the framework recognizes the need to reduce domestic debt by mobilizing external concessional financing, it is silent on lack of political commitment to implement the conditionality that is tied to such financing and which has hitherto limited the country’s ability to access the funds.

Third, the policy relating to trade and financial services are lumped together and not adequately addressed. These areas are key to growth and should have been addressed in greater detailed perhaps through a thematic group. Work in this area should also explore possibilities of making trade pro-poor. Fourth, the growth targets in the framework are too optimistic for an economy barely out of a recession and during a period that coincides with the General Elections. The fifth weakness is that though there is recognition of the need to reduce the overall size of government by re-orienting expenditures to high priority areas, there is no strategy for dealing with existing commitments that make the budget rigid, leaving no fiscal space to finance emerging priorities.

3.3 HIV/AIDS and the PRSP

HIV/AIDS pandemic cuts across all the sectors of the Kenyan economy and is a real challenge to the country’s development. HIV/AIDS has consequences that reach far beyond the health sector and its spread has significant effects not only on the demographic compositions of a country population but also on the social and economic structure of the country. The HIV/AIDS Thematic Group gave HIV/AIDS priorities by all the main sectors of the PRSP. Some of the HIV/AIDS priorities given by the HIV/AIDS Thematic Group are, increased access to voluntary counseling and testing, including HIV/AIDS education at all levels of extension services, develop HIV/AIDS education at all levels, to involve private sector in all HIV/AIDS mitigation activities, strengthen institutional capacity building to implement HIV/AIDS policies and promote behavioral change among the youth. However, the HIV/AIDS strategies/activities and targets in the implementation matrix are in the health, education and agricultural and rural development sectors. Trade, Tourism and Industry, and Public Safety, Law and order sectors do not have strategies and targets of containing the HIV/AIDS pandemic.

The National AIDS Control Council (NACC), under the Office of the President, coordinates the implementation of HIV/AIDS programmes. At the district level, NACC programmes on HIV/AIDS are coordinated by the District Development Officers who are under the Ministry of Finance and Planning. Although - in the PRSP implementation matrix -all the HIV/AIDS strategies are in the health sector, most of the co-ordination is under the Office of the President. This scenario may cause confusion and is a possible source of institutional conflict.

3.4 Gender Issues

Low incomes and educational attainment for women, low level of participation, discriminatory policies and regulatory frameworks and outdated and retrogressive attitudes and practices were issues identified by the Gender Thematic Group. The strategies to tackle these issues include: Promotion of membership of women into co-operatives, extension of credit and loans to women, increase the proportion of education bursaries awarded to girls, review of laws and regulatory framework to increase access and control of land by women, and discarding outdated and retrogressive attitudes and cultural practices among others. Some of these priorities have been incorporated in the implementation matrix. These include review of laws relating to women strategy and enactment of National Gender and Development Bill. The water sub-sector has strategies and targets specifically addressing women issues. Reduction of time spent by women fetching water by 10 percent and increase of women venturing into water related economic activities in urban areas are some of the women specific targets in water sector. Although promotion of women membership in crop development sector was given first priority by the Gender Thematic Group, the priority is left out in the PRSP implementation matrix with only promotion of women in participation in extension services being highlighted in the sector.

3.5 Targets and Indicators

A good strategy requires prioritization, both in the choices of policy measures and in the allocation of public expenditures. This implies limiting and sequencing the set of policy measures to those which can most likely be achieved, given human resource and political constraints, over the time horizon of the strategy. Prioritization implies recognition of budget constraints and a willingness to reallocate budgets from lower priority to higher priority sectors and sub-sectors.

Targets have been set in the PRSP with two key objectives: to initiate a process of prioritization and to foster a culture of accountability among the different policy making constituents/actors. Targets also help mobilize resources for the overall goal of reducing poverty. On targets, the Kenya PRSP has included short-term and long-term targets for economic growth, for reductions in the number of poor, and for improvements in education and health outcomes.

Based on the PPAs and consultations, the Kenyan PRSP ranked Agriculture and rural Development as the highest priority sector with strong synergies with poverty alleviation. This sector is followed by human resource development; physical infrastructure; trade, tourism and industry; public safety, law and order; and national security and public administration.

In the agriculture and rural development sector, the sub-sectors identified for intervention are: crop development; rural water; livestock development; food security; lands and settlement; environmental management; and forestry and fisheries. The long-term target for the sector is an annual growth rate of up to 6% to be able to contribute to positive national growth and poverty reduction. For human resource development, lack of access to basic social services, particularly

education and health, were identified as major hindrances to poverty. Poor shelter and housing, unemployment, social security, capacity building and a high population growth rate were also identified as priority areas of intervention.

Development targets are meant to help governments focus their resources and to make them accountable for their actions. They must be specific, measurable, achievable relevant and time-bound (SMART). However, some targets in the PRSP are over-ambitious; they are technically and fiscally unattainable, which defeats their role as an incentive mechanism. For example in the human resource development sector, there is a strategy of decentralizing teacher and school management to districts with a target output of decreased share of teacher wage bill in budget allocation to 75%. The question is whether this is feasible within a period of 3 years given the current teachers wage bill share of more than 90%.

Target costing helps ensure realism and assists in prioritization both within and across sectors. Although this is not a straightforward task and accurate data on unit costs and the costs of expanding or improving services are not readily available, the exercise of costing is necessary for the targets to be SMART. The PRSP has strategies and targets lacking costs component thus complicating their attainability. Example of such strategies/targets in the human resource development sector not backed by budget estimates are: provision of science equipment and other support materials; provision of educational opportunities to children not able to participate in formal education; improving services in water provision and effective and efficient forestry services; further decentralization of health services; and treatment and support of continuum of care for the infected and affected.

In most cases the targets are too ambitious and the cost of reaching them tends to be underestimated. There are always inherent difficulties in estimating the costs of achieving targets. For example, Kshs 30 million is allocated to achieve increased immunization coverage from 65 % in 1998 to 80% in 2003; increased allocations to the vaccine independence initiative; effective implementation of action plan for malaria control; Integrated Management of Childhood Illness (IMCI) strategy implemented in 6 districts by 2002; Contraceptive Prevalence Rate (CPR) increase from 33 % in 1998 to 38% in 2003; and 25% reduction in Maternal Mortality Rate (MMR) by 2003 among others.

The PRSP neither discusses how past economic reforms have affected growth and poverty, nor offers quantitative empirical evidence of the links between past policies and poverty outcomes. The Kenyan PRSP targets have some appropriate links with the Millennium Development Goals (MDGs). These are targets mainly in education, poverty and health sectors. To effectively achieve these targets, it was necessary to review previous development targets and their achievements and resources used to come up realistic targets. In Kenya's case, it seems that adequate review was not done, as some of the PRSPs long-term targets seem overly ambitious relative to prior achievements and/or available resources. Using the target of "water for all by 2000" as an example one can inquire why it was not achieved and how much resources were used.

One important aspect of prioritizing strategies for poverty reduction is to do with budget allocations for poverty reduction spending. Pro-poor expenditure allocations require not only an identification of the broad spending categories, that are more important for the poor, but also an understanding of the impact of efficiency of the various expenditures in reducing poverty. For instance, among poverty-reducing expenditure items common in Kenya's PRSP are primary health care spending, primary education spending, water and sanitation, and roads and

rural development. The issue is whether the budget allocations for these items are adequate to achieve poverty reduction targets envisioned in the PRSP.

More resources are rarely the answer without the more effective use of resources. Target outcomes may be clearly identified, but the PRSPs often lack good indicators of intermediate processes that would help track the implementation of the programmes. A key objective of the PRSP approach to deliver quick feedback on results that can be easily attributed to specific actions. In the context of Kenya's PRSP, there is emphasis on school enrolment targets, which appears to be fully justified. More typically, one would use multiple indicators to assess the performance of the educational system, such as its internal efficiency as measured, for instance, by dropout ratios, its quality as measured by for instance test scores, and its external efficiency as measured by for instance social rates of return (see Vos, 1996). Such indicators will remain important as part of the evaluation of the overall performance of the educational system and indeed are also considered in the budget allocation criteria.

The Government is facing financial constraints and therefore a need arises to allocate the available resources more efficiently. According to the Republic of Kenya (1998), the allocation of educational resources should be done according to a systematically worked out and strategized priorities. Given the current economic and fiscal situation; there is therefore, a need to strengthen the linkages between costing policies and programmes, planning and resource budgeting, implementation and monitoring. This will ensure efficiency and effectiveness in the use of the resources availed to education. What budget resources are needed to achieve the key educational target(s) when used in the most cost-effective way? What implications does this have for the allocation of resources across educational sub-sectors? Is this outcome consistent with a priority setting based on the (marginal) social rates of return to education at various levels (primary, secondary and higher)? There seems to be no cost effectiveness studies done in the country to determine different options available to achieve the set targets. Targets for the education sector in Guinea were chosen based on a policy simulation model which allowed the Ministry of Education and the Ministry of Finance to estimate the costs and budgetary implications of several policy scenarios aimed at increasing school enrolment. This permits testing various policy options to improve the overall efficiency of utilization of domestic resources.

The Gender Thematic Group came up with gender issues and proposed priorities to reduce the gender imbalances. In education, the main issues were, lack of access, low participation in management and high drop out rates for girls. The group proposed the provision of bursaries, improvement of admission of girls, change of attitude in promotion and review of Education Act. But in the PRSP implementation matrix, there are few strategies/activities addressing the gender issues and is only in Secondary education where there is a target of increased retention rate from 48% to 52 %. Gender issues are missing in primary education. Issues of drop out of female pupils and its causes should have been addressed, as it is hard to achieve a 2.5 % annual increase in enrolment if gender issues are not addressed.

According to the 1998/99 child labour survey, 2.3 million out of 7.9 million children in the age group 6-14 years in Kenya (29%) do not attend school. Of the 2.3 million children, 1.2 million children in the age group 6 to 14 years are involved in child labour. For the PRSP to achieve its targets of enrolment, dropouts and retention, this issue of child labour need to be taken into account. Rehabilitation of street children, prosecution of child abuses cases and preparation and enactment of Children's Bill, are some of the strategies in the public safety, law and order sector, addressing child labour. But the issue was never addressed in the education and labour sub-sectors in the PRSP implementation matrix.

Poverty in Kenya is a development challenge in both rural and urban areas. The percentage of the rural and urban poor have increased from 46.8% and 29% in 1994 to 52.9% and 49.2 % in 1997 respectively. Despite the high percentage of the urban poor, most of the efforts the government has initiated to combat poverty since independence have particularly targeted the rural poor. These programs include, the Land Resettlement and Reform Program; Special Rural Development Program (1969); Rural Works Program (1974); Rural Access Roads Program (1974); The District Focus for Rural Development (1983) among others. Resolution of boundary disputes in Nairobi, finalizing the National Housing policy, improvement of urban water supply, and reviewing of the Laws that inhibit small and micro enterprise development are some of the strategies spelled in the PRSP implementation matrix. However, provision of social services, infrastructural development and solutions to the land tenure issues in slum areas, which have a direct impact to the urban poor have not been fully addressed. The PRSP seems to underestimate the problem of urban poor as most of the strategies/activities are addressing the rural poor.

3.6. Monitoring and evaluation

Monitoring requires the selection of indicators and targets to be monitored, in line with priority public actions and capacity. It also requires the development of a sustainable monitoring and evaluation (M&E) system that has the capacity, resources, independence, and the incentives structure to objectively monitor progress. The participatory process of domestic stakeholders and external development partners in the preparation and monitoring of PRSP is expected to contribute to broader country ownership of the strategies, facilitate implementation, and strengthen governmental accountability.

The M&E should provide a continuous tracking and feedback mechanisms to all stakeholders in the process especially the poor themselves. A poverty monitoring system is needed to track key indicators over time and space and see if they change as a result of the strategy. The tracking of public expenditures and outputs and quick monitoring of household well-being need special attention. In Kenya the M&E in the PRSP embraces the principles of participatory monitoring and evaluation by a wide range of stakeholders in the public sector, civil society, the private sector and the general public.

4. Financing Aspects of the PRSP

In this section we investigate the links between the PRSP and the MTEF in Kenya. We start with a review of the MTEF, highlighting the strengths and weakness of the process in Kenya and the extent to which PRSP policy priorities are mainstreamed therein; the level of financing of pro-poor programmes; and high light the challenges for the PRSP.

4.1 MTEF Budgeting in Kenya

Kenya adopted the medium term approach to budgeting during the 2000/01 annual budget. This followed the recognition that the annual focus limited the scope of the budget to short-term macroeconomic management - a firefighting approach to resource allocation limiting the possibility of addressing long-term development objectives through the budget. The medium term approach is thus intended to link budgeting and planning, while at the same time addressing the key weaknesses of the budget process.

As a best practice, the MTEF is intended to address **three** key weaknesses in the budget planning process: improve fiscal discipline, operational efficiency and allocative efficiency. First, the MTEF is expected to impose a “hard” budget ceiling for accounting officers, in macroeconomic management and for line agencies. This requires firm political commitment to the aggregate revenue and expenditure ceilings, the optimal deficit target and financing strategy.

The second objective is operational efficiency (service provision at the least possible cost) through a budget that is based on medium term performance measurement. Operational efficiency aims at maximising delivery of outputs while minimizing costs of inputs and delivery. A fundamental requirement here is a radical shift from input oriented line item incremental budget to a prioritized well-costed output-oriented budget.

Third, the MTEF is intended to improve allocative efficiency: (i.e. doing the right thing” through a medium term budget framework). Essentially, the medium term budget framework shall determine sectoral resource allocations in line with the national consensus achieved upon the development agenda (Achieved through a bottom up consultative process). The PRSP consultative process contributes to allocative efficiency in the MTEF process and is intended to develop a national consensus on the development objectives to be achieved over a three-year medium term horizon. However, consultations have to be complemented by the other two components of the MTEF. Indeed the PRSP fact sheet argues that:

*“The consultative process will help ensure that development of the PRSP steer the effort against poverty away from the path of failed projects implemented in the name of assisting the poor, **which even though well intentioned still fall short**”*

We review each of the three components of the MTEF in Kenya as critical aspects in the successful implementation of the PRSP. In the macro framework we examine the macro targets in the PRSP and then unpack the current MTEF budget to find out if the PRSP framework is mainstreamed in the current budget.

4.2 Fiscal Discipline: The Macroeconomic Framework

The macroeconomic framework envisioned in the PRSP projects a decline in government expenditure to GDP, debt to GDP and deficit to GDP ratios, all aimed at reducing the size of government and its involvement in the credit market to pave way for a private sector led growth, while maintaining a stable macroeconomic environment to attract foreign direct investment. A reduction in the stock of domestic debt would reduce the interest component of recurrent expenditure creating fiscal space for funding emerging priorities.

The weaknesses highlighted in section 3 notwithstanding, the macroeconomic strategy in the Fiscal Strategy Paper (FSP), of the MTEF 2002/03 -2004/05 reflects a diversion from the macro framework in the PRSP. The macroeconomic framework projects a gradual increase in net domestic debt from the 2000/01 level of 19.42% of GDP to 23.23% in 2002/03 and though it is projected to decline from then on, the 2000/01 level will not be achieved in the medium term. Table 1 highlights some of the key indicators in the Fiscal Strategy Paper (FSP), of the MTEF 2002/03 -2004/05.

The increase in domestic debt signifies a lack of commitment to fiscal discipline. Despite several attempts, Kenya has failed to consistently adhere to deficit targets. The slippages have

often resulted in an increase in non-concessional domestic debt, which imposes a severe debt service burden on the budget and diverts resources from investment and provision of goods and services. Though some restraint has been achieved over the past two years under MTEF, it appears that the process is still susceptible to the political elections shock. The current MTEF budget 2002/03 coincides with the general election which, combined with the lack of programme support from IMF and World Bank, jeopardizes the possibility of achieving the PRSP targets.

Table 1. Expenditure Components as a Percentage of GDP 1999/2000-2004/05 and Other Targets.

% of GDP	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05
Revenue	23.4	22.98	22.85	22.24	22.27	22.15
Expenditure	23.06	27.56	26.29	26.25	24.88	23.87
Deficit	0.83	-1.73	-2.82	-3.26	-1.89	-1.02
Development	2.27	3.17	3.25	3.69	3.45	3.43
Core Poverty programmes	2.1	2.1	2.3	2.5	1.9	1.4
Real GDP Growth (annual) ¹	-0.2	1.2	1.8	2.8	3.3	3.9

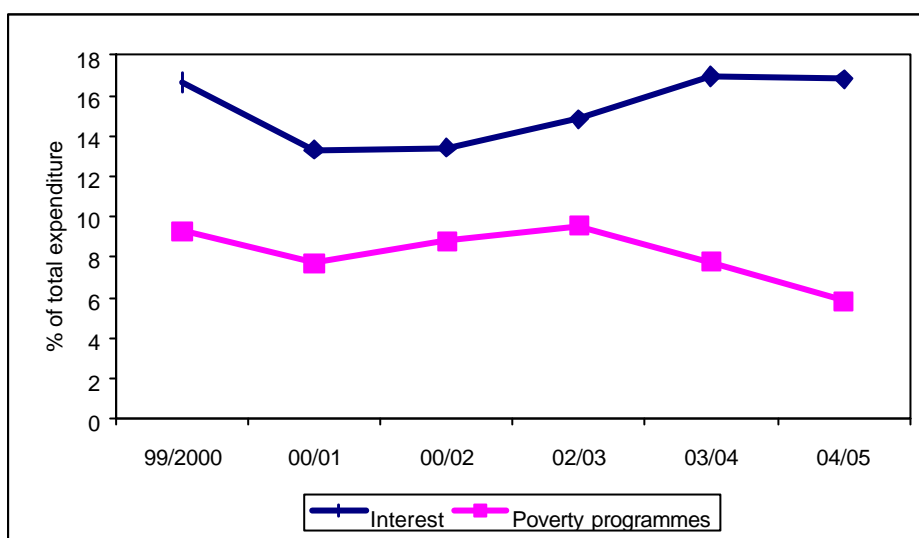
Source: MTEF-Fiscal Strategy Paper 2002/03-2004/05, June 2002

From the interviews we conducted there was concern that there did not appear to be a firm commitment from the government to change the fiscal stance. The main concern in this regard is that the fiscal strategy lacks a strategic growth framework. Those closely involved in the process at the macro level observed some internal conflict in the setting of key macroeconomic targets and benchmarks between the key players; the Macro Working Group (MWG), on one hand and the Fund and the Bank on the other. The low inflation target, below 5%, for instance, was debated at length. The arguments here were that although inflation is bad for the poor, unemployment resulting from a very tight monetary policy is also bad for the poor. In the end no common strategy emerged for adoption and the status quo was maintained.

Figure 1 represents the impact of additional domestic borrowing, outlined in the FSP, on the financing of poverty programs. The chart shows the expenditure shares between interest payments and core poverty programmes. Though the two categories of expenditure increase in tandem in the initial years of the MTEF, the trends diverge after 2002/03, interest expenditure increases while the allocation for core poverty programmes declines.

Figure 1: Poverty Programs and Interest Allocations % of Total Government Expenditure

¹ Starting from year 2000 calendar year



Source: MTEF-Fiscal Strategy Paper June 2002

The Fiscal Strategy Paper para 5.3 states that “... if additional resources become available (through for example, higher rates of economic growth or more favorable interest rates), these nominal ceilings could be adjusted by increasing the provision for poverty related expenditure”. The statement has three significant implications for the PRSP.

First, that growth is necessary to generate resources for redistribution. The Kenyan economy still faces four main challenges, which constrain the growth potential and limit the scope for funding poverty programs. These include, high debt servicing costs, low investment rates and high consumption. Consumption, both private and public, currently account for 95% of GDP.

Second, that to fiscal discipline at macro level, that would ease domestic borrowing as envisaged in the PRSP, is yet to be achieved. Third, that expenditure re-prioritization has not yet been achieved, to create fiscal space such that poverty related expenditures can take center stage in the resource allocation process. The poor quality public investment, characterized by a huge portfolio of incomplete projects, which have no value added; and high wage costs comprising over 30% of total expenditure compromise the effectiveness of government expenditure. Indeed these constraints are cited in most government policy documents, for instance the FSP. The constraints outlined above need to be tackled through a national strategic plan from a top down approach to complement the bottom up consultative /participatory process for the successful implementation of the PRSP.

4.3 Allocative Efficiency-Sectoral Allocations

As earlier outlined the second aim of the MTEF is attuning the resource allocation with national development objectives, derived from a consultative process. In spite of the wide appreciation of the need to achieve national development objectives by concentrating resources on few high-priority activities, there is no criteria as yet for determining inter and intra-sectoral resource allocations to ensure that priority programmes receive adequate resource allocations. Furthermore, there is no agreement on the appropriate role for the public sector, the activities to be done in-house and those to be contracted to the private sector taking into account diverse implementation capacities.

Even after all the priorities were identified at the grass roots, there was no mechanism for evaluating tradeoffs between sectors and within sectors. In the human resource sector, for instance, there is no mechanism for evaluating tradeoffs between health and education and with education between tertiary and primary education or between teachers and textbooks. At the macro level, there was no mechanism for evaluating tradeoffs between investment and redistribution, to ensure sustainability. However, for a country without an updated Input-Output table or current Social Accounting Matrix, the kind of rigorous choice contesting that would enrich the PRSP process might not be possible.

Table 2 and Figure 2 summarize the PRSP funding requirements by sector over the three-year period. The summary shows that while the first fiscal year financing requirements are clearly identified, the financing requirements for years two and three are fuzzy, except for physical infrastructure and public administration sectors (3 and 6 respectively).

The first fiscal year requirements are estimated at 85.4 billion shillings, reducing to 31.2 billion shillings in the second year and by the third year only 19.4 billion shillings. In some sub sectors, as in the case of the Central Bureau of Statistics, for instance the year when the financing is required is not indicated. It reflects a clear front end loading which is not appraised against prevailing financial and capacity constraints as outlined in the FSP the MTEF. The financing requirements are well above the allocations for core poverty programs in the budget, which average Kshs 22 billion over the MTEF period. The Kshs 136 billion requirement compared to 22 billion over a three-year period leaves a financing gap of about Kshs 70 billion.

Table 2 Summary of Funding Requirements (Kshs million)

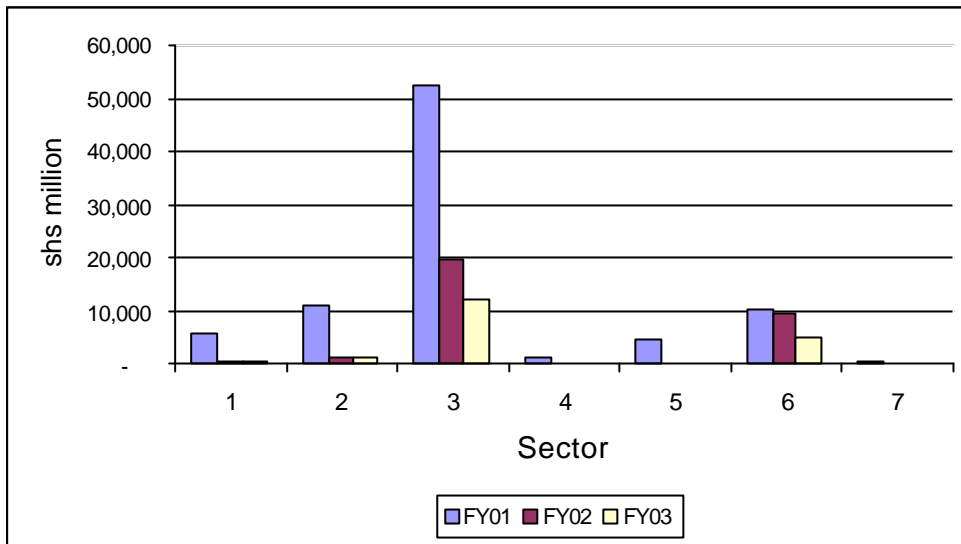
Sector	FY01	FY02	FY03	Total	Donor
Agriculture & Rural Development	5,872	492	478	6,842	3,127
Human Resource Development	10,907	1,401	1,521	13,829	-
Physical Infrastructure	52,306	19,748	12,238	84,293	16,613
Trade Tourism & Industry Sector	1,431	-	-	1,431	-
Public Safety Law & Order	4,575	-	-	4,575	-
Public Administration Sector	10,107	9,590	5,136	24,832	-
Information Technology	260	-	-	260	-
Grand Total	85,458	31,232	19,373	136,063	19,740

Source: PRSP Implementation Matrix

The funding allocated to poverty programs in the current budget, as summarized in the FSP, is presented in Appendix 3. The amounts are too little to have a significant impact on poverty. The front loading is an indicator that there is no simultaneous programming of capital and recurrent costs. A typical example can be found in the public safety law and order sector where one of the activities is to recruit 1,200 additional security personnel. The estimated cost is Kshs 227 million during the first fiscal year and no other expenditure is programmed thereafter, which reflects a lack of medium term to long-term focus, the main rationale behind the introduction of the MTEF.

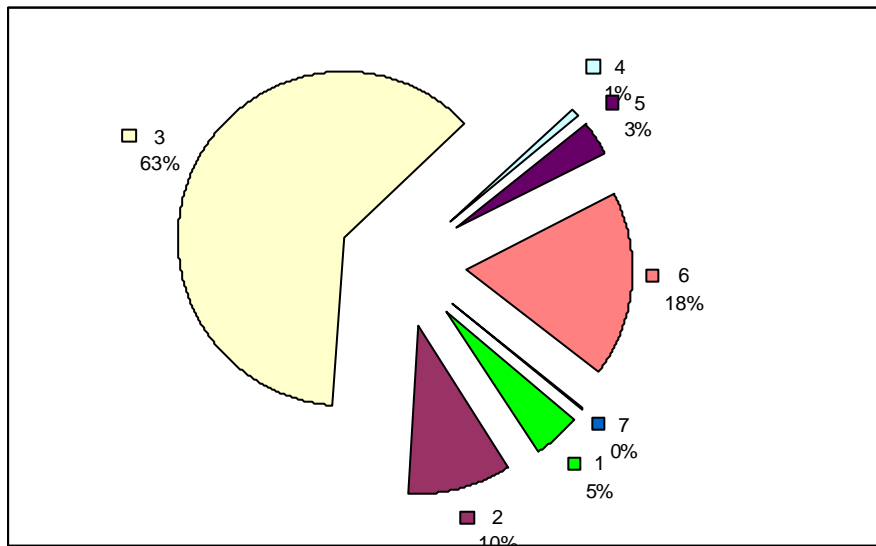
The sectors whose financing requirements are clearly identified over the three years are those that require minimal bottom up consultation such as , public administration sector programs. The petering out of expenditure requirements in the outer years could also depict the lack of a mechanism for translating local priorities into fundable projects and programs which reflects a capacity or MTEF conceptual gap. However, skills development is a medium term undertaking which should be a key component of the MTEF/PRSP process.

Fig. 2: PRSP Three-Year Financing Requirement by Sector



Source PRSP 2001 Implementation Matrix

Fig. 3 Total Financing (3 year) Requirement by sector



Source: PRSP implementation matrix

Source Development 3. -Physical

Infrastructure 4. -Trade Tourism & Industry Sector 5. -Public Safety Law & Order 6. -Public Administration Sector 7.- Information Technology

Figures 2 and 3 show total financing requirement by sector over the three-year PRSP period. Physical infrastructure ranks first, accounting for 63% of financing requirements, public administration takes the second place with demands in the sector accounting for 18%, human resource development takes the third place with a requirement of 10% and agriculture the priority sector ranks fourth with demands accounting for only 5%.

McGee (2000) argues that the PRSP can only provide a framework for empowerment if the poor are clear about what they can and cannot expect from public agencies, the need for clarity in roles responsibilities and entitlements. In the absence of such a framework, the PRSP is in danger of becoming a bulky wish list.

This would appear to be the case for Kenya. Due to the wide financing gap, the PRSP is perceived as a wish list. The entitlements were not clear so there was no mechanism for balancing priorities with affordability. The donor's response was a requirement that the government drafts an Action Plan, GAP, outlining how it intends to implement the PRSP.

Financing Options

The financing requirements clearly exceed the level of resources that can be generated from internal revenue sources. Kenya's tax base is characterized by a large informal sector which is difficult to tax due to measurement and definition problems. Even if this were possible it would impose huge administrative costs for the revenue collecting agents. This leaves the economy with a narrow highly taxed formal sector--for direct taxes--and high rates for indirect taxes--mainly VAT, excise duties and import duties. The composition is presented in Table 3.

Table 3 Composition of Government Revenue % of Total

	1998/99	1999/00	2000/01
Income Tax	33.7	32.2	31.1
VAT	23.7	24.3	27.5
Excise Duty	17.4	16.8	15.6
Import Duty	17.3	17	16.3
Others	7.9	9.6	9.5

Source: Source: Nyamunga and Ochieng (2001)

Each of these sources of revenue has implications for the PRSP. VAT is hailed as good source of revenue especially when the system has minimal exemptions and zero rating. However, if designed without these two features, VAT can be a highly regressive tax. The tax burden would fall more on the poor than on the rich, for this reason the Kenyan VAT system has exempted/zero-rated most goods that fall under the basic needs category. The tradeoff is foregone revenue for financing government programs. The tax ranks second in importance after corporate and wage taxes and is levied at 18% which is quite and it is unlikely that increasing the tax rate would yield more revenues without compromising compliance.

The other major source of revenue is direct, or income taxes. Direct taxes are a good source of revenue and if well designed can be progressive. However, if the taxes are set at very high rates they can be a disincentive to investment, which is necessary for employment creation and GDP growth. At about 33%, the corporate taxpayer feels overtaxed and the regional integration under the Common Market for Eastern and Southern Africa, COMESA, gives investors the option to invest in low tax regime countries while enjoying a wider market. Clearly, this source too provides limited scope for generating more revenues.

The third source of revenue is excise taxes and the main excisable commodities are beer, cigarettes and petroleum products. Excise taxes are designed to tax negative externalities and have a high potential for revenue generation. However, recent analysis indicates that revenues from these sources have been declining. Furthermore the high taxes levied for beer and cigarettes have excluded the poor from the formal markets and they have resulted to production and consumption of more dangerous informal substitutes. Petroleum products are also excisable. High taxes on these products are passed on to consumers of public transport--mainly the poor, however, a specific proportion can be earmarked for poverty programs. Kerosene, the main source of fuel for the urban poor falls in this category. The other source of revenue, which

can be explored, is property taxes. In Kenya, property is the main conduit for concealing wealth. This possibility has not been exploited but it has the potential for raising a substantial portion of revenues.

Clearly, there is limited potential for generating more revenues to finance PRSP priorities from local revenues. Indeed under tax reforms, the main objective has been a shift to lower rates with a wider base. The main option for financing the PRSP seems to be expenditure re-organization to eliminate wasteful and unnecessary expenditures and mobilization of concessional external financing.

4.4 Operational Efficiency

One of the benefits envisaged from the PRSP process is improved quality of expenditure by targeting resources to national development objectives. The poor quality of public expenditure is well exemplified in the deteriorating condition of public assets, the declining quality of public services and an increasing service deficit as emerged from the consultative process, (i.e. failure to deliver services to the quantity and standard expected by the intended beneficiaries). In part, this is because the economic allocation of resources is inappropriate: budget cuts have successfully reduced the real level of public expenditure but the methods used (e.g. reducing real wages but not the number of public servants) have distorted resource allocations (too much for salaries and debt service, too little for operations and maintenance and for emerging development priorities).

Changing the composition of government expenditure by shifting resources from defence, general administration wage bill and transfers to areas that would have an impact on poverty reduction such as primary health care, education, infrastructure and water supplies can only be achieved if the core functions of government are well defined.

The composition of expenditure in the current MTEF budget does not reflect any significant change in the expenditure mix in the medium term unless as pointed out in the FSP the economy achieves higher levels of growth or saves on interest expense.

Unless the economy is growing to generate more revenues for the government, there is little room to fund emerging priorities. Compounding the composition problem is inefficiency, as noted in Public Expenditure Review PER 1997, even the amounts appropriately allocated to development spending do not translate into capital formation. Increasing the efficiency of public expenditure is an option that needs to be aggressively pursued before increasing spending levels.

Another constraint to achieving operational efficiency is that recurrent budgeting is still input oriented and incremental, despite the introduction of the MTEF. The MTEF is intended to shift the budget focus from inputs to outputs/outcomes. The budget is still rigid and sticks to the historical expenditure allocation path rather than adapting to changes in the dynamic environment. This is evidenced by the MTEF reallocation, in the macroeconomic framework. Under this incentive, line agencies/sectors that succeed in phasing out unproductive expenditures would benefit from additional funding for high priority programmes. To date no sector achieved this goal.

Though the current budget system has adopted MTEF, there is very little difference between the final product and that of the predecessor, Programme Review Forward Budget, PR&FB. The budget still emphasizes accountability and transparency by controlling expenditure on

inputs and there is no mechanism to ensure that intended outputs are delivered efficiently. Under the circumstances it is difficult to track and monitor PRSP programmes and targets from the MTEF budget.

4.5 Challenges for the PRSP

4.5.1 Sequencing

We observe that the logical sequence of activities in the top down bottom up approach has not received much attention, not just in Kenya but in also in the PRSP/MTEF literature. It is necessary to prepare the aggregate resource envelope, undertake district consultations and ensure that all thematic or cross-sectoral issues are addressed before the sector working groups have to finalize their submissions to the PRSP. In Kenya the Fiscal Strategy, which sets out the aggregate ceilings, get finalized after the resource bidding hearings and at this point it is difficult to resist the spending pressure from sectors, making it difficult to adhere to a hard budget constraint.

Prioritization at sector level would be enhanced if entitlements are communicated during the consultation process. The broader terms of reference for sector-level planning and budgeting mean that Sector and Thematic Working Groups will need to ensure better integration of resource allocation decisions and consistent application of appraisal procedures. Sequencing is also not clear in the interfacing of the development plan, the PRSP consultations and MTEF. In the Kenyan case some useful stages were left out of the budget planning process; the Project Investment Appraisal (PIP), for instance, which was critical in the project selection criteria, has been omitted from the budget process.

4.5.2 Institutional Reforms

The PRSP/MTEF process was introduced on top of the existing budget and planning institutions and without any reform of the organizational arrangements. In some areas, responsibility is not clearly assigned e.g. between the MTEF Secretariat, PRSP secretariat and the Budget Secretariat or between Sector Working Groups and Estimate Working Groups. Though tasked with critical reform function, the PRSP secretariat is thinly staffed, furthermore, the formal status of the secretariat within the organizational structure of the Ministry of Finance and Planning is not clear. For effective institutionalization, the role of the PRSP/MTEF Secretariat needs to be fully defined, it also requires strengthening through additional staffing. The remit of the Secretariat should be broadened to include regular Public Expenditure Reviews so that topics of significance for budget implementation can be analyzed in more depth and the findings incorporated into subsequent PRSP/MTEF cycles. Some of the views regarding this arrangement were that there should be a separate roles assigned to an MTEF secretariat and a PRSP secretariat. The former to undertake detailed analysis and addresses budget formulation implementation issues and the later to deal with grassroot participation agenda.

4.5.3 The Budget Product and Budget Negotiation Framework

As observed in section 4.2 above, the recurrent budget format has not changed from the line item/input approach, which makes it very difficult to determine the development agenda. The challenge lies in the design of an appropriate format for an output-budget. An essential component of the MTEF/PRSP process involves establishing a consistent structure for setting performance targets for line agencies and entering into performance contracts with semi-

autonomous government agencies. Kiringai and West (2002) argue that for the budget to contribute to improvements in operational efficiency the changes in the budget structure must be designed to provide greater transparency and accountability, as this will reassure the public and development partners that they are receiving value for money.

With regard to budget negotiations, the challenge lies in opening up the macroeconomic framework for public debate where policy options, risks, challenges and tradeoffs are evaluated. The lack of stakeholder participation in the macroeconomic framework appears to have created a division between social and economic issues rather than integrate them in the PRSP spirit. For an effective evaluation of tradeoffs the government needs to urgently invest in a new I-O table and a SAM.

4.5.4 Additional Funding

Unless additional funds are identified and targeted to anti-poverty programs, fatigue and skepticism is likely to set in and jeopardize future participation of stakeholders. Our proposals here would include; first restructure government expenditure, second, design property taxes and earmark such revenues for poverty reduction and third renegotiate some of the conditionality with a separation of general budget support and anti-poverty financing, this is taken up in greater detail in section 5.

4.5.5 Policy Implementation

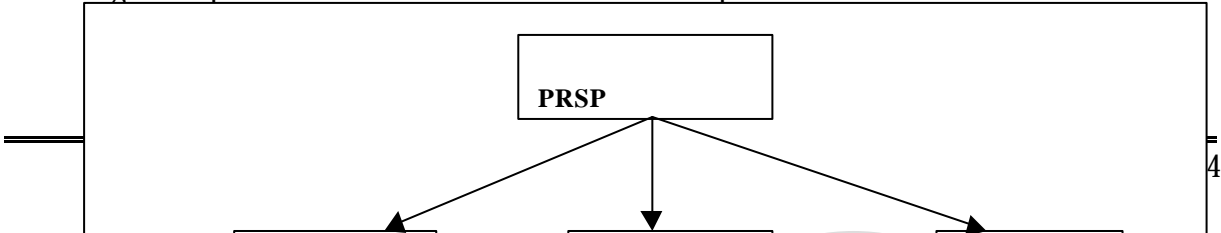
The views expressed by those we interviewed point to a credibility gap that has to be bridged by the Kenyan government in implementing the PRSP. Though we did not come across very negative sentiments, there were undertones of skepticism especially regarding the financing aspects of the identified priorities. Given the extent of financing gaps in the current PRSP as identified in section 4, it is important that Kenya remains on good terms with its development partners in the foreseeable future.

Faced with the occurrence of adverse shocks such as the recurrent droughts or a deterioration of the terms of trade, which can throw even a committed government off course, Kenya's shallow revenue base will not achieve the economy MDGs without donor support. Negative shocks can disrupt the attainment of targets, reduce accountability and damage the credibility of the process. The lack of flexibility in responding to these threats may even force people responsible for budget preparation to resort to the traditional technique of imposing budget cuts across all programmes.

The greatest challenges facing the PRSP are financing of the priorities and the continued participation by stakeholders. The latter in turn hinges on the government's ability to implement some of the programs and show some results. Given the fiscal position of the country at the moment, it is important that IFIs are persuaded to continue providing financial and technical assistance in ways that support the PRSP process.

The development partners should also be encouraged to adopt common procurement, implementation and monitoring arrangements. It is in the GoK interest to spearhead this initiative. We propose a possible framework for the participation of development partners in the PRSP process as outlined in Figure 4.

Fig. 4 Proposed Framework of the Role of Development Partners in the PRSP



In the proposed framework, donors would adopt a sector approach to financing the PRSP, based on their preferences. The funds would be pooled under a 'sector basket' and allocated in line with the sector priorities. The proposal here is that no conditionality should be tied to sector funds. The rationale is that if donors are committed to poverty alleviation there should be a mechanism of targeting the poor even when the political establishment is unwilling to implement specific reforms.

However, there is a role for conditionality to hold governments accountable, at least until CSOs are empowered to demand the same from the government. To this end, budget support should still be tied to well coordinated, minimal, conditionality.

5. The Role of Donors

Traditionally donors have played two major roles: that of funding of projects and general budget support, and the other, advice on policy formulation to beneficiary governments. However, after several decades of donor support at both policy and project implementation levels, some new thinking has emerged and an evaluation of the past practice has created new paradigms in the role of donor support. Indeed, donor-government relationships have had to undergo a re-engineering process, which was originated by the International Finance Institutions (IFIs). Through the re-engineering process, the lesson learning has created new roles for donors. In our view this new role was most aptly and succinctly described by McGee et al (2001), as "brokers of participation" between the government and the civil society. For the purpose of this review, this new role shall be referred to as facilitation. From the donor perspective the process is intended to address the weak ownership of donor financed programs and also to coordinate the fragmented donor programmes, which increase the administrative burden for the recipient governments.

We reiterate here that Kenya has not yet reached the implementation stage in the PRSP, which is pending the finalization of the GAP. The review on the role of donors therefore, focuses more on the stages that have so far been finalized; the consultation and drafting of the PRSP.

5.1 Facilitation

The successful implementation of a new policy/strategy requires a strong administrative capacity backed by a strong political will to implement. This holds true for the PRSP. In countries where these two are not met, there is a significant role for donors if the strategy is to be successfully implemented and desired results achieved. In our view, it is unlikely that Kenya would have initiated reforms without the direct engagement of development partners. Donors, bi-lateral and multi-lateral have managed to convince the GoK, albeit through conditionality, to embrace poverty reduction as a priority.

In Kenya the facilitation role can be traced back to 1999 when the GoK, supported by a consortium of donors, recruited a team of non-bureaucrats, “The Dream Team”, to occupy key positions in the government to spearhead the reform process. This initiative was funded by a group of donors led by the World Bank. Though the hefty pay package was initially frowned upon, given the low salaries for other government staff, the overall impression was that their presence in the government improved relations between the donors and the government, which had hitherto been rather tense. Furthermore their presence sent signals that there was serious GoK commitment to reforms. Views regarding the contribution of the change teams were mixed. Some of those we interviewed felt that for the short time they were in office, the change team “walked the talk”. However, the termination of the professionals’ contracts was perceived as a retrogressive step. The alternative view was that their presence created a disincentive within the civil service and there was a sigh of relief when the team left office.

In Kenya the entire consultation process was donor financed. A group of donors who included World Bank, DFID, Netherlands, USAID and UNDP provided funds totaling Kshs 140 million. These funds, which were outside the normal budgetary allocation, were put in a basket managed by UNDP. The funds were intended to facilitate grassroots consultation in all the administrative districts. The European Union made a contribution in financing the audit of the basket funds. The initial reaction from among the public was that the GoK already knew why the people are poor and that the process of seeking people’s opinion on the same was an expensive and an unnecessary undertaking. However, those we interviewed felt that the exercise was an eye opener, and that although constrained by time and lack of a clear understanding of the whole process, they nevertheless felt that if the process was continued and institutionalized, it would greatly enhance budget transparency.

5.2 Funding

The completion and publishing of a PRSP is a conditionality for accessing concessional financing either through HIPC debt cancellation initiative, PRGF by the IMF or Poverty Reduction Support Credits (PRSC) by the World Bank. As it stands, Kenya does not qualify for debt cancellation under HIPC and would therefore only qualify for support under PRGF and PRSC. It was therefore expected that the completion of the Kenyan PRSP would attract budgetary support from both bilateral and multilateral donors. In Kenya the speedy implementation of the consultations, which might have compromised quality, has been attributed to the need to clear the standoff between the GoK and the Bretton Woods Institutions and access financing.

In Kenya, as elsewhere in the world, the key question has been whether the financing under the PRSP is additional or replaces previous financing and conditionality. Furthermore, it is not clear whether the process replaces or joins the previously existing conditionalities.

Though we do not pretend to answer these two questions here, we observe that Kenya has not yet fulfilled all the conditionalities attached to the two facilities and has therefore not mobilized additional financing through the PRSP. For example, the GoK has been accused of reluctance to privatize some of the key parastatals, which continue to be supported through an over-stretched government budget. The reluctance to pass the anti-corruption bill which would reflect limited commitment to eradicate the vice, has also delayed the resumption of aid from IFIs.

The country's position is further complicated by the current political situation. For Kenya, as observed earlier, the process coincides with the most challenging multi-party democracy general election, when the incumbent president must leave office. This necessarily creates uncertainty in the political arena where the key players in the economy, and not just donors have adopted a "wait and see" attitude.

Table 2 above shows that over the three-year PRSP period donor commitment totals shillings 19 billion, 14%, out of 136 billion, required in the PRSP implementation matrix. The commitments are in two sectors, Agriculture and Rural Development and Physical Infrastructure. It is therefore unlikely that the completion of the PRSP would mobilize significant additional funding from the donors until perhaps after a new government is in office.

We observe here that though there is need to mobilize additional funding for poverty programs, there is a danger that this would be just another soft option for the government. A painful surgery to eliminate wasteful expenditures must be done to increase efficiency of government expenditure. In the absence of expenditure reforms additional funding will be a short-term unsustainable measure.

5.3 Technical Assistance and Policy Advice

Donors have played a significant role in policy advice. Indeed, most of the reform packages whether successful or otherwise, that have been implemented in Kenya have been a component of policy advice from donors. Stakeholders felt that some of the stipulations coming as advice have been the origin of the poor show in economic performance. Some stakeholders were of the opinion that the policy advice from donors, prior to the PRSP, has even contributed to the higher poverty levels. For instance, the poor performance of the agricultural sector was attributed to the blanket trade liberalization program, which was promoted as a good policy by donors. Similar sentiments were expressed for the cost sharing policy in health and education. In this regard, donors should engage stakeholders in policy formulation dialogue as part of the consultative process to make the process more inclusive. This would have the benefit of obviating stalemates that arise due to non-implementation of conditionalities. However they also acknowledged that due to their limited knowledge especially in the area of macroeconomic framework, their participation in this area would have been limited but would still be a useful starting point.

Another component of policy advice during the PRSP process was that of identifying "best practices" among countries that had completed PRSPs, which Kenya could emulate. Study tours to Ghana and Uganda-- often cited as successful reformers in sub-Saharan Africa-- were organized as part of the learning process. Donors also provided materials and advice on the

potential benefits of reform and facilitated the organization of several workshops for information dissemination/capacity building in government agencies. The general impression is that from these workshops, sufficient capacity was built within government to undertake future consultations without the direct involvement of donors.

The main focus in capacity building was on facilitating the consultative process, but as observed elsewhere in this paper, there are other critical aspects of the PRSP where more attention and capacity building is required as part of the learning process and donors could play a significant role. These include capacity building in costing of programs leading to the development of appropriate indicators, which would be used to re-design the budget to an output/outcome orientation.

5.4 Aid Coordination

One of the expectations in the PRSP approach is that there would be an effort to coordinate donor aid and mainstream it in the PRSP. Under this arrangement, donor priorities would be harmonized with those identified in the PRSP, and in the best case scenario managed under one basket. This would then harmonize and eliminate the multiplicity of complex disbursements, procurement, and audit procedures that exist in bilateral and multi-lateral financing arrangements.

Previous studies in this area (see for instance Ryan and O'Brien 2001) observed that low disbursement levels of donor aid in Kenya has been attributed to:

- (i) overlapping conditionality from the multiplicity of donors in the country,
- (ii) different disbursement procedures based on the donor country regulations,
- (iii) different program priorities for different donors

These three weaknesses constitute the major bottlenecks that need to be addressed to improve donor coordination under the PRSP.

Given the foregoing scenario different desk officers would have to represent each of these donors in the External Resources Department (ERD), of the Ministry of Finance and Planning. This calls for regular discussions with different government officials thereby increasing the administrative workload on the government.

Since the Government Action Plan (GAP) is not yet finalized, we shall use the level of donor involvement in the MTEF budget, to get a feel of the quantity of donor financing in the budget. Table 5 is a summary of the donor funds factored in the budget. The table shows that the development budget portfolio for 2002/03 totals 46 billion Kenya shillings, where 42.2% of this budget is funded by thirteen multi-lateral donors and 27.2% by another 15 bi-lateral donors, thus donors jointly finance 69.4% of the development budget. Over the three year period, donor support averages 66% of the development budget.

Table 5 Summary of External Financing in the MTEF Budget 2000/01-2002/03

	No.	2000/01		2001/02		2002/03	
		Loans	Grants	Loans	Grants	Loans	Grants

Bi-lateral Donors	15	4,190	5,642	3,746	6,107	6,416	6,210
Multi-lateral Donors	13	7,235	6,819	10,970	5,430	9,978	9,655
Total		11,424	12,461	14,716	11,537	16,393	15,865
Loans & Grants			23,885		26,253		32,258
Total Development Budget			38,420		57,371		46,469
Aid % of Total	28		62%		46%		69%

Source: Development Estimates: Details of Projects with External Resources (various)

To estimate the administrative costs of reporting donor aid, we use a rudimentary method, based on 2002/03 budget numbers, to estimate the cost to the government of reporting donor aid. The computation will be based on the data in table 5 and the total expenditure allocation for, ERD, of the ministry of Finance and Planning, the department that co-ordinates donor aid, as the proxy for reporting costs.

In the budget estimates for 2002/03, the expenditure allocation for the ERD, totals Kshs 33 million while the total external funding totals Kshs. 32 billion. From these numbers, our calculations indicate that during the year 2002/03 the government will use 1 shilling to administer 961 shillings of donor aid. We note here that ERD costs exclude other costs at the implementing agency level. We also note that the expenditure on the government side will be incurred regardless of whether the funds are disbursed or not. The cost estimated above would therefore be the best case scenario with a 100% disbursement, which is highly unlikely. The grant disbursement level is normally estimated at 40% of the total commitments, the proportion normally reflected in the macroeconomic framework. Assuming only 40% of the grant component will be disbursed, the calculation translates to 1 shilling used to report 689 shillings of aid, which significantly reduces the efficiency.

Since donors finance a larger portion of the development budget than the GoK, it is important that they “buy-in” the development agenda identified in the PRSP and harmonize their priorities with those in the PRSP. The other critical step is pooling the funds together to eliminate the complex disbursement and reporting procedures that increase the administrative costs for the government.

Another weakness of the fragmented approach has been that once the donor funding peters out the activities financed by donors are unlikely to be sustained. This occurs because at the planning stage no provision is made for the recurrent implications of development projects. Indeed there are cases where hospitals have been constructed through donor support but the facilities lie idle since there are no resources to run them. Sound macroeconomic management requires that the size of the capital program should be determined by the long-term affordability of the recurrent implications of completed projects.

In Kenya the PRSP was completed in 2001 and the government has as yet not completed the government action plan (GAP), which would be the final negotiating document between the GoK, and the World Bank, which takes the lead in the PRSP. We therefore feel it is still too early to judge the process on whether aid coordination has been achieved. However, there is evidence of donor coordination under the M&E thematic group where donors appear to have agreed to adopt a common approach in monitoring the PRSP. The effort is being coordinated by the UNDP.

In summary, the common feeling among stakeholders that though the GoK can finance the process, until transparency and good governance have been institutionalized, the facilitatory

role of donors in the consultative process is still necessary. On the other hand, there is an opinion among a section of stakeholders that the external financing agencies have failed to be supportive even in critical areas. The conditions imposed for the release of programme assistance are generally considered to be excessively interventionist, with unrealistic deadlines. Moreover, their rigid application caused the suspension of disbursement of programme assistance early in 2001, creating budgetary problems and contributing to the GoK's failure to achieve the PRSP targets, which had been agreed upon with the donors

6. Capacity Building

Success in policy reform depends. In large measure, on building long-term capacities of local key actors to analyze a problem correctly and design the best solution for it. But capacity development for the PRSP process goes far beyond local actors –governmental or non-governmental using information and analysis funded by a donor in formulating policy. It calls for a rethinking process in the institutional framework so as to facilitate:

- Formulation of an appropriate operational strategy
- Creation of an appropriate institutional set-up with sustained commitment
- Creation of an effectively trained workforce and
- Continuous institutional process strengthening.
- Awareness campaigns

It is necessary to create institutions that facilitate successful implementation of the PRSP/MTEF process through capacity building in all agencies involved in the process. In order to create an institution that provides for the issues raised above, these should be based on a well formulated "Capacity Building Action Plan", which should identify capacity gaps, and programmes that require to be implemented. The success of the PRSP/MTEF therefore depends on introducing institutional arrangements that provide effective processes that are supported by a well-motivated workforce with appropriate incentive schemes.

6.1 Capacity Building for civil Society

For the civil society, some of the capacity gaps identified by those interviewed and our own review brought the following to the fore:

- There is need to demystify the national policy processes especially the national budget and planning process, clarity about the cycle and where they fit in the whole process. Indeed there was an observation that those institutions that had already engaged into some dialogue with the GoK well before the PRSP process were better positioned to make significant contribution during the consultative process.
- There was concern that due to scanty understanding of the macroeconomic fundamentals, the civil society was not able to make contributions in this area.
- There is need to clarify roles and outline the expectations of those consulted. The feeling here was that expectations from them were too much yet there was no adequate time for preparation. Indeed, some felt that they were taking over some of government responsibilities if they have to propose solutions to their problems.

Based on the above concerns, we propose the following areas for capacity building among the CSOs.

6.1.1 The budget process

The budget making process has been perceived as a “black box”, only understood by few priorities. There is a clear case here for educating/informing CSOs done through organized training for the agents or through simple publications, local churches, and other community initiatives and where necessary in Kiswahili. The Kenya Institute of Economic Affairs has attempted to do this but their key focus has been on the parliamentarians though the institute recently started a CSOs outreach program. With better understanding, the CSOs and private sector would be more involved in the planning and monitoring of the PRSP, making the process more participatory and consultative.

6.1.2 The macroeconomic framework

This is one area where non-specialists can only expect to gain an appreciation and not a detailed understanding. Perhaps to engage CSOs at this level, a useful starting point would be to educate them on their entitlement from the government. A successful activity organized as part of the (PR&FB) – the predecessor of the MTEF was an annual workshop, where macroeconomic fundamentals for the next budget were outlined. One possibility is to reintroduce a series of workshops early in the process and expand the scope to include CSOs. During the workshops the detailed macroeconomic framework underpinning the next budget, the risks challenges and tradeoffs between poverty reduction and growth, would be debated. Some of the other areas to be covered would include:

- Economic projections and the implications for aggregate budget ceilings as identified in the FSP;
- The application of the methodology for setting sectoral ceilings;
- The deadlines for submitting sectoral and line agency budgets, and
- The procedures for appraisal of draft recurrent and development budgets.

Under such an arrangement, the CSOs would be clear on their entitlement and eliminate the risk of the PRSP degenerating into a wish list.

6.2 GoK Capacity Building

The most critical factor to the success of the PRSP process is an effective and well functioning budgetary process, which the MTEF process has not yet achieved. Interviews and observations revealed that the shift to a more result oriented, output budget, which is a useful starting point in increasing the efficiency of government expenditure, appear to be achievable only in the distant future. To date the MTEF budget is a replica of the former PR&FB yet it is expected to set out measurable targets, where PRSP priorities are mainstreamed, and easily monitored. This shortcoming has been attributed to the fact that the medium term indicative planning was imposed without taking into account GoK’s capacity constraints for implementing governments. Furthermore, practical experience suggests that it is very difficult to build and retain capacity within government, especially when public sector remuneration is generally perceived to be low relative to market rates.

We identified following key areas where there is need to build capacity within government for effective implementation of the PRSP: programme costing, sector analysis, monitoring and evaluation, policy analysis and implementation, and data and poverty analysis.

6.2.1 Costing of Programmes

The current budgeting process in Kenya lacks the means to evaluate the cost of bids objectively. Detailed cost estimates for core activities using standard cost norms are necessary for an objective analysis of trade-offs between marginal resource allocations for the priorities identified in the PRSP.

The adoption of the MTEF medium term approach by itself does not ensure that the costs and benefits of policy options are accurately assessed. Kiringai and West (2002) observe that experience with the PR&FB shows that it is extremely difficult to identify suitable output indicators and performance targets and to measure the annual attainment of targets especially when programs are not properly costed. Spending agencies lack the necessary skills and capacity to undertake these tasks. The difficulty of investigating complex policy issues on an across-the-board, annual basis makes success unlikely, before a comprehensive capacity building initiative is undertaken. The capacity gap in this area needs to be addressed, through a structured training program.

6.2.2 Training of sector specialists

The PRSP process adopts a sector approach to the resource allocation process unlike the budget, which is cast on the basis of spending agents. Unless the two approaches are harmonized, it will be difficult to integrate planning and budgeting in Kenya. The adoption of Sector Wide Approach, (SWAP), to budgeting has been recommended in the wide PRSP literature as an effective way of linking the two processes. Adopting a SWAP requires the training of sector specialists whose remit would cover the preparation of a long-term strategic planning framework for the specific sectors; the preparation of periodic medium-term operational documents; and periodic sectoral reviews.

6.2.3 Monitoring and evaluation

Monitoring and evaluation (M&E) is a critical component of institutionalizing transparency. In Kenya, the CBS should coordinate a comprehensive monitoring system based on the development of sample survey capability, supplemented by baseline data on specific output and performance indicators (e.g. generated from service delivery surveys). Implicit in this proposal is the assumption that there will be significant institutional reform and capacity building within CBS, including the establishment of a National Statistics Committee, bringing together users and producers of economic and social statistics. In economics terms the cost of producing regular, timely and accurate data must be commensurate with the benefits derived from monitoring.

Sustained improvements in M&E capacities within PRSP countries could contribute significantly to improving the effectiveness and efficiency of poverty reduction efforts over the medium to long-term. Nevertheless, PRSPs sometimes do not include detailed plans for improving M & E capacity and do not indicate priority needs for additional external assistance for capacity building. The Kenya PRSP details the capacity requirement for M&E and also gives the cost implications. The main cost elements include introducing new data collection

activities, continuation of on-going periodic data collection activities, institutional capacity and ownership building.

6.2.4 Public Policy Analysis and Implementation

The capacity of countries to develop their own solutions and strategies, and to implement public policies is central to the success or otherwise of the PRSP. The lack of capacity and the inability to use the existing capacity effectively remain important constraints. Do all the PRSP stakeholders have adequate capacity to oversee its implementation and M&E? Are the districts consultative forums, which were all inclusive with all stakeholders participating, still active to oversee the PRSP implementation process?

6.2.5 Data and Poverty Analysis

Despite the significant advances in poverty data and analysis in PRSP relative to pre-existing government strategies and policy framework, analysis of the impact of pro-poor policy actions is limited. The PRSP often listed policy actions, which had no clear connection to poverty diagnostics. This is mainly due to capacity constraints and the inherent technical difficulties of undertaking systematic and comprehensive analyses of the impact of the GoK's poverty reduction strategy.

7. Summary and Conclusions

Poverty situation in the country has worsened with more Kenyans becoming poor. Both rural and urban poverty situation has been deteriorated over time. Associated with the increased poverty are the decline in primary school enrolment and the deteriorating health status of Kenyans. To address the above, Kenya's PRSP document has been prepared with multiple objectives directed towards the goal of reducing poverty and increasing economic growth in the country.

The participatory PRSP process has created a more open dialogue within the government and some parts of the civil society than had previously existed and enabled civil society to have partnership with government in a number of development activities among others. The district consultation forums have opened up space for ordinary people to participate in decision making on how development should be planned and how resources should be utilized. However, the PRSP secretariat was dominated by Government officials with few representatives from NGOs and private sector and in some districts, the level and quality of participation was limited due to tight time schedule and late availability of introductory information. Also the consultation processes were not successful in bringing together macro-economic and poverty related issues.

Although the PRSP gives detailed causes of poverty, this tends to be descriptive and no attempt was done to investigate the casual relationship to isolate the magnitude of the impact of each factor and then link the same to the proposed policy actions. The PRSP concentrated on economic growth as the vehicle of poverty reduction leaving out inequalities in income distribution, which has an impact on poverty. Also some important aspects in poverty reduction such as HIV/AIDS, gender, child labour and urban poor were not given adequate attention in the PRSP.

The PRSP challenges include sequencing of the process; the institutional arrangements for implementing the PRSP; restructuring the budget product; formulating a framework for negotiating and tradeoffs; and mobilizing additional resources for financing the PRSP.

Strategies alone are not sufficient – they must be followed up by actions. During the initial stages of PRSP process, countries and donors made commitments. Countries were to benefit from debt relief (HIPC countries) and also to facilitate access to Poverty Reduction and Growth Facility (PRGF) and World Bank loans. Countries must follow policy commitments laid out in the PRSPs by implementing strategies and policies in time to achieve the set targets. Donors, on the other hand, must provide the promised technical and financial support in a timely fashion and in a way that does not impose undue administrative costs to the recipient country. Civil society organizations must cooperate with the governments and coordinate their actions to achieve the commonly shared poverty reduction objectives set out in the PRSPs. Although Kenya finalized its PRSP in 2001, she is still not able to access donor funds due to other conditionalities set by donors.

We cite here some of the actions from Kiringai and West (2002) which might include:

- Providing programme support subject to satisfactory performance on a limited range of macroeconomic indicators.
- Establishing a reserve fund, with no conditionality, for funding sector poverty programs which could enhance budget credibility by being used (by mutual agreement) to smooth revenue shortfalls caused by exogenous shocks to ring fence poverty expenditures; and

Assisting Sector Working Groups in the preparation and funding of sector-wide approaches.

We also recommend the restructuring of the government expenditure; designing property taxes and earmark such revenues for poverty reduction; enhancing administrative capacity backed by a strong political will to implement the strategy; encouragement of the development partners to adopt common procurement, implementation and monitoring arrangements; full participation of public sector, civil society, the private sector and the general public in the monitoring and evaluation of the PRSP and opening up budget systems to public scrutiny is necessary and renegotiating some of the conditionality with a separation of general budget support and anti-poverty financing.

Other recommendation includes a creation of institutions that will facilitate successful implementation of the PRSP/MTEF process through capacity building in all agencies involved in the process. A well formulated “capacity building action plan” is necessary for identifying capacity gaps, and programmes that require to be implemented.

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APPENDICES

Appendix 1. Absolute poverty measures by district and province, 1997–2000

District	Rural poverty line Kshs 978.27; and urban Kshs 1489.63			Rural poverty line Kshs 1238.86; and urban Kshs 2648.04		
	1994			1997		
	Pá = 0	Pá = 1	Pá = 2	Pá = 0	Pá = 1	Pá = 2
Central (rural)	31.93	9.78	4.38	31.39	9.25	3.94
Kiambu	29.32	8.89	3.78	25.08	6.08	2.46
Kirinyaga	35.41	11.78	5.94	35.70	12.43	5.62
Muranga	37.11	12.56	6.04	38.62	11.02	4.47
Nyandarua	33.34	9.99	4.41	26.95	8.51	3.44
Nyeri	25.62	5.80	1.90	31.05	10.35	4.81
Coast (rural)	55.63	23.79	13.10	62.10	24.40	11.87
Kilifi	66.88	28.22	13.02	66.30	26.14	12.40
Kwale	40.23	15.49	7.71	60.55	25.25	13.14
Lamu	29.53	10.99	5.00	39.35	11.04	4.09
Taita-Taveta	50.65	22.33	12.82	65.82	24.88	11.82
Tana River	71.76	37.20	24.86	34.22	8.97	3.77
Eastern (rural)	57.75	24.29	13.49	58.56	22.37	10.71
Mbeere				51.36	21.14	10.50
Embu	62.86	23.60	12.70	55.76	23.47	11.69
Isiolo	82.18	46.19	29.06			
Kitui	55.09	23.73	12.86	64.91	25.80	12.48
Machakos	68.72	28.85	16.03	62.96	22.85	10.53
Marsabit	88.18	56.20	39.96			
Meru	30.64	11.60	6.11	40.96	13.37	6.20
Makueni	76.06	31.54	16.88	73.51	32.24	16.94
Tharaka Nithi	46.15	15.74	7.98	55.58	18.92	8.52
Nyambene				47.29	16.13	6.90
North Eastern (rural)*	58.00	23.77	13.10	-	-	-
Garissa	48.21	21.88	12.85	-	-	-
Mandera	68.03	28.92	16.40	-	-	-
Wajir	57.04	20.63	10.28	-	-	-
Nyanza (rural)	42.21	14.39	7.06	63.05	23.43	11.43
Kisii	31.58	8.32	3.10	57.22	22.50	11.65
Kisumu	46.91	18.12	9.94	65.44	26.70	13.87
Siaya	46.90	17.30	9.14	58.02	20.92	9.78
Homa Bay	47.74	15.65	7.25	77.49	29.54	14.63
Migori	34.08	10.88	5.18	57.63	16.57	6.74
Nyamira	51.57	19.36	9.91	66.74	26.92	13.52
Rift Valley (rural)	42.87	16.35	8.46	50.10	17.58	8.17
Kajiado	22.49	8.31	4.21	27.87	10.41	4.91
Kericho	59.56	22.30	10.77	52.42	18.11	8.50
Laikipia	45.55	18.44	10.12	33.88	8.33	3.36
Nakuru	36.61	13.82	6.73	45.08	14.75	6.25
Nandi	41.73	14.67	7.39	64.15	23.08	11.12
Narok	27.33	8.33	3.76	52.17	17.12	6.95
Bomet	46.53	16.90	7.89	61.80	24.80	12.54
Transmara				56.59	19.26	8.77
Baringo	40.77	12.79	5.58	36.95	12.49	5.69

Elgeyo Marakwet	27.23	7.47	3.36	47.82	13.83	5.37
Samburu	84.13	46.85	30.74			
Trans Nzoia	48.57	17.18	8.24	54.83	19.53	9.11
Turkana	73.76	42.41	29.17			
Uasin Gishu	33.54	12.62	6.61	42.22	12.05	4.92
Western (rural)	53.83	22.05	12.11	58.75	22.81	11.16
Bungoma	56.00	27.04	16.74	55.21	20.42	9.49
Busia	56.90	25.01	14.38	65.99	27.90	14.30
Kakamega	51.34	18.22	8.78	56.69	23.15	11.68
Vihiga	53.00	19.97	10.15	61.97	21.91	10.33
Total (rural)	46.75	18.01	9.49	52.93	19.33	9.19
Urban	28.95	9.69	4.63	49.20	15.67	6.86
Nairobi	25.90	8.80	4.14	50.24	14.07	5.47
Mombasa	33.14	9.46	4.21	38.32	14.29	6.96
Kisumu	47.75	16.38	7.83	63.73	23.09	11.42
Nakuru	30.01	8.86	3.31	40.58	10.58	3.84
Other urban	28.73	10.21	5.25	52.38	19.20	9.22
National	43.84	14.93	7.69	52.32	18.74	8.81

Source: GoK (1998, 2000).

APPENDIX 2: SCHEDULE OF CONSULTATION PROCESS

November 6 th , 2000	National launching
November 7/8, 2000	National Workshop (for facilitators and stakeholders representatives)
November 17/18, 2000	Workshops in all 8 provinces (Nairobi some days earlier)
November 2000	First meeting of National Steering Committee (followed by at least monthly meetings)
December 2000 until early March 2001	District Consultations
March 2001	Compilation, analysis, writing of full PRSP draft through PRSP Secretariat
April 2001	National Stakeholders Workshop Launch and Dissemination of full PRSP
May 2001	Discussion with donors on budget support on the basis of PRSP
June 2001	Presentation of budget 2001/02 in parliament PRSP to be discussed in the boards of IMF and World Bank

APPENDIX 3: Summary of Expenditure Allocations Kshs Million

	1999/200	2000/01	2001/02	2002/03	2003/04	2004/05
Total Expenditure	176,319	233,039	241,983	258,367	265,807	277,005
Wages & salaries	65,861	68,119	77,638	82,028	82,719	84,374
Goods & Services	50,645	74,983	70,479	71,250	73,712	76,411
Interest	29,387	31,035	32,472	38,341	45,079	46,660
Development	7,643	18,081	17,510	20,545	25,513	33,362
Poverty Programmes	16,401	17,983	21,308	24,723	20,717	16,126
Other	6,382	22,838	22,575	21,480	23,495	25,384
% of Total expenditure						
Wages	37.4%	38.6%	44.0%	46.5%	46.9%	47.9%
Goods & Services	28.7%	42.5%	40.0%	40.4%	41.8%	43.3%
Interest	16.7%	17.6%	18.4%	21.7%	25.6%	26.5%
Development	4.3%	10.3%	9.9%	11.7%	14.5%	18.9%
Poverty Programmes	9.3%	10.2%	12.1%	14.0%	11.7%	9.1%
Other	3.6%	13.0%	12.8%	12.2%	13.3%	14.4%

Appendix 4: Primary School Gross Enrolment Rates by Province (%)

Province	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Coast	79.93	78.80	78.85	75.09	71.40	73.30	75.57	75.17	73.25	75.95
Central	103.60	102.60	103.56	102.80	101.04	104.95	100.22	100.44	98.20	93.81
Eastern	96.82	97.40	96.35	92.57	91.76	89.86	90.46	90.75	93.84	94.88
Nairobi	66.32	65.30	64.57	50.46	61.47	60.65	58.91	57.12	56.87	54.07
R/Valley	91.73	90.90	89.53	82.35	83.93	83.32	84.01	85.35	86.68	86.94
Western	104.08	103.00	103.90	100.53	101.65	100.46	99.88	100.33	103.40	100.31
Nyanza	91.06	89.70	92.47	93.54	95.25	86.99	86.22	90.53	92.92	85.75
N/Easter n	23.84	22.70	21.80	16.57	21.64	14.94	20.99	24.57	24.83	26.30
National	92.19	91.40	91.54	87.84	88.49	86.80	86.44	87.61	88.80	86.91

Source: Ministry of Education, Science and Technology, Statistics Section, 2000

Appendix 5: Structure of the Consultation Process.

BOX 1: STRUCTURE OF THE CONSULTATION PROCESS

National Consultative Forum or National Stakeholders Forum was broad based and held three forums. The first three-day forum to discuss the I-PRSP was held in March 2000 and had about 300 participants. It comprised of parliamentary sub-committee, Economic Sub-committee of Cabinet, all permanent secretaries, heads of national umbrella organizations covering the NGOs, private sector, labour organizations, women, youth, development partners and religious organizations. The second one-day forum for information dissemination was held in March 2001, and the final forum to discuss the PRSP draft was held in June 2001.

The national Steering Committee was responsible for steering the consultative process. The committee comprised of permanent secretaries and chief executives of the national organizations, PRSP Secretariat, representatives from the NGOs and the private sector.

The PRSP Secretariat within the Ministry of Finance and Planning was created to support the National Steering Committee. It co-ordinated all aspects of the consultation process. The secretariat consists of Ministry of Finance and Planning Staff members, two delegates from the NGO council, one representative from the private sector and one DfID staff representing donors.

District PRSP Secretariat coordinated the day-to-day operations of the consultation process at the district, divisional, and community levels. In the 25 sample districts, the consultations were carried out both at the district and divisional levels. A minimum of 200 people were consulted per division. In the other 45 districts, consultations were carried at the district level with a minimum of 150 participants. At community level, in-depth PRSP consultations were done in the form of Participatory Poverty Assessment (PPAs). Participatory Poverty Assessments were carried in 10 districts.

Sector Working Groups provided technical expertise and produced sector reports which formed the basis of the sector sections of the PRSP chapters. There were nine (9) Sector Working Groups.

Eight **Thematic Working Groups** provided additional technical expertise and addressed cross cutting issues.

The Economic Group, comprising of technical arms of the donors were represented in most organs which oversaw the consultative process.

Source: Compiled using information from Kenya PRSP