

KENYA COUNTRY REPORT 2008

<p>Background and debt sustainability</p>	<p>Kenya is one of the poorest countries in Africa, with a per capita GNI of US\$800 at the end of 2007, and 46% of the population in absolute poverty in 2005/2006 (down from 52% in 1997). Kenya has recorded three years of positive growth (4.3% in 2004, 5.8% in 2005, 6.0% in 2006 and 6.9% in 2007). However, heavy dependence on rain-fed agriculture, tourism and remittances leaves the country highly vulnerable to external shocks, as has been seen in 2008.</p> <p>Kenya was assessed in 2003 as having a “sustainable” debt burden based on HIPC Initiative criteria, without taking into account domestic debt or what Kenya needs to spend on tackling poverty. Therefore, though on the original HIPC list and eligible for HIPC CBP assistance, it has provided only with Houston Terms by the Paris Club, and is not eligible for the Heavily Indebted Poor Countries initiative or the Multilateral Debt Relief Initiative. On the basis of its CPIA scores Kenya is in principle eligible for additional debt relief assistance from the UK, but because of governance issues, the UK is not providing this relief.</p> <p>Kenya’s self-assessment confirms that its external and domestic debts are sustainable. Nevertheless, Kenya’s external and domestic debts remain fairly high, with large domestic debt arrears. The recent CBP-assisted DSA revealed that the country has urgent needs to increase the quantity and quality of financing, mobilising large amounts of highly concessional loans to maintain debt sustainability, and enhancing aid effectiveness.</p>
<p>CBP support and impact</p>	<p>The HIPC CBP began working with Kenya towards the end of phase 3, through a Demand Assessment Mission in August 2004. Thereafter Kenya has benefited from 4 MEFMI-run CBP regional workshops and MEFMI/Comsec support on database issues, though the CBP work programme has been delayed by institutional reforms in the Ministry of Finance.</p> <p>During phase 4, a first National Workshop in May 2007 (preceded by a preparatory mission aimed at comprehensively validating the debt database and migrating data to the new version of CS-DRMS) established that, although Kenya is not qualifying to receive HIPC debt relief, its debt sustainability is highly vulnerable.</p> <p>The 2007 debt strategy workshop achieved its objective to impart high technical skills and knowledge, enabling officials to prepare an excellent quality debt strategy. However, this document is yet to be approved by senior officials, so debt strategy scores remain low at only 1.4. During phase 4, the number of trained personnel has also risen considerably (raising the ST3a score from 1 to 3), and there have been initial steps taken to designing a capacity-building plan. However, scores for institutional and legal capacity (MT2b) have fallen from 2.8 to 2.2, due to a reassessment of the real situation in terms of application of legal and institutional frameworks.</p>
<p>Objectives and content of proposed country</p>	<p>The current priorities for reinforcing Kenya capacity (and activities envisaged for the remainder of phase 4) are:</p> <ul style="list-style-type: none"> • Training more staff, ensuring the debt strategy is approved, implemented fully and updated regularly and therefore improving scores for result MT2a. This will be done through a further national debt strategy workshop and sensitization seminar in 2009, as well as 1 follow-up mission to

assistance	<p>support strategy implementation planned for 2009. It is expected that the workshop will also increase the availability of trained personnel capable of formulating and executing national debt strategies (ST3a).</p> <ul style="list-style-type: none"> Improving the legal and institutional framework for debt and new financing management, and linking the overall national capacity-building plan to individual training needs. This will take place through an institutional support mission planned for 2009 targeting results MT2b <p>Kenya is also expected to participate in the regional training for trainers' workshop on the LIC DSF to be organised by MEFMI and WAIFEM in collaboration with the World Bank and the Fund</p> <p>These activities are expected to move Kenya substantially towards its targets shown in the table below.</p>
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Country Debt Strategy Progress					
Progress and Intended Results	CBP Logical Framework Performance Indicators	Initial Score (2003)	Phase IV Baseline	Phase IV Current	Phase IV Target
	LT 1. Debt sustainability	5	5	5	5
	MT 2a. Debt management strategy updated at least once a year.	1	1	1.4	3.4
	MT2b. High-quality legal and institutional frameworks for debt strategy	2.8	2.8	2.2	3.6
	ST 3a. Trained personnel capable of formulating and executing national debt strategies	1	1	3	3
	ST 3c. High-quality capacity building plans, which are implemented and annually updated.	1	1	1.6	3.2
Expenditure and Budget	Overall spending on Kenya since the start of CBP activity has been US\$9,269. The budget allocated to events to support Kenya in phase 4 is US\$154,206. Of this amount, US\$87,616 is expected to be financed from core funds.				