

Kenya Country Partnership Strategy

Consultations Note

October – 2013

Introduction

Kenya stands on the threshold of a major transition. Peaceful elections in March 2013 and the implementation of the 2010 Constitution, which devolves power and governance to 47 counties, have improved prospects for shared prosperity and ending extreme poverty. Even though economic growth has improved in the last 10 years, it remains markedly lower than the Vision 2030 target growth rate of 10%, mainly due to the economy's vulnerability to internal and external shocks. Kenya's growth is also underperforming compared to its peers in sub-Saharan Africa and the East African Community (EAC).

Background

Kenya's economy grew at 4.6% in 2012, and is projected to grow at 5.8% in 2013. Poverty is estimated to have declined to 38% in 2012, from 47% in 2005, when the last household survey was conducted (hence the need for an updated survey). Kenya's sound macroeconomic management is one of the major factors that have considerably raised the World Bank Group's Country Policy and Institutional Assessment (CPIA) score for Kenya, which is now one of the highest in sub-Saharan Africa. Kenya also has a sophisticated private sector and Nairobi is one of Africa's principal financial centers.

However, the current growth rate is not sufficient to significantly reduce poverty and improve equity in the distribution of incomes and economic opportunities. Moreover, GDP growth is imbalanced, mainly driven by consumption while slow export growth remains a drag threatening Kenya's progression towards middle income status. Power supplies are unreliable, hampering private sector growth. Inefficiencies in key regional trade assets, including the port of Mombasa and the railway system, also endanger its position as the regional powerhouse in the EAC and reduce potential benefits from EAC integration.

Challenges and Opportunities

Kenya benefits from a host of opportunities including its location as EAC's regional hub for financial services, trade, tourism and air transport. Foreign direct investment to Kenya is also increasing, driven by its future prospects and the recovery of leading sectors, including transport, information and communications technologies (ICT), agriculture and manufacturing. Its potential is also driven by its dynamic, young and well-educated labor force, as well as economies of scale from rapid urbanization.

There are challenges for Kenya including managing its vulnerability to shocks, such as climate variability and periodic drought, as well as the continuing need to work on governance and efficiency of public sector expenditure at the central government and the new county governments.

This note has been prepared as background information for people to share their views on a new strategy to guide the World Bank Group's work in Kenya

Towards a New Country Partnership Strategy for Kenya

The World Bank Group (WBG) is preparing a new Country Partnership Strategy (CPS) to guide its work in Kenya over the next five years, from 2014 through to 2018.

The World Bank Group is made up of several agencies. The **World Bank** finances and advises the public sector. The **International Finance Corporation** (IFC) invests in and supports the private sector. The **Multilateral Investment Guarantee Agency** (MIGA) insures private sector investment projects. All three operate in an integrated way to drive sustainable and effective development in member countries.

The CPS will help shape the Bank Group's coordinated financial, advisory, and technical support to Kenya to advance the country's development agenda. It will build on the progress achieved under the previous Country Partnership Strategy (2010-13), which focused on three key pillars: (i) unleashing its growth potential, (ii) reducing inequality and improving social inclusion, and (iii) addressing resource constraints and environmental challenges.

The consultations process will enable the World Bank Group to make the best use of the knowledge and experience of a broad range of stakeholders, and incorporate their ideas about how the Bank, IFC and MIGA together can work with the Kenyan people to realize their potential and to meet the country's development goals. Discussions will recognize the country's long-standing development agenda and focus on new opportunities and challenges, including emerging opportunities from the implementation of devolution.

This note has been prepared as background information for people to share their views on a new strategy to guide the World Bank Group's work in Kenya