

## **CHAPTER EIGHT**

**FINDINGS, CONCLUDING OBSERVATIONS,  
POLICY RECOMMENDATIONS AND  
SUGGESTIONS FOR FURTHER RESEARCH.**

## **CHAPTER EIGHT**

### **FINDINGS, CONCLUDING OBSERVATIONS, POLICY RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH.**

#### **8.1. INTRODUCTION**

In the preceding chapters we have attempted to elucidate the performance of the World Bank and its efficacy on economic development of Kenya from 1980 to 2004. The primary objective of the present study is to undertake an investigation into the assessment of the performance of the World Bank and its efficacy in the economic development of Kenya. We aimed to tackle the fact that there is inadequate information on the performance of World Bank and its efficacy in economic development of Kenya. This is unfortunate because it means that policy-makers do not have adequate evidence base they need to formulate good policies. These lacunae may have led to claims being made about the performance of World Bank in economic development of Kenya that are based on intuition and assumptions rather than hard data.

In order to achieve the above-mentioned objectives the study proceeded through analytical and quantitative analysis. Therefore it is contended that the present research study is an empirical and analytical assessment of the World Bank

performance and its efficacy in economic development of Kenya will fill the lacunae in World Bank aid effectiveness in Kenya.

The present study has established that Kenya faces inadequate capital, which is hindering economic development. Kenya needs "a big push" for its economic growth to "take off". It has been established that Chenerry and Strout formally brought the case forward propagating foreign aid for the developing countries where the World Bank aid theory is based <sup>2</sup>. In the present research study it is revealed that World Bank has been providing foreign aid for more than sixty years in less developed countries and forty years for Kenya with the objective of spurring economic growth and reduction of poverty. In its initial years the core objective of the World Bank was the reconstruction of the ravaged Europe after the Second World War <sup>3</sup>. Its success influenced its members to focus in less developed countries, which were believed to be underdeveloped due to inadequate capital. We have established in this present research that the objective of the World Bank financing in Kenya is to release the majority of Kenyans from crippling poverty by funding projects in infrastructure, agriculture, industry, education, health clean water and sanitation.

The present research work established that over the course of more than 60 years, the World Bank's priorities and development thinking along with its role in the world have changed from reconstructing Europe to alleviating poverty in less developed countries where Kenya is included. Views on development also have

evolved significantly hitherto. The study revealed that fresh theory and evidence have intensified and shaped the international development debate and the World Bank now has a more refined view of improving well being, living standards and reduction of poverty particularly from the time of President McNamara.

The present research study has revealed that in the post war era when the popular acumen was that economic growth (increasing gross national product or growth rates) was the key to development, the World Bank focused primarily on large investments in physical capital and infrastructure, because such investments were viewed as the most likely to increase national income. This was evidenced for instance from 1948 to 1961, for example, 87 per cent of its loans to less developed countries was for power and transportation. The remaining commitments provided for other forms of economic overhead, such as industry and telecommunications, and a small fraction (4 per cent) was invested in agriculture and irrigation <sup>4</sup> However, in the 1960s through 1980s development theory shifted to encompass more than economic growth, it aimed at human development because the objective was to provide all human beings with the opportunity for empowerment.

## **8.2 FINDINGS**

In chapter one, we introduced the research study by discussing the historical and economic background of Kenya. We assessed briefly the economic scenario of Kenya from the time Kenya gained independence in 1964 till present date. World

Bank has supported Kenya since financial year 1960; however it was in 1964 when it joined the World Bank formally as a sovereign state. The study established that in spite of the quest of attaining rapid, sound and self-sustaining economic growth, the course of development in Kenya has neither been smooth nor uniform over the sectors and regions. It was revealed that after Kenya gained independence there was rapid economic growth however in the 1980s and 1990s the economic growth deteriorated drastically. This chapter also discussed theoretical framework (rationale of the study), statement of the problem, objectives, and limitations of this research study. The chapter integrated additional vital part of our research study for instance hypothesis to be tested and methodology to be applied.

Chapter one also contains literature review, which provided a base for this research work by discussing the studies of the World Bank and foreign aid where the theoretical framework of the World Bank aid is based. The studies of Chenery and Strout among others have been discussed. We surveyed the literature, which analysed and modeled World Bank aid as well as official development assistance and its effectiveness in economic development. In a way this chapter was crucial to our subsequent chapters of this study. Our study has adopted the recent empirical studies which have been carried out on the effectiveness of foreign aid and most notably the study by the World Bank by Burnside and Dollar (1997).<sup>4</sup> and the basic model of Chenery and Strout (1966)<sup>5</sup>. The Chenery and strout (1966) is considered the core theory, it was reprinted by

the World Bank publication in 1979 retaliating its importance and its relevance in the rationale of the World Bank aid. We assessed a number of theoretical and empirical studies, which revealed that foreign aid and World Bank aid generally spurs economic growth and development. In regard to individual country studies the evidence revealed that the performance of World Bank and foreign aid is mixed. In some countries aid is positively correlated to economic growth and poverty reduction while in some countries there is negative relationship. Recent studies are ascribing this phenomenal to economic policy, which is followed by the government in place. We examined various studies which assessed the performance of World Bank since its establishment and its main goal of poverty reduction in the less developed countries.

In chapter two we discussed the origin, establishment and organization of the World Bank. The chapter traced the history of the formation of the World Bank since the Bretton Woods and it was revealed that the World Bank was formed with the main objective of reconstruction of ravaged Europe after the Second World War.<sup>6</sup> We underscored that the World Bank was the product of the English and the American brains, with valuable assistance from the Canadians. It was highlighted that in its early years when Europe was still struggling toward the post war recovery the only national subscriptions, which the World Bank was able, to use on a fully convertible basis were those of the United States and Canada. In chapter two it was found that after the reconstruction of Europe the World Bank evolved to a development agency where at present its mission statement is the

reduction of poverty and improving the standard of living which will lead to economic growth and development in the less developed countries. It was highlighted that presently the World Bank has 184 member states. The chapter revealed that the World Bank is born out of a world agreement and according to the Articles of Agreement it is accorded legal status. The study established the fact that it discharges some kind of functions of the Bank it does not imply that it is a mere financial institution.

This study established that the management, organization, policies and objectives of the World Bank affect the members globally. Depending on the way it is run, its impact is felt negatively or positively by Kenya and other less developed countries. The study revealed that the Bank's president is virtually a nominee of the USA Government through a process of informal consultations with important member-governments. The study found out that the president being the nominee of the United States of America and having the highest voting capacity the influence of the United States is felt throughout the World Bank to the rest of the less developed countries. Six vice presidents head the regions namely; Africa, East Asia and Pacific, Europe and Central Asia, Latin America and Caribbean, Middle East and North Africa, and South Asia. It was shown that the regions are supported by four networks: environmental and social sustainable development; finance, private sector and infrastructure; human development; and poverty reduction and economic improvement.

In chapter three the financial structure of the World Bank was highlighted and its Lending policies. The study found out that financial structure and the lending policies of the World Bank reflect how the institution operates the incoming and outgoing finances and its capitalization. Member states are the shareholders of the World Bank. The present research study revealed that the World Bank holds its assets and liabilities primarily in US dollars, Euro and Japanese yen. It was indicated that the initial Capital of the World Bank as authorized in the Articles of agreement was US\$ 10 billion while in the financial year 30 June 2005 the authorized capital of the IBRD was \$190811 million of which \$189718 million had been subscribed. Does the World Bank have enough capital to pay its creditors incase it goes into liquidation? This is hypothetical however incase the World Bank winds off its business certainly it has sufficient capital to cover any needs to pay its creditors. It was revealed that the bank is obliged by its articles of association to add each year to reserves an amount consistent with the projected growth of its loan book. The World Bank is rated an AAA financial institution. The bank need to be confident in an abnormal year in which there is a large shock resulting for example a number of its loans becoming non-performing that it will be able to continue with its business.

The present research study established that interest on IBRD loans is charged only on that part of a loan, which has actually been disbursed. We established that the commitment charge is levied on the portion of the loan, which is not disbursed to compensate the World Bank the cost of holding funds to encourage



borrowers to draw the loans without unnecessary delay. Creditworthiness and economic performance also influence the type of loan offered. Small island economies, for example, have higher annual average per capita incomes than the cut off but their lack of creditworthiness makes them eligible for IDA loans. Some countries are deemed to be eligible for both types of loan. It was revealed that when the World Bank intends to lend loan to a member country the project must undergo stages termed as "project cycle" in order to satisfy the criteria for lending.

In chapter four we discussed the World Bank financing in human development in Kenya. In the chapter we substantiated and asserted that it is people and not just the economy that needs the attention of World Bank and world leaders. The study revealed that the World Bank aid contributes to increasing aggregate welfare, measured by infant mortality and the Human Development (HDI), in Kenya. Policy makers are often mesmerized by the quantity of growth however the chapter revealed that growth only is not enough, instead it should be accompanied by human development. The present chapter revealed that there is need to be more concerned with its quality and to take timely action to prevent growth that is lopsided and flawed. Growth and structural transformation of the economy is driven by investments in infrastructure, agriculture, industry, technology, human development and sound macroeconomic policies of the country. The empirical research studies have established the close links and reciprocal relationships between education and development. The study revealed

that educational systems produce people with the knowledge, skills, attitudes, and values that not only are favorable to economic and social development, but also human development. We highlighted the state of human development in Kenya and assessed the projects financed by the World Bank in human development. In chapter four it was revealed that World Bank financing in human development does bring about changes in knowledge, skills, attitude, resourcefulness, work motivation, physical ability and so on. Thus it has inclusive participation in economic development of Kenya.

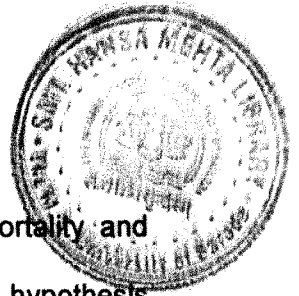
The hypothesis that the World Bank aid contributes to increasing aggregate welfare, measured by infant mortality and the Human Development Index (HDI) in Kenya was tested and validating. Here it was found that the World Bank financing in human development projects in Kenya during the study period has led to the improvement of education, health standards thus spurring economic growth and development of Kenya. The World Bank funded projects in family planning, HIV/ AIDS, sewerage and water sanitation led to improvement in human development and better living standard in Kenya. In chapter four we indicated that the purpose of economic development projects financed by the World Bank in Kenya is to make possible higher living for individual men, women and children. Rising standard of living means a growing ability to afford both the material and non-material benefits, which a modernized economy makes possible. In the analysis of the chapter it was identified that the prime requirements for most people in Kenya are more and better food, healthcare,

improved access to education, and more opportunity for gainful employment. One of the available measures of economic progress towards these goals is growth of per capita income; this is the growth of national income, adjusted for growth of a nation's income and that of its population.

The World Bank has financed projects of family planning, HIV/AIDS control, immunization in the early childhood care, water supply, capacity building in health sector which spur human development in Kenya. It is our strong contention that the relationship of all these aspects of human development is fundamental to the improvement of human welfare in Kenya. It was revealed that between 1960 and 1980 the population increased drastically, however development does not mean more people, but higher living standards and greater welfare however many they may be. In this study we do not have fixed ideas as to how large the population of Kenya ought to be but we established from available evidence that the faster the rate of population growth the slower will be the improvement of living standards. There is also strong evidence that where children have been well spaced both they and their mothers enjoy better health and experience lower mortality rates. Therefore all the projects, which are financed by the World Bank, like family planning lead to reduction of population growth and low infant mortality with better living standards thus spurring economic development. World Bank aid goes into human capital investment if the aid is knowledge or technology intensive. Burnside and Dollar (1997) established that aid is effective only when it is invested, not consumed. We

would emphasize that World Bank aid in Kenya is even more effective if it is invested in human development. It should be noted that the World Bank loans finances the Social welfare, which is not picked up by the accounting formulas. It finances building of roads, hospitals, irrigation schemes, education, and water supply others which its returns are low and it takes long gestation periods.

Chapter four assesses various projects funded by the World Bank in human development and the evidence reaffirmed our earlier assertion that the World Bank projects contribute to the rise in level of human development thus achieving efficacy in economic growth and development of Kenya. In consideration with the wide spread of illiteracy levels in rural areas this therefore indicated that improvement in human development through education appeared to be more imperative. It was established that 80 percent of the population in Kenya live in rural areas. Therefore the present research study emphasizes that the World Bank ought to attach a relatively greater attention to rural regions if its objective of the development policy is to achieve its efficacy to greatest number. In the empirical analysis it was established that population has negative relationship with per capita income, therefore the World Bank loans, which finance family planning, spur economic development of Kenya. Therefore it can be concluded that the World Bank aid is positively related to human development hence economic development of Kenya. Thus it is our strong believe that the World Bank aid contributes to increasing aggregate welfare measured by infant mortality and human development indicators. Our hypothesis is that the World



Bank aid contributes to increasing welfare measured by infant mortality and human development in Kenya, thus the above result validates our hypothesis hence it is accepted.

Chapter five discussed the World Bank financing in infrastructure in Kenya. Our hypothesis that the World Bank has contributed to the development of infrastructure like power, irrigation transport and telecommunication in Kenya is tested and confirmed. It was revealed that dilapidated economic and social infrastructure has been acknowledged as a major impediment to economic growth in Kenya. The chapter revealed that the World Bank has contributed to the development of infrastructure like power, irrigation transport and telecommunication in Kenya.

Availability of adequate efficient and affordable infrastructural facilities constitutes the core of development strategy and efforts. By their very nature infrastructural projects such as power, railway, ports, civil aviation, roads and telecommunication involve huge investments, long gestation periods and higher risk. It was revealed that there is insufficient rural transport infrastructure and deficient of mobility pose, limitations to rural development in Kenya. We analyzed the World Bank projects, which have been undertaken, and it was revealed that the World Bank has boosted the infrastructural sector. This chapter asserted that transportation is a necessary concomitant of the exchange economy and is indispensable to economic growth. It was highlighted that the demand for

transport services increases with the extension of the input-output relationships of the economy and the provision of transportation services can be important determinant of the pace location and pattern of development in Kenya. It was revealed that the people desire infrastructure because it enables them to overcome the distance that separates their homes from the places where they work, shop, seek medical attention, go to school, do business, or visit friends and relatives. Businesses also desire infrastructure because it also helps it overcome distance — the distance that separates it from the sources of raw materials, from their markets, and from their employees. The World Bank has financed tea roads, tarmac king of roads and highways, which has enabled transfer of goods and services as well as people from one place to another.

It was underscored that telecommunication networks is a central nervous system of country like, transmitting information and commands between various parts. Without these facilities many dimensions of life in interrelated communities especially government and economic activity could not function efficiently. It was revealed that the World Bank projects financed telecommunication entities like telephone, telegraph, and telex and data facilities to the public. The geothermal, hydroelectric, telephone project, which has been financed by the World Bank, has contributed to economic growth of Kenya through infrastructure development. Our hypothesis that the World Bank has contributed to the development of infrastructure like power, irrigation transport and telecommunication in Kenya is tested and confirmed, thus it is accepted.

Chapter six dealt with the World Bank financing of agriculture and industry in Kenya. The analysis in chapter six indicated that the renewed interest in agriculture development was accentuated by a degree of disillusionment with the outcome of industrial growth in Kenya. The study established that industrial growth in Kenya has not succeeded in preventing rising poverty rates, unemployment for the great mass of people. Our hypothesis that the World Bank has spurred development of agriculture and industrial sector by providing investment capital in Kenya was tested and validated. It was underscored that the challenge of the World Bank in agriculture therefore is to combine an acceptable rate of growth of production to mitigate poverty and meet unemployment of the 80 percent of poor that live in rural places engaging in agricultural activities. The World Bank also through its projects in agriculture has improved agriculture productivity and enhanced food security.

It was noted that the failure of the \$110 million Bura irrigation scheme on the Tana River in Kenya, one of the largest projects in Africa was an embarrassment for the World Bank and the government of Kenya. For instance a plan to resettle 5,000 families on unused land increased rapidly in cost and had to be scaled down to 2,000 families. There were serious environmental problems and many of the settlers left because of health problems or personal debt. Cotton yields were well below what was forecasted. Projects like cotton processing and marketing, agricultural technical assistance, extension services, agricultural research and

forestry management were financed by the World Bank which strengthened the agricultural output and food security.

In chapter six it was also revealed that World Bank financing in Industrialization is a key factor in economic development of Kenya. The World Bank has supported the efforts of member countries including Kenya in building new industrial capacity, improving efficiency of existing capacity and providing technical know-how. It was revealed that industrialization offers prospects of a growing availability of manufactured goods, increased employment; improved balance of payment and greater efficiency and modernization throughout the economy. The chapter revealed that World Bank financed projects in industrialization is characterized by technological innovation, development of managerial and entrepreneurial talent and improvements in technical skills, which lead to rising productivity. Improvements in living standards create a growing and highly elastic demand for manufactured goods. It was revealed that the rationale of the world bank financing industrial sector is that industry does not face the same market constraints which agriculture faces and presents prospects of a more rapid rate of growth than might otherwise be possible with agriculture alone. It was shown that World Bank's industrialization projects when promoted along efficient lines, it holds out the possibility of easing balance of payments problems through import substitution and the diversification of exports in Kenya. The experience of the World Bank's financing in industrial sector revealed that industrialization is not necessarily synonymous with economic growth or can it be expected to propel



Kenya a nation of technological obsolescence to material prosperity and full employment overnight. Industrialization like other forms of development is slow and a complex process. The World Bank financed four industrial development projects, small-scale industries technical assistance for export promotion, industrial adjustment project parastatal reforms and capacity building and other projects in the sector which spurred agricultural and industrial development in Kenya. Our hypothesis was that the World Bank has spurred development of agriculture and industrial sector by providing investment capital in Kenya, thus from the above findings the hypothesis is tested and confirmed.

In chapter seven of this research work we carried out the empirical analysis of the performance of the World Bank in economic development of Kenya. We explained the model and the variables and we did also specification of the equation. The empirical input enabled us to examine the data collected and conclusively say whether the World Bank has performed satisfactorily and its efficacy realized in the economic development of Kenya or not. In our study we used the Ordinary Least Square to run the regression equation by applying the Eviews 3.0 software. The regression sample runs from 1980 to 2004 and our case study is Kenya. The model tested the long run performance of the World Bank and official development assistance in the economic development of Kenya, this model covered the period of 1980 to 2004.

The data used is secondary data, which we scrutinized thoroughly before being applied for empirical investigation. For this study to be accurate a reliable data was collected. Data provided by the national sources differ significantly from those found in international sources such as the IMF and World Bank. After a rigorous analysis of our topic of study data from the World Bank and Government of Kenya was selected appropriately. The data used in our research study is based on the World Bank world Development indicators 2006. The World Bank data is more reliable as these are collected directly from the donors who have better recording system than Kenya. The variables used are the GDP per capita, Official Development Assistance (ODA) the World Bank Assistance (IBRD and IDA), Total national population, money supply, inflation, Infant mortality, and total government expenditure.

## **CONCLUSION**

We conclude by making following observations based on our findings.

It has been more than six decades since the Bretton Woods conference that set up the World Bank as the foundation stone of a new international economic order in the aftermath of the Second World War. The role of the World Bank has evolved as time changed and at the moment the major mission of the World Bank is the reduction of poverty and spurring economic growth in the less developed countries. In present study we have attempted to analyze analytically and empirically the effectiveness and performance of the World Bank aid and the official development assistance in economic development of Kenya. The findings

in this confirmed that World Bank has spurred economic development of Kenya. We established a very strong statistical association between sound economic policies and the performance of the World Bank aid and foreign aid in Kenya in our period of study. The study has presented ample evidence that with sound track record of macroeconomic policy management that is by keeping inflation modest, prudent fiscal policy and good financial policy World Bank aid can spur economic growth. Our results emphasize that greater World Bank aid is beneficial to economic growth on condition of stable macroeconomic policy environment. Our study is consistent with the evidence, which have been established by the famous study of the World Bank of Burnside and Dollar, who generally concluded that AID/GDP ratio is significant determinant of economic growth only in combination with good economic policy stability.

The main objective of the World Bank is the eradication of poverty; therefore consumption in very poor sections of the society is not necessarily bad thing per se. In this view the World Bank aid may be supporting the consumption of below poverty households, which leads to reduction in infant mortality and improvement in human development as well as improvements in other social parameters. Therefore World Bank aid may support growth in long term basis, which is not picked up by econometric studies but extremely pertinent in mitigating poverty in the society. World Bank aid and foreign aid as a whole is financing public sector at a margin. Therefore this puts the overall quality of management at a centre stage to the effectiveness of the World Bank.

At present, not only has its role changed substantially, but the extent and scope of its activities have extended far beyond what was then planned. World Bank today is very different from the organization conceived at Bretton Woods in 1944. Its mission has changed from post World War II reconstruction and development to worldwide poverty alleviation. World Bank started its operations in financial year 1960, since then it has financed a numerous projects. The present research study thus believes that economic development is a prolonged and complex process, which has to be stimulated by several interacting factors. Indicators underlying economic development of which some were taken for analysis in the present study have generally received emphasis in policy of the World Bank namely; human development, agriculture and industry, infrastructure and economic policies. The development of these areas is taken to be either precondition or concomitant of economic development. Although the World Bank projects in Kenya invested almost exclusively in physical infrastructure in its early days, its focus has broadened to include significantly more human development lending.

A major expansion of the World Bank's work financing in Kenya of human development took place in the late 1980s and late 1990s, and the World Bank is now the largest external financier of health and one of the largest supporters in the fight against HIV/AIDS in Kenya. The World Bank's role in universal health in Kenya has evolved through a better understanding of development which the bank now sees as a holistic, comprehensive and multidimensional task that

should balance the strengths of the market with other institutions and focus on human development. This approach reflects, in part, a new paradigm of academic thought that development is the process of expanding the real freedoms people enjoy a concept set forth by Amartya Sen. Therefore we concluded that the World Bank aid is positively related to human development hence economic development of Kenya. Thus it is our strong belief that the World Bank aid contributes to increasing aggregate welfare measured by infant mortality and human development indicators. The present research confirmed the hypothesis that the World Bank aid has positive impact on economic growth when there is a sound macroeconomic policy in Kenya.

Money supply a parameter for sound macroeconomic policy and financial deepening is positively and highly significant in economic development in Kenya. This implies that the macroeconomic and policy control variables are correctly signed and statistically significant supporting the findings of Burnside and Dollar (1997, 2000), which supports the contention, that aid is effective where there is sound macroeconomic policies. The development of the financial sector has a vital role to play in establishing a more broad-based foundation for economic growth. The sign for inflation is negative as expected.

High inflation has negative impact on economic development therefore low Inflation appears to be conducive for spurring higher economic growth. In this research we argue that the World Bank step up infusions of money which should

be accompanied which economic policy reform as it more crucial to Kenya's prospects for development success.

Lessons learned from forty six years (1960-2004) of World Bank development experience in Kenya suggest that investments in infrastructure and physical capital, macroeconomic stability, liberalization, and privatization still matter however our emphasis is that development is multifaceted and our understanding of it must be broad and inclusive. A number of key elements, including economic growth and stability, investment in human development, physical assets, sound institutions and policies are obligatory to promote prosperity, reduce poverty, which will lead to economic growth and development. Reflecting on the World Bank projects in human development of Kenya we strongly contend that good health, nutrition, effective reproductive policies and health services are critical for allowing Kenya to break from vicious circle of poverty. All of these changes in the World Bank's mission have made health, nutrition, and population programs priorities for its work and for the wider development in Kenya. The World Bank's evolution in development research and thinking has been dynamic for example the World Bank view suggesting that health important to development is a concept with long-lasting implications.

In the first decade of the 21st century, the World Bank sees itself enhancing its role in improving human development in Kenya by influencing the health policy debate and strengthening partnership with Kenya government. The World Bank

has a prescription for health systems that it claims are adaptable, but we argue in this study that its policies vary little from country to country and are driven by economic outcomes. Ownership, equal partnership and better evaluations are key factors in the World Bank's attempt to sharpen its focus in order to achieve its efficacy in economic development of Kenya. The World Bank seems to be winning over some of its natural critics in the government of Kenya, but others remain unconvinced of the efficacy of its policies. The World Bank's priorities on health, education, water and sanitation, infrastructure, agriculture and industry is vital, however we argue that it requires better focus through enhanced selectivity, more rigorous evaluation of projects, and greater collaboration with government of Kenya and other agencies. We argue that in Kenya weak institutional capacity to deal effectively with regulatory problems in the private sector often causes government to become excessively involved in the direct provision of education, health services, infrastructure, and agriculture. Therefore in this present research work we contend that the efficacy and performance of World Bank in Kenya is built on four key pillars: adequate funding to properly outlined projects, informed decision-making, adherence to local priorities, and accountability. The rationale is that public expenditure decisions made by a devolved government are likely to resonate well with a local constituency than those made by World Bank or central government. The form of World Bank may have changed but the concern for poverty reduction is still in the heart of the World Bank. The present research study has noted that participation is crucial in spurring growth.

In this research study we have tried to examine and test the validity of our hypothesis we have predicted earlier. Our findings and observations which prove that our hypotheses are valid and this enables us to draw the following conclusions.

1. The World Bank has spurred growth and economic development in Kenya
2. The World Bank aid contributes to increasing aggregate welfare, measured by infant mortality and the Human Development (HDI), in Kenya
3. The World Bank has contributed to the development of infrastructure like power, irrigation transport and telecommunication in Kenya.
4. The World Bank has spurred development of agriculture and industrial sector by providing investment capital in Kenya.
5. The World Bank aid has positive impact on economic growth when there is a sound macroeconomic policy in Kenya
6. The World Bank aid contributes to the increase in the total public expenditure in Kenya.

#### **POLICY RECOMMENDATIONS FOR THE WORLD BANK TO ACHIEVE ITS EFFICACY IN ECONOMIC DEVELOPMENT OF KENYA.**

It may be worthwhile to recall what Mahatma Gandhi said when he was asked how policy makers should judge the merits of any action, he answered: "Whenever you are in doubt, or when the self becomes too much with you, apply the following test: recall the face of the poorest and the weakest man whom you



may have seen, and ask yourself if the step you contemplate is going to be of any use to him. Will he gain anything by it? Will it restore him control over his own life and destiny? In other words, will it lead to Swaraj for the hungry and spiritually starving millions? Then you will find your doubts and ... self melting away (The Great Ahmedabad Trial of Mahatma Gandhi 1922 AD). This noble opinion is appropriate to this research study and it will resonate in the whole of this section.

In Kenya it has been established that there is, inefficient use of funds, inequitable access to basic health care, and rising health care costs. The research has revealed that millions of people are living in poverty and lack health facilities, education and safe drinking water. The challenge of the World Bank in Kenya is not just to accelerate growth rate (increase in GDP) but to ensure that the poor people contribute to the growth process through poverty reduction with equity. Therefore we make key recommendations for giving first priority to human development: improving health, educating girls and empowering women, reallocating government resources to rural areas as 80 per cent of Kenyans live in rural areas, investing in public health and essential clinical services. In order for the World Bank to achieve its efficacy and improve its performance in Kenya, human development, agriculture and infrastructure should be at the centre of economic policy making. We strongly believe that women hold the key to enhancement in health indicators in Kenya and it aims to focus on projects that assist them to attain girls' education, reproductive and child health, and cutback

the fertility rate. An urgent step would be increasing overall lending for health. The World Bank being the most important institution in development in Kenya, it could help significantly reduce the toll due to pregnancy related illness and death. Thus give millions of poor couples the option of having the smaller, healthier families they want. It is observed that World Bank loans in family planning, population studies, and health facilities facilitate to curb population explosion. There is a huge gap between policies and implementation. The aim of the World Bank in Kenya is to reduce poverty and improve living standards by sponsoring sustainable growth and investment in people and to offer loans, technical assistance, and policy guidance. Poverty, corruption, inadequate health facilities, infrastructure and food insecurity are deep rooted ills that will take a lot of years of substantial reform to alleviate and this barrier blunts the performance of the World Bank however much it strives to reduce poverty and attain economic development in Kenya.

In the present research study it is our strong opinion that education to all is a weapon against poverty. There is disparity in attainment of literacy rates across the provinces in Kenya. Central province is leading in literacy rates and the worst is North Eastern. We suggest that the World Bank should finance projects in regions where there is low human development like the North Eastern, coast and Nyanza provinces. Many diseases hurt rural people more than city dwellers. Many of the deaths in rural areas are preventable by bed nets, affordable antibiotics, trained birth attendants, basic hygiene and health education are hardly high tech solutions. Yet such solutions remain tragically out of reach

millions of the rural poor in Kenya. Therefore expenditures to improve sanitation, education and public health should, without question, be given foremost priority in any program to enhance the long-range growth and development of the Kenyan economy, high disease rates, low standards of nutrition, and low education and training standards are the main causes hampering growth of productivity. In order for the World Bank to enable Kenya reduce hunger have higher economic growth especially agriculture and rural area, they do also have lower population growth and lower rates of HIV infection; it should step up funding in these areas.

The World Bank with the help of the local community should cooperate to identify select projects where the World Bank can have most impact in mitigating poverty in Kenya. The World Bank should respond more effectively to the government of Kenya and local community and ensuring their participation in design and implementation of Programmes. The World Bank should train the local staff to work with the expatriates so that they can transfer technical know-how to the locals. This strategy will facilitate better quality of service greater efficiency and more accountability for performance.

Cost effectiveness is vital therefore the World Bank should ensure that streamlining bureaucracy, curbing corruption and reducing paper work, spends World Bank loans, which the government receives, efficiently.

It is concluded that World Bank's aid has a positive influence on economic development and poverty reduction when there is sound economic policies in Kenya. Many of the comments on policy conditionality have stressed lack of ownership by implementing institutions. This evidence leads our present research study to suggest that aid should be targeted on to the governments where the government is reform minded and policy conditionality is of agreed type. The country for it to give the intended efficacy, it should own the policy reforms. In the view that economic policies are positively related to the performance of World Bank aid in economic development of Kenya, we suggest that it would be most desirable to insist on good economic policies in Kenya when the World Bank aid is given. This requires the World Bank to initiate economic reforms which are supported and acceptable by the political regime in Kenya as it has been established that the government backtracks if the economic reforms are imposed by the World Bank. Kenya has huge potential to increase living standards and expand its economy. Obviously, the most important factor in realizing this potential is real commitment on the part of the Government to address the problems of poor economic management, low investment, poor public services, corruption, deteriorating infrastructure, and the deteriorating security situation all essentially a result of poor governance over a long period of time to ensure sustained economic growth and widespread poverty reduction.

The terms and conditions of the World Bank loans have not been much favorable to Kenyan economy, which is still in its infancy stage of development in the world

standard. Widespread high poverty rates, unemployment and inequality of income are rampant. Deficiency in human resources, skills and administration is undoubtedly the main obstacle to fully efficiently utilize the investments in the projects financed by the World Bank. Inequality should be a practical priority for the Government and should be reflected in planning policies. The World Bank should train the local people to replace the expatriates from the developed world.

In this study we have established the view that the World Bank aid contributes to increasing aggregate welfare, measured by infant mortality and the Human Development (HDI), in Kenya we suggest that the world bank must intensify financing in those sectors in which its lending may have a greatest potential of poverty reduction like, water supply and sanitation, education, health and family planning. High disease rates, low standards of nutrition, low education and training standards are the major factors inhibiting growth and productivity. World Bank financed projects, which improve sanitation; education and public health should be given first priority in any program to spur growth and development of the Kenyan economy in the long term. It is our proposition that as women gain education, birth rate falls, this is due to education, delays marriage and children, better educated women are more likely to use contraceptives as well. They also have more options open to them in life than rearing children, in particular earning a living and a carrier.

The timing of assistance is extremely important. The early reconstruction loans made in 1947 helped keep France, the Netherlands, Denmark and Luxembourg afloat until the Marshall Plan became operative (pp.705 E. Mason and Asher). The World Bank follows the practice of pre-project survey by sending survey missions at the borrower's expense before making loan authorization for projects. The practice is time consuming and costly as well. The costs of the project increase and the borrowing country is left with uncertainty till the day of actual authorization of the loans. Finally, the programme must receive more frank thought during project design and negotiations to ensure that agreement relate to critical policy and institutional change issues and implementation actions.

In this present research work the evidence compels us to conclude that there should be emphasis for better partnerships between the World Bank and the Government of Kenya. In addition to building effective partnerships the Government of Kenya and the World Bank need to cooperate in formulating policy and implementation of the Programmes. Change can be attained here by renewed commitment to listening to and working with local partners. Given that the rich nations exert the financial and political power within the bank, their objectives, not those of the poor Kenyans dominate the bank's decision making. The likelihood of effective partnership is thus watered down by the structure of the institution itself. The experience in Kenya suggests that progress is slow if delegation is only partial. When we assessed reports from the project evaluation we established that genuine ownership by local communities is the vital element

in achieving both favorable outcomes as well as sustainable institutional development. Apart from being already slow, progress in Kenya is further slowed by more responsive project design being sensitive to the donor consultative processes inherent in all World Bank projects. Therefore we suggest that policy makers must confront the challenge of designing projects that take significant local information into account but are not exorbitantly costly to implementation.

In the view that the World Bank has spurred development of agriculture and industrial sector by providing investment capital in Kenya we suggest that research and technology need to be developed and adapted to the local conditions. The lack of technological improvements suitable for Kenyan is a main reason for Kenya's poor performance so far. There should be more emphasis on irrigation to reduce over-reliance on rain-fed agriculture in the face of limited high potential agricultural land. Lack of readily available technical packages for farmers in the semi-arid zones, limited opportunities to switch to higher-value crops such as tea and coffee and pursuit of import-substitution policies that favored industry at the expense of agriculture aggravated to poor performance of the agricultural projects.

The present study has established that the key to performance of the World Bank aid in economic development of Kenya depend on prudent macroeconomic policies. Government fiscal deficit should be kept at minimum level. Therefore we suggest that the financial reforms must be undertaken to enable financial

deepening which fosters economic growth and private investment in Kenya. To a large degree aid finances the public budget; this indicates that sound policies institutions as well as good economic management determine the impact of aid. In well economically managed countries it is probably easier and more sensible for World Bank to simply provide general budget support. In poor economically managed countries like Kenya financial aid alone is not likely to be effective. Therefore we point out that for the World Bank performance to be effective the Kenya Government has to improve its efficiency of service delivery and use the aid more effectively to achieve efficacy.

Since infrastructure is a key to economic development of Kenya, the World Bank should intensify investments in infrastructure particularly in rural areas where the majority of the population live. Sectors like roads, highways, ports should be given priority. In infrastructure the World Bank should give priority to reconstruction of roads particularly in rural areas as 80 per cent of people in Kenya live in rural areas. The World Bank also should double its funding in construction and renovation of highways and ports as this will spur trade within Kenya and outside Kenya thus providing foreign exchange to the country. More telecommunication services are needed to meet the rising demand. Despite the impressive growth of mobile phones more firms have to be encouraged so that the calling rates will become cheaper and competitive. When the preconditions of basic infrastructure (roads, power, and ports) and human capital (health and education) are in place, markets are powerful engines of development. Without those conditions, opportunities could cruelly bypass large parts of the country,



leaving them impoverished and suffering without respite. To avoid these bizarre circumstances, the World Bank should step up investments sufficiently in Kenya to spur economic development.

The challenge of shared growth and poverty reduction in Kenya is enormous as the delivery of basic social services of health, education, water and sanitation remain highly inadequate. In addition, there are the challenges of meeting the Millennium Development Goals (MDGs), tackling the problem of the HIV/AIDS pandemic and promoting accountability and transparency. The HIV/AIDS epidemic has inflicted the single greatest reversal of human development in Kenya. For instance falling of life expectancy, health infrastructure is being pushed to the brink of collapse. The life expectancy has decreased from 56 years in 1986 to 44 years in 2004. This implies that a child born in 2004 has a less chance of surviving age 45; the child is doomed to die eleven years earlier. These challenges are daunting but we reaffirm the World Bank strong support with sustained efforts and continued goodwill with the government, Kenya will achieve its long-term development aspirations. Therefore economic growth alone will not eliminate poverty in Kenya, but if it is equitable growth that reaches the poor, it can create the opportunities and resources to reduce poverty. A poverty free Kenya will not be perfect but it would be the best approximation of ideal. We have created a slavery free world, a polio free world, an apartheid free world creating a poverty free Kenya will be a greater than all these accomplishment. Similarly development assistance from the World Bank, no matter how well intended, can not guarantee Kenyan economic development, therefore to be

effective it must be used more wisely. In this present research work we conclude that World Bank, in spite of the shortcomings it still holds potential to bring about a positive change in Kenya.

#### **SUGGESTIONS FOR FURTHER RESEARCH**

In the present research study we have focused on the performance of World Bank and its efficacy in economic development of Kenya during the period of 1980 to 2004. Further research may be undertaken from 1964 to the present period. We also suggest that there should be a study to assess particularly the Sectoral Adjustment loans which were started in the 1980s which have been perceived to have had negative impact on the poor in other Sub Saharan countries. There should be made an effort to study the impact of all foreign aid flow to Kenya since 1964 to the present time. There is high inequality in Kenya; there should be a study to assess the impact of World Bank aid in the eight provinces to establish whether or not the World Bank has been biased on particular provinces. There should also be a study to assess the impact of World Bank's technical assistance.

---