Report Number: ICRR0023233

1. Program Information

Country
Kenya

Practice Area (Lead)
Macroeconomics, Trade and Investment

Programmatic DPF

Planned Operations
0

Approved Operations
0

Operation ID
P168204

Operation Name
Inclusive Growth and Fiscal DPO

L/C/TF Number(s)
IDA-64190

Closing Date (Original)
30-Jun-2020

Total Financing (USD)
751,130,459.68

Bank Approval Date
28-May-2019

Closing Date (Actual)
30-Jun-2020

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	750,000,000.00	0.00
Revised Commitment	749,999,996.71	0.00
Actual	751,130,459.68	0.00

Country
Kenya

Practice Area (Lead)
Macroeconomics, Trade and Investment

Operation ID
P172321

Operation Name
Kenya Growth and Fiscal DPO2 (P172321)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-91060,IDA-64190,IDA-66350	30-Jun-2021	1000000000.00
Bank Approval Date	**Closing Date (Actual)**	
19-May-2020	30-Jun-2021	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	1,000,000,000.00	0.00
Revised Commitment	1,000,000,000.00	0.00
Actual	1,000,000,000.00	0.00

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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The program development objectives (PDO) were to: (i) crowd in private investment and financing for affordable housing; (ii) enhance farmer incomes and food security; (iii) create fiscal space to allow the government to invest in key development programs; and (iv) crowd in private investment and leverage digitization to support the governments inclusive growth agenda (Financing Agreement, pp. 5-7 for the first operation; Financing Agreement, pp. 5-6 for the second operation). For the purpose of this ICRR, the four objectives are (i) crowd in private investment and financing for affordable housing; (ii) enhance farmer incomes and food security; (iii) create fiscal space to allow the government to invest in key development programs; and (iv) crowd in private investment and leverage digitization to support the governments inclusive growth agenda.

b. Pillars/Policy Areas

There were four policy areas/pillars aligned to the objectives of the programmatic series, consisting of:

Pillar 1: Crowd in private investment and financing for affordable housing;

Pillar 2: Enhance farmer incomes and food security;

Pillar 3: Create fiscal space to allow the government to invest in key development programs; and

Pillar 4: Crowd in private investment and leverage digitization to support the governments inclusive growth agenda.

Table 1: Policy Actions

Objective 1: Crowd in Private Investment and Financing for the Delivery of Affordable Housing	
Prior Actions for DPO1	**Prior Actions for DPO2**
PA1: The Recipient has (i) approved, through its Cabinet, amendments to the Sectional Properties Act to allow for individual titling of units in multi-story buildings; and (ii) enacted, through its Parliament, the Building Surveyors Act with the objective to improve building standards, including in low-income housing units.	**PA2:** The Recipient has (i) enacted through its Parliament the Physical and Land Use Planning Act, which, inter alia, allows for changes to restrictive zoning laws that hold back the construction of multi-story buildings in high density areas(ii) through the president, assented to the, Business Laws Amendment Bill, which amends the National Construction Authority Act which, inter alia, makes provision for an up to date building code, allowing the use of a wider range of construction materials and technology, hence enabling the delivery of less expensive code-compliant housing units.
PA3: The Recipient has (i) enacted, through its Parliament, an amendment to the Central Bank of Kenya (CBK) Act to empower the CBK to license and supervise mortgage re-financing businesses; and (ii) submitted, through the CBK, the draft Mortgage Refinance Companies Regulations, dated 2019, to the Attorney General, which provides a framework to operationalize the business of mortgage refinancing.	
Objective 2: Enhance Farmers Income and Food Security	
Prior Actions for DPO1	**Prior Actions for DPO2**
PA4: The Recipient has approved, through its Senate, and submitted to its National Assembly, the proposed Warehouse Receipts System (WRS) Bill providing the legal framework for the establishment of a warehouse receipt system.	**PA5:** The Recipient has through its Cabinet approved a policy to commit purchases for the strategic grain reserve function of the National Cereals and Produce Board (NCPB) through the WRS consistent with the Agricultural Sector Growth and Transformation Strategy issued by the Ministry of Agriculture, Livestock, Fisheries and Cooperatives.
PA6: The Recipient has approved, through its Cabinet the structure for the establishment of a Commodities Exchange.	**PA7:** The Recipient through the Cabinet Secretary for finance, has approved the Capital Markets (Commodity Markets) Regulations that provides a framework for the commodities exchange market.
PA8: The Recipient has (i) approved, through its Senate, and submitted to its National Assembly, the proposed Irrigation Bill, which supports better use and harnessing of water resources for	**PA9:** The Recipient has through its Cabinet approved the policy for the roll out of the e-voucher subsidy program consistent with the Agricultural Sector Growth and Transformation

irrigation through the integration of irrigation in water harvesting, flood control and storage and; (ii) through its Ministry of Agriculture, Livestock, Fisheries and Irrigation (MoALFI), piloted the e-voucher fertilizer subsidy program in four (4) counties with a coverage of at least 20,000 farmers with the aim of restructuring the fertilizer subsidy program from a manual to an e-voucher program.	Strategy issued by the Ministry of Agriculture, Livestock Fisheries and Co-operatives.
PA10: The Recipient has enacted, through its Parliament, the Kenya Coast Guard Service Act, which protects Kenya's territorial waters from illegal exploitation and degradation of marine ecosystems.	
Objective3: Create Fiscal Space and Crowd in the Private Sector to Advance the Government's Inclusive Growth Agenda	
Prior Actions for DPO1	**Prior Actions for DPO2**
PA11: The Recipient has (i) enacted, through its Parliament, the Finance Act 2018 which contains a provision for the removal of VAT exemptions on petroleum products; and (ii) through the Cabinet Secretary of the National Treasury and Planning, adopted a governance framework through which tax exemptions are granted to avoid the creep in tax exemptions and arrest the decline in tax revenues.	**PA12:** The Recipient has through its Cabinet approved for submission to Parliament, the Income Tax Bill 2019, which streamlines tax exemptions by reducing the number of exemptions offered.
PA13: The Recipient has (i) signed a memorandum of understanding (MoU) between the Competition Authority of Kenya (CAK) and the Public Procurement Regulatory Authority (PPRA) that allows for information sharing to help carry out effective investigations on collusive behavior in public procurement; and (ii) through its National Treasury and Planning, verified and reconciled its external debt records to improve upon the accuracy of its electronic debt registry.	**PA14:** The Recipient has (i) published in a publicly available online portal details of contracts and tenders; including tender documents; details on companies that were awarded the tender; and the names of the directors of the company; (ii) through its Cabinet approved the Public Procurement and Asset Disposal Regulations which will allow for revision of standard bidding documents to provide greater details on bidders to enhance transparency; and (iii) through its Parliament enacted the Competition Amendment Act that include specific penalties on collusive behavior in public procurement **PA15:** The Recipient has (i) through its Cabinet approved the Debt and Borrowing Policy; and (ii) through its Central Bank launched the Treasury Mobile Direct System which allows institutional and retail investors to participate through an

	electronic platform in the issuance of government securities to enhance transparency and efficiency.
Objective 4: Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda	
Prior Actions for DPO1	**Prior Actions for DPO2**
PA16: The Recipient has through (i) the Cabinet Secretary of ICT, approved the Broadband Strategy, which commits to crowd-in private investment to expand broadband access; and (ii) enacted, through its Parliament, amendments to the Registration of Persons Act to establish a National Integrated Identity Management System, with the mandate to assign a unique national (digital) identification number to all registered persons.	
	PA17: The Recipient has through its Parliament repealed section 33B of the Banking Act, removing the cap on interest rates on bank lending.
	PA18: The Recipient (i) has through its Cabinet approved the Kenya Investment Policy, which simplifies the process of investor entry and retention; (ii) has through the Ministry of Industrialization, Trade and Enterprise Development approved the Special Economic Zones (Amendment) Regulations, implementing the Special Economic Zones Act; (iii) has enacted through its Parliament amendments to the Companies Act, requiring companies to keep a register of beneficial owners.

c. Comments on Program Cost, Financing and Dates

Project cost and financing. The first operation was approved for an International Development Association (IDA) loan of US$750 million. The second operation was approved for an International Bank for Reconstruction and Development (IBRD) and IDA loans of US$250 million and US$750 million, respectively. The total approved amount for the two operations was US$1.75 billion. The actual disbursed amount was US$1.751 billion, with the difference between the approved and the disbursed amounts being explained by fluctuations in the exchange rate for Special Drawing Rights (SDR).

Dates. The first operation was approved on May 28, 2019, became effective on June 26, 2019, and closed on June 30, 2020, as envisaged. The second operation was approved on May 19, 2020, became effective on May 22, 2020, and closed on June 30, 2021, as envisaged.

3. Relevance of Design

a. Relevance of Objectives

Kenya made significant progress in poverty reduction and shared prosperity in the years that preceded this operation. Kenya's poverty rate measured at the international poverty line of US$1.90 per day fell from 43.7 percent in 2006 to 36.8 percent in 2015. Economic growth in Kenya was pro-poor over the 2005/06 and 2015/16 period, with consumption growth for households in the bottom income quintile rising by 3-4 percent per year, on average, over that period, exceeding the pace of growth for the top income quintile (World Bank, *Kenya Poverty and Gender Assessment 2015/16*). Moreover, household consumption growth in rural areas exceeded that of households in urban areas, leading to a greater decline in rural poverty compared to urban poverty. This was accompanied by improvements in non-monetary measures of poverty, with Kenya's Human Development Index, which consists of a composite index across education, inequality and life expectancy indicators, rising by 0.1 percentage points between 2005 and 2017 (UN, *Human Development Insights*).

Notwithstanding these improvements, there were a number of challenges which persisted. The reduction in the poverty rate experienced by Kenya was less than its regional peers despite the country's comparatively higher economic growth rate (World Bank, Kenya Poverty and Gender Assessment 2015/16). Moreover, the fact that a third of Kenya's population was still living under the international poverty line of US$1.90 per day also constituted a challenge to sustaining higher economic growth rates. Given that poverty was predominantly concentrated in rural areas where the population was reliant on agricultural activity, reforms aimed at increasing farmers' income and enhancing food security were viewed as critical steps to supporting poverty reduction. Kenya's low-income households were also confronted with a lack of access to affordable housing, which in part explained the high incidence of households living in slums. Increasing access to information and communication technology (ICT) was also viewed as an important are for enhancing inclusive growth.

The reforms sought by this programmatic series were aligned with the Government of Kenya's medium-term reform program and the World Bank's Kenya Country Partnership Strategy (CPS) FY14-FY20 (Report 87024-KE). The government's medium-term reform program, which operationalized Kenya's Vision 2030 to create "a globally competitive and prosperous country with a high quality of life by 2030", was focused on four key policy areas, i.e., food security, affordable housing, universal health coverage, and manufacturing, also known as the Big Four. The programmatic series was also aligned with the Kenya CPS, which was structured around three pillars of engagement: (i) competitiveness and sustainability – growth to eradicate poverty; (ii) protection and potential – human resource development for shared prosperity; and (iii) consistency and equity – delivering a devolution dividend. The first pillar of the DPF is viewed as having contributed towards both the growth and human resource development domains of the CPS. By enhancing farmer incomes and food security, the second pillar contributes towards sustainable economic growth and poverty reduction. Measures under Pillars 3 and 4 on supporting the expansion of fiscal space, crowding in private investment and enhancing the capacity of the public sector to deliver on the inclusive growth agenda were consistent with the fiscal sustainability, economic growth and good governance goals of the CPS.

This DPF complemented other ongoing Bank commitments, namely, the Kenya Affordable Housing Finance Project (P165034), the Kenya Climate Smart Agriculture Project (P153349), the National Agriculture and Inclusive Growth Project (P153349), the Marine Fisheries and Socio-economic Development Project (P163980), and the Governance for Improved Service Delivery Project (P161387).

b. Relevance of Prior Actions

Rationale

Relevance of Prior Actions for Objective 1 - To crowd in private investment and financing for affordable housing

PA1 was intended to facilitate the development of multi-story units, thereby crowding in private investment and financing for affordable housing.

- **PA1(i)** addressed the challenge of new housing supply (estimated at 50,000 units per year) falling short of new housing demand (estimated at 80,000 units per year) (World Bank, Kenya Economic Update, April 2017), leading to a cumulated housing deficit of 2 million housing units and to a sharp deterioration in housing affordability. This deficit partly accounted for some 51 percent of urban households living in slums. This PA contributed to the provision of affordable housing to low-income households by modifying property registration practices to allow developers to obtain titles for individual units as leases, thereby allowing individuals to purchase these at the pre-construction phase. Prior to this, the lack of sectional titles restricted developers' ability to sell units at the pre-construction phase. The PA effectively supported an increase in cash flow early on to developers during the construction process, which contributed to increased housing supply and to a reduction in the housing imbalance.
- **PA1(ii)** addressed the problem of lower-cost buildings violating engineering requirements under the Building Code. An audit conducted by the National Building Inspectorate had shown that 13,778 buildings in Nairobi and 690 buildings in other towns were in dangerous structural condition, and that an additional 9,701 buildings were unsafe for human occupation, which it attributed to the lack of adherence to the Building Code requirements. The PA addressed this problem by supporting the adoption of the *Building Surveyors Act,* which includes provisions for approvals at various stages of the construction process, limits construction activity to licensed building professionals, and holds licensed professionals liable for negligence.

PA2 (DPO2) followed up on PA1 by supporting modifications to zoning laws and the use of a wider range of construction materials and technology, for an increase in the supply of more affordable code-compliant housing units.

- **PA2(i)** introduced the *Physical and Land Use Planning Act*, which grants County Executives the authority to make changes to restrictive zoning laws as part of a comprehensive County Physical and Land Use Development Plan. This measure was intended to increase the potential number of housing units which can be constructed over a given land area, addressing constraints on the supply side related to land, thereby supporting the provision of more affordable housing units.
- **PA2(ii)** made amendments to the *National Construction Authority Act* to allow for more cost-effective materials and technologies to be adopted, while continuing to ensure that they respect building

requirements under the *Sectional Properties Act*. Prior to the adoption of the PA, builders were restricted to the use of specific materials (i.e., stones and mortar) which prevented the adoption of sustainable and cost-saving technologies. PA2 deepened the reforms implemented under DPO1 and were complemented by other reforms under a separate World Bank operation (P165034: the Kenya Affordable Housing Project), which supported faster and more reliable land transactions through an improved Land Information Management System and land sector strategic assessment.

The relevance of **PA1** and **PA2** is rated Satisfactory for the achievement of the objective of crowding in private investment and financing for affordable housing. PA1 and PA2 supported the improvement in financial conditions required for developers to undertake housing construction projects, and for cost-effective materials and technologies in housing construction which meet the requirements of the Building Surveyors Act to be adopted **(relevance of PA1=S; relevance of PA2=S).**

PA3 sought to address the lack of access to finance for low- to middle-income purchasers of affordable housing units. Prior to the implementation of PA3, mortgage lending was almost entirely funded through short-term retail and institutional deposits, which limited the amount of capital available to finance mortgages for affordable housing. Given that Kenya had a deep and liquid capital market, with pension funds and insurance companies interested in holding long-term quality paper, the Government of Kenya, through the support provided by the Kenya Affordable Housing Finance Project (P165034), established the Kenya Mortgage Refinance Company (KMRC). The KMRC would mobilize private investment from institutional investors and provide long-term loans to financial institutions, including financial co-operatives, which would in turn provide loans to households across all income groups. PA3 empowered the CBK (through the amendment of the *Central Bank of Kenya Act)* to license and supervise mortgage refinance companies and complete the regulatory framework for their operationalization and its relevance is therefore rated Satisfactory **(relevance of PA3=S).**

Relevance of Prior Actions for Objective 2 - Enhance farmer incomes and food security

PA4 sought to enhance farmers' income through the proposed Warehouse Receipt System (WRS) Bill, which provided the legal framework for the establishment of a warehouse receipt system. Prior to the implementation of the programmatic series, Kenya's agricultural supply chain was limited by inadequate post-harvest storage and handling infrastructures, which led to about a third of agricultural products being lost, adversely impacting farmer profitability and food security. The country was estimated to have lost 1.9 million tons of agricultural products valued at KES 150 billion (US$1.5 billion) in 2017 largely as a result of post-harvest losses. Moreover, this PA addressed the challenge of food insecurity, with Kenya ranking 77th out of 119 countries assessed as part of the Global Hunger Index in 2018. The National Cereals and Produce Board (NCPB) and the Eastern Africa Grain Council were in the process of piloting systems for certifying warehouses that receive grain deposits and issuing tradable and transferable warehouse receipts. However, the pilot systems were challenged by the lack of a legal and regulatory framework to provide an enabling trading environment for warehouse receipts. PA4 sought to address this constraint, with the implementation of the WRS allowing farmers to store their grains at warehouses and obtain a receipt that confirmed the type and quantity of products being stored. This would provide farmers the flexibility to store grains when prices were low and sell when they were high, improving farmer income. Furthermore, farmers could use warehouse receipts to obtain loans from financial institutions. The storage of grains in climate-controlled warehouses also enhanced the preservation of the produce, further supporting farmer income and food security.

PA5 (DPO2) complemented PA4 with the NCPB committing to purchase grains for the strategic grain reserves of the country directly through the WRS, thereby allowing smallholder grain farmers to sell their grains to the NCPB through the WRS rather than to the NCPB directly. Prior to PA5, smallholder grain farmers were confronted with challenges related to selling their grains to the NCPB directly, which adversely affected their incomes. First, while the NCPB was offering a price markup of 33-62 percent relative to market prices for the purchase of grains for the strategic grain reserves, the markup was insufficient to cover the cost of delivering grains to the NCPB for smallholder grain farmers. Second, there was some rent-seeking behavior prior to this PA. The rent-seeking behavior in turn limited the supply of strategic grain reserves at the NCPB, with small-scale farmers who were net purchasers of maize having to purchase maize outside of the NCPB and having to pay a premium relative to what they could have paid if the strategic grain reserves of the NCPB were adequate (*Source:* Agricultural Sector Transformation and Growth Strategy entitled *Towards Sustainable Agricultural Transformation and Food Security in Kenya 2019-2029*). With the implementation of PA5, warehouses sold grains to the NCPB directly, limiting the heavy financial burden of delivering grains to the NCPB for smallholder grain farmers and the opportunity for rent-seeing behavior at the NCPB gates, thereby supporting farmers' income and food security.

PA4 and **PA5** supported the overarching objective of enhancing farmer incomes and food security through a credible results chain and their relevance is rated Satisfactory **(relevance of PA4=S and PA5=S).**

PA6 sought to support the legislation, i.e., the Capital Markets (Commodity Markets) Regulations, 2020, related to the establishment of a commodities exchange to better connect producers and buyers, and to allow for price discovery of agricultural products. The establishment of a commodities exchange was an important step in the Agricultural Sector Transformation and Growth Strategy to connect sellers and buyers of agricultural products, to reduce transaction costs, to enforce contracts, and to enhance farmers' income and food security.

PA7 (DPO2) followed up on PA6 by seeking to register the Kenya Multi Commodity Exchange (KOMEX) with the regulator, i.e., the Capital Markets Authority, to allow the commodities exchange to operate.

PA6 and **PA7** supported the overarching objective of enhancing farmer incomes and food security through a credible results chain by establishing the legal and regulatory framework for the KOMEX to be able to operate. The relevance of PA6 and PA7 is rated Satisfactory **(relevance of PA6=S; relevance of PA7=S)**.

PA8 and PA9 sought to reduce reliance on rain-fed agriculture to build resilience against droughts by submitting the Irrigation Bill to the National Assembly and piloting an e-voucher fertilizer subsidy program, and then expanding the e-voucher program more broadly.

- **PA8(i)** sought to address the challenge of the National Irrigation Board's (NIB) mandate being limited to the management of seven national irrigation schemes and four research stations, which excluded medium-scale and small-scale facilities and failed to meet the irrigation needs of farmers. Fiscal devolution and climate conditions made it increasingly important to develop non-national irrigation schemes. With 98 percent of agricultural activity in Kenya estimated to be rain-fed, and more frequent and intense droughts due to climate change, farmers and pastoralists, particularly small holders, were severely affected by droughts. Furthermore, yields of staples, such as, maize, rice and wheat were projected to decline by 12 percent, 23 percent and 13 percent, respectively, by 2030 under the business-as-usual scenario due to climate change. Water scarcity was also expected to lead to less productive pastures, lower dairy yields, and high risks for crop and livestock diseases to spread. This PA supported the adoption of the National Irrigation Policy and the enactment of the Irrigation Bill, with the policy supporting better use of existing water resources to significantly expand the area of agricultural land under irrigation. The *Irrigation Act* established the National Irrigation Authority (NIA), county irrigation development schemes and community-based irrigation water users association (IRWA). County level irrigation development units would support the development of agricultural land under irrigation, consistent with national policies. The governance of small holder irrigation schemes, which were previously established as non-legal entities with weaker governance structures, are now established under the formation of the IRWAs. This would allow for greater accountability and better community level management of water resources. The Act also included guidelines for the involvement of the private sector in the provision of irrigation.

- **PA8(ii)** sought to improve agricultural productivity by improving access to subsidized fertilizers for small-scale farmers. This PA was grounded in the findings of the Kenya Poverty and Gender Assessment which found that farmers with better access to markets are less poor. This was considered one of the most effective channels for poverty reduction and for enhancing the country's food security. Agricultural production constituted the predominant economic activity in Kenya, accounting for 50 percent of the country's GDP and 60 percent of the country's labor force when including subsistence farming employment. The fertilizer program prior to the implementation of this PA had several failures, which included that it was targeted to medium- to large-scale farmers, that there were significant delays in distribution as the procurement of fertilizers was largely undertaken by the government, and that the program allowed rent-seeking behavior. The new program supported by this PA led to the electronic distribution of vouchers to targeted groups of farmers, primarily those with small-scale operations and women farmers, allowing them to directly purchase fertilizers from the suppliers of their choice. The program was to be accompanied by an electronic database, which could assess eligibility to subsidized fertilizers based on farm size, with eligibility limited to an agricultural land area of up to 4 acres for the pilot. The subsidy payment was made through mobile deposits as this constituted a more efficient mechanism to reach target beneficiaries.

- **PA9** (DPO2) followed the reforms which began under PA8 (first DPO series) by expanding access to subsidized fertilizers to farmers through the e-voucher fertilizer subsidy program, from 20,000 farmers under PA8(ii) to 150,000 famers under PA9.

The piloting of the e-voucher program for fertilizer distribution under PA8(ii) supported targeted subsidies to small scale farmers with agricultural yields lower than large-scale farmers, and who were more vulnerable to food insecurity; the adoption of the NIA supported the development of non-national irrigation schemes to support small-scale farmers and pastoralists who were particularly affected by droughts. PA9 expanded the fertilizer subsidy scheme, increasing support for farmer incomes and food security through a credible results chain **(relevance of PA8=S; relevance of PA9=S)**.

PA10 sought to protect Kenya’s territorial waters from illegal exploitation and degradation of marine ecosystems through the passing of the *Kenya Coast Guard Service Act* which established the Kenya Coast Guard Service charged with monitoring and prosecuting illegal fishermen. The main challenges in Kenya’s fisheries sector consisted of: (i) a lack of monitoring on fish stocks (which posed a risk to the sustainability of the fisheries resources), and (ii) inadequate monitoring and protection of territorial waters. PA10 sought to address these challenges by establishing the Kenya Coast Guard Service, which was expected to improve the monitoring of fishing activities and fish stocks.. The relevance of PA10 is rated Satisfactory given that a more sustainable exploitation of Kenya’s fish stock is expected to support the objective of enhancing farmers’ incomes and food security over the medium- to long-term horizon**(relevance of PA10=S).**

Relevance of Prior Actions for Objective 3 - Create fiscal space to allow the government to invest in key development programs

PA11 and PA12 supported domestic revenue mobilization through the reduction in tax expenditures from VAT exemptions on petroleum products, the adoption of a governance framework through which tax exemptions are granted, and the rationalization of tax exemptions.

- **PA11(i)**, through the Finance Act 2018, removed VAT exemptions that had applied to petroleum products (the VAT on petroleum products was introduced through the VAT Act 2013, but its implementation was deferred) and introduced a VAT rate of 8 percent on the taxable value of petroleum products. The expiry of VAT exemptions on petroleum products was expected to increase revenues, although the 8 percent rate still represented a concessionary rate to the VAT rate of 16 percent. The compromise VAT rate on petroleum products was introduced within the context of unprecedented social protests and rejections in parliament until the concessionary rate was approved.
- **PA11(ii)** applied more stringent conditions on granting tax exemptions and on reporting requirements for the use of exemptions and introduced regular internal audits. Prior to the implementation of this PA, accounting officers in line ministries would make requests for tax exemptions, and there was no accountability for ensuring that exemptions met the requested use. Through the measure, the Permanent Secretary of a line ministry, who is also the Chief Accounting Officer, would make the request for a tax exemption and would be accountable for ensuring the intended use of the tax exemption was followed. Requests for tax exemptions would be made to the National Treasury.
- **PA12** (DPO2) followed on the reforms implemented under PA11 and was related to the approval for submission to Parliament of the Income Tax Bill 2019. The Bill included the repeal of preferential corporate income tax rates on newly listed entities, the repeal of the reduced corporate tax rates in certain sectors, the repeal of special corporate tax rates for companies operating under the special operating framework, the repeal of the electricity rebate used to reduce tax liability, the overhaul of the capital allowances schedule, removal of corporate income tax exemptions on certain parastatals, and redefining “qualifying interest” to broaden the scope of the tax base. With regard to VAT, the Bill proposed to expand the taxable base to include excise duty, fees and charges, and to change the VAT status on certain products from exempt to standard-rated. The submission to Parliament of the Income Bill 2019 constituted a step toward its enactment. The Program Document suggests that this measure was estimated to increase government revenues by 0.3 percentage points of GDP per year.

The relevance of PA11 and PA12 is rated **Satisfactory** as both of these actions supported the overarching objective of creating fiscal space by supporting increased government revenues **(relevance of PA11=S; relevance of PA12=S)**.

PA13, PA14 and PA15 sought to reduce the cost of public procurement by (i) increasing competition and transparency through the establishment of procedures for the investigation of collusive behavior in public procurement bids and by publishing tender documents and public procurement awards online; as well as (ii) improving debt management and debt transparency.

- **PA13(i)** required the signing of a memorandum of understanding to allow information to be shared between the CAK and the PPRA to carry out effective investigations on collusive behavior in public procurement. Thirty-four percent of organizations reporting incidences of procurement fraud against an average of 25 percent in East Africa and 22 percent globally (according to a Price Waterhouse Coopers report (see Global Economic Crime Survey: Kenya Report (https://www.pwc.com/ke/en/publications/economic-crime-survey.html)) and the value of government procured goods and services was equivalent to at least 7 percent of GDP per year in Kenya. Conservative estimates indicated that addressing bid rigging could lead to savings of up to

KES 28 billion per year (0.3 percent of GDP). Prior to the implementation of this PA, while the CAK had the ability to investigate collusive behavior in public procurement and to impose sanctions on bid riggers, it did not have the mandate to obtain bidding documents which were held by the PPRA. Moreover, the PPRA did not have sufficient capacity to investigate or impose sanctions on bid riggers. Through PA13(i), the standard tender documents were amended to better capture information to detect bid rigging, and to increase the fines on bid riggers through amendments to the Competition Subsidiary Rules. The PA effectively supported the implementation of Executive Order No. 2 which was passed in 2018. This was expected to deter bid rigging in the public procurement of goods and services.

- **PA13(ii)** aimed to improve the accuracy of Kenya's electronic debt registry by verifying and reconciling external debt records by transitioning from the manual recording of external debt to an electronic system. The electronic debt registry system allowed the National Treasury to be notified of upcoming payment, debt amortizations, and principals due to specific countries, which is a more reliable system to the paper-based system.
- **PA14** (DPO2) followed on the reforms implemented under **PA13(i)** (first DPO series) by seeking to reduce collusive bidding on government contracts by publishing tender documents on an online portal, and to impose penalties for collusive behavior.
    - **PA14(i)** led to the online publishing of tender documents, along with the details of the companies that were awarded the tenders and the names of the directors of the companies.
    - **PA14(ii**) allowed the approval of new regulations to revise the format of bidding documents in order to provide greater details on bidders.
    - **PA14(iii)** led to the enactment of the Competition Amendment Act that introduced penalties on collusive behavior in public procurement.

- **PA15** sought to establish clear guidelines on the debt and borrowing policy in order to improve debt management and deepen domestic debt markets through the introduction of the Treasury Mobile Direct System.
    - **PA15(i)** led to the adoption of the Debt and Borrowing Policy, which established that new borrowing must be assessed against the fiscal space and the government's current and future capacity to service its debt, and that concessional sources of financing must be prioritized. The Policy included clear guidance on the decision-making process for contracting debt and the institutions which would audit debt management activities and which institutions would oversee the utilization of borrowed funds. The policy indicated that domestic debt would be issued through transparent auctions conducted by the CBK. The policy benefitted from technical support from the World Bank and the Office of the Technical Assistance, US Department of Treasury.
    - **PA15(ii)** introduced the Treasury Mobile Direct System, which allowed institutional and retail investors to transition from a manual trading platform for primary auctions to an automated platform. Prior to the implementation of PA14(ii), access to the online platform was limited to commercial banks, and institutional and retail investors did not have access to it. With the online platform, registered investors would be able to invest in government securities remotely and would no longer be required to visit the CBK. This measure would be expected to contribute to the deepening of domestic debt markets, allowing for improved price discovery for government securities.

The relevance of PA13 is rated Moderately Satisfactory as there is no evidence that an electronic debt registry would increase fiscal space relative to a manual debt registry. The relevance of PA14 and PA15 are rated **Satisfactory** as the measures supported greater transparency and accountability of public procurement contracts, an improvement in the debt and borrowing policy and the deepening of financial markets **(relevance of PA13=MS; relevance of PA14=S; relevance of PA15=S).**

Relevance of Prior Actions for Objective 4 - Crowd in private investment and leverage digitization to support the government's inclusive growth agenda

PA16 sought to expand the coverage and the access to a broadband network and improve the targeting of government programs and benefits through a unique national (digital) identification number to every person enrolled in the register.

- **PA16(i)** led to the adoption of the second National Broadband Strategy (NBS) covering the 2018-2023 period, which addressed some of the shortcomings of the first strategy, i.e., the NBS 2013-2017, which did not adequately reduce the digital divide in accessing broadband services, thereby limiting the transition to a knowledge-based society. The NBS 2018-2023 envisioned increasing access to broadband coverage of 3G to 94 percent of the population by 2020 and addressing some of the demand side challenges in using broadband services, including cybersecurity. While there were 33 million internet users in Kenya in December 2017, less than 1 million of these had broadband coverage, despite the fact that the country was connected to four international undersea fiber optic cables. The Strategy sought to increase broadband coverage by encouraging cost reduction through network sharing, embracing public-private partnerships in expanding networks, incentivizing companies to expand coverage in rural and remote areas, and developing digital literacy.
- **PA16(ii)** amended the Registration of Persons Act, establishing a National Integrated Identity Management System to create, manage and operate a national population register and assign a unique national (digital) identification number to every person enrolled in the register to enhance the targeting of subsidies to small-scale farmers, social protection benefits to the most vulnerable, e-medical services, and e-commerce. Prior to the implementation of this PA, there was no unique national (digital) identification number for individuals enrolled in the register, which allowed a person to quality for the same social benefits and transfers multiple times**.**
- The relevance of PA16 is rated **Satisfactory (relevance of PA16=S).**

PA17 repealed section 33B of the *Banking Act* pertaining to an interest rate cap on bank lending in an effort to support private sector credit growth. Prior to the implementation of PA17, the interest rate cap rationed lending to the most creditworthy borrowers, thereby limiting credit for private investment. A survey conducted by the CBK a year after the introduction of interest rate caps on lending in 2016 found that the stock of credit to SMEs fell by 10 percent, but that credit to households and large borrowers continued to increase at a pace that was comparable to the rate which prevailed prior to introduction of this measure (IMF, *Do Interest Rate Controls Work? Evidence from Kenya*). Since the lifting of the interest rate caps on lending would be expected to result in increased credit growth to SMEs based on the results of this survey, the relevance of PA17 is rated **Satisfactory (relevance of PA17=S).**

PA18 supported the adoption of the Kenya Investment Policy to simplify the process of investor entry and retention, the approval of the Special Economic Zones (Amendment) Regulations which allowed the implementation of the Special Economic Zones Act and the enactment of amendments to the Companies Act, requiring companies to keep a register of beneficial owners.

- **PA18(i)** required the adoption of the Kenya Investment Policy which improved the capacity of the One Stop Centre to offer essential services to companies, assigned a unique identification number to all companies, and restricted the payment of minimum capital requirements to sensitive sectors (i.e., defined activities where foreign investment is restricted to protect national investors). Prior to the implementation of this PA, firms were required to pay US$100,000 as a capital requirement to enter the market. However, program documents do not provide evidence that the minimum capital requirement was a significant disincentive to investment.

- **PA18(ii)** supported approval of the Special Economic Zones (SEZ) (Amendment) Regulations, allowing for the implementation of the Special Economic Zones Act. The Program Document for the second operation indicates that surveys and consultations with existing and potential investors pointed to the need to operationalize the principles of the Kenya SEZ Act 2015 and provide greater clarity and certainty for the rules governing SEZ enterprise operations.
- **PA18(iii)** supported improvement in corporate governance by requiring firms to hold a register of shareholders with at least 10 percent ownership in the company and to keep a copy of the register with the Registrar of Companies. This measure was intended to reduce the incidence of major shareholders establishing third-party companies to exert a greater influence on corporate decisions. Shortcomings in corporate governance was viewed as the reason for the liquidation and the bankruptcy of a number of banks, as well as one the largest supermarket chain in Kenya, Nakumatt, resulting in the deterioration in business confidence, reduced credit growth to the private sector, and unpaid bills for many suppliers, particularly, small- to medium-sized enterprises.
- The relevance of PA18 is rated **Satisfactory (relevance of PA18=S).**

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

The program included 14 Results Indicators (RIs). Objective 1 (Crowd in Private Investment and Financing for the Delivery of Affordable Housing) included three RIs. Objective 2 (Enhance farmer incomes and food security) included three RIs. Objective 3 (Create fiscal space to allow the government to invest in key development programs) included five RIs. Objective 4 (Crowd in private investment and leverage digitization to support the government’s inclusive growth agenda) included three RIs. (Table 2)

RI1 (Number of affordable housing units constructed with private investment under the government supported Affordable Housing Program) and **RI2** (Proportion of affordable housing units constructed with private investment under the government supported Affordable Housing Program owned by women, including, individual or joint ownership agreements) was intended to measure the number of affordable housing units constructed through the reforms supported by PA1 and PA2. It is not clear how RI1 and RI2 measure the impact of PA1 and PA2 as the PAs are not specifically related to the Affordable Housing Program. As such, the relevance of RI1 and RI2 is rated Unsatisfactory **(relevance of RI1=U; relevance of RI2=U)**.

RI3 (Number of private sector shareholders in KMRC) (associated with PA3) measured the number of institutions providing long-term financing to the KMRC. While the number of institutions providing long-term financing to the KMRC can be expected to be closely linked to the volume of financing, a better measure of outcome would have consisted in measuring the value of long-term financing provided by financial institutions to the KMRC. As such, the relevance of RI3 is rated Moderately Satisfactory **(relevance of RI3=MS)**.

RI4 (Number of licensed warehouses under the WRS participating in the Commodities Exchange that have been leased from the National Cereals and Produce Board to the private sector) (associated with PA4) measured the increase in farmers' accessibility to warehouses participating in the WRS, providing farmers the flexibility to store their produce in quality-controlled warehouses when prices are low and to sell their produce when prices are high. While RI4 adequately measures accessibility to warehouse space under the WRS, it does not capture the intended impact of the PA toward enhanced food security and farmer income through enhanced use of warehouse space. The relevance of this RI is therefore rated Moderately Satisfactory **(relevance of RI4=MS)**.

RI5 (Number of farmers benefitting from e-vouchers) and **RI6** (Proportion of farmers benefitting from e-vouchers who are female (associated with PA8, PA9) measured the number of small-scale farmers benefitting from subsidized fertilizers through the e-voucher program. While the relevance of this indicator hinges on the assumption that farmers receiving vouchers use them to directly purchase fertilizers from the suppliers of their choice, IEG recognizes that being in receipt of e-vouchers and purchasing subsidized fertilizers through the e-voucher program are closely correlated and as result, the relevance of RI5 is rated Satisfactory. On RI6, it can be reasonably assumed that women smallholder farmers are particularly disadvantaged, and this indicator therefore provides evidence of improved targeting. The relevance of RI6 is therefore rated Satisfactory **(relevance of RI5=S; relevance of RI6=S)**.

RI7 (VAT and income tax revenues as a share of GDP) (associated with PA11 and PA12) was intended to measure (i) the expected increase in VAT revenues following the removal of VAT exemptions on petroleum products under PA11(ii) and the expansion of the tax base to include excise duty, fees and charges, and the change in the VAT status on certain products from exempt to standard-rated through the 2019 Income Tax Bill under PA12; and (ii) the expected increase in corporate income tax revenues following the enactment of the 2019 Income Tax Bill through a reduction in tax expenditures under PA12. PA12 was limited to the submission, rather than the enactment, of the 2019 Income Tax Bill (which did not progress), IEG recognizes that relevant elements of that bill were passed under the 2020 Tax Amendment Act and that this increased income taxes. However, in addition to the challenges in controlling for the indicator's denominator, the usefulness of this RI is also limited by the fact that the two separate elements – VAT and income tax – were achieved at different points in time. A disaggregated indicator (with baselines closer to the expected approval dates of the relevant legislation) would therefore have been preferable. For these reasons, the relevance of RI7 is rated Moderately Satisfactory **(relevance of RI7=MS)**.

While the cumulative value of government procurement contracts published on the online procurement portal under **RI8** (Cumulative value of government procurement contracts published on online procurement portal) conveys some information on increased transparency as result of PA13 and PA14, a more meaningful measure would have been the share (in terms of value) of all government procurement contracts published on the online procurement portal. Further, **RI9** (Number of investigations related to bid rigging undertaken jointly by CAK and PPRA) measured the output of PA13 and PA14, rather than the outcome of these investigations (which was particularly important in an environment characterized by shortcomings in the court system), which would have been relevant to assess the impact of enforcement impact on the objective of creating fiscal space. As such, the relevance of RI8 and RI9 are rated Moderately Unsatisfactory **(relevance of RI8=MU; relevance of RI9=MU)**.

RI10 (Debt service ratio (percent of GDP)) (associated with PA13, PA15) was intended to measure the reduction in the debt service ratio as a proportion of GDP related to adoption of the Debt and Borrowing Policy, and the deepening of domestic debt markets through the Treasury Mobile Direct System. RI10 is considerably broader than the scope of the PAs for which it is intended to measure impact and is therefore poorly suited for assessing progress towards the overarching objective. It is unclear why improvements in the accuracy of the electronic debt registry would result in a change in the debt service ratio. While increased participation in government securities auctions can reasonably be expected to increase demand for government securities (and thereby lower borrowing costs to the government), this will affect total debt service only at the margin given the much larger base which determines debt service. An RI that focused on borrowing costs or participation in government securities auctions would have been more meaningful over the time horizon of this programmatic series **(relevance of RI10=U)**.

RI11 (Share of government securities transacted on electronic platform, allowing for the participation of institutional and retail investors) (associated with PA15) measured the proportion of government securities transacted through the Treasury Mobile Direct System, which is assumed to be a proxy for the deepening of the domestic debt markets. While a rising share of government securities transacted through an electronic platform does not necessarily imply increased participation, the increased participation could potentially result in an increased share of government securities transacted through an electronic platform. As such, the relevance of RI11 is rated Moderately Satisfactory **(relevance of RI11=MS)**.

RI12 (Average credit growth to the private sector) (associated with PA17) measured credit growth to the private sector following the removal of the interest rate cap on banks under PA17. The relevance of RI12 is rated Satisfactory as it is considered to be a good measure of progress toward the objective of crowding in private investment **(relevance of RI12=S)**.

RI13 (Number of investment projects registered by the Kenya Investment Authority) and **RI14** (Value of capital investments registered by the Kenya Investment Authority (Ksh billion)) (associated with PA18) measured the number and the value of investment projects registered with the Kenya Investment Authority following the implementation of measures under the Kenya Investment Policy. Since the measures implemented under PA18(i) did not follow a clear results chain toward the achievement of the objective as they did not lift binding constraints to crowding in private investment, the relevance of RI13 and RI14 are rated Moderately Unsatisfactory **(relevance of RI13=MU; relevance of RI14=MU)**.

Table 2: Results Indicators

RIs	**Associated PA(s)**	**RI Relevance**	**Baseline (including date)**	**Target (including date)**	**Actual value as of target date**	**Actual change in RI relative to targeted change**	**RI achievement rating**
Objective 1: Crowd in Private Investment and Financing for the Delivery of Affordable Housing							
RI1: The number of affordable housing units constructed with private investment under the government supported affordable housing program.	PA1, PA2	U	Baseline (2017): 0	Target (2021): 20,000	Actual (April 2022): 5,106 government funded units completed; 15,300 private sector funded affordable	Over 100 percent of targeted change	Negligible

					housing units completed.		
RI2: Proportion of affordable housing units constructed with private investment under the government supported affordable homes program owned by women (including individual or joint ownership agreements) helping to close the gender gap since currently a lower proportion of houses are solely or jointly owned by women.	PA1, PA2	U	Baseline (2017): 0	Target (2021): 50%	Actual: 46% were solely owned by women (2021)	92 percent of targeted change	Negligible
RI3: Number of private sector shareholders in KMRC	PA3	MS	Baseline (2017): 0	Target (2021): 15	Actual (2021): 20	Over 100 percent of targeted change	High
Objective 2: Enhance Farmers Income and Food Security							
RI4: Number of licensed warehouses under the WRS participating in the Commodities Exchange that have been leased from the National Produce and Cereal Board to the private sector	PA4	MS	Baseline (2017): 0	Target (2021): 16	Actual (2022): 12 Warehouses Licensed)	75 percent of targeted change	Substantial
RI5: Number of farmers benefitting from e-vouchers	PA8, PA9	S	Baseline (2017): 0	Target (2021): 150,000	Current status (2021): 167,000	Over 100 percent of targeted change	High
RI6: Proportion of farmers benefitting from e-vouchers who are female, helping to	PA8, PA9	S	Baseline (2017): 0	Target (2021): 50%	Actual (2021): 58%	Over 100 percent of targeted change	High

close gender gap since in 2017 a higher proportion of male farmers used fertilizer							
Objective 3: Create Fiscal Space and Crowd in the Private Sector to Advance the Government's Inclusive Growth Agenda							
RI7: VAT and income tax revenues as a share of GDP	PA11, PA12	MS	Baseline (FY2017): 11.2%	Target (FY2021): 12.1%	Actual (2022):11.0% reflecting strong recovery after COVID-19 reduced it to 9.9% in 2021.	91 percent of targeted change	Substantial
RI8: Cumulative value of government procurement contracts published on online procurement portal (Ksh billions)	PA13, PA14	MU	Baseline (2017): 0	Target (2021): 600 billion	Actual (2021): 480 billion	80 percent of targeted change	Negligible
RI9: Number of investigations related to bid rigging undertaken jointly by CAK and PPRA	PA13, PA14	MU	Baseline (2017): 0	Target (2021): 5	Actual (2021): 7	Over 100 percent of targeted change	Negligible
RI10: Debt service ratio (percent of GDP)	PA13, PA15	U	Baseline (2017): 4.3%	Target (2021): 3.9%	Actual (June 2021): 4.8%	0 percent of targeted change	Negligible
RI11: Share of government securities transacted on electronic platform, allowing for the participation of institutional and retail investors	PA15	MS	Baseline (2017): 0	Target (2021): 70%	Actual (2021): 80.7%	Over 100 percent of targeted change	High
Objective 4: Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda							
RI12: Average credit growth to the private sector	PA17	S	Baseline: 2017: 2.8 percent	Target: 2021: 14 percent	Actual: 2021: 8.6 percent (and 11.5% by April 2022).	61 percent of targeted change	Modest
RI13: Number of investment projects	PA18	MU	Baseline (2017): 37	Target (2021): 55	Actual (2021): 195	Over 100 percent of	Modest

registered by Kenya Investment Authority						targeted change	
RI14: Value of capital Investments registered by Kenya investment Authority (Ksh billion)	PA18	MU	Baseline (2017): 13.5 billion	Target (2021): 20 billion	Actual (2021): 56.32 billion	Over 100 percent of targeted change	Modest

While there are no dedicated RIs for five PAs (PA5, PA6, PA7, PA10, and PA16), the Efficacy section evaluates achievement using other information.

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To crowd in private investment and financing for affordable housing

Rationale

Outcomes. The programmatic series met targets for two out of the three RIs, with 92 percent of the targeted change being achieved on the third RI. However, weak relevance of the RIs implies little evidence of progress toward the objective.

- A total of 20,406 affordable housing units were completed (5,106 government funded units; 15,300 private sector funded units) by April 2022 against a target of 20,000 units by 2021 and a baseline of 0. However, since RI1 does not measure the achievement of the associated objective as a result of PA1 and PA2, its achievement is rated Negligible (rating of RI1=Negligible).
- Forty-six percent of affordable housing units which were constructed with private investment under the government supported Affordable Homes Program were owned by women (including individual or joint ownership agreements) in 2021 against a target of 50 percent and a baseline of 0. However, since RI1 does not measure the achievement of the associated objective as a result of PA1 and PA2 along the results chain, its efficacy is rated Negligible (rating of RI2=Negligible).
- There were 20 private sector shareholders in KMRC in 2021 against a target of 15 and a baseline of 0. Achievement is rated High given that the target was exceeded (rating of RI3=High).

Rating

Moderately Unsatisfactory

OBJECTIVE 2

Objective

Enhance farmer incomes and food security

Rationale

Outcomes. The programmatic series met targets for two out of the three RIs. Roughly 75 percent of the targeted change on the third RI was met. However, weak relevance of some of the RIs reduces their ability to provide evidence of progress toward the objective.

- The number of licensed warehouses under the WRS participating in the Commodities Exchange that have been leased from the National Produce and Cereal Board to the private sector reached 12 in 2022 against a target of 16 and a baseline of 0. Given that more than two-thirds of the targeted change in the RI was realized by the target date, and the relevance of RI4 is rated MS, the efficacy rating is considered Substantial (rating of RI4=Substantial).
- 167,000 farmers benefitted from e-vouchers in 2021 against a target of 150,000 and a baseline of 0 (rating of RI5=High).
- The proportion of farmers benefitting from e-vouchers who were female reached 58 percent in 2021 against a target of 50 percent (rating of RI6=High).

Progress toward the overarching objective of enhancing farmer incomes and food security as a result of PA6 and PA7 was limited by the fact that the full functionality of the trading floor was not established due to insufficient private investment, partly due to the COVID-19 pandemic. A portion of the achievement of enhancing farmer incomes and food security through PA5, PA6, PA7 and PA10 could not be assessed and achievement on that portion is rated Negligible.

Rating

Satisfactory

OBJECTIVE 3

Objective

Create fiscal space to allow the government to invest in key development programs

Rationale

Outcomes. The programmatic series met targets for two of the RIs. However, weak relevance of some of the RIs reduces their ability to provide evidence of progress toward the objective.

- VAT and income tax revenues as a share of GDP reached 11.0 percent in 2022 against a target of 12.1 percent during FY2021 and a baseline of 11.2 percent in FY2017. The achievement of the target for this RI is rated Substantial (rating of RI7=Substantial).
- The cumulative value of government procurement contracts published on the online procurement portal reached Ksh 480 billion in 2021 against a target of Ksh 600 billion and a baseline of 0. The achievement of the target for RI8 is downgraded to Negligible given the lack of relevance of the RI as explained earlier (rating of RI8=Negligible).
- The number of investigations related to bid rigging undertaken jointly by CAK and PPRA reached 7 in 2021 against a target of 5 and a baseline of 0. The achievement of the target for RI9 is downgraded to Negligible given the lack of relevance of the RI as explained earlier (rating of RI9=Negligible).
- The debt service ratio as a percent of GDP reached 4.8 percent in June 2021 against a target of 3.9 percent and a baseline of 4.3 percent. The achievement of the target for RI10 is downgraded to Negligible given the lack of relevance of the RI as explained earlier (rating of RI10=Negligible).
- The share of government securities transacted on the electronic platform, allowing for the participation of institutional and retail investors, rose to 80.7 percent in 2021 against a target of 70 percent and a baseline of 0 percent (rating of RI11=High).

PA12 failed to be implemented as the measure was viewed to be lacking political support in the aftermath of the COVID-19 pandemic which induced countercyclical measures to stimulate the economy. The elements of the Bill were reflected in the Tax Amendment Act which was later adopted. The efficacy of PA12 is assessed to be Negligible.

Rating

Moderately Unsatisfactory

OBJECTIVE 4

Objective

Crowd in private investment and leverage digitization to support the government's inclusive growth agenda

Rationale

Outcomes. The programmatic series met targets for two out of the three RIs. However, weak relevance of some of the RIs reduces their ability to provide evidence of progress toward the objective

- Average credit growth to the private sector rose by 8.6 percent in 2021 against a target of 14 percent and a baseline of 2.8 percent. Since progress by the target date represents only 61 percent of the targeted change, achievement is rated Modest (RI12=Modest).
- The number of investment projects registered by the Kenya Investment Authority rose to 195 in 2021 against a target of 55 and a baseline of 37. The achievement of the target for RI13 is downgraded to Modest given the low relevance of the RI as explained earlier (rating of RI13=Modest).

- The number of investments registered by the Kenya Investment Authority rose to Ksh 56.32 billion in 2021 against a target of Ksh 20 billion and a baseline of Ksh 13.5 billion. The achievement of the target for RI14 is downgraded to Modest given the low relevance of the RI as explained earlier (rating of RI14=Modest).

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

With Objective 1 rated Moderately Unsatisfactory, Objective 2 rated Satisfactory, Objective 3 rated Moderately Unsatisfactory and Objective 4 rated Moderately Satisfactory, overall efficacy is rated Moderately Satisfactory.

Overall Efficacy Rating

Moderately Satisfactory

6. Outcome

Rationale

The relevance of PAs is rated Satisfactory, with PAs linked to the achievement of the program objectives in a convincing and credible manner. The relevance of RIs is rated Moderately Satisfactory, with some RIs failing to measure achievement toward the overarching objectives. Overall efficacy is rated Moderately Satisfactory, with some shortcomings in the achievement toward the overarching objectives and/or the poor relevance of some RIs. As such, the outcome of this DPO series is rated Moderately Satisfactory.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

The main risks to sustaining development outcomes relate to: (i) lack of funding to the Kenya Coast Guard Service limiting the effectiveness of its monitoring and enforcement of illegal fishing (with annual cost estimated at US$100 million); (ii) weaknesses in the court system undermining the credibility of enforcement against collusion; and (iii) differential interest rates based on category of borrower and risk to borrowing limiting credit growth to SMEs if interest rates are excessively high or placing excessive financial burden on SMEs if too high.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The Bank relied on a range of analytical underpinnings in identifying PAs as detailed in PD (Table 4 for first DPO series and Table 5 for second DPO series). PAs under Pillar 1 were informed by the Kenya: Expanding Affordable Housing and Housing Finance and the Business Plan for the Kenya Mortgage Refinance Company which identified bottlenecks to the delivery of affordable housing units from the demand and the supply side. PAs under Pillar 2 were informed by the Kenya Commodity Exchange: Feasibility Study, the Political Economy Analysis of Kenya’s Agricultural Sector, and the Kenya Agriculture Sector Discussion Note: Transforming Subsistence Agriculture and Building Resilience to Climate Change. PAs under Pillar 3 were informed by the analytical underpinnings of the Kenya Tax Policy Studies: Value Added Tax: Improving Tax Policy for Strengthening Domestic Revenue Mobilization. PAs under Pillar 4 were informed by the Kenya Country Private Sector Diagnostic.

The program had a number of shortcomings, however. The results chain between PAs and the achievement of objectives was not credible in many instances. Further, the PD did not identify the main risks and constraints to achieving PDOs. Further, there were serious shortcomings in a number of the RIs which undermined their ability to provide credible evidence of progress toward the achievement of objectives. Further, there were no dedicated RIs for five PAs, which undermined the measurement of progress toward the achievement of objectives and prevented RIs to be adapted appropriately to lessons learned or changes in underlying conditions and risks.

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

The IEG concedes that the COVID-19 pandemic may have delayed the achievement of some of the RI targets. The IEG finds, however, that there were a number of shortcomings in Bank performance with implementation. First, the programmatic series failed to incorporate mitigating measures to address technical capacity constraints and ownership concerns to address risks to achieving PDOs. Second, RIs which did not adequately measure progress toward the achievement of the PDOs could have been adjusted in the second programmatic series. Third, there is a lack of evidence of the Bank's engagement with stakeholders.

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

Overall Bank performance is rated Moderately Satisfactory, with Bank performance on design and Bank performance on implementation each rated Moderately Satisfactory.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

Measures implemented under Pillar 2 allowed more than 165,000 farmers to benefit from subsidized fertilizers under the e-voucher scheme. According to the Ministry of Agriculture estimates, average agricultural productivity increased by roughly 25 percent among the beneficiaries of the e-voucher program, supporting smallholder farmers' food security and livelihoods.

b. Environmental

The increased reliance on fertilizers may have adverse environmental impacts.

c. Gender

None noted.

d. Other

The project supported institutional strengthening through the improved governance in the agricultural sector, the institutional and legal foundation adopted for the warehouse receipts system, and the more efficient procurement system through the electronic procurement portal.

10. Quality of ICR

Rationale

The quality of the ICR is rated Substantial. The ICR could have been improved by providing a bit more context and details to justify the relevance of some of the PAs. For example, the ICR missed to explain the relevance of the Commodities Exchange or the WRS to the Kenyan context. It also missed explaining why the Commodities Exchange was not operational by the project closing date and what it would take for it to become fully operational. Finally, one would expect a fully operational Commodities Exchange to be linked to the WRS. The ICR also failed to include PA10.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Satisfactory	Moderately Satisfactory	The relevance of PAs is rated Satisfactory, with PAs linked to the achievement of the program objectives in a convincing and credible manner. The relevance of RIs is rated Moderately Satisfactory, with some RIs failing to measure achievement toward the overarching objectives. Overall efficacy is rated Moderately Satisfactory, with some shortcomings in the achievement toward the overarching objectives and/or the poor relevance of some RIs. As such, the outcome of this DPO series is rated Moderately Satisfactory.
Bank Performance	Satisfactory	Moderately Satisfactory	Overall Bank performance is rated Moderately Satisfactory, with Bank performance on design and Bank performance

			on implementation each rated Satisfactory.
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

There a number of lessons which may be derived from this ICR Review, which include, most notably:

1. Estimates of the anticipated reduction of tax exemptions of the Income Tax Bill 2019 should have been assessed to justify its relevance in supporting the achievement of the overarching objective of creating fiscal space.
2. Evidence should have been provided on how the adoption of an electronic debt registry supported the achievement of the overarching objective of creating fiscal space compared to the manual debt registry which was relied upon until then.
3. The adoption of a strategy, such as the second National Broadband Strategy covering the 2018-2023 period, does not sufficiently move the reform process along the results chain, and must have been complemented by reform measures.
4. RIs should be carefully selected carefully in order to ensure that they are clear, well defined and can measure achievement of the target of the RI toward the overarching objective along the result chain. In this DPO series, the relevance of many RIs were rated as Unsatisfactory or Moderately Unsatisfactory, which limited the assessment of the achievement of the overarching objectives. Further, the achievement of Objective 2 was not even fully assessed through the RIs which had been identified.

13. Project Performance Assessment Report (PPAR) Recommended?

Yes

Please explain

Given the large size of the DPO series, and its complexity, this may warrant a more in-depth look through a PPAR.