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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED DEVELOPMENT POLICY LOAN
IN THE AMOUNT OF EURO 228.4 MILLION (EQUIVALENT TO US$250 MILLION)

PROPOSED DEVELOPMENT POLICY CREDIT
IN THE AMOUNT OF EURO 685 MILLION (EQUIVALENT TO US$750 MILLION)

TO THE

REPUBLIC OF KENYA

FOR THE

SECOND INCLUSIVE GROWTH AND FISCAL MANAGEMENT
DEVELOPMENT POLICY FINANCING

April 23, 2020

Macroeconomics, Trade And Investment Global Practice
Africa Region

The Republic of Kenya

GOVERNMENT FISCAL YEAR

July 1 – June 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of March 31, 2020)

Currency Unit = Kenyan Shilling (Ksh)

US$1.00 = Ksh 106.3

US$1.00 = EURO 0.91328371

ABBREVIATIONS AND ACRONYMS

CAK	Competition Authority of Kenya
CAT DDO	Catastrophe Deferred Drawdown Option
CBK	Central Bank of Kenya
COVID-19	Coronavirus Disease
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
DPF	Development Policy Financing
DPG	Development Partners Group
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
EIA	Environment Impact Assessment
EMCA	Environmental Management and Coordination Act
EU	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
GESDEK	Governance for Enabling Service Delivery and Public Investment in Kenya
GoK	Government of Kenya
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IDA	International Development Association
IEIA	Integrated Environment Impact Assessment
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
KIP	Kenya Investment Policy
KMRC	Kenya Mortgage Refinance Company
Ksh	Kenyan Silling
LDP	Letter of Development Policy
Mbps	Megabytes per second
MDAs	Ministries, Departments and Agencies
MoALFC	Ministry of Agriculture, Livestock, Fisheries and Cooperatives
MoEF	Ministry of Environment and Forestry
MoU	Memorandum of Understanding

MSME	Micro, Small and Medium Enterprise
MTP	Medium-term Plan
NCA	National Construction Act
NCPB	National Cereals and Produce Board
NEMA	National Environmental Management Authority
NIA	National Irrigation Authority
OAG	Office of the Auditor General
OSHA	Occupational Safety and Health Act
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PIM	Public Investment Management
PPG	Public and Publicly Guaranteed
PPP	Public-private Partnership
PPRA	Public Procurement Regulatory Authority
PV	Present Value
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SEA	Strategic Environmental Assessment
SME	Small and Medium Enterprises
US$	United States Dollar
VAT	Value-added Tax
WB	World Bank
WBG	World Bank Group
WRS	Warehouse Receipt System

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REPUBLIC OF KENYA

KENYA INCLUSIVE GROWTH AND FISCAL MANAGEMENT DPO 2

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P172321	Yes	2nd in a series of 2

Proposed Development Objective(s)

The program development objectives are to: (i) crowd in private investment and financing for affordable housing; (ii) enhance farmer incomes and food security; (iii) create fiscal space to support the government's inclusive growth agenda; and (iv) crowd in private investment and leverage digitization to support the government's inclusive growth agenda.

Organizations

Borrower: REPUBLIC OF KENYA

Implementing Agency: THE NATIONAL TREASURY

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**1,000.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	250.00
International Development Association (IDA)	750.00
IDA Credit	750.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline	Target
Number of Affordable Housing units constructed with private investment under the government-supported Affordable Homes Program.	0 (2017)	20,000 (2021)
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).	0 (2017)	50 percent (2021
Number of private sector shareholders in KMRC.	0 (2017)	15 (2021)
Number of farmers benefitting from e-vouchers.	0 (2017)	150,000 (2021)
Proportion of farmers benefitting from e-vouchers who are female, helping to close gender gap since currently a higher proportion of male farmers use fertilizer.	0 farmers (2017)	50 percent (2021)
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.	0 (2017)	16 (2021)
VAT and income tax revenues as a percent share of GDP.	11.4 percent (FY2017)	12.1 percent (FY2021
Cumulative value of government procurement contracts published on an online procurement portal (Ksh billions).	0 (2017)	600 (2021)
Number of investigations related to bid rigging undertaken jointly by the Competition Authority of Kenya and the PPRA.	0 (2017)	5 (2021)
Debt service ratio (percent of GDP).	4.3 (2019)	3.9 (2021)
Share of government securities transacted on an electronic platform by institutional and retail investors.	0 (2017)	70 percent (2021)
Average private sector credit growth (percent).	2.8 percent (2017)	14 percent (2021)
Number of investment projects registered by Kenya Investment Authority.	37 (2017)	55 (2021)
Value of capital Investments registered by Kenya investment Authority (Ksh billion).	13.5 (2017)	20 (2021)

IDA PROGRAM DOCUMENT FOR A PROPOSED SECOND DEVELOPMENT POLICY CREDIT TO REPUBLIC OF KENYA

1. INTRODUCTION AND COUNTRY CONTEXT

1.1 The proposed second Kenya Inclusive Growth and Fiscal Management Development Policy Operation (DPO) is offering a financing in the total amount of US$1 billion equivalent, of which Euro 228.4 million (US$250 million equivalent) development policy loan from the International Bank for Reconstruction and Development (IBRD) resources, and Euro 685 million (US$750 million equivalent) development policy credit from the International Development Association (IDA) resources. This DPO is the second of a two-operation programmatic development policy financing (DPF) series in support of the Government of Kenya's (GoK) inclusive growth agenda. The first operation (P168204) was approved in May 2019 for an amount of US$750 million equivalent in IDA credits. This second operation seeks to deepen the reforms commenced in the first operation.

1.2 The proposed DPO comes at a time when the world is going through a crisis of unprecedented proportions. As of mid-April, the spread of the Coronavirus Disease (COVID-19) pandemic across the world has had a huge toll with more than two million infections and over 100,000 deaths. In addition to the spread of the virus, the pandemic has created unprecedented supply and demand shocks that have resulted in a collapse of in global economic activity. The shock is already having an impact on African lives and economies, with the region poised to face its first recession in 25 years. Gross domestic product (GDP) growth has been revised sharply downward, from an earlier projected positive 3.1 percent to a range of -2.1 to -5.1 percent in 2020. Poverty will rise and decades of economic progress are in peril.

1.3 As with the rest of Sub-Saharan Africa, the impacts of the COVID-19 shock on Kenya will be significant. Kenya's economy is being impacted through several external channels including disruptions in global supply chains, a sharp fall in tourism receipts, a decline in its exports (horticulture, tea), and a slowdown in remittances. In addition, the domestic restrictions imposed (social distancing guidelines, curfews, restrictions in movements in and out of some of the largest cities) to mitigate the spread of COVID-19 has brought economic activity to a crawl in major economic hubs. For the first time in over a decade, per capita GDP growth is projected to decline. The slowdown in economic activity and the need for the GoK to carry out measures to mitigate the extent of the fall has also increased fiscal pressures and led to a widening of the fiscal financing gap in 2019/20 by at least an additional 1.7 percent of GDP, and similarly a widening of the external financing gap by some 1.4 percent of GDP. While the preparation of this second Kenya Inclusive Growth and Fiscal Management DPO has been in preparation over the last year, it comes at an opportune time to provide the Government with additional fiscal space to partially blunt the economic downturn induced by the global pandemic and to help fill their financing gap. This operation thus complements the recently approved Kenya Covid-19 Emergency Response Project (P173820) which seeks to prevent, detect and respond to COVID-19 outbreak and strengthen national systems for public health emergency preparedness.

1.4 The proposed Development Policy Operation (DPO) is the second of a two-operation programmatic development policy financing (DPF) series in support of the Government of Kenya's (GoK) inclusive growth agenda. The GoK's medium term inclusive growth agenda prioritizes four areas comprising food security, affordable housing, universal health coverage, and manufacturing – otherwise

referred to as the Big Four. The DPO series lends support to this agenda by seeking to crowd in private investment and enhance the public sector's capacity to deliver on the government's inclusive growth agenda.

1.5 Since the approval of the first DPO of this series in May 2019 until the recent COVID-19 outbreak, economic activity in Kenyan has maintained relatively strong. In 2018, the economy expanded by about 6.3 percent, representing one of the highest growth rates in Africa, and growth in 2019 is estimated to have been about 5.6 percent. GDP growth averaged 5.7 percent between 2013 and 2018, which was 1.9 percentage points higher than the average for Sub-Saharan African countries (of 3.8 percent). On the supply side, though all sectors have contributed, the rapid increase in the services sector (especially the information and communications technology and financial sub sectors) has accounted for more than half of the increase in GDP growth, followed by industry and to a lesser extent agriculture. On the demand side, increased private consumption and increased public spending have supported growth. Sustained output growth, alongside slowing population growth (the fertility rate has decreased from 4.5 births per woman in 2009 to 3.6 in 2018)[1], has lifted GNI per capita from US$900 in 2009 to [US$1,620] in 2019 (current dollars, World Bank's Atlas method), and Kenya attained middle-income status in 2015.

1.6 Strong economic growth in recent years has led to a reduction in poverty. At the international poverty line of US$1.90/day, the poverty headcount rate declined from 43.7 percent in 2006 to 36.8 percent in 2015 (latest data). With consumption growth among households at the bottom of the income distribution (3-4 percent during the period) outpacing growth among higher income households, economic growth has been pro-poor. Further, robust consumption growth in rural areas has led to a more pronounced decline in poverty among rural households relative to their urban counterparts. Gains in monetary poverty reduction have also been accompanied by progress along several dimensions of non-monetary poverty. Poverty is estimated to have decreased further to 33.4 percent in 2019, based on the historical relationship between growth and poverty. With a score of 0.52, the World Bank Human Capital Index places Kenya third in Sub-Saharan Africa, after Seychelles and Mauritius.

1.7 Notwithstanding progress in recent years, significant development challenges remain, including the need to accelerate the pace of poverty reduction and reduce inequality – a challenge that has become more complicated with the recent COVID outbreak. The current Government is determined to deliver on its Big Four reform agenda. However, the public finances are constrained by weak revenue-raising ability and increasing debt service obligations are reducing the space for the development and social spending needed to make progress on the inclusive growth agenda, as well as crowding out private sector access to credit and investment. With about a third of Kenyans still living under a US$1.90 a day, poverty levels remain high. Since most poor Kenyans live in rural areas, and the agricultural sector remains central to the economy (accounting for about 57 percent of employment), reforms should aim to increase farmer incomes and enhance food security, thereby accelerating the pace of poverty reduction. Addressing the non-monetary dimensions of poverty, and improving conditions in urban areas, also remain critical. A significant portion of Kenyans still lack access to basic services such as health care, affordable housing and safe drinking water. The ability of the Government to continue to deliver such services in the short-term is being challenged by the impacts of COVID-19. However, while the financing from this operation should help ease the short term ability of the GoK to continue to deliver services to ordinary Kenyans, the reform efforts supported by this operation have contributed to building resilience

[1] https://databank.worldbank.org/source/world-development-indicators/Type/TABLE/preview/on

(e.g. of farmer incomes through better targeting of input subsidies) and improving policy buffers to respond (e.g. repeal of interest rate caps allows better functioning of monetary policy). The reforms supported through this operation should also help in the recovery phase and accelerate the achievement of the government's development priorities and the World Bank Group (WBG) twin goals.

1.8 This DPO proposes to support selected priorities within the government's medium-term plan. The policy and institutional reforms under this DPO are clustered under four policy and institutional reform pillars that are foundational to creating an enabling environment for the delivery of the government's inclusive growth agenda. These are: (i) crowd in private sector investment and financing for the delivery of affordable housing; (ii) enhance farmer incomes and food security; (iii) create fiscal space to support the government's inclusive growth agenda; and (iv) crowd in private investment and leverage digitization. This operation complements other interventions by the World Bank that support the government's Big Four agenda: proposed Kenya Affordable Housing Finance Project (P165034); Kenya Climate Smart Agriculture Project (P154784); National Agricultural and Rural Inclusive Growth Project (P153349); proposed Kenya Marine Fisheries and Socio-economic Development Project (P163980); and the Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (P161387). The operation also complements interventions by other development partners in support of the Big Four agenda.

1.9 Reforms implemented under this DPO series are yielding results. First, the reforms implemented have begun crowding in private investment to support the governments development agenda. In affordable housing, private sector investors are now the largest shareholders in the newly created Kenya Mortgage Refinance Company (KMRC). Similarly, private investors are the majority shareholders to the newly registered Kenya Multi Commodity Exchange Company. Further with the repeal of the interest rate cap, private sector credit growth has been on the rise (although this is likely to be dented as the impacts of COVID-19 take hold). Second, the reforms have removed distortions in key markets. Due to the e-voucher program the Government has rescinded its decade long practice of importing fertilizers (which was the practice under the manual system of fertilizer distribution). Farmers are now able to use their e-vouchers to purchase various agriculture inputs (including fertilizers) from private sector agro-input dealers. Similarly, the repeal of the interest rate cap has removed a major distortion that had led to the rationing of credit to small and medium enterprises (SMEs). Third, e-vouchers agriculture inputs are contributing to better targeting of resources to small holder farmers (many of whom are female), and with that an increase in their yields and incomes. Fourth, the imposition of value-added tax (VAT) on petroleum products has contributed to increased domestic revenue mobilization and narrowing the size of the deficit. Finally, this operation has promoted increased transparency and accountability, thereby supporting good governance. This has been achieved by moving to market-based mechanisms and adopting digital solutions (e.g. e-vouchers, commodities exchange) which has eliminated various rent seeking opportunities. There is also increased transparency around public procurement, with greater details, including of names of companies awarded and the respective directors, being made available on a public portal. The new debt and borrowing policy is expected to lead to increased transparency around procuring new debt and debt management.

1.10 The COVID-19 outbreak is expected to lead to a significant slowdown in economic activity. Among the immediate priorities includes the need to contain the spread of the virus and care for the infected. This is exerting pressure on healthcare systems and spending. Further, the measures being taken

to slowdown the rate of infection, including home confinement, travel restrictions, closure of schools and entertainment spots, and suspension of public gathering and conferences, will have a direct effect on production in many sectors of the economy. Beyond this, the indirect effect include slowdown in firm level activity with a high social expectation to keep meeting wages and fixed expenses. Commercial banks are also more cautious with rising probability of a global recession and extension of credit could be constrained. While reduced oil prices will act as a potential stabilizer (as Kenya is a net importer of oil), all other international spillovers are negative-demand shocks for exports and tourism, supply chain disruptions, slowdown on remittances, among others (Box 1). Taking all these into account, the World Bank has significantly marked down economic growth projections for 2020 from a pre-COVID estimate of 5.7 percent to 1.5 percent. This will be the first time in a decade that GDP growth will lag behind population growth, suggesting a contraction in per capita incomes and with that a likely increase poverty.

1.11 Climate change amplifies the challenges Kenya faces to achieve sustainable, inclusive growth. Geography and a heavy dependence on rain-fed agriculture make Kenya highly vulnerable to climate change. Droughts, excessive rain and floods, and heatwaves, are projected to intensify. Changes in temperature and rainfall patterns as a result of climate change are expected to weigh on yields, which are already under pressure in some areas from deteriorating soil quality, and even make existing crops infeasible in some locations, threatening the livelihoods of smallholders and raising food security risks. In urban areas, there is an urgent need for building (notably housing) and infrastructure investment to take into account increasing risks from extreme weather events, notably flooding, and to contribute towards reducing the economy's carbon intensity.[2] Further, recognizing the additional challenges posed by climate change, the Government has put in place legislative and regulatory frameworks for the country to contribute to mitigation efforts and move ahead with adaptation measures, and progress is being made in implementation. Kenya already obtains about 90 percent of its electricity from renewable energy sources, and the Government's strategic priorities, including those supported by this operation, have a focus on supporting green, climate-smart investments.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

2.1 Before the outbreak of COVID-19, Kenya's macroeconomic fundamentals were quite solid and the GoK was committed to fiscal consolidation aimed at crowding in private sector led growth and reducing public debt stock. Kenya experienced steady economic growth, with real GDP expanding on average by 5.7 percent between 2013 and 2018. Real GDP remained strong at 5.6 percent in 2019, buoyed by strong performance in services sector that helped overcome a slowdown in agricultural output due to delayed rains in the first half of the year (Error! Reference source not found.). Briefly:

- Headline inflation averaged 5.2 percent in 2019, which was within the government's target corridor of 5±2.5 percent. Core inflation (which excludes energy and food prices) decreased to 2.6 percent in January 2020 (from 3.4 percent in January 2019), reflecting an economy where

[2] More information on the risks Kenya faces from climate change is available in World Bank, 2018, "Kenya - Disaster Risk Management Development Policy Financing with a Catastrophe Deferred Drawdown Option Project", Washington, D.C., https://hubs.worldbank.org/docs/imagebank/Pages/docProfile.aspx?nodeid=29955781.

underlying demand pressures are still benign, and where the output gap remains negative. With moderate inflation, monetary policy had been loosened to support economic activity. The CBK had cut its policy rate (CBR) by about 75 basis points from 9 percent in November to 8.25 percent in January 2020.

- The current account narrowed to 4.5 percent of GDP in 2019 from 5 percent in 2018 due to lower imports of capital goods and petroleum products, which more than offset a decline in goods exports. Official foreign reserves stood at US$8.8 billion (or 5.4 months of import cover) in February 2020, boosted by a US$2.1 billion Eurobond issued in May 2019.

- The banking sector was well capitalized and liquidity risk had eased. The ratio of non-performing loans (NPLs) had declined from 12.9 percent in April 2019 to 12.0 percent in December 2019. The repeal of interest rate caps **[Prior action #8]** in November 2019, had eliminated a significant barrier for commercial banks' lending to the micro, small and medium enterprises (MSMEs) and restored growth in private sector credit (estimated at 7.7 percent in February 2020, up from about 3.4 percent in February 2019).

- Fiscal deficit expanded to 7.7 percent of GDP in FY2018/19 (from 7.4 percent in FY2017/18) due to revenue shortfalls and expenditure pressures. However, starting in late 2019, the Government had expanded its revenue collection and tightened expenditure controls, which were expected to reduce the budget deficit by some 1.4 percentage points to 6.3 percent of GDP in 2019/20 and contain debt from growing. This steep consolidation was predicated on a combination of revenue measures (including a one-off transfer of 0.7 percent of GDP dividends from SOEs) and expenditure rationalization measures. This operation **[Prior Action #5]** sought to reinforce the authorities' ability for improved domestic revenue mobilization through a new income tax law that is expected to rationalize and streamline exemptions under income tax. In view of COVID-19, its implementation is likely to be postponed until after the crisis.

- As of December 2019, gross public debt increased to about Ksh.5.9 trillion (or 61 percent of GDP) split between external and domestic debt at a ratio of 52 to 48 percent, respectively. The stock of public and publicly guaranteed (PPG) external debt stood at US$30.7 billion (32 percent of GDP), of which, commercial loans (including suppliers' credit, syndicated commercial loans, and Eurobonds) amounted to US$10.3 billion (or 35 percent of external debt). The balance (65 percent of external debt) is attributed to both multilateral and bilateral creditors.

Table 1:Selected Economic Indicators, 2016-2023

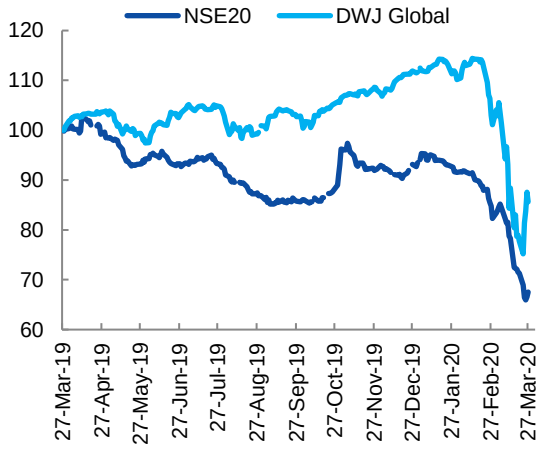
	2016	2017	2018	2019	2020	2021	2022	2023
	Act.	Act.	Act.	Prel.	Est.	Proj.	Proj.	Proj.
Output and prices	**(Annual percentage change, unless otherwise indicated)**							
Real GDP	5.9	4.9	6.3	5.6	1.5	5.2	5.7	6.0
Agriculture	4.7	1.9	6.4	4.3	2.8	3.2	4.2	4.5
Industry	5.9	3.8	5.3	4.2	1.1	2.2	4.7	5.3
Services	6.4	6.0	6.7	6.7	1.1	7.1	6.6	6.4
Private consumption	4.8	7.6	5.9	7.1	1.5	5.0	5.5	6.7
Government consumption	5.6	5.1	1.0	10.9	4.0	3.5	2.9	5.4
Gross fixed capital investment	-9.2	6.4	4.6	10.5	0.3	10.6	11.1	9.6
Exports, goods and services	-2.2	-6.8	4.0	4.5	0.1	1.5	4.8	5.8
Imports, good and services	-3.4	8.7	2.6	4.8	1.2	5.5	7.2	9.2
GDP deflator	5.6	10.6	2.8	5.2	7.2	6.2	6.6	6.9
CPI (period average)	6.3	8.0	4.7	5.2	5.6	5.9	6.1	6.2
Money and credit	**(Annual percentage change, unless otherwise indicated)**							
Broad money (M3)	3.0	7.9	9.8	5.6	9.5	..	..	..
Credit to non-government sector	4.4	3.1	4.8	7.1	7.0	..	..	..
Policy rate (CBR)	10.0	10.0	9.0	8.9	..	..	..	..
NPLs (percent of total loans)	7.8	8.9	10.0	12.0	..	..	..	..
Central government (fiscal year i.e 2016 = 2016/17)	**(Percent of GDP, unless otherwise indicated)**							
Total revenue & grants	18.6	18.1	18.0	18.7	17.6	17.3	17.2	17.1
Tax revenues	15.9	14.7	14.9	13.9	13.7	13.8	13.8	13.8
Non-tax revenues	2.4	3.1	2.9	4.3	3.5	3.1	3.1	3.0
Grants	0.3	0.3	0.2	0.4	0.4	0.4	0.3	0.3
Expenditure	27.5	25.2	25.7	26.4	25.0	23.8	22.7	21.5
Current	19.2	19.7	19.9	20.1	20.0	18.8	17.5	16.8
Capital	8.3	5.5	5.8	6.3	5.0	5.0	5.2	4.7
Primary balance	-5.6	-3.6	-3.7	-3.7	-3.4	-2.2	-1.3	-0.3
Overall balance including grants	-8.9	-7.4	-7.7	-7.8	-7.4	-6.5	-5.5	-4.4
Financing	8.9	7.4	7.7	7.8	7.4	6.5	5.5	4.4
Net domestic borrowing	4.1	3.3	3.3	5.0	5.9	1.4	1.1	2.4
Foreign financing	4.8	4.1	4.4	2.8	1.5	5.1	4.4	2.0
Public debt stock (fiscal year i.e 2015 = 2016/17)	**(Percent of GDP, unless otherwise indicated)**							
Public gross nominal debt	57.5	59.2	62.1	63.1	66.0	66.8	66.5	65.2
External debt	29.9	30.1	32.3	32.8	32.4	31.3	30.0	28.8
Domestic debt	27.6	29.1	29.8	30.3	33.6	35.5	36.5	36.4
External sector	**(Percent of GDP, unless otherwise indicated)**							
Exports (goods and services)	14.3	13.6	13.0	11.6	10.4	10.5	10.9	11.0
Imports (goods and services)	-23.3	-22.8	-22.3	-20.4	-18.9	-18.8	-19.3	-19.5
Current account balance (including grants)	-4.9	-6.2	-5.0	-4.6	-4.5	-4.4	-4.3	-4.3
Gross international reserves (in billions of US$)	9.6	8.8	9.2	9.4	8.3	7.8	8.4	9.2
In months of next year imports	5.0	5.4	5.7	5.8	4.8	4.0	4.0	4.0
Exchange rate (Kenyan shilling/US$)	101.5	103.4	101.3	102.0	..	..	..	..
Memo:								
GDP at current market prices(KES billion)	7,023	8,144	8,905	9,880	10,750	12,010	13,529	15,33

Source: World Bank staff calculations based on data from National Treasury, Kenya National Bureau of Statistics, and International Monetary Fund (IMF). Data as of April, 2020.

Economic Impact of COVID-19

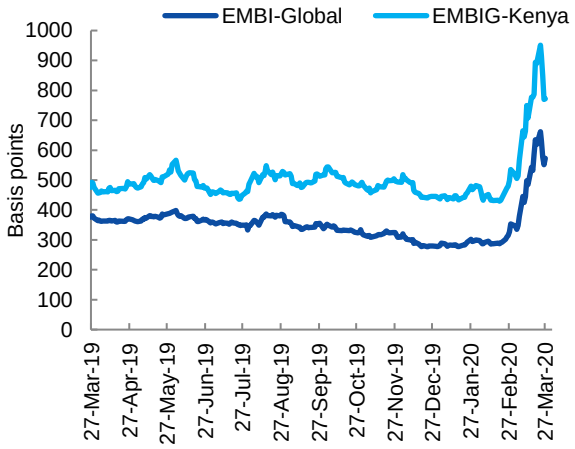
2.2 The COVID-19 global pandemic will have a large negative impact on the Kenyan economy. The COVID-19 shock is estimated to further reduce growth in 2020 to 1.5 percent with a twin shock both from the external and domestic sources. On the external side, the decline in demand following implementation of measures to delay the spread of COVID-19 will hit hard travel, tourism and agricultural exports. Access to international markets is virtually shut to frontier issuers such as Kenya, adding vulnerability to its external payment position. Major stock markets, globally and the Nairobi Securities Exchange, are now in a bear market, consistent with pricing in a global recession (**Error! Reference source not found.**). Dollar financing costs for Kenya and other emerging markets have risen dramatically (**Error! Reference source not found.**). On the domestic front, the top priority is to implement effective containment and mitigation measures to contain the spread of corona virus and to save lives. Measures being taken to slow down the rate of infection, including home confinement, travel restrictions, closure of schools and entertainment spots, suspension of public gathering and conferences, and a nightly curfew, are affecting both production and consumption. This revised growth estimate is subject to much uncertainty and potential further revision, depending on how widespread COVID-19 becomes in the country and the intensity and duration of social distancing measures that are contributing to a slowdown in economic activity.

Figure 1: Stocks pricing in global recession
(Nairobi-20 and DWJ Global, indexed: 27 Mar 2019 = 100)



Source: Haver (Data as of March, 2020)
Data as of March, 2020.

Figure 2: Higher external financing costs
(EMBIG index of sovereign bonds, spread over US treasuries)



Source: JP Morgan
Data as of March, 2020.

2.3 Kenya's economy is being affected through several channels:

- **Global supply chain disruption:** Global supply chains are being disrupted, reducing the availability of intermediate and capital goods, as a result of shutdowns in the source countries, and transport disruptions. Kenya's monthly imports, notably from China, already contracted sharply in the months of January and February 2020. A large share of retail goods in Kenya are shipped in from China and shortages of these goods could raise consumer prices.

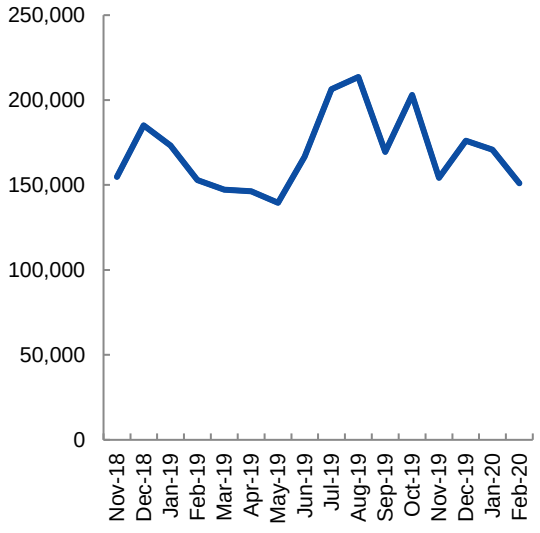
- **Reduced external demand for exports:** Kenya's goods exports (horticulture, tea and coffee) are coming under pressure. Flower exports have already been hit hard, including due to the disruption to what would normally be peak Mother's Day demand in Europe.

- **Reduced tourism earnings:** The number of tourist arrivals in 2019 increased by 1.2 percent to 2.1 million, but with COVID-19, that trend is unlikely to continue. Kenya's tourist arrivals as of February 2020 (**Error! Reference source not found.**) shows signs of slowing, and looks set to continue to decline during the peak season in July-August 2020.

- **A slowdown in remittance inflows:** Although they remained broadly steady as of February 2020 (**Error! Reference source not found.**), remittances could come under pressure due to adverse effects on the economies where the Kenyan diaspora is working. Kenya recorded remittances of US$2.9 billion in 2019 (2.9 percent of GDP). The bulk of remittances come from the United Kingdom (34 percent, in the latest data, 2017) and the United States of America (30 percent), after which country contributions drop off sharply. Remittances have been growing rapidly (doubling since 2014).

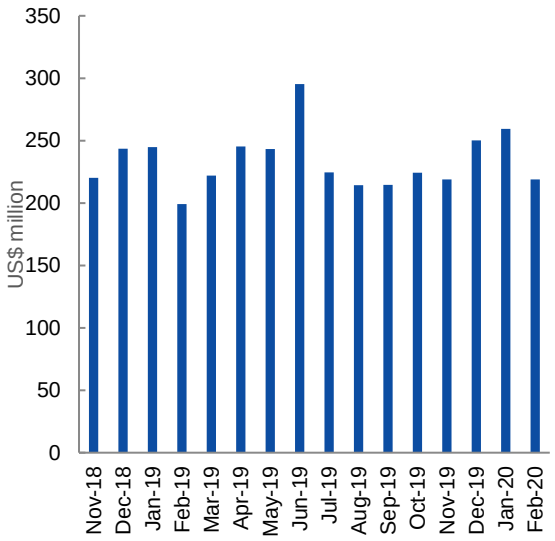
- **One partial, positive offsetting factor for Kenya is the fall in global oil prices**. Brent crude prices have fallen 61 percent from their level one year-ago. Since Kenya is a net oil importer (about 20 percent of total goods imports), this will help cushion the impact of the negative external shock, including by allowing retail pump prices to fall and provide disposable income relief to households.

Figure 3: Tourism arrivals are falling



Source: CBK
Data as of March, 2020.

Figure 4: Remittances remain steady for now but is expected to slowdown



Source: CBK
Data as of March, 2020.

2.4 The pandemic is straining public finances. Revenue collection is declining due to decrease in economic activities and proposed discretionary changes to tax policy. The slowdown in economic activity is indirectly contributing to a significant slowdown in revenue collection, estimated at about Ksh 84 billion (or 0.8 percent of GDP). Tax revenue from imports, profits, and consumption are all expected to decrease, with some tax bases likely to contract much faster than the slowdown in nominal GDP. In addition, discretionary changes to tax policy taken to support business and protect vulnerable households are expected to result in large revenue losses. The government has proposed several tax rates cuts (pending parliament's approval), including a reduction in turnover tax rate (from 3 percent to 1 percent); a cut in the corporation and individual income tax rate (from 30 percent to 25 percent); a cut in the VAT rate (from 16percent to 14percent), principally to cushion SMEs, firms, and households from the crisis. The estimated revenue loss in FY2019/20 is approximately Ksh. 39.2 billion (or 0.38 percent of GDP).[3]

2.5 Additional expenditures have been allocated towards strengthening the health system to withstand a potential spike in the COVID-19 infections and to address the associated economic crisis. The GoK has allocated more resources to the health sector to help strengthen the health system (**Error! Reference source not found.**). This is expected to fund expansion of hospital infrastructure (increase number of intensive care beds, put up temporary isolation facilities in counties, obtain respiratory machines, supply of testing kits, preventive kits etc.) as well as hiring of additional medical personnel and payment for extra workload (or over-time) of medical staff. Preliminary expenditures related to strengthening the health systems, social protection, supporting businesses, and security spending to policy the national curfew is estimated at above Ksh.39.8 billion (or 0.39 percent of GDP).

[3] This estimate is obtained by pro-rating annual revenue loss from these tax cuts for the fourth quarter of FY2019/20

Table 2: Additional Fiscal Gap Due to the COVID-19 Pandemic

Kenya: Budgetary Implications of COVID-19, FY2019/20		
	KSh. Billion	Percent of GDP
A. Expenditure measures (one-off costs)		
Health	6.8	0.1
Social protection	10	0.1
VAT refunds clearance	10	0.1
Pending bills clearance	13.8	0.1
Other, including water and sanitation	2	0.0
Total	**39.8**	**0.4**
B. Revenue measures		
CIT tax rate cut	13.7	0.1
PIT tax rate cut and threshold change	11.7	0.1
VAT rate cut	13.8	0.1
Turnover rate cut	0.1	0.0
Total	**39.2**	**0.4**
C. Revenue underperformance due to COVID-19	**84.1**	**0.8**
Total impact of COVID-19	**163.1**	**1.6**
Memo		
Nominal GDP(Ksh. Billion)		10315

Source: IMF estimates (Data as of April 2020).

2.6 As a result, the fiscal deficit is expected to rise to 7.8 percent of GDP in 2020 (from a pre-COVID target of 6.3 percent of GDP). This effectively means postponement of the fiscal consolidation effort until after the crisis. This is understandable in the short run, because the additional fiscal stimulus is critical to avoid massive layoffs, bankruptcies and to support vulnerable households. Most tax cuts are expected to be offset by the removal of tax expenditures and exemptions under VAT and income taxes, once the crisis abates and recovery in economic activity begins. The fiscal framework is being adjusted through a supplementary budget II under preparation, including a wider fiscal deficit (of 7.8 percent of GDP in FY2019/20 from the previous target of 6.3 percent of GDP). While expenditure savings are expected to be realized through realignment of capital expenditures and postponement of low-priority projects, a fiscal financing gap is expected due to COVID-19 fiscal measures. This gap will be closed by additional net domestic financing.

Box 1: GoK's Response to COVID-19 pandemic

- **Health-related measures**: An inter-ministerial committee was established in late February to co-ordinate and undertake measures aimed at containing the spread of COVID-19 and strengthen the capacity of the health system. The committee's mission includes enhancing preparedness by equipping hospitals, coordinating all activities related to Kenya's response, enhancing surveillance at Kenya's ports of entry, coordinating supply of testing kits and critical medical supplies including masks and protective gear. All measures taken have been communicated in daily press briefings.

- The Government has taken measures aimed at reducing risks of community transmission of COVID-19, including suspension of all international flights, shutting national borders to all but nationals, established isolation facilities, quarantine of at-risk persons, closure of schools and universities, implementation of social distancing measures, encouraging home based working, and a nighttime curfew.

- **Fiscal policy response:** Additional spending to strengthen the health system, protect vulnerable households and ease firms' liquidity constraints, include accommodation of spending of Ksh 39.8 billion (0.4 percent of GDP). Out of which Ksh 6.8 billion was allocated to the health sector, most of which is covered by a US$50 million IDA credit through the COVID-19 emergence response package, approved by the Board late March 2020. Other outlays include Ksh 13.8 billion to clear pending bills, Ksh 10 billion for VAT refunds, and Ksh 10 billion to scale up cash transfers to vulnerable households.

- The National Treasury (NT) has submitted to Parliament for approval a package of tax measures, including full income tax relief for persons earning a gross monthly income of up to Ksh.24,000 (or US$225); reduction of corporate and individual income tax rate (PAYE) from 30 percent to 25 percent; reduction of turnover tax rate on all MSMEs from 3 percent to 1 percent; and a reduction of the standard VAT rate from 16 to 14 percent. The annual costs of these tax cuts are estimated at 1.5 percent of GDP. The authorities intend to fully offset the revenue lost by removal of some tax exemptions and incentives.

- The fiscal framework is being adjusted through a supplementary budget under preparation, including a relaxation of the fiscal deficit to 7.8 percent of GDP in FY2019/20 from the previous target of 6.3 percent of GDP. Further expenditure savings are expected to be realized through realignment of capital expenditures and postponement of low-priority projects.

- **Monetary policy response**: Additional monetary stimulus and liquidity support by the CBK, including reduction of the policy rate (CBR) to 7.25 percent from 8.25 percent; reduction of the cash reserve ratio to 4.25 percent from 5.25 percent; and granting of flexibility to banks on provisioning requirements for loans restructured due to the pandemic.
- Extending flexibility to borrowers on loan terms based on individual circumstances arising from the pandemic; and setting fees for mobile transactions for amount less than Ksh.1000 at zero to disincentivize use of cash.

Source: World Bank staff

Table 3: Key Fiscal Indicators (as % of GDP) 2016/2017–2022/2023

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.
	(percentage of GDP, unless otherwise indicated)							
Total Revenue and Grants	**19.2**	**18.2**	**18.0**	**18.7**	**17.6**	**17.3**	**17.2**	**17.1**
Total Revenue [1]	18.8	17.9	17.8	18.2	17.2	16.9	16.9	16.8
Revenue [2]	17.1	16.0	16.0	15.8	15.0	14.8	14.8	14.8
Income tax	8.2	7.5	7.3	7.1	6.7	6.7	6.7	6.7
VAT	4.4	4.2	4.4	4.0	3.8	3.8	3.8	3.8
Import Duty	1.2	1.1	1.2	0.9	0.9	1.0	1.0	1.0
Excise Duty	2.2	2.0	2.1	1.9	2.3	2.3	2.3	2.3
Other Revenues	1.1	1.3	1.0	1.9	1.3	1.0	1.0	1.0
Appropriation in Aid	1.7	1.8	1.9	2.4	2.2	2.1	2.1	2.0
Grants	0.4	0.3	0.2	0.4	0.4	0.4	0.3	0.3
Expenditure and Net Lending	**28.1**	**25.2**	**26.0**	**26.4**	**25.0**	**23.8**	**22.7**	**21.5**
Recurrent	15.7	15.8	16.4	16.9	16.7	15.8	14.7	14.5
Wages and salaries	4.4	4.6	4.5	4.6	4.5	4.3	4.1	3.9
Interest Payments	3.5	3.8	4.0	4.2	3.9	4.2	4.1	4.2
Domestic Interest	2.8	2.8	2.9	2.9	2.7	2.9	2.7	2.9
Foreign Interest	0.8	1.0	1.1	1.3	1.3	1.3	1.4	1.3
Pensions	0.8	0.8	0.8	0.9	1.0	1.0	1.1	1.1
Operations and Mantainance &Others	6.9	6.6	7.1	7.3	7.3	6.3	5.4	5.3
Development and net lending	8.4	5.5	5.8	6.3	5.0	5.0	5.2	4.7
Transfer to Counties	4.0	3.8	3.9	3.2	3.2	3.0	2.7	2.3
Equalization fund	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Deficit including grants (cash basis)	**-9.1**	**-7.4**	**-7.7**	**-7.8**	**-7.4**	**-6.5**	**-5.4**	**-4.4**
Financing	**9.1**	**7.4**	**7.7**	**7.8**	**7.4**	**6.5**	**5.4**	**3.0**
Foreign Financing	4.0	4.2	4.4	3.2	1.5	5.1	4.3	0.6
Domestic Financing	5.0	3.2	3.2	4.6	5.9	1.4	1.1	2.4
Primary balance	-5.5	-3.6	-3.7	-3.6	-3.5	-2.3	-1.3	-0.2
Memo:								
Nominal GDP (Ksh. billion)	7,584	8,525	9,392	10,315	11,380	12,769	14,429	16,334

Source: National Treasury and IMF (Data as of April, 2020).

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.14 Kenya's medium-term growth prospects are dampened by the COVID-19 pandemic and the attendant global uncertainty. The baseline adjusts for the negative impact of COVID-19 on Kenya's growth outlook. Accordingly, growth is projected to rebound sharply to 5.2 percent in 2021 and 5.7 percent in 2022, before reaching Kenya's growth potential of 6.0 percent in 2023 (Table 1). The projections are based on the assumptions that the global economy is tipped for a recession with significant negative spillovers on Kenya; but that investor confidence and corporate incomes will be restored soon after the COVID-19 pandemic is contained and that the weather remains normal and favorable for agricultural output. Nonetheless, the COVID-19 situation is evolving very rapidly and could get worse as the partial shutdown to contain the spread of COVID-19 could be prolonged. Post-crisis, economic activity would be supported by recovery in private sector investment and improved access to credit. Further, swift and well targeted policy responses to COVID-19, including fiscal and monetary policy stimulus, are expected to

support resilience. Inflation outlook is for a slight pick-up (but contained within the government's target) on the back of food supply disruptions associated with COVID-19, while the current account deficit is expected to narrow owing largely to lower oil prices and lower capital goods.

2.15 This DPO provides a much-needed financing that will allow the authorities to confront the pandemic and help meet the widening fiscal and external financing needs. The budget support through this DPO will further bolster Kenya's public finances to expand its response to COVID-19 and help address the associated economic fallout owing to the crisis, including protecting vulnerable households, MSMEs, and prevent layoffs and bankruptcies. The DPO complements an immediate emergency response package of about US$50 million equivalent IDA credit to help Kenya respond to COVID-19 pandemic by strengthening healthcare systems, including providing better access to health services to safeguard people from the epidemic, improve disease surveillance, and bolster public health interventions. As needed, the Government could also consider drawing down some of the balance of the World Bank Catastrophe Deferred Drawdown Option (CAT-DDO) and securing other contingency funds.

2.16 After pausing on fiscal consolidation in 2020 due to the COVID-19 emergency, the authorities will resume it in 2021.The fiscal deficit is projected to decrease from about 7.8 percent of GDP in FY2019/20 to about 7.4 percent of GDP in FY2020/21 and thereafter decrease by one percentage point every year to 4.4 percent of GDP in FY2023/24 (**Error! Reference source not found.**). The primary balance is projected to decline from -3.7 percent of GDP in FY2019/20 to -0.3 percent of GDP in FY2023/24, reducing the growth in public debt from a peak of 66.8 percent of GDP in FY2021/22 to about 65.2 percent of GDP in FY2023/24. This fiscal consolidation path is much slower over the medium term relative to the pre-COVID-19 scenario. Authorities continue to adopt measures to improve debt transparency such as electronic trading of government securities (**PA #7(ii)**) and reporting on state owned enterprises' debt. A recent debt management transparency mission by the World Bank found that publication of the medium-term debt management strategy and annual reports is undertaken with substantial level of detail on outstanding debt and borrowing. In addition, the website of the NT is being reorganized to include a dedicated investors relations page on debt management issues.

2.17 The impact of COVID-19 on the external account would be enormous on tourism receipts, exports, remittances but also on the financial account. The current account is expected to narrow from about 4.5 percent of GDP in 2020 to about 4.3 percent of GDP over the medium term (2021-2023), as decline in imports of goods and services more than outweigh a sharp contraction in exports of goods and services (**Error! Reference source not found.**). Imports are expected to decrease from 20.4 percent of GDP in 2019 to about 18.8 percent of GDP in 2021, mainly due to lower oil import bill and reduced import of capital and transportation equipment. Exports are also expected to slow down from about 11.6 percent of GDP in 2019 to about 10.5 percent of GDP in 2021, owing in part to weak external demand, but also significant contraction in manufacturing exports (estimated at 2.1 percent of GDP in 2019). Official borrowing and private investment inflows dominate the financing of the current account deficit. As a result, external financing need (after considering a Rapid Credit Facility from the IMF of US$744 million is estimated at US$733 million in 2020. Financing from the proposed operation and the IMF Rapid Credit Facility will not fully cover the external financing gap. Over the medium term, however, there are no financing gaps (**Error! Reference source not found.**).

Table 4: External Financing Requirements and Sources (2016-2023)

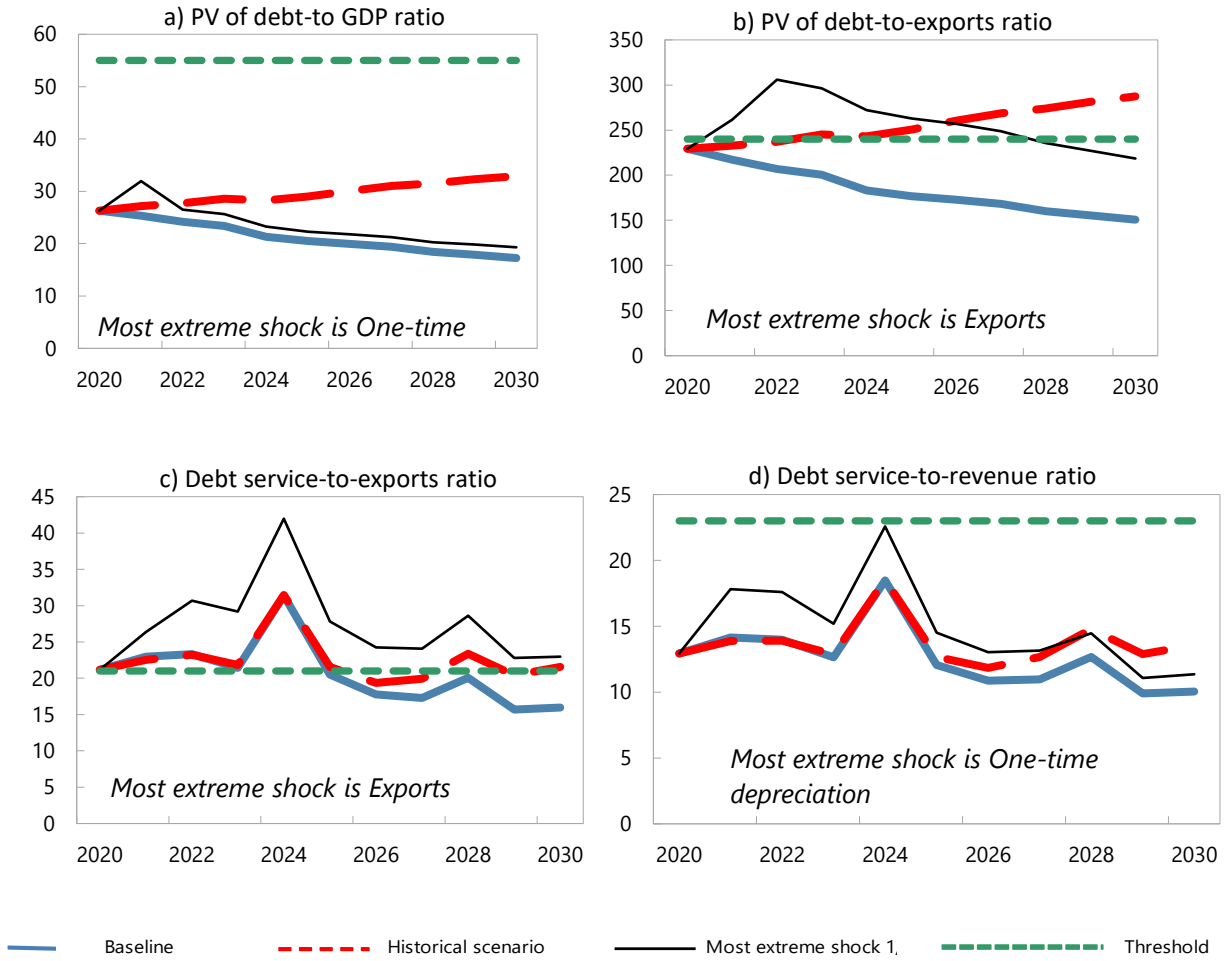
In Million of U.S. dollars, unless otherwise indicated	2016	2017	2018	2019	2020	2021	2022	2023
	Act.	Act.	Act.	Prel.	Est.	Projection		
External financing requirements	**-3,839**	**-6,220**	**-5,887**	**-7,074**	**-6,255**	**-6,810**	**-7,073**	**-7,369**
Current account (excluding official transfers)	-3,403	-4,957	-4,384	-4,457	-4,744	-4,873	-5,098	-5,601
Scheduled amortization (official)	-436	-1,263	-1,503	-2,617	-1,512	-1,936	-1,975	-1,768
Financing sources	**3,839**	**6,220**	**5,887**	**7,074**	**6,255**	**6,810**	**7,073**	**7,369**
Official transfers and IDA (net)	1,921	2,062	2,438	2,879	2,254	1,238	1,265	1,307
IMF credit (net)	-67	-119	-146	-154	612	-126	-70	-30
Official commercial financing	924	1,807	2,930	3,671	13	1,612	1,125	1,892
Private financing (net)	1,073	2,074	1,659	1,649	2,643	4,200	5,549	5,091
Changes in Reserves ('-: Increase)	-11	396	-994	-972	733	-115	-796	-891
External Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Source: World Bank staff calculations based on data from National Treasury, Kenya National Bureau of Statistics, and IMF, 2019.

2.18 Kenya's latest Debt Sustainability Analysis (DSA) maintains the risk of external debt distress at moderate, as in the October 2018 DSA. This reflects among other factors the higher past fiscal deficits, slowdown in revenue mobilization and exports. The present value (PV) of public and publicly guaranteed external debt as a share of GDP is expected to decline to 30.4 percent in 2021 from about 32 percent of exports in 2019 (Figure 5a), while debt-to-exports remains below the indicative threshold of 240 percent (Figure 5b). The assessed risk rating is based on continued breach among external debt liquidity indicators (external debt service-to-export ratio, external debt service-to-revenue ratio, and the present value of external debt to export ratio). With a large upcoming repayment of commercial external debts in 2024 (including a bullet Eurobond repayment), debt service to exports ratio exceeds its threshold (by at least 12 percent).[4] Additionally, under the standard stress tests there are longer breaches in PV of debt to exports ratio and debt service to exports ratio relative to thresholds (Figure 5c). Large government financial assets, and an adequate level of official foreign reserves could be used to meet Kenya's debt service obligations in 2020. Post COVID-19, Kenya is expected to maintain presence in the international financial markets to refinance its debt.

[4] External debt burden thresholds: PV of debt-to-exports=240 percent; PV debt-to-GDP=55 percent; debt service-to-exports=21 percent; and debt service-to-revenue=23 percent.

Figure 5: Public and Publicity Guaranteed External Debt under Alternatives Scenarios, 2020–2030



Source: Joint Bank-Fund LIC DSA, Notes: The most extreme shocks are: (i) Figure 5C: an export shock defined as export values remaining permanently at its lowest level while the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly offsetting the adjustment in import levels); (ii)Figure 5d: a one-time depreciation of 30 percent taking place in 2021.

2.19 The macroeconomic framework is considered adequate for DPF. The COVID-19 crisis heightened risks, but the economy remains highly resilient to shocks with real GDP growth projected about 4.6 percent over 2021–23, adding to growth in per capita GDP and poverty reduction post-crisis. Inflation will be contained within the target and the current account deficit will be manageable. After a pause in 2020, the Government will resume fiscal consolidation in 2021-23 that will reduce debt over the medium term. At 5.4 months of import cover in February 2020, Kenya has a comfortable level of official exchange reserves to cushion the economy from short-term external shocks. Further, improvements in its business regulatory environment, including the repeal of interest controls and marked improvement in the 2020 World Bank Doing Business ranking (with a DB2020 score of 73.2 up from 71.0 in 2019) are expected to support private sector-led growth post-COVID-19 pandemic. Kenya continues to be rated as a strong policy performer among low and middle-income countries in the World Bank's Country Policy and Institutional Assessment. It has a track record of carrying through reforms, as evident in its ambitious devolution program, progress in fighting corruption, and the sustained macroeconomic stability. The

reform efforts underway, including those supported by this operation, and early measures taken to contain the spread of COVID-19 should further strengthen the macroeconomic framework.

2.20 Risks are tilted to the downside. The greatest risk to Kenya's outlook is the extent of the impact of COVID-19 global pandemic. Kenya is only at the beginning of a very uncertain path as COVID-19 shock is expected to significantly reduce growth. A more severe or prolonged duration of the global pandemic or its spread in Kenya could further dampen the outlook and exert large strains on balance sheets of the public sector, firms, and households. Other residual domestic risks include drought and a second-round of locust invasion (in mid-year)-which if they materialized, could reduce agricultural output and rural incomes. A more severe than anticipated global recession or a prolonged deterioration in financial conditions (e.g. due to COVID-19) could pose additional downside risks, including risks of dry-up in external financing.

2.3. IMF RELATIONS

2.21 IMF staff visited Kenya from February 19–March 3, 2020, to conduct Article IV consultations and to negotiate a new precautionary three-year Stand-By-Arrangement. A new program, currently under discussion, would support fiscal consolidation over the medium term, with a view to making it growth-enhancing by calibrating the pace of consolidation and balancing the contribution of expenditure-reduction and revenue-increase measures. This program could help Kenya cope with downside risks of the COVID-19, reinforce macroeconomic stability, and support recovery. In the meantime, the IMF is working on a Rapid Credit Facility to help mitigate the COVID-19 impact, which is 100 percent of quota (or US$750 million). As in the previous operation, the World Bank and the IMF are coordinating to support the government's reform agenda and to further bolster Kenya's inclusive growth. Specific areas of collaboration include enhanced domestic revenue mobilization, increasing the efficiency, effectiveness, transparency, and accountability of public spending and improvement of governance and anti-corruption frameworks. Similarly, the World Bank and the IMF coordinated closely in the context of this operation to help the authorities prepare a new income tax bill, strengthen public investment spending, clearance of pending bills, and improve debt management.

3. GOVERNMENT PROGRAM

3.1 The Kenya Vision 2030, first published in 2008 and now in the third implementation phase, is the government's overarching long-term development blueprint. It aims to transform Kenya into a middle-income industrialized country by 2030. The current administration has prioritized four main pillars as part of the third Medium-term Plan (MTP III, 2018–2022)**.** The four pillars are referred to as the "Big Four" and include: ensuring that all citizens enjoy food security and nutrition; the delivery of at least 500,000 affordable housing units; achievement of universal health coverage; and raising the share of manufacturing to 15 percent of GDP (from an average of about 9.4 percent since 2013). Implementation of these four priority areas is expected to support higher and inclusive economic growth, faster job creation, and a reduction in the cost of living for the poor. The Government recognizes that achieving these objectives will require sustaining economic growth, maintaining macroeconomic stability, and implementing reforms to provide an enabling environment for all stakeholders to participate in achieving the Big Four. Regarding climate change, the legislative foundation was laid in 2016 in the form of the National Adaptation Plan and National Climate Change Action Plan, which are now under implementation,

and are intended to be renewed every five years as part of the medium-term plan update process towards Vision 2030.

3.2 Policy and institutional reforms are an important part of achieving these medium-term plans. Cognizant of the fiscal constraints, the GoK seeks to create an enabling environment that will incentivize the private sector to help deliver on its plans. It also seeks to rebuild fiscal space to enable more effective public sector contribution to service delivery. In agriculture, the Government seeks to boost food and nutritional security through reforms that improve the efficiency of its interventions in agricultural input and output markets. The Government aims to deliver its housing sector priorities through addressing both demand (e.g., through mortgage refinancing) and supply-side constraints (e.g., updating outdated building regulations) to the delivery of affordable housing units. It seeks to upgrade the national information communication and technology (ICT) infrastructure and to improve the regulatory framework. The Government is prioritizing the provision of Universal Health Coverage by implementing programs that increase health insurance coverage and access to quality health care services. Raising the share of manufacturing is expected to be accompanied by an increase in foreign direct investment and significant job creation as the Special Economic Zones develop.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

4.1 The program development objectives are to (i) crowd in private sector investment and financing for the delivery of affordable housing; (ii) enhance farmer incomes and food security; (iii) create fiscal space to support the government's inclusive growth agenda; and (iv) crowd in private investment and leverage digitization to support the government's inclusive growth agenda.

4.2 The proposed operation directly supports the GoK's Big Four inclusive growth agenda. Two of the pillars of the proposed operation reflect specific Big Four priorities (pillar 1 - affordable housing, and pillar 2 - farmer incomes and food security). The choice of the two pillars of direct focus in the proposed operation reflects a combination of factors, including potential impact on the poor, available analytical evidence to underpin reforms, level of existing World Bank engagement in the respective areas (including complementarity with other World Bank projects), appropriateness of instruments to address the identified challenges, and reform momentum. The third and fourth pillars of this proposed operation are foundational and will be critical for achieving all four of the government's priority areas and the broader inclusive growth agenda. The fiscal pillar supports consolidation of the fiscal stance, thereby safeguarding macroeconomic stability and preserving the gains made in poverty reduction in recent years, as well as opening more space for private investment. Further, with prior actions to improve revenue mobilization, efficiency of spending, and debt management, the fiscal pillar enhances the government's capacity to deliver on its Big Four agenda. The fourth pillar complements the fiscal pillar by supporting conditions that crowd in private investment into productive sectors of the economy.

Box 2: Recent Progress on Governance and Anti-Corruption.

Governance challenges and corruption have been significant problem in Kenya and have undermined some of the remarkable strides taken to accelerate inclusive growth and poverty reduction (e.g., improving the business environment, expanding infrastructure, and increasing social spending). The Government has introduced a broad sweep of anti-corruption measures, including the following:

- Strengthened institutions such as the Attorney General's Office, the Ethics and Anti-Corruption Commission, the Department of Criminal Investigations, and the Office of the Director of Public Prosecution that are mandated to fight corruption. The GoK has established the Multi Agency Team on Corruption to enhance coordinated investigation and prosecution. The intensification of the fight against corruption has led to unprecedented arrest of several senior politicians and government officials (previously deemed untouchable), and a returning back to the state of embezzled funds.
- Issued executive orders to ensure public servants' compliance with rules on ethics (Executive Order No.6, 2016) and on public procurement (Executive Order No2 of 2018).
- Vetted all Procurement Heads and Heads of Accounts of government agencies to rid of corrupt officials; and the conducting of lifestyle audits on public officers, in line with the Public Officer Ethics Act.
- Enforced the signing of Accountability Pledges by State and Public Officers.
- Amended the Companies Act to require companies to keep a register of beneficial owners with at least 10 percent ownership rights and lodge a copy of the register with the Registrar of Companies. This new requirement brings greater transparency in business transaction and reduces potential conflict of interest. Specifically, from the public sector perspective, it makes it more difficult for state officials and politicians to hide behind shell companies to win public contracts. It also helps to improve corporate governance.
- Dedicated additional anti-corruption courts to expedite pending cases and introduced greater transparency and scrutiny to anti-corruption cases, by publishing regular reports on the backlog of anti-corruption cases.
- Increased digitization of services and to counter money laundering and tax evasion.
- Increased co-operation with non-state actors and international partners, which has seen the repatriation of proceeds of crime held outside the country, extradition of suspects and receipt of key evidence to support cases.

Kenya has improved its ranking in the most recent Transparency International Corruption Perception Index by six places, to 137 (out of 180), its best ranking in seven years.

Source: World Bank staff.

4.3 The proposed operation also supports improved governance and transparency in Kenya. The Government has recently intensified its efforts to improve governance and rein in corruption (Box 2). Building on these efforts, the proposed operation will support further reforms in agricultural subsidies and commodities exchange, public procurement, prudent management of fiscal resources, and the judiciary that could tighten the opportunities for rent-seeking and increase transparency. In the second pillar, prior actions that change the way government provides subsidies to farmers (from manual to electronic) improves targeting and thereby reduces rent-seeking opportunities **(Prior Action 2)**. Similarly,

the warehouse receipt system and commodities exchange improve transparency and reduces rent seeking opportunities associated with government purchases for the strategic food reserve, since prices will be determined by the market forces of supply and demand rather than set by the Government **(Prior Action 3)**. The third pillar in this operation supports the creation of fiscal space and prudent management of fiscal resources. The prior actions in this pillar would help curb the misuse of public funds, and strengthen transparency, accountability and enforcement mechanisms in public procurement **(Prior Action 6(i), (ii) and (iii))**. This operation also supports the publication by the Judiciary of up-to-date information on the back log of all corruption cases in the Magistrates and High Courts. Further reforms efforts started in the first operation are also beginning to yield dividends in governance. For instance, the signed MoU between the Public Procurement Regulatory Authority (PPRA) and the Competition Authority of Kenya (CAK), a prior action supported in the first operation, has led to increased information sharing between the two agencies, and culminated in the first full investigation of possible anti-competitive practices in public procurement.

4.4 The current operation benefits from strong government engagement, as it is well situated within the government's own development priorities. Past and international experience demonstrates that government ownership of the reform agenda is critically important. The GoK is strongly engaged on the reform agenda, as demonstrated by the establishment of a multi-sector working group by National Treasury and Planning, which acts as the coordinating ministry. The Government views the DPO series as an opportunity to help meet its financing needs on concessional terms, while pursuing its development priorities with the support of the World Bank. Another important lesson is the need for both the GoK and the World Bank to engage upstream with Development Partners to ensure appropriate coordination to maximize development impact.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

4.5 The prior actions for this second operation deepen the reform actions commenced in the first operation. As shown in Table 4, two new prior actions have been included: the repeal of the interest rate caps **(Prior Action #8)** and second one which seeks to reduce corruption and improve corporate governance by requiring companies to keep a register of beneficial owners **(Prior Action #(9(iii))**. In addition, four triggers were modified for clarity or for reasons that the Government considered would advance the achievement of its "Big four" agenda. Further, some sub-prior actions were consolidated while keeping them in the text.

Table 4: Adjustments to indicative triggers from DPF1 to DPF2

Original Triggers (as stated in DPF 1)	Proposed Prior Action (DPF 2)	Comments
Pillar 1. Crowd in Private Investment and Financing for the Delivery of Affordable Housing		
Trigger 1. The Recipient has enacted through its Parliament the Physical Planning Bill which makes provision for the planning, use and regulation of land, allowing for changes to restrictive zoning laws that hold back the construction of multi-story buildings in high density areas. **Trigger 2.** The Recipient has: (i) enacted through its Parliament, the Built Environment Bill which provides the basis for building regulations and (ii) through the Ministry of Housing and Urban Development, issued the National Building Regulations ("the building code"), allowing the use of a wider range of construction materials and technology than what is prescribed in the 1968 building code.	**Prior Action 1.**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..	Trigger 2(i): to expedite the attainment of the affordable housing objectives the GoK decided to go for a more expeditious legislative route by anchoring the new building code regulation in an existing Act. Trigger 2(ii) This action is being supported under the CAT-DDO so has been streamlined from this operation. Building Code is being finalized at the Attorney General's Office.
Pillar 2. Enhance Farmers Income and Food Security		
Trigger 3: The Recipient has (i) established the Warehouse Receipt Council to operationalize the Warehouse Receipt Act; (ii) aligned the strategic grain reserve function of the National Cereals and Produce Board (NCPB) to the Warehouse Receipt System (WRS).	**Prior Action 3:** The Recipient has through its Cabinet approved a policy to commit purchases for the strategic grain reserve function of the NCPB through the Warehouse Receipt System consistent with the Agricultural Sector Growth and Transformation Strategy issued by the Ministry of Agriculture, Livestock, Fisheries and Cooperatives**.**	Trigger action 3(i) has been dropped for purposes of streamlining the policy matrix. However, the action has been completed. Prior action 3(ii) has been made more specific. Trigger 4(ii) has been dropped because the Commodity Exchange has been registered with majority private sector shareholding. Hence decisions and operations of the company will be decided by its private sector shareholders. Nonetheless the company is readying for licensing upon completion of raising its equity capital.
Trigger 4: The Recipient has: (i) through the Capital Markets Authority, submitted to Parliament a regulatory framework for the Commodities Exchange; (ii) through the Capital Markets Authority licensed the Commodities Exchange.	**Prior Action 4**: 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.	
Trigger 5: The Recipient has (i) through the MoALFI issued regulations for the implementation of the Cooperatives Act; (ii) through the MoALFI rolled the e-voucher subsidy program to at least 15 counties and covering over 70,000 farmers.	**Prior Action 2**: 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 Strategy issued by the Ministry of Agriculture, Livestock and Fisheries and Cooperatives.	Trigger 5(i) has been dropped for purposes of streamlining the policy matrix, however the Attorney General has approved it, hence the action is at an advanced stage of completion. Trigger 5(ii) The prior action has been changed to reflect a policy shift. For FY20 the GoK is on track to well exceed targets Reflecting this, the results indicator has been made more ambitious (from 100,000 to 150,000 farmers).

Original Triggers (as stated in DPF 1)	Proposed Prior Action (DPF 2)	Comments
Trigger 6: The Recipient has through MoALFI: (i) issued regulations implementing the Fisheries Act to support sustainable exploitation of fishing stocks; and (ii) submitted to its Parliament the Livestock Bill which supports pastoralists in addressing climate change and access to markets.		Trigger 6 has been dropped for purposes of streamlining the policy matrix. Nonetheless, the DPO has supported progress in reform to an advanced stage.
Pillar 3. Create Fiscal Space to Support the Government's Inclusive Growth Agenda		
Trigger 7. The Recipient has (i) submitted to Parliament the Income Tax Act 2019, which streamlines tax exemptions by reducing the number of exemptions offered (ii) through the National Treasury has established an institutional framework for cash management.	**Prior Action 5.** 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.	Trigger 7(ii) has been dropped for purposes of streamlining the policy matrix however the action has been completed.
Trigger 8: The Recipient has (i) submitted to Parliament the Competition Subsidiary Rules that include specific penalties on collusive behavior in public procurement; and approved modified standard tender documents to prevent coordination among bidders; and (ii) through the Cabinet Secretary of the National Treasury approved the Debt and Borrowing Policy and an updated primary auction guideline to automate and promote transparency and enhance efficiency in the management of government debt.	**Prior Action 6.** 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. **Prior Action 7.** 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.	Trigger 8(i) was modified to focus on the regulation that will allow for the new standard tender documents to be issued. Nonetheless progress is advanced on the modifications to the standard bidding documents. The World Bank is supporting the process by providing TA support. Trigger 8(ii) has been rephrased for specificity.
Pillar 4. Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda		
	Prior Action 8. The Recipient has, through its Parliament repealed section 33B of the Banking Act, removing the cap on interest rates on bank lending.	This is a new prior action eliminating a significant constraint to private sector credit growth.
Trigger 9: The Recipient has through Cabinet approved the Kenya Investment Policy (KIP), which simplifies the process of investor entry and retention and submitted to Parliament regulations implementing the Special Economic Zones Act 2015.	**Prior Action 9.** 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.	Prior action 9(iii) is a new prior action which further strengthens the anti-corruption measures of the operation.

Pillar 1. Crowd in Private Investment and Financing for the Delivery of Affordable Housing.

4.10 The current supply of formal housing in Kenya is not keeping up with the rapidly growing urban population. Roughly 30 percent of Kenya's population lives in cities today, a figure expected to grow to 50 percent by 2050. However, only 50,000 new housing units are currently being constructed every year while demand for urban housing is projected to increase to nearly 300,000 units per year in 2050, from 80,000 in 2010. The accumulated housing deficit is currently estimated at 2 million units. As the supply of housing continues to fall behind demand, affordability has declined, especially in urban centers. As a result, about 61 percent of urban households in Kenya are living in housing conditions that meet the United Nation's definition of a slum.[5] There is a significant gender gap in housing, with the housing ownership rate of women lagging that of men by 10 percentage points (accounting for joint ownership).[6] Given Kenya's continued urbanization, productivity and human capital performance will increasingly be adversely affected by an inadequate supply of housing, disproportionately affecting low-income families and women.

4.11 Recognizing the critical need to accelerate housing supply, the GoK has included affordable housing as one of its main development priorities under its Big Four agenda. Measures to unlock the delivery of more affordable housing units through private investment will require addressing both the demand and supply side constraints to housing delivery. The first operation addressed some of the demand side challenges by supporting legislation on the regulation of mortgage refinance companies. This has created the legal framework supporting the establishment of the KMRC, with World Bank support under the Kenya Affordable Housing Project (P165034). This second operation complements the reforms commenced under the first operation by focusing on the supply side challenges to affordable housing, and in particular, the need to update antiquated legislation that is no longer responsive to current demands for safe and affordable housing.

Prior Action 1. 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.

4.12 There is a need to update legislation that supports building multi-story units at scale to enhance affordability. The current zoning regulations in Kenya limit the construction of high-rise units in high-density areas. Under the Physical and Land Use Planning Act **(Prior Action #1(i))** County Executives have now been granted the authority to effect changes to restrictive zoning laws. The changes to zoning regulations are to be carried out as part of a comprehensive County Physical and Land Use Development Plan. The new Act also incorporates new climate adaptation and mitigation measures to guide the

[5] World Bank. 2017. Kenya Economic Update. Housing: Unavailable and Unaffordable. April 2017.
[6] World Bank. 2018. Kenya Poverty and Gender Assessment 2015/16 - A Decade of Progress and the Challenges Ahead.

continued development of Kenya's built environment; sustainable development considerations such as planning for public- and non-motorized transport are embedded as core principles in the legislation, and combating climate change is stipulated to form part of local land use plans. These efforts deepen the reforms commenced in the first operation – amendments to the Sectional Properties Act, allowing for individual titling of units in multi-story buildings. Further, reforms undertaken in this operation are being complemented by land reforms supported through the Kenya Affordable Housing Project (P165034). In the area of land, the project (P165034) seeks to strengthen the foundations for faster and more reliable land transactions through computerization; improving the Land Information Management System and providing technical support to develop a land sector strategic assessment.

4.13 There is need to update the building code and anchor it in a parent legislation. A second piece of legislation related to the built environment that requires updating is the building code. The previous Building Code (1968) was made null and void in 2012 with the onset of devolution, when the Local Government Act (the legislation in which the Code was embedded) was repealed through the County Government Act (2012). Since then, the construction industry has been operating in a legal and regulatory vacuum. The Code, dating back to 1968, mandated the use of specific material (e.g., stones and mortar) in the construction of buildings, thereby limiting the use of innovative and locally available building technologies that can enable the scaling-up of the delivery of less expensive housing units. Although a new building code has been drafted, it needs to be anchored in a parent Act for legal certainty. The GoK has decided to provide this legal certainty by anchoring it in the NCA. The new building code, anchored in the NCA **(Prior Action #1(ii))**, could help advance the affordability of houses through the adoption of innovations in building technologies, and allows for the use of safer construction materials and techniques used in the building process. This operation complements ongoing technical assistance that the World Bank is providing to the GoK to support the built environment regulations and their implementation.

4.14 The new regulatory framework aims to make housing more climate resilient. Climate change is expected to increase flood events and urban areas on the coast (including Mombasa, Kenya's second largest city) face increased flood and storm-surge risks as the sea level rises and storms intensify. The development of more robust building regulations which translate safe practices for design and construction into a set of rules and laws with minimum agreed levels of safety and resilience for buildings is at the core of the new building code. This is expected to promote resilience to extreme weather events that are becoming more frequent as a result of climate change. The policy and institutional reforms in this operation complement ongoing efforts by the Global Facility for Disaster Reduction and Recovery (GFDRR) and the World Bank-supported Disaster Risk Management DPF with a Catastrophe Deferred Drawdown Option (Cat DDO, P161562).

4.15 In addition to strengthening urban climate adaptation, the proposed building regulations support climate mitigation measures. The new Building Regulations require that buildings maximize energy efficiency (as per the 2019 Energy Act), that new building developments generate electricity from renewable energy installations, and that alterations of existing buildings have renewable energy water heating installations. Premises are required to meet at least 60 percent of their hot water demand through renewable energy. All outside electrical installations (e.g., lighting, pumping, advertising) are required to use renewable energy. The regulations also mandate that county plans consider public transit-oriented development, such as planning for public transport and non-motorized transport. The combination of the

increased emphasis on facilitating public transport, and support for multi-story developments, is expected to result in a denser urban environment, reducing emissions.

4.16 Expected Results. It is expected that an additional 20,000 affordable housing units will be built by 2021 that will benefit low- to middle-income Kenyans. Since the announcement of the affordable housing goal, the GoK has received significant private sector interest. Ongoing projects of about 30,000 housing units, are at various stages of contract negotiation or construction by the private sector, often supported with land as equity from national or county governments. Some [50] percent of new titles to affordable housing units are expected to go to women, helping to close the gender gap in housing. In addition, not only will gender dimensions be considered in allocation of houses, but also in the business opportunities that the large-scale construction activity is generating. Indeed, the Ministry of Housing, which is spear heading the affordable housing agenda has registered various women-led businesses to enable them to participate effectively in the provision of construction material and services for the affordable housing project. Further on the demand side, the reform efforts commenced in the first operation is already beginning to yield some dividends. The legal certainty provided by the issuance of the mortgage refinance regulations has led to the establishment of the KMRC in 2019. KMRC shareholders include at least 30 private sector financial institutions (including nine banks and 11 financial co-operatives) who have invested over US$12 million. International Finance Corporation (IFC) is expected to make an equity investment in KMRC. The participation of cooperatives is important, as low-income households are more likely to borrow from cooperatives for housing finance rather than from commercial banks.

Pillar 2. Enhance Farmer Incomes and Food Security.

4.17 The agriculture sector is one of the most important sectors of the Kenyan economy, particularly for rural households. Agriculture accounts for about half of GDP (26 percent directly and another 25 percent indirectly), about 60 percent of employment, and 65 percent of the country's exports. Consequently, the sector remains important for the Kenyan economy, and a major channel for poverty reduction. Agricultural incomes (from crops, livestock and fishing) account for 64 percent of the income sources of the poor and 53 percent of income sources for the non-poor.[7] The sector is also critical for food security. The Global Hunger Index reveals that hunger levels are serious—it ranked Kenya 77 out of 119 countries in 2018. Enhancing the agriculture sector's resilience to climate change is a critical component of Kenya's overall climate adaptation challenge. Not only is the sector crucial to livelihoods and the economy, but it is vulnerable to the effects of shifting temperate and rainfall patterns and to the expected increase in the frequency and intensity of weather shocks. This operation supports the GoK in advancing structural reforms that address inefficiencies in agricultural input and output markets, raise farmers' income, and improve food and nutritional security, including by increasing resilience to climate change.

4.18 Currently, food security in Kenya is being endangered by the coronavirus crisis and the earlier locust attack.[8] The coronavirus crisis is beginning to contribute to an increase in the price of staples like maize and fresh fruits and vegetables. The increase in prices has been largely due to the disruptions to the food supply chain as a result of the imposition of a curfew between 7 p.m. to 5 a.m and the closure of

[7] World Bank. 2018. Kenya Poverty and Gender Assessment.
[8] Kenya is one of the countries that has been hard hit by the recent unprecedented locust invasion in parts of East Africa.

some wholesale markets as a precautionary measure by some county governments. While Kenya's cereal producing counties were spared the first-round invasion of the locust invasion, there is a high probability that the second-round invasion towards mid-year could impact major food growing areas. The Government is implementing a number of measures to mitigate the impact of the coronavirus on food security and the World Bank is supporting the GoK through these efforts, including from aspects of this operation (see Box 3).

Box 3: COVID-19 Pandemic, Food Security, and World Bank Support

The Government is implementing a number of measures to mitigate the impact of the coronavirus on food security and disruptions to the food supply chain. To this end the GoK has constituted a County Government Co-ordination and Food Supply Working Group chaired by the Cabinet Secretary for Agriculture. The working group: (i) monitors the availability of staple foods and take necessary actions to ensure adequate food supply for all Kenyans during the COVID crisis; and (ii) identifies food insecure households, map them to localities and develop strategies to mitigate risks and provide support to households. Key decisions taken thus far include: (a) allowing for agriculture markets to remain open to the extent that they comply with social distancing, provision of water and soap for hand washing or sanitizers ; (b) exempting the transportation of all food stuff from the curfew; (c) the suspension of the payment of cess on food stuff by all counties; and (d) allowing private millers to import up to 4 million tons of maize. Further, the Ministry of Agriculture plans to to create a "War Room" to monitor and track the food security situation in the country on a day to day basis in collaboration with county governments; and identify and build a database of 1 million food insecure households so as to be prepared for roll out of the support programs if needed

The World Bank is supporting the Government through these efforts. The World Bank team is supporting the Ministry of Agriculture in building the capacity of the "Food Security War Room". Secondly the existing National Safety Net Program, supported by the World Bank, is being considered as a potential vehicle to be leveraged to both identify and provide cash support to the Food insecure households. Further the ministry is also considering the use of the "e-voucher" mechanism to transfer cash to vulnerable households through a mobile wallet. Third, with regard to the locust crisis, the World Bank is providing support to the GoK through the emergency component of the Kenya Climate Smart Agriculture Project. The resources are being used to set up control bases across affected counties for coordination; deploy surveillance aircrafts; and provide ground control equipment and permitted pesticides.

Source: World Bank staff.

Addressing Agricultural Input Market Inefficiencies

4.19 This operation supports two measures to help address input market inefficiencies. These are (i) transformation of the manual fertilizer subsidy scheme to an input subsidy program that is delivered through an e-voucher reform; and (ii) improving the regulatory environment to support irrigation, in particular to smallholder farmers. Given that most smallholder farmers in Kenya are female, these reforms are expected to be of significant benefit to female farmers, helping to address what is estimated to be a

significant gender gap, with the share of households with female decision-makers using inorganic fertilizer lagging that of male households by an estimated five percentage points.[9]

Prior Action 2: 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 Strategy issued by the Ministry of Agriculture, Livestock, Fisheries and Cooperatives.

Reforms for the provision of subsidized inputs

4.20 Reforms to the provision of subsidized inputs to farmers will support better agricultural productivity and resilience. Reviews of Kenya's untargeted fertilizer input subsidy scheme show that apart from being costly, the scheme disproportionately benefits large- and medium-sized farmers at the expense of small farmers. With the Government involved in procuring fertilizer, several sub-optimal outcomes have arisen, including delays in importation and distribution (resulting in crop failure due to late fertilizer application), distribution of unsuitable types of fertilizers (leading to increases in soil acidity), market distortion leading to a crowding out of private sector investment in the fertilizer market, and rent-seeking opportunities. Indeed, under the current scheme many of the beneficiaries are not even farmers, but traders who take advantage of the loopholes in a manually administered system that makes it difficult to verify the true beneficiaries of the fertilizer subsidy.

4.21 The GoK is transforming its delivery mechanism of subsidized inputs, through e-vouchers to address the inefficiencies of the traditional paper-based mechanism. The adoption of a smart subsidy scheme through e-vouchers **(Prior Action #2)** fundamentally transforms the way subsidies are provided to farmers compared to the traditional scheme, in several ways. First, the new scheme is underpinned by a robust electronic database of verifiable farmers and their farm sizes, thereby eliminating the possibility of capture by well-connected traders and reducing opportunity for rent-seeking. Secondly, the vouchers are received directly by farmers through their mobile phones as opposed to the traditional manual, paper-based system. Third, it reduces government's footprint in the agriculture input market, as farmers are free to use their e-vouchers to make purchases from the nearest private agriculture input supplier. This contrasts with the old scheme which compelled farmers to receive subsidized inputs from government depots, even if a private agriculture input supplier was closer. Fourth, under the new scheme the Government has appropriately targeted smallholder farmers (as benefits package is meant to be demonstrative hence limited to less than 4 acres), including those that have never used fertilizers or are using them sub-optimally because they cannot afford it. This contrasts with the old system, in which larger farmers were disproportionately benefitting from the subsidized fertilizer. Fifth, reflecting the efficiency of targeting and distribution of government support under the E-voucher system the Ministry of Agriculture is also considering the use of the "e-voucher" mechanism to transfer cash to vulnerable households through a mobile wallet as part of the response to the COVID-19 crisis.

4.22 The comprehensive approach adopted under the e-vouchers system is expected to lead to the adoption of better agronomical practices, including adapting to and mitigating the impacts of climate change. Unlike the previous delivery model, under the new scheme the smallholder farmer can use the e-voucher to purchase other inputs beyond fertilizer, including certified seeds, appropriate

[9] World Bank. 2018. Kenya Poverty and Gender Assessment 2015/16 - A Decade of Progress and the Challenges Ahead.

agrochemicals, and benefit from specific fertilizer recommendations based on soil testing. The application of the right type of fertilizer should in turn help reduce soil acidity and improve soil fertility, which has declined in certain parts of the country in recent years due to the application of the wrong types of fertilizer. The government's plans to match fertilizer and seeds types with soil types will also allow for investment in seeds that help farmers produce crops that are more resistant to climate extremes and change. This comprehensive approach is expected to encourage smallholder farmers, the majority of whom are women, to adopt agronomical practices which result in increased yields and higher incomes.[10] Further, by helping to arrest the decline in soil quality, the measures are expected to support the sustainable productivity of the land and hence reduce climate vulnerability, as well as contribute to mitigation efforts, since soil health is associated with its ability to store carbon.

Reforms to Support Irrigation

4.26 Beyond reforms to the delivery of the input subsidy, there is a need to reduce farmers' and pastoralists' dependence on rain-fed agriculture, particularly in the face of intensifying climate change vulnerabilities. Around 98 percent of agriculture in Kenya is rain-fed, making both farmers and pastoralists, particularly smallholders, extremely vulnerable to droughts. It is estimated that by 2030, under a business-as-usual scenario, climate change will reduce the yields of staples (maize by 12 percent, rice by 23 percent, and wheat by 13 percent) and diminish the ability of cropland to sustain maize and wheat production. In addition, water scarcity due to climate change could result in less productive pasture, lower dairy yields, and raise risks for crop and livestock diseases. While not included as a prior action, this operation has deepened the reforms in the first operation (enactment of the Irrigation Act) by supporting the preparation of the implementing regulations on irrigation. These regulations provide for involvement of the private sector in irrigation services, support medium and smallholder and irrigation schemes, county level irrigation development units, and governance of smallholder irrigation schemes. Further, the provisions in the regulation for flood management, water harvesting and storage, and cost recovery and return on investment are expected to help address Kenya's increasing susceptibility to extreme weather (droughts and floods) due to climate change, through better conservation and management of water resources.

4.27 Expected Results. These reforms should help boost productivity, farmers' incomes, and climate resilience. From the baseline of no farmers receiving an e-voucher in 2017, it is expected that there will be at least 150,000 farmers receiving e-vouchers to purchase inputs by 2021, of which at least 50 percent are expected to benefit female farmers, helping to close the gender gap since currently a lower proportion of female farmers use fertilizers compared to male farmers. Through March 2020, there have been some 82,000 beneficiaries, of which about 60 percent are female. Preliminary impact evaluation of the e-voucher program shows significant benefits to smallholder farmers (Box 4).

[10] Nicole M. Mason, Ayala Wineman, Lilian Kirimi and David Mather. 2016. The Effects of Kenya's 'Smarter' Input Subsidy Programme on Smallholder Behaviour and Incomes: Do Different Quasi-experimental Approaches Lead to the Same Conclusions, Journal of Agricultural Economics, 68, 1,(45-69), (2016).

Box 4: Impacts of the E-voucher Program: Preliminary Results

- **Productivity:** The use of certified seeds, balanced fertilizers, agrochemicals has enhanced productivity – the Ministry of Agriculture has reported a 25 percent increase in yields.
- **Food security:** For many smallholders, it has ensured food self-sufficiency at the household level, freeing them from the need to buy maize and other cereals.
- **Demonstration effect:** While the Government has in most cases limited its intervention to just one-acre, preliminary results show that, having realized the benefits, participating farmers have increased their purchases of inputs beyond the limited amount provided through the government subsidy program. For example, a survey of the pilot farmers revealed that 77 percent of farmers used top dressing fertilizer and 25 percent use certified seeds in areas beyond 1 acre using their own resources.
- **Better targeting:** The e-voucher has significantly improved targeting towards smallholders and women (at least 40 percent of beneficiaries).
- **Addresses soil degradation:** Unlike the traditional approach, where subsidized fertilizers were provided indiscriminately, irrespective of soil type and thereby contributing to a significant increase in soil acidity, the e-voucher program is promoting the use of suitable fertilizers via soil testing.
- **Timeliness:** The ability of farmers to use their e-vouchers to access delivery through the large network of agro-dealers has ensured not just accessibility, but also timely availability of the right kind of fertilizers at the farmer's doorstep, unlike in the traditional model where government imported and delivered the fertilizers to its depots for farmers – an inefficient process which generated rent-seeking opportunities along the value chain. This has supported more widespread and appropriate fertilizer use.

Source: World Bank staff.

Addressing Agricultural Output Market Inefficiencies

4.28 The recent Kenya Poverty and Gender Assessment finds that agricultural commercialization has helped to improve the livelihoods of Kenya's farmers. This operation supports two measures that help reduce inefficiencies in the output market, and thereby contribute to increasing commercialization opportunities for farmers, including smallholders. The two measures relate to (i) the operationalization of the warehouse receipt system and redirecting the government's strategic food reserve purchases to the warehouse receipt system; and (ii) the regulatory framework for the operation of a Commodities Exchange. These measures are complementary as for the commodities exchange to function effectively, it will require a properly functioning warehousing system that guarantees the integrity of the commodities purchased at the exchange.

Prior Action 3: The Recipient has through its Cabinet approved a policy to commit purchases for the strategic grain reserve function of the NCPB through the Warehouse Receipt System consistent with the Agricultural Sector Growth and Transformation Strategy issued by the Ministry of Agriculture, Livestock, Fisheries and Cooperatives.

4.29 **There is a need to address the post-harvest and marketing challenges that farmers face.** Kenya's agriculture sector is constrained by inefficiencies in the commodities supply chain, due to limited post-

harvest handling infrastructure, inefficient price discovery systems that lead to low farmgate prices and exploitation of smallholder farmers, and high losses due to food wastage. In 2017, the country lost about 1.9 million tons of food, worth Ksh 150 billion (approximately US$1.5 billion), most of which was due to post-harvest losses, even as millions of Kenyans were hit by acute food insecurity due to drought. To develop an appropriate legal and regulatory framework to underpin a properly functioning warehouse receipt system, the first operation supported the passing of the Warehouse Receipt Act, 2019.

4.30 Aligning purchases of the strategic food reserve function of the NCPB with the warehouse receipt system and commodities exchange should help address some of the inefficiencies in agricultural output markets. This second operation deepens the reforms from the first operation by supporting the operationalization of the warehouse receipt system through the establishment of a Warehouse Receipt Council and support in changing the way government intervenes in markets to support strategic food reserves **(Prior Action #3)**. Historically, the government set prices above market prices to purchase grains for its strategic reserves and sold them at below market prices. This distorted grain markets and led to rent-seeking opportunities in purchases and sales meant for strategic food reserves. This operation supports a change in policy direction that requires purchases to be made through the commodities exchange and warehouse receipt system. Pricing through the Commodities Exchange is expected to introduce greater transparency (since this will be market-determined) in such purchases and reduce rent-seeking.

4.31 The warehouse receipt system is expected to provide significant benefits to farmers. These include: (i) increased flexibility for farmers to choose when to sell their produce, thereby enhancing incomes; (ii) increased lending to the agricultural sector by providing alternative security (collateral) and mitigating risk to the banks within a structured trading system; (iii) allowing millers and processors to procure grain directly from farmers, thus shortening the market chain and reducing transaction costs; (iv) enforcement of standards (e.g., allowed moisture content) through the licensing and inspection of warehouses, thereby improving quality and grading in the entire value chain; (v) reduction of post-harvest losses through professional storage, thereby reducing contamination risks from aflatoxins and wastage of food from poor storage practices. Small-holder farmers are expected to benefit by participating in the Warehouses through their respective cooperatives. Further, as climate change increases extreme weather events which may affect harvest- and post-harvest processes, having a functioning warehouse receipt system is expected to increase resilience by providing farmers with flexibility on where and when to sell and safely store their crops.

Prior Action 4: The Recipient has through the Cabinet Secretary for finance, has approved the Capital Markets (Commodity Markets) Regulations that provides a framework for the commodities exchange market.

4.32 The establishment of a Commodities Exchange will help to improve the marketing of agricultural produce in Kenya. Making agricultural markets work better to reduce waste requires bringing together buyers and sellers in a well-coordinated manner, with low transaction costs and enforceable

contracts. The establishment of a Commodities Exchange can help address inefficiencies in the supply chain resulting from limited storage capacity, lack of post-harvest services and poor access to input markets. Further, the Commodities Exchange complements the warehouse receipt system, as it will require warehouses to be upgraded to approved standards and will help create a liquid market that provides the producers much-needed direct access to buyers, including international buyers. The IFC has been providing technical assistance to the State Department of Trade for the establishment of the Commodities Exchange.

4.33 This second operation deepens the reforms to operationalize the commodities exchange. The first operation helped to determine the structure of the commodities exchange. This led to the registration of a new commodities exchange company – the Kenya Multi Commodity Exchange (KOMEX), with the private sector holding majority shares. However, without the appropriate regulatory framework, the Capital Markets Authority—the regulator—cannot issue a license. Hence, this second operation deepens the reforms commenced in the first operation by requiring the issuance of relevant legislation that provides for the licensing of registered commodities exchanges **(Prior Action #4)** so that operations can commence.

4.34 Expected Results. In the baseline, there are no licensed warehouses under the warehouse receipt system participating in the Commodities Exchange. By 2021, at least 30 licensed warehouses are expected to be participating in the Commodities Exchange (of which at least 16 are to be privately operated). The reforms supported in the first operation have so far raised about US$6 million of private investment to capitalize the commodities exchange (i.e., maximizing finance for development). Further, in order to ensure that smallholder farmers benefit from the commercial opportunities that the Commodities Exchange is expected to bring, the State Department of Cooperatives has intensified its engagement with agricultural co-operatives to strengthen their ability to participate. Consequently, 10 percent of the ownership of the commodities exchange has been reserved for co-operatives. In addition, by enforcing quality standards for warehouses, the Commodities Exchange is expected to aid climate change adaptation, strengthening the ability of Kenya's food storage infrastructure to withstand the risks posed by warmer temperatures and flooding.

Pillar 3. Create Fiscal Space to Support the Government's Inclusive Growth Agenda.

4.35 This operation deepens efforts commenced in the first operation to strengthen fiscal management and help create fiscal space to support the GoK's Big four development priorities. The reforms are focused on boosting revenues, strengthening the efficiency of government spending and improving debt management. These measures are not only critical to contain debt and help safeguard macroeconomic stability but also to enhance the capacity of the government to create the fiscal space to finance its "Big Four" agenda. Poorer households are expected to benefit from macroeconomic stability (as the poor often suffer disproportionally in periods of instability). Further, improved fiscal management

and reduced deficit will help create more space for private sector investment, by reducing the crowding out effects of large budget deficits.

Prior Action 5. 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.

4.36 **This operation seeks to support the government's efforts to arrest the underperformance of revenues in recent years.** In the first operation, the GoK removed the exempt status of petroleum products by introducing an 8 percent value-added tax on petroleum products. This measure alone yielded additional revenue estimated at [0.15] percent of GDP over the first seven months of implementation. In addition, the Government introduced a governance framework for tax exemptions requiring more detailed information before exemptions are granted. This second operation deepens the tax reform efforts by supporting the streamlining of tax exemptions on income taxes. Under the proposed new Income Tax Act **(Prior Action #5)**, the rationalization of income taxes is estimated to yield additional revenue of at least an additional 0.3 percentage points of GDP annually. Further, by providing for less generous tax regimes for the extractive and petroleum sector (e.g., lower capital allowance deductions), the Income Tax Bill contributes to less carbon emissions, and environmental degradation from mining activities. Reforms to the income tax regime has benefitted from analytical work under the Kenya Macro Fiscal Programmatic Approach (P162368). Due to the immediate short-term need to put in place mitigating measures to support businesses, when passed by Parliament, its implementation is likely to be temporarily delayed.

Prior Action 6. 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.

4.38 Reducing corruption in public procurement should yield fiscal savings and provide better value for public expenditures. With public procurement accounting for at least 7 percent of GDP in Kenya, a lack of effective competition and transparency in procurement leads to substantial losses for the government and reduced opportunities for businesses. In Kenya, costs associated with corruption in the procurement process are estimated to be 10–25 percent of the contract value awarded (commonly loaded onto the actual total contractual cost).[11] This implies extremely high aggregate fiscal costs, given that approximately 35 percent of Kenya's national budget is allocated to public procurement. A recent Price

[11] EACC an evaluation of Corruption in Public Procurement "A Kenyan Experience (2015); Transparency International" Corruption and Public Procurement 2010".

Waterhouse Coopers report finds that about 34 percent of organizations reported incidences of procurement fraud in Kenya, compared to an average of 25 percent in East Africa and 22 percent globally.[12] While corruption in Kenya does not only occur through public procurement processes, procurement-related corruption appears to be the most common form of grand corruption cases reported and being investigated, all of which undermine economic growth.[13] A key factor enabling corruption in public procurement is that decisions to award public tenders are opaque and vital procurement data are confidential. Estimated conservatively, enhancing transparency and competition in public procurement, could allow the government to save at least 0.3 percent of GDP per year in public expenditure.

4.39 This operation seeks to increase transparency in order to reduce opportunities for corruption in public procurement. The GoK has expressed its commitment to addressing the challenge of opaqueness in public procurement by issuing Executive Order #2 (EO#2) which calls for increased disclosures on contracts.[14] This operation advances transparency in public procurement by supporting the GoK's efforts to disclose publicly, through an online portal, tender details, and details of the companies winning the tender **(Prior Action #6(i)).** Compared to a year ago, when details of government tenders and awards were not made systematically available to the public for scrutiny, the GoK, through the PPRA, has developed a Public Procurement Information Portal, making information more readily available. Currently the portal contains details on over 31,000 tenders, 8,600 contracts, 10,800 suppliers and 420 procuring entities. These details include the company names of winners of public procurement contracts, business registration numbers, names of company directors, and contract amounts. The World Bank is providing technical assistance to implement these reforms. Further, to increase transparency in public procurement, this operation supports measures to expand the scope of information on tender bidders, including information on beneficial ownership (and not only company directors) through a revised Public Procurement and Disposal Act **(Prior Action #6(ii))**. In addition, building on the first operation (better information-sharing among state investigative institutions on procurement) it supports the publication of the Competition Subsidiary Rules which, inter alia, provides a greater deterrent factor (higher fines) against anti-competitive behavior in public procurement **(Prior Action #6(iii))**. The development of the Competition Subsidiary Rules was supported by World Bank technical assistance, and engagement on its implementation will continue.

4.40 While the steps being supported in this operation to improve transparency in public procurement are critical, still more needs to be done. The World Bank, through the Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK) (P161387), is supporting the development of user requirements alongside the PPD and PPRA. The new E-GP system will include a State Portal developed in accordance with internationally accepted best practices, allowing

[12] PWC 2018. Global Economic Crime Survey: Kenya Report (https://www.pwc.com/ke/en/publications/economic-crime-survey.html).

[13] EACC an evaluation of Corruption in Public Procurement "A Kenyan Experience (2015); IEA Public Procurement in Kenya: Analysis of the Auditor General's Reports 2018.

[14] The EO# 2 obligates the procuring entities to disclose the contract award information of the winning bidder in addition to information of rejected bidders and reasons thereof, including the winning bidder's specification/scope of work tendered and accepted; technical & financial capabilities and experience submitted to meet qualification requirements and Beneficial Ownership (BO) will further the fight against corruption and bring more accountability in public procurement.

for greater systems integration and ease of reporting of data. Further, though not included as a prior action, this operation supports the publishing of information on the status and progress in all corruption cases. Indeed, since lengthy case disposition times increase the likelihood of corrupt practices (such as bribery of judicial officers) by increasing transparency and information-sharing on court performance on anti-corruption cases, the judiciary is able to address internal bottlenecks, as well as provide a basis through which court users and the public can constructively engage with the judiciary on the quality of its services.

4.41 In addition to reforms in public procurement, improved debt management and transparency can yield fiscal savings and improve accountability. The recent rise in debt stock (see section 2) has contributed to the increase in debt servicing from 3.2 percent of GDP in FY2015/16 to 4.3 percent of GDP in FY2019/20. The second operation deepens reform efforts commenced in the first (verification and reconciliation of the external debt records) by supporting the development of a Comprehensive Debt and Borrowing Policy **(Prior Action #7(i))**. This new policy brings more transparency and rigor to the GoK's approach to borrowing by requiring, inter alia, that new borrowing is assessed against fiscal space and the current and future capacity to service debt and prioritizes the use of concessional resources. The policy spells out the decision-making process for contracting debt, with clear responsibilities, as well as demarcating the required institutions to audit debt management activities and which institutions are to oversee the utilization of borrowed funds. Domestic marketable debt is to be issued via transparent auctions conducted by the Central Bank of Kenya (CBK). The development of the Debt and Borrowing Policy received technical support from the World Bank and the Office of the Technical Assistance, US Department of Treasury. The approval of the new Debt Policy also comes at an opportune with frontier markets such as Kenya facing shut out of global capital markets due to the risk-on sentiments induced by the COVID-19. The rigorous framework provided by the new Debt and Borrowing Policy will thus play an important role to guide Kenya to maximize its use of financing from concessional sources.

Prior Action 7. 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.

4.42 Complementing the new Debt and Borrowing Policy are additional reforms to deepen government debt trading operations. This is being carried out by requiring both institutional and retail investors to transition from a manual trading platform for the primary auctions to automated **(Prior Action #7(ii))**. Under the current system, while commercial banks can place their bids through an online platform, the same is not available to institutional and retail investors. The new system allows all registered investors to invest in government securities remotely, thereby avoiding the need to physically visit the Central Bank. It also automates aspects of the primary issuance that are still being carried out manually. These reform efforts are part of a comprehensive engagement to deepen domestic debt markets, which includes the implementation of a central securities depository, being supported by the World Bank.

4.43 Expected Results. The measures supported under this pillar are expected to contribute towards enhanced domestic revenue mobilization, promote efficiency in spending and improve debt sustainability. The streamlining of exemptions from the income tax bill is estimated to yield an additional 0.4 percent of GDP in revenues per year. Specifically, revenues generated from the combined VAT on petroleum (supported in the first operation) and income tax are estimated to rise to 12.1 percent of GDP by 2021 from a baseline of 11.4 percent in 2017. Further, the expenditure control measures (public procurement) and debt management reforms are envisaged to yield fiscal savings. From a baseline of no investigations by the CAK on potential anti-competitive behavior in public procurement in 2017, it is expected that by 2021 there will be at least five investigations related to bid rigging undertaken jointly by CAK and PPRA. Further, on debt management, in the baseline, there does not exist an electronic primary auction of the government securities (save for commercial banks). By 2021, it is expected that 70 percent of government securities will be transacted on an electronic platform.

Pillar 4. Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda

4.44 The fourth pillar of this operation is cross-cutting. The GoK's Medium Term Plan recognizes that to achieve its Big Four priorities it will require interventions beyond the specific domains of the Big Four areas. This operation's fourth pillar therefore supports two foundational areas of importance for the advancement of the Big Four: (i) advancing digitization in Kenya to enhance service delivery and (ii) improving the business environment to support private investment. The first operation focused on reform actions that sought to advance digitization, while this operation primarily focuses on improving the business environment to crowd in private investment.

4.45 The Government has continued to make progress on the ICT reform agenda commenced in the first operation. Given the importance broadband to remote delivery of government services, efforts under the first operation to support the expansion and access to Broadband are thus contributing to the mitigation of the impact of the coronavirus pandemic. Follow-up reform actions that build on the actions taken in the first operation include the adoption of the Data Protection and Privacy Act, and the National ICT Policy, partnership with Google to facilitate better access to high speed internet services and reduction in mobile money transactions—all of which should help in the GoK's coronavirus response to enable the public to cope with social distancing, ensure business continuity, and prevent service interruptions. Specific measures undertaken include:

- **The use of Loon Balloons.** Kenya has signed an agreement with Google Loon which will provide internet access to Kenyans that will extend Telkom Kenya's 4G network to areas that are not covered by existing mobile network providers thus enabling more Kenyans to enjoy access to high speed and affordable internet services. The Civil Aviation Authority signed an agreement with Google Loon to allow Loon balloons over Kenyan airspace which will carry 4G base stations and have the capacity to provide wider signal coverage. The 4G networks will also support

governments efforts in surveillance and management of coronavirus infections and which will go a long way to containing the present health challenge.

- **Reduction in the transactions cost for mobile money transfers.** The CBK has called for operators in the mobile money space (banks and telecoms) to adjust transactions costs to encourage people to exchange funds via e-channels and minimize contact with cash which is thought to be a vector of the highly contagious novel coronavirus (see Box 5).

Box 5: Recent Emergency Measures Announced by the Central Bank of Kenya to Support Mobile Money Transactions

1. There will be no charge for mobile money transactions up to Ksh 1,000.
2. The transaction limit for mobile money is increased to Ksh 150,000.
3. The daily limit for mobile money transactions is increased to Ksh 300,000.
4. The mobile money wallet limit is increased to Ksh 300,000.
5. The monthly total limit for mobile money transactions is eliminated.
6. The current tariff for mobile money transactions for Ksh 70,000 will apply for transactions up to Ksh 150,000.
7. Payment Service Providers and commercial banks will eliminate charges for transfers between mobile money wallets and bank accounts.

These measures are to be in effect from midnight March 16, 2020 and will remain in place until June 30, 2020.

Source: World Bank staff.

4.46 Kenya's recent growth performance has been driven by public investment, with the response from the private sector investment remaining muted. Indeed, growth in private investment averaged only 3.3 percent between 2014 and 2017. Subdued private investment in part reflects the "crowding out" of private investment by high public sector borrowing, the dampening effects of the interest rate caps on credit availability, and challenges in attracting foreign direct investment. As a share of GDP, foreign direct investment averaged 1.2 percent in Kenya between 2014 and 2018, well below some of its regional neighbors such as Ethiopia (4.1 percent); Uganda (3.6 percent); Tanzania (3.3 percent) and Rwanda (3.3 percent).

Prior Action 8. The Recipient has, through its Parliament repealed section 33B of the Banking Act, removing the cap on interest rates on bank lending.

4.47 Interest rate caps were repealed in November 2019, paving the way for a gradual increase in access to credit. Interest rate caps had deterred bank lending and severely limited financial access, especially for SMEs and individuals. A World Bank study shows that the interest rate caps regime negatively affected bank lending to small borrowers, households and SMEs, with the proportion of new borrowers falling by more than half from a peak of 13 percent in March 2016 to roughly 6 percent after the caps, hurting entrepreneurship and new job creation. It also resulted in a reallocation of credit from the private to the public sector, with private sector credit growth remaining subdued (see section 2. Interest rate caps were also associated with impaired monetary policy transmission and had adversely

affected the supply of long-term investment financing by making longer-term debt instruments less attractive. The removal of the interest rate caps **(Prior Action #8)** should serve to undo the above impacts, allow banks to appropriately price risks, and increase the private sector's access to credit. Indeed, since the repeal of the cap, private sector credit growth has been steadily trending upwards, though it remains below optimal levels.

4.48 Other measures being taken by the GoK to help address the affordability and accessibility of credit. With the cap on interest rates repealed, the CBK has engaged in efforts to prevent a return to the perception of predatory practices of the banking sector that led to the imposition of the cap by Parliament. To this effect, the CBK has introduced a Banking charter which commits banks to a set of common principles including fairness (application of risk-based credit scoring techniques); transparency in pricing; educating clients and providing technical assistance in financial literacy to borrowers; and broadening the reach of financial services. Second, to increase transparency, the CBK has developed a cost of credit portal where Banks report all their charges and fees and is available to the potential borrowers to compare the cost of credit across the different banks. Third, to pro-actively support lending to the MSME sector the under the auspices of the CBK, five commercial banks have launched a mobile loan app (STAWI) where Kenyan entrepreneurs can apply for loans, even if they have limited documentation. Big data from mobile transactions are used to develop scoring algorithms that help determine credit risk profiles of potential borrowers. The loan amounts range from about US$500 to US$2500 and are payable over a year. Fourth, the government has also moved to support the implementation of the movable collateral registry. Fifth in response to COVID the Central Bank has announced a raft of measures to help provide liquidity support to SMEs (see Box 6). The World Bank plans to complement the GoK's efforts through a proposed new project that seeks to support the broader ecosystem for SME development including addressing some of the access to finance challenges.

Box 6: Measures Taken by the Central Bank to support SMEs due to mitigate impact of COVID-19

To help alleviate the adverse effects, the following emergency measures will apply for borrowers whose loan repayments were up to date as at March 2, 2020.

1. Banks will seek to provide relief to borrowers on their personal loans based on their individual circumstances arising from the pandemic.
2. To provide relief on personal loans, banks will review requests from borrowers for extension of their loan for a period of up to one year. To initiate this process, borrowers should contact their respective banks.
3. Medium-sized enterprises (SMEs) and corporate borrowers can contact their banks for assessment and restructuring of their loans based on their respective circumstances arising from the pandemic.
4. Banks will meet all the costs related to the extension and restructuring of loans.
5. To facilitate increased use of mobile digital platforms, banks will waive all charges for balance inquiry.
6. As earlier announced, all charges for transfers between mobile money wallets and bank accounts will be eliminated.

Source: World Bank staff.

Prior Action 9. 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.

4.49 Beyond access to credit, policy and institutional challenges are weighing on private investment. First, investment entry and establishment are governed by a complex web of rules and requirements. For instance, starting a business in Kenya requires registering with multiple agencies, meeting various licensing requirements, and is often sector dependent. It also requires dealing with both national and county regulatory requirements. Second, investment promotion and facilitation are made more difficult by the inadequate access to investor services, cumbersome manuals, duplicative procedures, and low capacity of the Investment Promotion Agency. Third, there is a lack of a single application window for investors to register a company digitally; timelines in the approval process are not adhered to; and the One Stop Shop is not fully operational. Fourth, Kenya's minimum capital requirement (US$100,000, irrespective of sector), and the need to screen all foreign direct investment proposals before granting investment certificates, could be stifling activity in low-capital sectors.

4.50 This operation supports policy and regulatory reforms to remove some of the obstacles to private investment. The KIP aims to simplifying the process of investor entry and establishment **(Prior Action #9(i))**; improve provision of aftercare, retention and advocacy measures; and support green investments. It seeks to do this by, inter alia, strengthening the capacity of the One Stop Centre to enable investors to receive essential services, assigning a unique identification number for all companies, and restricting the payment of minimum capital requirements to selected sensitive sectors. The KIP also supports the greening of investments by seeking to promote adoption of low-carbon, climate-resilient investment to steer investments over time to least-cost mitigation options; and establish an open and competitive market for green investment, including in green technologies and infrastructure.

4.51 Completing the regulatory framework for the operation of enterprises in special economic zones (SEZs) should help spur private investment. Notwithstanding the passing of the SEZ Act in 2015, the regulatory framework governing the operation of enterprises in SEZs remains incomplete. The failure to complete the necessary accompanying regulations and institutional framework has contributed to legal uncertainty over the rights of potential investors that could set up enterprises in the SEZs. Surveys and consultations with existing and potential investors emphasize the importance of enacting pending SEZ regulations to fully operationalize the principles contained in the Kenya SEZ Act 2015 and provide clarity and certainty in rules governing SEZ enterprise operations. Clarifying the SEZ regime **(Prior Action #9(ii))** for enterprises should help increase investment inflows and give further impetus to the growing attraction of Kenya as a hub for multinational companies in the region.

4.52 The amendment to the Companies Act requiring companies to keep a register of beneficial owners should improve corporate governance. The recent amendments to the Companies Act require firms to keep a register of shareholders with at least 10 percent ownership rights and lodge a copy of the same with the Registrar of Companies **(Prior Action #9(iii))**. This reduces the chances of significant shareholders using third-party companies they might have set up to influence corporate decisions without declaring conflict of interests. Improving corporate governance remains of critical importance in Kenya as

it has been behind the liquidation and bankruptcy of a number of banks as well as one of the largest supermarket chains in the country. These bankruptcies and liquidations have weakened business confidence, reduced private sector credit growth, and left many suppliers (most of which are SMEs) with unsettled bills. Bringing greater transparency on beneficial ownership of private firms will reduces potential conflict of interest and lower the chances of making decisions that may not favor all shareholders, including minority shareholders. As previously discussed, from the public sector perspective, it also makes it more difficult for state officials and politicians to hide behind shell companies to win public contracts.

4.53 To further help crowd in private sector investment the GoK is keen to advance reforms that support the development of public private partnerships. The GoK has noted the outstanding issues which inhibit the successful implementation and financial closing of public-private partnerships (PPPs) and is keen to address concerns raised by the private sector and lenders. In this regard specific areas that require urgent attention include the need to allow for arbitration hearings to occur in an internationally acceptable seat of arbitration and the critical need to widen the definition of political events covered by the Government Support Mechanism Policy and the Letter of Support issued for PPP projects. Undertaking such reforms will help to crowd in further private sector investment to support the GoK's infrastructure development priorities and help ease fiscal pressures. The WBG remains committed to support the GoK in advancing the PPP agenda in Kenya.

4.54 Expected Results. The repeal of the interest rate caps is expected to alleviate one of the biggest hurdles to the expansion in private sector credit growth and restore the potency of monetary policy. Indeed, since the repeal of the interest cap credit growth has averaged about 7.4 percent compared to an average of less than 4 percent in the year leading to the repeal of the caps. The quantum of private investment is expected to be enhanced by measures supported under this pillar. With the implementation of the KIP, improved legal clarity that comes with the issuance of the SEZ regulations and addressing of corporate governance challenges is expected to improve the business environment and confidence. This is expected to translate to an increase in the number of investments—both in size and value—as reflected in the number of projects registered by Kenya Investment Authority rising from an average baseline of 37 projects with a total capital investment of Ksh 13.5 billion over the four years leading to 2017 to 55 projects with a total capital investment of Ksh 20 billion by 2021.

4.55 The proposed DPO is supported by significant analytical work and technical assistance and complemented by ongoing World Bank operations. Analytical work carried by World Bank Global Practices and the Research Group, and technical assistance work carried out within World Bank-supported operations (Table 5), have underpinned the policy dialogue pursued in this operation.

Table 5: DPF Prior Actions and Analytical Underpinnings

Pillar 1. Crowd in Private Investment and Financing for the Delivery of Affordable Housing	
Prior action #1	**Summarized findings:** The main bottlenecks to the delivery of AH result from demand side (long term finance) and supply side (land, regulations, infrastructure) constraints. • World Bank. 2016. Kenya. Expanding Affordable Housing and Housing Finance.

Pillar 2. Enhance Farmer Incomes and Food Security	
Prior action #2, #3 and #4	**Summarized findings:** High level state participation in the agriculture sector distorts incentives in both the input and output markets. • World Bank. 2014. Political Economy Analysis of Kenya's Agricultural Sector. • World Bank. 2015. Kenya Agriculture Sector Discussion Note: Transforming Subsistence Agriculture and Building Resilience to Climate Change.
Pillar 3: Create Fiscal Space and Crowd in the Private Sector to Advance the Government's Inclusive Growth Agenda.	
Prior action #5, #6 #7, and#8.	**Summarized findings:** Kenya's fiscal space has narrowed significantly in recent years. Measures to moderate expenditure growth and boost domestic revenue mobilization need to be encouraged. • World Bank. 2017. Kenya Economic Update, Edition 16: Poised to Bounce Back? Reviving private sector credit growth and boosting revenue mobilization to support fiscal consolidation. • World Bank. 2017. Kenya Tax Policy Studies. Value Added Tax: Improving Tax Policy for Strengthening Domestic Revenue Mobilization.
Pillar 4: Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda.	
Prior action #9	**Summarized findings**: Private investment in Kenya has remained subdued in recent years. In part this has been because of the crowding out of the private sector by the expansionary fiscal stance but also due to the interest rate cap and a need to improve the investment climate. • World Bank. 2016. Kenya Economic Update, Edition 14. Beyond Resilience: Increasing Productivity of Public Investments. • IFC. 2019. Kenya Country Private Sector

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

4.56 The DPO is aligned with the WBG Country Partnership Strategy (CPS) FY14–FY20 for Kenya.[15] Both the DPO and the CPS are underpinned by the Kenya's Vision 2030 blueprint, which is operationalized through medium-term plans. The CPS has three domains 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 CPS recognizes good governance as a common platform that underpins all three domains of engagement. This DPO helps to advance the objectives set out in the CPS. Given the links between affordable housing and economic growth, and human capital, the first pillar of the DPO contributes towards both the growth and human resource development domains of the CPS engagement. By enhancing farmer incomes and food security, the second pillar of the DPO contributes towards sustainable economic growth and poverty reduction. Further, measures under the third and fourth pillars supporting fiscal and debt management and crowding in of private investment are consistent with fiscal sustainability, economic growth and good governance goals of the CPS.

[15] Country Partnership Strategy for the Republic of Kenya (Report 87024-KE) discussed by the Executive Directors on June 5, 2014; Performance and Learning Review of the Country Partnership Strategy for the Republic of Kenya (Report 113547-KE) considered by the Executive Directors on July 17, 2017.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

4.57 **The Development Partners Group (DPG) is the existing country platform that engages with the Government to discuss Kenya's development priorities and challenges.** The DPGs are committed to supporting the GoK's Big Four development priorities, which are anchored in the MTP III 2018–2022. The preparation of MTP III was informed by extensive consultations at national and county levels involving various stakeholders. The pillars of this DPO, while anchored in the Government's development priorities, have also been based on a consultative process with development partners and other stakeholders. Specifically, in planning the operation, the World Bank hosted discussion meetings with Heads of Co-operation of DPG, Heads of Missions of DPG as well as having several bilateral meetings with development partners. Further, this second operation has been discussed in the regular monthly Heads of Co-operation meetings of the Development Partners, as well as the Quarterly Heads of Missions (ambassadorial level) meetings, which is co-chaired by the World Bank Country Director. The GoK, through cabinet ministers and on occasion chaired by His Excellency the President, has engaged directly with development partners on their development priorities (including the DPO). The DPO complements the European Union (EU) budget support linked to the public finance management (PFM) reform strategy, and a potential IMF precautionary financing program. Other development partners that are in different stages of discussions on budget support to GoK and have consulted with the World Bank in order to promote complementarity, include the Japanese International Cooperation Agency (JICA) and the African Development Bank. In general, development partners including the Canada, Denmark, European Commission, Finland, France, Germany, Japan, Norway, the Netherlands, Sweden, the United Kingdom, the United States, the African Development Bank, in coordination with the World Bank, are providing financial and non-lending support in several areas covered by the operation (public investment management— PIM, PFM, revenue mobilization, agriculture, affordable housing). The feedback from stakeholders has been useful for the design of the operation and will continue to feed into future discussions with the government.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

5.1 **The overall impacts of the policy and institutional reforms under this proposed programmatic DPO series are expected to be largely positive.** The poor (including small-holder farmers) and women are expected to benefit disproportionately from interventions on affordable housing, and reforms in the agricultural sector. Further, the net impact of fiscal reforms is expected to be positive.

5.2 **The e-voucher program is expected to disproportionately benefit small holder farmers, most of which are women.** The e-voucher program is expected to disproportionately benefit small holder farmers compared to the previous manual system which was poorly targeted—benefiting large farmers, traders and middlemen. The electronic system is underpinned by a robust registration exercise being able to rid out non farmers. Furthermore, the provision of the subsidy is capped to a maximum acreage (3–10 acres depending on crop registered by farmer), which is a size that is suitable to a small farmer but not to medium or large sized farm. Finally, for women, as they make up the majority of small-holder farmers, are positioned to disproportionately benefit from the e-voucher subsidy. Indeed, thus far at least 52 percent of the beneficiaries are women farmers.

5.3 Reforms in the irrigation sector should also be beneficial to small holder farmers. The irrigation regulations extend the mandate of the newly created National Irrigation Authority (NIA) to focus also on the development of small-scale irrigation schemes (which are more disposed to serve smaller farms), as opposed to the previous mandate which was focused on the large national level irrigation schemes. Further availing irrigation facilities can have more beneficial impacts on small sized farms since they are likely to be more deprived of such facilities compared to larger farms. A World Bank study finds that increasing irrigation facilities in the coastal region in Kenya led to an increase in lower income rural dwellers incomes by 2.9 percent compared to only 0.1 percent for higher income urban dwellers.[16]

5.4 The recent Kenya Poverty and Gender Assessment finds that increased commercialization opportunities for small holder farmers contributed significantly to the 11.3 percentage point decline in rural poverty over the past decade. The agriculture reforms supported under this operation are expected to increase commercialization of the agriculture sector to the benefit of all farmers. To ensure that small holder farmers benefit, the government is among other things reserving some 10 percent ownership of the newly established commodities exchange for the agricultural co-operatives, many of whose membership are small holder farmers. Further, the establishment of the warehouse receipt system and the Commodities Exchange will minimize the role of middle-men and increase farmgate prices of goods traded at the commodities exchange. Farmers participating in the system can also use their stocks in the warehouses to obtain credit facilities to smoothen consumption.

5.5 The building code supported under the amendments to the NCA strengthens the regulatory framework that safeguards the built environment. This is all the more important as low-income housing is prone to unsafe, vulnerable, and shoddy construction. A recent audit by National Building Inspectorate of 14,751 buildings in Nairobi and other towns found 716 buildings to be in very dangerous conditions and an additional (10,648) to be unsafe for human occupation. The provisions of the Built Environment and Building Regulations support stronger supervisory regime requiring approvals at different stages of construction.

5.6 Increased access to affordable housing is likely to have significant positive economic impact. Unlocking the residential housing market can help to significantly reduce the current deficit of over 2 million housing units. Beyond reducing the housing deficit, the removal of demand and supply side constraints is expected to unlock more private investment in the construction of affordable housing units, which should help create a wide range of income opportunities through the construction sector. In Colombia, it is estimated that five additional jobs are added for every US$10,000 spent on housing construction. In India, each housing unit creates 1.5 direct and eight indirect jobs; in South Africa, each housing unit creates 5.6 jobs (World Bank, 2017).[17] In Kenya, many of these new construction jobs will help low-skilled workers, often in poor households, to generate income. Of the 1 million workers in the construction industry, which is also the third largest sector for urban employment, two-thirds have only primary education or less, while almost one-third of workers live in poor households.

[16] Beyene, L., Namara, R., Sahoo, A., Shiferaw, B., Maisonnave, H., and Saltiel, G. (2018). Economywide and Distributional Impacts of Water Resources Development in the Coast Region of Kenya: Implication for Water Policy and Operations. Washington DC: The World Bank.
[17] World Bank 2017, Kenya Economic Update (December 2017).

5.7 Beyond the economic benefits, studies have found a positive correlation between improved housing conditions and human capital development. Affordable housing can improve health outcomes by freeing up family resources for nutritious food and health care expenditures.[18] Studies have shown that crowding can negatively impact physical health through the increased exposure to infectious diseases, but also through increased levels of psychological distress, feelings of helplessness and higher blood pressure. For instance, improved housing conditions in Mexico led to significant decreases in the incidence of parasitic infestations, diarrhea, and the prevalence of anemia, as well as a significant improvement in the cognitive development of treated children. Affordable housing also leads to positive educational outcomes by reducing homelessness among families with children.[19] Affordable housing projects can also improve educational outcomes by providing a forum for residential-based after-school programs. Thus, improved housing conditions contribute to bridge the large educational gap between households. For instance, two-thirds of all children in households in the top wealth quintile are proficient in mathematics compared to little more than one-third in the bottom quintile.[20]

5.8 The fiscal reforms supported under this operation should help bring about fiscal savings and improve the efficiency of spending. The fiscal reforms should thus have a net positive impact on poverty and social outcomes. Conservative estimates show that ensuring competition in public procurement in Kenya, even when considering only products that have been subject to bid rigging in other jurisdictions, could allow the government to save up 0.3 percent of GDP. Further, with the fertilizer input support program being transformed into a smart input subsidy program through the issuance of e-vouchers, the efficiency of spending in the agricultural sector should improve as smallholder farmers are better targeted to receive support.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

5.9 Policy actions in the housing sector supported by the DPO are expected to result in positive environmental impacts overall. The update of the 1968 building code and accompanying regulations will result in safer and greener buildings. Improved building standards and use of higher quality, more modern, and greener construction material is expected to reduce low quality construction especially in low-income (multi-story) housing to provide buildings that are safe for human occupation and to create a greener built environment. The new building code will contribute to construction of climate change resilient structures for the low-income segment of the population who are at risk to structural damages and displacement due to increasing intensity of natural hazards such as flooding. The updating of the required regulations and codes will ensure conformity and consistency with the Kenya Occupational Safety and Health Act (OSHA, 2007). New low-income multi-story units and other buildings that will be constructed to meet the demand for affordable housing will not be constructed on riparian areas and will need to comply with the national environmental and institutional framework and the relevant National Environmental Management Authority (NEMA) regulations.

[18] Maqbool, N., Viveiros, J., and Ault, M. 2015. The Impacts of Affordable Housing on Health: A Research Summary. Center for Housing Policy, Insights from Housing Policy Research.
[19] Maya Brennan, May 2011. The Impacts of Affordable Housing on Education: A Research Summary. Insights from Housing Policy Research. Center for Housing Policy. Mary Cunningham and Graham MacDonald, 2012. Housing as a Platform for Improving Education Outcomes among low-Income Children. Urban Institute.
[20] World Bank 2018, Kenya Poverty and Gender Assessment 2015/16.

5.10 Policy actions, institutional reforms and supporting legislation in the agriculture sector supported by the DPO are expected to enhance farmer incomes and food security without significant adverse effects on the environment and natural resources. The proposed measures are expected to reduce post-harvest losses, address marketing challenges and minimize inefficiencies faced by farmers. These reforms will support the creation of an enabling environment for warehouse receipts system, establishment of a structured commodity trading mechanism, and the strengthening of farmer cooperatives. Activities under the sector will need to promote the use of biological inputs and fertilizers and rationalize the use of chemical pesticides. Standards for warehouses will be enforced through licensing and inspection thereby improving quality and grading in the entire value chain.

5.11 The e-voucher fertilizer subsidy program is not expected to harm the environment and other natural resources. This is because the program is intended to increase efficiency in the distribution of fertilizers in the supply chain, including by eliminating middlemen, rather than expanding the use of fertilizers.

5.12 The irrigation-related policy actions and institutional reforms could potentially lead to expansion in production and have negative environmental consequences if relevant mitigating actions are not considered. The proposed increase of the arable land to be brought under irrigation could potentially lead to environmental impacts such as deforestation, land degradation, water logging and salinization of the soils, increased water-borne and water-related diseases and reduction in biodiversity. Prior to implementing activities under the Irrigation Act, an Integrated Environment Impact Assessment (IEIA) is required, as stipulated under the second schedule of the Environmental Management and Coordination Act (EMCA). This should provide for effective environment management, supervision and implementation of mitigation measures for potential environmental impacts.

5.13 Kenya's national environmental institutional framework in Kenya is broadly aligned with international standards. The framework is defined by the 2013 National Environment Policy and the 1999 EMCA (amended in 2015) that established NEMA. The Ministry of Environment and Forestry (MoEF) is responsible for establishing policy guidelines on environmental, forest, and protection and conservation of the natural resources. NEMA coordinates the environmental management activities undertaken by other lead agencies and promotes the integration of environmental considerations into development of policies, plans, programs and projects. Since 1999, NEMA has adopted the Environmental Impact Assessment (EIA) as a management tool to screen projects that may likely pose adverse impacts on the environment and other natural resources. The second schedule of the EMCA requires that government, donor and private sector proponents to undertake full EIA and submit EIA reports to NEMA prior to being issued a license. In addition, NEMA requires strategic environmental assessments (SEAs) to be carried out for the assessment of sectoral policies, plans and programs.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

5.14 Kenya's fiduciary framework has improved. The 2017 Public Expenditure and Financial Accountability (PEFA) results noted improvements in key areas (13 performance indicators) when compared to the 2012 PEFA. In terms of impacts on budgetary outcomes, aggregate fiscal discipline remained positive, there was little change in strategic resource allocation, while service delivery improved mainly due to implementation of the Integrated Financial Management Information System (IFMIS)

strategy. The most significant improvements at the national level include improved budget classification, the timeliness in budget preparation, expenditure controls, and financial reporting. The Government is improving the framework for public investment management, debt and cashflow management, procurement, financial reporting and audit. The only area where the PEFA finds that performance has fallen is the timeliness of audits. The quality of budget documentation, the extent of central government operations outside fiscal reports, reporting on fiscal risk, and asset management are some of the weakest areas of PFM performance. PFM performance was found to be weaker at the county level compared to the national level with budget reliability, underperformance of revenues and the management of public investments being particularly weak. A number of these issues are being addressed under the GoK's new PFM reform strategy including the use of technology to address governance challenges.

5.15 National Treasury publishes the budget on its website. In addition, the budget policy statement—a document that states the government's budgets plans and the main priorities on which it will spend its resources—is also published. Further, the National Treasury and the Office of the Controller of Budget produce regular budget implementation reviews, including the Quarterly Budget and Economic Review (QBER) and the National Government Budget Implementation Report.

5.16 The GoK's PFM system and its commitment to improve PFM performance provide reasonable assurance that the GoK can manage the country's budget resources appropriately. The strengths of the PFM system include a relatively strong budget system that is transparent and accurate; reengineering, roll-out and use of IFMIS in all line ministries and counties; well trained and qualified accountants and budget officers in the National Treasury and Ministries, Departments and Agencies (MDAs); and functioning Internal Audit Department (IAD) and independent Supreme Audit Institution, the Office of the Auditor General (OAG). Areas for improvement include delays in roll-out of some of the IFMIS modules; integration of IFMIS with some GoK information technology (IT) systems remains pending; errors in annual financial statements resulting in audit report qualifications for a majority of MDAs; and delays in submission of audit reports to Parliament. The World Bank is providing support to the National Treasury on PFM improvements through the Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (P161387) by use of targeted Disbursement Linked Indicators addressing the areas of weakness. As a result, there have been further strengthening in the areas of (i) annual audit report whereby the OAG has adopted improved audit methodology and developed quality assurance manuals with support from the African Organization of English-speaking Supreme Audit Institutions (AFROSAI-E). The new audit methodology was rolled out during the FY18/19 audit; (ii) significant improvement in timeliness of submission of financial statements by MDAs and counties to OAG, which has resulted in improved timeliness of audit report issuance. For instance, the FY17/18 audit reports for counties were issued by OAG in March 2018 (i.e., within 9 months after the financial year end), down from 15 months in FY16/17; (iii) IFMIS has been updated through integration with the debt management system.

5.18 The CBK maintains effective operational controls. The CBK has improved effective operational controls in recent years by appointing a functioning Board, reconstituting the audit committee, and rolled out the new generation currency. The FY17/18 OAG audit report did not flag any weaknesses in the CBK's internal audit function and internal controls. The CBK received clean audit reports from the OAG. The most recent audit report of FY17/18 was completed by the OAG and the audit certificate issued on September 26, 2018. The FY18/19 audit report has not been issued as a substantive auditor general is yet to be appointed following the retirement of the former office holder in August 2019.

5.19 The proposed DPO financing includes US$750 million equivalent IDA credit and US$250 million equivalent IBRD loan. Credit disbursement will follow the World Bank's procedures for development policy lending. With respect to the flow of funds, the World Bank will disburse the funds to an account opened by the National Treasury in the CBK which will form part of the foreign exchange reserves. After the deposit of the funds, the CBK would immediately credit the disbursed amounts to the Treasury Single Account (TSA) as part of the overall exchequer funds. The funds would then be available to finance budgeted expenditures. The GoK may use the proceeds as follows: (i) make budgeted foreign currency payments directly from this foreign currency bank account; (ii) transfer amounts from the foreign currency bank account to a local currency bank account of the GoK, which the GoK then uses to make payments for its budget expenditures; or (iii) a combination of these approaches.

5.20 The accounting of the credit proceeds will be in line with existing PFM arrangements. Government procedures will be followed to administer, record, and audit transactions relating to the credit proceeds and related payment.

5.21 Once the funds enter the GoK's foreign exchange reserves and the budget, they will be comingled with other GoK funds. Therefore, the World Bank will not require tracking the end use of the DPO funds. This means that disbursements of the credit will not be linked to any specific purchases and no procurement requirements must be satisfied, except that the Borrower is required to comply with the standard negative list of excluded items that may not be financed with World Bank credit proceeds, as defined in the Financing Agreement. If any portion of the credit is used to finance ineligible expenditures as so defined in the Financing Agreement, the World Bank has the right to require the Government to promptly, upon notice from the World Bank, refund the amount equal to such payment to the World Bank. Amounts refunded to the World Bank will be cancelled from the credit.

5.22 GoK will provide written confirmation (within 30 days after credit disbursement) that: (i) the credit proceeds were received into an account of the GoK that is part of the country's foreign exchange reserves (including the date and the name/number of the GoK's bank account in which the amount has been deposited); and (ii) an equivalent amount has been accounted for in the GoK's budget management system (including the chart of accounts name/account number, the date, and the exchange rate used).

5.23 Audit Arrangements: While there is no mandatory requirement for annual audit, the World Bank reserves the right to have an audit conducted, if in the opinion of the World Bank, the control environment ceases to be effective at any time during implementation. In such a case, the National Treasury, on request from the World Bank shall have the bank account into which the IDA funds are credited (both the US$ and local currency) and related transactions, audited on the basis of audit terms of reference (TOR) acceptable to the World Bank. The audit report shall be submitted to the World Bank within a period of four months after the World Bank's request for the audit. The audit will be conducted by the OAG which has been assessed as having the technical capacity, and independence to perform the audit.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

5.24 The National Treasury and Planning will be the coordinating institution for monitoring and evaluation among all the participating ministries for this DPO. The institutional and policy reforms supported by the programmatic DPO series fall under the purview of 11 ministries and agencies. These

are: CAK; CBK; Ministry of Agriculture, Livestock, Fisheries and Cooperatives (MoALFC); Ministry of Lands and Physical Planning; Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works; The National Treasury and Planning; Ministry of Information, and Communication Technology; Ministry of Education, Science and Technology; Ministry of Interior and Coordination of National Government; Ministry of Industrialization, Trade and Enterprise Development, and the Public Procurement and Regulatory Agency. The National Treasury and Planning has chaired the multi-sector coordinating committee established for overseeing the preparation of the operation. This committee will remain in place during the implementation of the program. The committee will also be responsible for monitoring of results indicators and evaluation activities.

5.25 The results framework presented in Annex 1 will be used as a monitoring tool by both the GoK and the World Bank. Data availability and quality are appropriate to monitor progress towards the achievement of the results indicators. The National Treasury and Planning will be responsible for the overall coordination and monitoring of the reform program supported by the DPO and will furnish information to the World Bank, as required, to monitor outcomes in the results framework. Most of these results indicators are based on routinely published information by the GoK. For those that are not, the National Treasury and Planning will liaise with focal points in the other ministries involved as needed to provide such information at a frequency and in a format satisfactory to the World Bank. The World Bank may provide implementation support and periodic monitoring and dialogue with the relevant line ministries and other stakeholders to ensure timely implementation and adequate monitoring of indicators and outcomes of the program.

5.26 Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or triggers under a World Bank DPO may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit *www.inspectionpanel.org*.

6. SUMMARY OF RISKS AND MITIGATION

6.1 The overall program risk rating has been increased to "Substantial" due to the broader economy-wide impact of the coronavirus pandemic. While the GoK has shown remarkable progress in pursuing its reform agenda and coordinating the reforms supported by this operation over the past 12 months, the uncertain depth and duration of the COVID-19 shock represents the single most significant risk that could undermine the attainment of the program's objectives (most residual risks remain moderate). As discussed in detail in section 2.1, the COVID-19 shock is having a large negative impact on the Kenyan economy. Consequently, GDP growth has been significantly downgraded, and there has been

a significant widening of the fiscal and external financing gaps. Nonetheless, with the fluidity of developments, the extent to which COVID-19 will impact this operation remains fully unknown.

6.2 COVID-19 shock has potentially negative impacts on the achievement of the objectives of each of the pillars of this operation. The achievement of the affordable housing goals (pillar one) could be impeded by mobility restrictions, social distancing requirements at the workplace, and supply chain disruptions that affect the importation of key inputs or the local manufacture of inputs. Second, the achievement of a boost to farmer incomes (pillar two), could be compromised by mobility restrictions and supply chain disruptions that cut farmers of accessing markets for their produce, thereby lowering their incomes. Further the locust crisis could aggravate the situation if the potential second of the locust invasion affects the major food growing areas. Third, if the downturn in the economy persist the attainment of the revenue projections could be compromised in the short to medium term (pillar three). Fourth, the persistence of COVID-19 undermines business confidence, which in turn could lead to a deceleration in private investment (rather than an increase) as envisaged under the reforms supported by this operation (pillar four).

6.3 Macroeconomic risk is rated high. While Kenya's macroeconomic outlook remains resilient, fiscal risks pose concerns. Further, the COVID-19 pandemic is expected to have adverse impacts on Kenya's growth and exert fiscal pressures, as the Kenya ramps up healthcare and other expenditures to mitigate the spread of the virus. This shock occurs at a time of limited fiscal space for additional discretionary expenditures. Official data show that the fiscal deficit expanded to 7.7 percent of GDP in FY2018/19 (up from 7.4 percent in FY2017/18), and nominal public debt increased to 62.4 percent in December 2019. Although the government remains focused on maintaining fiscal sustainability and reducing debt-to -GDP to about 50 percent over the medium term, the COVID-19 shock imposed by the virus makes these targets challenging to achieve, especially in the short-run. A significant deviation from the projected fiscal consolidation path could jeopardize Kenya's hard-earned macroeconomic stability and reverse some of the poverty reduction achievements of recent years. The prior actions supported through this operation, such as measures to strengthen the public procurement, domestic resource mobilization, improving the efficiency of spending, and improving debt management are likely to mitigate substantial fiscal risks over the medium term.

6.4 Political and governance risk is rated "Substantial." The improvement in the overall political environment following the presidential election of October 2017 has mitigated political risks to implementing reforms in Kenya; yet pockets of vulnerability remain. There is renewed high level commitment to tackle corruption in Kenya that presents an opportunity to learn from past efforts and respond to the radical shift in Kenya's governance arrangements arising from devolution reforms. However, political and governance risks, could complicate the envisaged adjustment path particularly if revenue enhancement measures and efforts to further cut recurrent spending face political resistance. Therefore, it is important for the GoK to create awareness of the economic rationale for the proposed reforms including the benefits of enhanced macroeconomic stability in a manner that is easily understood by the general public. The World Bank and other donors support measures to improve governance in Kenya by addressing the bottlenecks to improved economic management and service delivery. The DPO is complemented by operations such as the GESDeK Program for Results (P161387) that supports the implementation of the PFM Reform strategy at the national level. The Kenya Devolution Support Project (P149129) supports the institutional strengthening of county governments including on PFM, and the

Kenya Accountable Devolution Program (P167841), a multi-donor trust fund, support counties in PFM and directly impacts on service delivery. The DPO and these complementary operations will help maintain the positive trajectory in Kenya's fiduciary and other governance systems.

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Kenya Inclusive Growth and Fiscal Management Development Policy Credit

Prior actions		Results		
Prior Actions under DPF 1	**Prior Actions for DPF2**	**Indicator Name**	**Baseline**	**Target**
Pillar 1. Crowd in Private Investment and Financing for the Delivery of Affordable Housing				
Prior Action 1 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.	**Prior Action 1.** 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..	Number of Affordable Housing units constructed with Private investment under the government supported Affordable Homes Program.	0 (2017)	20,000 (2021)
		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.	0 (2017)	50 percent (2021)
Prior Action 2. 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.		Number of private sector shareholders in KMRC.	0 (2017)	15 (2021)

Prior actions		Results		
Prior Actions under DPF 1	**Prior Actions for DPF 2**	**Indicator Name**	**Baseline**	**Target**
Pillar 2. Enhance Farmers Income and Food Security				
Prior Action 3: The Recipient has (i) through its Ministry of Agriculture, Livestock, Fisheries and Cooperatives (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; and (ii) approved, through its Senate, and submitted to its National Assembly, the proposed Irrigation Bill, which supports better use and harnessing of water resources for irrigation through the integration of irrigation in water harvesting, flood control and storage.	**Prior Action 2**: 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 Strategy issued by the Ministry of Agriculture, Livestock Fisheries and Co-operatives. .	Number of farmers benefitting from e-vouchers.	0 (2017)	150,000 (2021)
		Proportion of farmers benefitting from e-vouchers who are female, helping to close gender gap since currently a higher proportion of male farmers use fertilizer.	0 farmers (2017)	50 percent (2021)
Prior Action 4: The Recipient has approved, through its Cabinet the structure for the establishment of a Commodities Exchange.	**Prior Action 3:** The Recipient has through its Cabinet approved a policy to commit purchases for the strategic grain reserve function of the NCPB through the Warehouse Receipt System consistent with the Agricultural Sector Growth and Transformation Strategy issued by the Ministry of Agriculture, Livestock, Fisheries and Cooperatives**.**	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**.**	0 (2017)	16 (2021)
Prior Action 5: The Recipient has approved, through its Senate, and submitted to its National Assembly, the proposed WRS Bill providing the legal framework for the establishment of a warehouse receipt system.	**Prior Action 4**: 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.			
Pillar 3. Create Fiscal Space and Crowd in the Private Sector to Advance the Government's Inclusive Growth Agenda				
Prior Action 7: 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.	**Prior Action 5.** 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.	VAT and income tax revenues as a share of GDP.	11.4 percent (FY2017)	12.1 percent (FY2021)

Prior actions		Results		
Prior Action 8: The Recipient has (i) signed an 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.	**Prior Action 6.** 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.	Cumulative value of government procurement contracts published on online procurement portal (Ksh billions).	0	600 (2021)
		Number of investigations related to bid rigging undertaken jointly by CAK and PPRA.	0 (2017)	5 (2021)
	Prior Action 7. 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.	Debt service ratio (percent of GDP).	4.3 (2019)	3.9 (2021)
		Share of government securities transacted on electronic platform, allowing for the participation of institutional and retail investors.	0 (2017)	70 percent (2021)
Pillar 4. Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda				
Prior Action 9: 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	**Prior Action 8.** The Recipient has through its Parliament repealed section 33B of the Banking Act, removing the cap on interest rates on bank lending.	Average credit growth to the private sector.	[2.8] percent (2017)	[14] percent (2021)
	Prior Action 9. 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.	Number of investment projects registered by Kenya investment Authority.	37 (2017)	55 (2021)
		Value of capital Investments registered by Kenya investment Authority (Ksh billion).	13.5 (2017)	20 (2021)

ANNEX 2: IMF RELATIONS ANNEX

A staff team from the International Monetary Fund (IMF), led by Benedict Clements, visited Kenya from February 19-March 3, 2020, to conduct the Article IV consultation discussions with the authorities and undertake negotiations on a new precautionary three-year Stand-By Arrangement/Stand-By Credit Facility. At the end of the visit, Mr. Clements made the following statement:

Kenya's economy continues to perform well. Real GDP growth was an estimated 5.6 percent in 2019, driven by the continued resilience of the service sector. This helped offset a slowdown in agriculture due to delayed rains in the first half of the year and excessive rains later in the year. Headline inflation averaged 5.2 percent in 2019 and stood at 6.4 percent in February 2020, mainly driven by food prices. Food inflation has remained elevated (averaging 8.4 percent between April 2019 and February 2020) but is expected to decline with normalizing weather. The external current account deficit narrowed further to 4.6 percent of GDP from 5.0 percent in 2018, mainly due to lower imports of capital goods and petroleum products, which more than offset a decline in goods exports (e.g., in tea and coffee). Remittances remained strong. External buffers are healthy, with foreign exchange reserves increasing to US$9.1 billion (5.4 months of imports) at end-2019.

The banking sector remains well-capitalized and liquid. The system's core and total regulatory capital to risk-weighted assets stood at 16.8 and 18.8 percent, respectively, as of December 2019. Liquidity risk has eased with improved distribution of liquidity across all banks. Lending to the private sector started to gain momentum in 2019, reaching 7.3 percent year-on-year in January 2020. Credit is expected to rise further following the removal of interest rate controls in November 2019. The ratio of nonperforming loans has declined from its peak of 12.9 percent in April 2019 to 12.0 percent in December and should continue to fall with the recent repayment of pending bills, recovery efforts by banks, and higher credit growth. The banking system has been gradually consolidating, with two significant mergers and acquisitions transactions finalized in 2019.

The fiscal deficit rose slightly in FY2018/19 to 7.7 percent of GDP and nominal public debt reached 62.1 percent of GDP. The authorities target a reduction of the budget deficit to 6.3 percent of GDP in FY2019/20, with revenue boosted by dividend transfers from state-owned enterprises and expenditure curtailed by a reduction in inefficient spending. Important progress was made on reducing the stock of pending bills from previous years. "Discussions focused on the policies needed to support the authorities' ambitious reform agenda, which aims to further bolster Kenya's strong and inclusive growth. The discussions covered revenue and expenditure policies needed to reduce the deficit this fiscal year and achieve further fiscal consolidation over the next three years to reduce debt vulnerabilities while preserving high-priority, growth-enhancing public investment and social spending; public financial management reforms to increase the efficiency, effectiveness, transparency, and accountability of public spending; transformation of the banking system through the Banking Sector Charter to further strengthen financial stability and increase access to financing, including for small businesses; modernization of the monetary policy framework; steps to improve governance and strengthen the anti-corruption framework; and reforms to boost growth and improve gender inclusiveness.

Significant progress was made during the visit, and discussions will continue in the coming period. There is broad agreement on the main principles of a plan for growth-enhancing fiscal consolidation that would cut waste and boost revenues to enable priority spending while reducing the deficit to below 4 percent of GDP by FY2022/23 as targeted in the authorities' draft Budget Policy Statement. Technical work will continue to firm up underpinnings of the plan, which could be supported by a Fund arrangement.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions for DPF2	Significant positive or negative environment effects	Significant poverty, social or distributional effects
Pillar 1. Crowd in Private Investment and Financing for the Delivery of Affordable Housing		
Prior Action 1. 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..	Positive	Positive
	Positive	Positive
Pillar 2. Enhance Farmers Income and Food Security		
Prior Action 2: 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 Strategy issued by the Ministry of Agriculture, Livestock, Fisheries and Cooperatives.	Positive	Positive
Prior Action 3: The Recipient has through its Cabinet approved a policy to commit purchases for the strategic grain reserve function of the NCPB through the Warehouse Receipt System consistent with the Agricultural Sector Growth and Transformation Strategy issued by the Ministry of Agriculture, Livestock, Fisheries and Cooperatives.	Positive	Positive
Prior Action 4: 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.	Positive	Positive
Pillar 3. Create Fiscal Space to Support the Government's Inclusive Growth Agenda		
Prior Action 5. 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.	Positive	Positive in the long-run
Prior Action 6. 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.	Positive	Positive
Prior Action 7. 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.	Positive	Positive

Pillar 4. Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda		
Prior Action 8. The Recipient has, through its Parliament repealed section 33B of the Banking Act, removing the cap on interest rates on bank lending.	Positive	Positive
Prior Action 9. 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.	Positive	Positive