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INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP STRATEGY

FOR

THE REPUBLIC OF KENYA

FOR THE PERIOD FY2014-2018

May 8, 2014

East Africa Department 2
Africa Region

International Finance Corporation

Multilateral Investment Guarantee Agency

The date of the last Country Partnership Strategy Progress Report was May 10, 2012.

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 1, 2014)
Currency Unit = Kenyan Shilling
KES 86.9 = 1.0 US Dollar

FISCAL YEAR

July 1 – June 30

ACRONYMS AND ABBREVIATIONS

AAA	Analytical advisory activities
AIDS	Acquired Immunodeficiency Syndrome
AfDB	African Development Bank
CBK	Central Bank of Kenya
CDD	Community-driven development
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
CPS CR	Country Partnership Strategy Completion Report
EAC	East African Community
EACC	Ethics and Anti-Corruption Commission
EMIS	Education Management Information System
ESMID	Efficient Securities Market Institutional Development
ESW	Economic sector work
GDP	Gross Domestic Product
GNI	Gross National Income
GoK	Government of Kenya
HISP	Health Insurance Subsidy Program
HR	Human Resources
IBRD	International Bank of Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IHBS	Integrated Household Budget Survey
IMF	International Monetary Fund
INT	Integrity Vice Presidency
KDHS	Kenya Demographic and Health Survey
KIHBS	Kenya Integrated Household Budget Survey
KNBS	Kenya National Bureau of Statistics
KPLC	Kenya Power and Lighting Company
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, small, and medium-size enterprise

MTP	Medium-Term Plan
MW	Megawatt
NADA	National Data Archive
NCCAP	National Climate Change Action Plan
NGO	Non-governmental organization
NHIF	National Health Insurance Fund
NSS	National Statistics System
OECD	Organization for Economic Cooperation and Development
PFM	Public financial management
PforR	Program for Results
PPP	Public-Private Partnership
PRSP	Poverty Reduction Strategy Paper
SBA	Sustainable Business Advisory
SCD	Systematic Country Diagnostic
SME	Small and medium-size enterprise
SSA	Sub-Saharan Africa
STATCAP	Statistical Capacity-Building Project
TA	Technical assistance
UNFPA	United Nations Population Fund
VAT	Value-added tax
WBG	World Bank Group
WBI	World Bank Institute
WSP	Water and Sanitation Program

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EXECUTIVE SUMMARY

1. Kenya can be one of Africa's success stories. It holds great potential including from its growing and youthful population; dynamic private sector; a platform for change laid down by the new Constitution and recent peaceful elections; and its pivotal role within East Africa and further afield. Yet poverty remains high with 4 out of 10 Kenyans living in poverty and the richest 10 percent of the population receiving 40 percent of the nation's income. Governance concerns persist; and growth, while solid, has been constrained by low investment and low firm-level productivity and has yet to take off at the rapid, sustained rates needed to transform the lives of ordinary citizens.

Progress and Prospects: Diagnostic Review of the Country Context and Development Agenda.

2. This strategy is based on a systematic review of evidence to identify the key challenges and opportunities for Kenya to accelerate progress toward the twin goals. The poverty rate fell from 47 percent in 2005 to 39 percent based on best estimates in 2012. Some social indicators have improved notably, yet inequality is high (Gini of 47.4); there are significant differences in opportunities and outcomes between women and men, for those living in the remote and most underdeveloped regions, and ethnicity remains an important factor in societal development. Looking ahead, ending extreme poverty by 2030 would imply a cut in the poverty rate of 2 percentage points each year, likely requiring the economic growth rate to double and inequality to halve. To unlock rapid and uninterrupted growth that is sustainable and inclusive, Kenya must address the key binding constraints of low investment and low firm-level productivity. Faster growth needs significant policy reform to redirect public spending to meet growing infrastructure needs. It also needs an improved business environment that encourages private sector expansion and carefully manages the tax burden on business.

Vision: Government Priorities and Medium-term Strategy.

3**.** Kenya wants to be a globally competitive and prosperous nation with a high quality of life. "Vision 2030", a broad-based agenda straddling the current and previous administration, rests on three pillars: economic, social, and political. The economic pillar envisages moving up the value chain in key areas, including agriculture and financial services, to consistently deliver 10 percent annual growth. The social pillar focuses on investing in people, including in education, health, and housing, and with a focus on women, youth, and vulnerable communities. The political pillar seeks to "move to the future as one nation," including improving the rule of law, transparency, and accountability. Vision 2030 is operationalized by the second Medium-Term Plan (MTP2, 2013-17), and this national agenda is entirely consistent with the Bank Group's global timeline targeting an end to extreme poverty. This, together with stakeholder input gathered in extensive consultations, provides a good anchor for this Country Partnership Strategy (CPS).

Development Challenges and Opportunities

4**.** Against this backdrop, *achieving rapid and uninterrupted growth* over a decade or more is the foundational challenge. The Government's second Medium-Term Plan calls for huge investments in infrastructure. A key opportunity here is to leverage private sector resources

through innovative public-private partnerships (PPPs), which are currently underdeveloped. To underpin a sound macroeconomic framework, a renewed effort is merited to help stabilize the wage bill. A more forceful initiative is needed to improve the business environment, including tackling some of the deficiencies pinpointed in World Bank Group (WBG) analytical work. Much of this change agenda will only be possible when relevant, accurate, and timely statistics are produced to inform policies and help evaluate programs.

5. *Placing a premium on human development* is essential from several vantage points. Growth must be inclusive so that prosperity can be shared by all. From an equity perspective it cannot be right that maternal mortality is among Africa's highest at 488 deaths per 100,000 live births; and many lack access to food security, clean water, good healthcare, and proper housing. Youth unemployment at 21 percent is double the adult average. Equipping young people with a modern education and job opportunities is essential to make the most of their talents. Cities must not only generate economic activity but also provide basic services for those who dwell in them. And the cohesiveness of Kenyan society calls for renewed efforts to include the marginalized and disadvantaged. To curb poverty, growth must take place in sectors where the majority of the poor live. Investment must be redirected to projects closer to the poor, including improving agricultural productivity in rural areas, expanding and targeting unified social protection programs that keep people from slipping into poverty, attracting private sector investment and participation into education, and improving service delivery in health at the local level.

6. *The changing institutional landscape is undergoing a tectonic shift* with powers and 30 percent of government revenues moving from the national government to the 47 new county administrations. This transition is truly historic and few countries have attempted anything on this scale. The forthcoming challenge is to deliver a "devolution dividend" through greater citizen engagement, direction, and oversight of public authorities to fundamentally deliver better services to ordinary people; building new local governmental structures that are responsive and responsible; and fresh inter-governmental relationships, including resource transfers that translate policy priorities into meaningful on-the-ground services.

7. All of these opportunities would be amplified *by improved governance and reduced corruption*, or undermined by any deterioration in the prevailing environment. In moving forward the WBG will be firm in its intolerance for corruption and desire for impunity to end, while setting expectations sensibly to make step-by-step progress. There are opportunities to continue improving public financial management, corporate governance standards, openness, transparency, and accountability in government; and to maintain robust safeguards. Such an "institution-building" approach will protect not only the integrity of WBG resources but also Kenya's internally generated resources that contribute to 90 percent of all public spending.

Strategic Options to Make the Most of the WBG Assets

8. To help Kenya address these challenges, this CPS draws on a fruitful country relationship established over several decades and sets out how the combined resources of the Bank, IFC, and MIGA can best help Kenya fulfill its ambitions of becoming a modern economy in which growing prosperity is shared across all communities. The Bank will use a "selectivity test" that deploys a four-pronged benchmark to guide the deployment of scarce resources to maximize the prospects of success: (a) confirming a credible line of sight to make a sustainable impact on

poverty and prosperity; (b) critically reviewing WBG capability and comparative advantage, including assessing opportunities for WBG collaboration; (c) cementing client ownership; and (d) calibrating client capacity and accompanying project design. The selectivity test is used in a cascading fashion to establish the three domains of engagement, the sectors within each of the domains, and to make trade-offs between particular operations and analytical advisory activities (AAA).

9. *The first domain of engagement is competitiveness and sustainability.* Improving infrastructure and the business environment, while being responsive to environmental pressures, is the backbone of long-term growth. WBG policy advice will help the authorities create a well-functioning and properly regulated energy market; IDA financing will be used for some publicly merited investments; and IFC and MIGA instruments will help leverage more private resources. More broadly, the Bank Group will redouble its support to public-private partnerships, especially in the water and transport sectors where there is medium-term potential. On transport, the focus of new IDA lending will be on significant rural feeder roads within and between counties to connect communities to emerging economic opportunities. Competitiveness can also be enhanced through improving the business environment, unleashing the potential of specific sectors and geographic locations, and ramping up financing sector and capital market development. The Bank will support the Government's oversight of the rapidly emerging oil and gas sector. Both IFC and Bank resources will be deployed to help create private sector jobs and try to make cities livable and sustainable, with a special focus on secondary cities where poverty is proving most stubborn.

10. *The second domain of engagement is to protect the vulnerable and help them develop their potential*, which is critical to sharing in prosperity. Social protection plays a pivotal role—the Bank's strong engagement will be maintained. Health is also a pressing priority; in this sector the combined resources of IDA and IFC, alongside global funds and other partners, will be scaled up. Another key to help target support for the poor is to focus on agriculture, a high priority since it has such a direct link with helping families in rural areas where a majority of Kenyans live. Potential IFC investments in infrastructure, agro processing, and financial institutions further support the goal. The burgeoning youth population brings opportunities and challenges for WBG support in education, jobs, and skills. Protecting the poor who are disproportionally impacted by climate variability will also be an area of support. And across the board the gender focus of WBG operations and analytical work will be upgraded, including support for female education, entrepreneurship, and rural women's groups.

11. *The third domain of engagement focuses on building consistency and equity.* This is a really long-term drive that has devolution at its core. The Bank's large-scale capacity-building and AAA program will inform a series of IDA operations to help counties and national agencies to make devolution work. Upon request, the Bank would assemble and manage a Trust Fund framework to maximize donor coherence in this fluid arena. IDA investments will support a more evidence-based approach to policymaking, public spending, and public administration reform. The consistency of Kenya's development will be buttressed by deepening regional integration with its neighbors; and WBG investments will be made in multi-country projects, including in energy and transport.

12. Individually and collectively the achievement of sustainable development results will only be possible if they are bound together through a connecting platform of *garnering good governance*, which in some ways has been an Achilles heel in the past. The WBG support has at its heart supply-side capacity building to strengthen oversight institutions, including support for better public financial management and for more effective institutions of accountability, combined with demand-side accountability such as the use of open community meetings for beneficiary engagement. The Bank will continuously review the impact of project-level governance measures that have been put in place, scaling up those that have been effective, including drawing on input from the WBG's Integrity Vice Presidency (INT) on project safeguards and institutional support to agencies such as the Ethics and Anti-Corruption Commission (EACC). The WBG will deploy "corruption calibration" to its lending program—adjusting areas of focus and/or scaling back resources in the event of issues, which threaten the security of IDA and IFC resource use.

Implementing for Results

13. The strategy incorporates a results-focus in this CPS and in specific operations and is flexible in responding to new conditions and information such as updated poverty data in due course. Targeted outcomes have been articulated in a multi-sector fashion, reflecting the interdependence of products across the strategy. The Bank Group's efforts to manage for results across the country program are built on country systems and capabilities for measuring and monitoring progress. Collaboration across the Bank Group and with other partners will be purpose driven in specific areas such as business climate, financial sector, public-private partnerships, energy, and agriculture. The selectivity test is already pushing the Bank Group to expand in some fields—such as supporting secondary cities, promoting rural development and devolution—and tapering Bank involvement in others such as highways, natural resource management, and legal reform. This process is dynamic, and the assessment will be continuously updated.

14. The WBG could be providing over US$1 billion per year to Kenya over the life of this CPS. Careful portfolio management will continue to be an important ingredient of the drive for results—with tailored approaches to suit the particular circumstances of Bank, IFC, and MIGA investments. IFC is targeting portfolio expansion perhaps even beyond the US$785 million of commitments at mid-FY14 if market conditions permit. MIGA's current total exposure to Kenya is US$255 million, and international investors' interest in infrastructure, power, and agri-business sectors provides potential for this to expand further. The Bank's annual commitments will be governed by the IDA17 settlement, provisionally assumed at around US$600 million each year. This will build on the IDA portfolio in Kenya of US$4.3 billion at mid-FY14, covering 23 national projects (US$3.5 billion) and 7 regional projects in which Kenya is a partner (US$0.8 billion). It is important to continue to "move to scale" especially in IDA investments, but also in IFC commitments, by focusing on larger projects and the judicious use of additional finance.

Managing Risks

15. Any instability in the macroeconomic environment would probably be the single most damaging factor to overall poverty prospects. The mitigation strategy revolves around the long-

term drive to improve competitiveness and exports, combined with a prudent strategy on reserves and international capital access to cope with potential volatility. Disasters and insecurity, natural or man-made, can be expected to occur even though their timing and severity typically cannot be predicted; and the Bank Group and its partners will seek ways to help cope with such risks in the future. Other strategic risks include unexpected changes in political leadership, policy direction and ministerial leads in key sectors, funding priorities of other donors, or a loss of appetite of strategic partners for IFC- and MIGA-supported deals. Each of these would require nimble re-engagement to prevent changes unduly affecting the WBG-supported program. Finally, operational risks include a worsening of the governance and corruption environment, including in new county administrations as their activities expand. The mitigating measures include (a) the thrust of this CPS to help garner good governance, including as part of the devolution process; (b) active cooperation between INT, the Bank, and the authorities in order that preventive measures are built into project design, and allegations when received are handled firmly and decisively; and (c) good communication with stakeholders, including the Board, so due proportionality can be applied in any strategic response needed by the Bank.

REPUBLIC OF KENYA COUNTRY PARTNERSHIP STRATEGY, FY2014-2018

1. **Kenya can be one of Africa's success stories. Its outlook is one of hope and positive prospects, with huge development opportunities combined with substantial challenges.** It holds great potential including from its expanding and youthful population; dynamic private sector; a platform for change laid down by the new Constitution and recent peaceful elections; and its pivotal role within East Africa and further afield. Yet Kenya's poverty rate remains high and governance concerns persist. Growth, while solid, has been constrained by low investment and low firm-level productivity and has yet to take off at the rapid, sustained rates needed to transform the lives of ordinary citizens. This World Bank Group (WBG) Country Partnership Strategy (CPS) draws on a fruitful relationship established over several decades. It sets out how the combined resources of the World Bank, IFC, and MIGA can, in line with the WBG's twin goals—eliminating extreme poverty by 2030 and boosting shared prosperity—best help Kenya rapidly reduce poverty and fulfill its ambitions of becoming a modern economy in which growing prosperity is shared across all communities.

I PROGRESS AND PROSPECTS: A DIAGNOSTIC REVIEW OF COUNTRY CONTEXT AND DEVELOPMENT AGENDA

A. Trends in Poverty and Shared Prosperity

2. **This CPS is based on a systematic review of evidence from within and outside the WBG as well as an extensive consultation process.** The analytical approach has drawn upon the emerging principles that guide the new systematic country diagnostic (SCD) approach. A formal systematic country diagnostic document would be premature at this point and hence has not been developed. A wide range of perspectives and input from Kenyan counterparts complements the analysis. The consultations, which were conducted in various locations across the country, included representatives from national government, county governments, the private sector, including business leaders, non-governmental organizations (NGOs); development partners; and respected Kenyan development practitioners.

3. **Poverty reduction is clearly the single most pressing issue and while Kenya's poverty rate has been falling—from 47 percent in 2005/06 to about 39 percent based on best estimates in 2012/13—several formidable challenges lie ahead.** There is a pressing need to solidify estimates with more recent data since Kenya's last household budget survey was in 2005/6. The Government intends to conduct a new survey in 2014, and the Bank is supporting such plans. Poverty reduction has been driven by solid growth across most of the economy, together with some improvements in social safety nets targeting the poor and continuing migration to urban areas—especially metropolitan Nairobi—that offer better job prospects (albeit largely in the informal sector) as well as easier access to health and education services. The distribution of the nearly 4 in every 10 Kenyans living in extreme poverty—"Kenya's bottom 40"—is by no means even, most notably with a growing rural-urban split that needs action on both sides. In the remote, arid, sparsely populated north-eastern parts of the country (Turkana, Mandera, and Wajir), poverty rates are above 80 percent; agro-climatic shocks impact vulnerable livelihoods that depend on livestock and low-productivity agricultural activities; and people's assets, including educational opportunity and achievement, are very limited. The populations in

the western and coastal parts of the country benefit from better natural resource endowments; but the poor remain especially prone to contracting insect and water-borne diseases, and agricultural potential has been limited by the effects of flood-induced, land degradation in certain rural areas.

4. **Tackling poverty must address both the difficulties of low-income, rural communities and the distinct problems of urban poverty that also encompasses secondary cities.** The proportion of Kenya's poor that live in major cities other than Nairobi has increased from 17 to 22 percent over the past decade, suggesting that economic growth in these urban settlements was unable to absorb the population growth. And even though the poverty rate of 22 percent in Nairobi has been falling and is low compared to the rest of the country, the absolute numbers of poor and their concentration in informal settlements remains high. Across the country women tend to fare less well than men in many dimensions, including being much less likely to find a job in the formal labor market and earning lower wages when they do. Women in rural areas have less access to income-producing assets such as land and credit, and receive lower incomes for comparable farm work in rural areas. Poverty is also more prevalent among large households (the poorest families have 5.2 members compared to 3.5 members in more well-off households).

5. **Income inequality levels are not likely to have decreased in recent years, and achieving inclusive growth remains a development objective.** Kenya's Gini coefficient of 47.7 is above that of neighboring comparators, including Ethiopia, Tanzania, and Uganda. The richest 10 percent of the population garner 40 percent of the nation's income, whereas the poorest 10 percent receive only 2 percent of national income. There is domestic interest in addressing this challenge and the WBG support to promote shared prosperity meets with a warm reception. While fostering income growth of the bottom 40 is not currently a target set explicitly by the national authorities, in practice it is currently equivalent to fostering income growth of the extreme poor. The WBG team is working with the authorities on this challenge, in an effort to convey the importance of securing a reduction in inequality as one step toward ensuring that attainable growth can meet the overarching target to end poverty in a generation.

6. **Significant investment and economic reform must be part of the effort to cut the poverty rate by 2 percentage points each year from now to 2030 if extreme poverty is to be ended in that timeframe.** Simulations—which will be refined once more up-to-date poverty statistics become available with Bank support in 2015—show that both the pace and extent to which economic growth is inclusive will have a major influence on the poverty outlook (see Annex 7). Eliminating poverty by 2030 in Kenya is beset by two formidable challenges: the rate of economic growth would need to double; and inequality, measured by the Gini coefficient, would need to be halved. If growth remains at historic levels of around 4 percent per year and inequality remains unchanged, poverty rate will fall to 35 percent by 2018 and to 27 percent by 2030, as shown in Table 1. The progress in poverty reduction depends strongly on what happens to inequality in the country. If inequality falls each year by one percentage point, with a GDP growth rate of 4 percent, the poverty rate would fall to 28 percent by 2018 and to 11 percent by 2030. Under this inequality reduction scenario, the goal of eliminating extreme poverty is attainable if annual GDP growth rates increase to 6 percent. However, if inequality worsens this goal would not be tenable in the medium term.

Table 1: Projected Poverty Rates for Different Growth and Inequality Scenarios

		2018			2030		
		Inequality scenario (% growth in Gini coefficient per year)					
		-1%	**0**	**+1%**	**-1%**	**0**	**+1%**
GDP scenario (% growth per year)	**+4**	27.6	35.4	41.6	11.1	27.4	41.1
	+6	19.8	28.5	36.3	1.9	13.1	29.3
	+8	14.2	22.9	30.8	0.19	5.9	21.4
	+10	9.4	17.9	26.6	0.017	2.8	16.1

Note: These estimates are computed using the observed 2005/06 distribution of per capita consumption and observed GDP per worker growth rates up to 2012, and projected overall GDP scenarios thereafter (not factoring sectoral dynamics) based on baseline fertility rates.

7. **Beyond the poverty data, it is also important to account for non-income dimensions of well-being.** Kenya has met the targets of relatively few Millennium Development Goals (MDGs) as analyzed in Annex 7. The recent UN report on the post-2015 development agenda has drawn attention to how factors beyond the direct poverty metric need coordinated international support.[2] In Kenya, some social indicators have improved: notably falling children's mortality (from 102 deaths per 1,000 live births in 2000 to 73 in 2012),[3] near-universal primary school enrolment, and narrowing gender gaps in education. Some improvements have been secured through well-targeted interventions such as the extensive deployment of insecticide-treated bed nets to guard against malaria, and increased public spending (albeit not typically used efficiently) on lower-level education. While prevalence of HIV/AIDS has been ameliorated thus meeting the targeted MDG, it is still a pressing issue for certain segments of the population. But other indicators remain stubbornly vexing. Secondary school enrolments are at a low 32 percent, and learning achievement levels are well below their potential and what is needed to fuel a modern market economy. And maternal mortality is among the highest in Africa with 488 deaths per 100,000 live births. This prompted an immediate policy response by the new Government to provide maternal health care for free at all public health facilities.

8. **There is also an important "jobs lens" through which to view people's sense of engagement in and benefit from the country's development**. Kenyans rate "tackling unemployment" as a top priority for the Government, which in fact has set an ambitious target of creating 1 million new jobs annually. Within this target there is a special need for jobs for the growing youth cohort; each year more and more young people are graduating from school and college and facing a rather despondent task of finding work. Kenya needs an acceleration of structural change that creates more high-productivity (modern) jobs in the formal sector (currently accounting for 1 in 7 jobs). Yet, it must also help grow jobs and improve conditions in the informal sector, not least in the family farm and off-farm sectors in which nearly half of all Kenyans work.

9. **Enabling people to realize their potential and lifting them out of poverty involves, at the most basic level ensuring that they are healthy, educated, and have basic life skills to be able to participate in social and economic life.** This is part of a broader drive to solidify the nation's social capital, which has been enhanced by the widespread support for the new Constitution adopted in 2010, and the free, fair, and peaceful elections in 2013. The tragic terrorist atrocities in Nairobi, however, serve as a reminder of the importance of domestic security in all its facets, including curbing crime across-the-board and upholding the rule of law.

B. Drivers and Constraints of Economic Growth

10. **GDP growth has played the main role in reducing poverty, but the average rate of 4.6 percent annually over the last decade is not sufficient to end extreme poverty by 2030.** On the positive side, for the first time in a generation Kenya avoided an "election disruption" to growth in 2013, helped by the new Constitution adopted in 2010 that set the platform for peaceful elections. It has drawn on its strong track record in economic management (its 3.9 rating in the Country Policy and Institutional Assessment was Africa's highest in 2012 as well as a prudent debt position). It has a vibrant private sector and financial services industry; and IFC increased the number of transactions per year by a factor of 4 between FY09 and FY13. The country also has regionally important assets, including a financial sector hub, port, and airport. All of this has delivered decent growth; but, on a per capita basis, as Figures 1 and 2 show, it is trailing behind Kenya's peers.

Figure 1: Kenya's GDP per capita – Underperforming its Peers over the Long Term

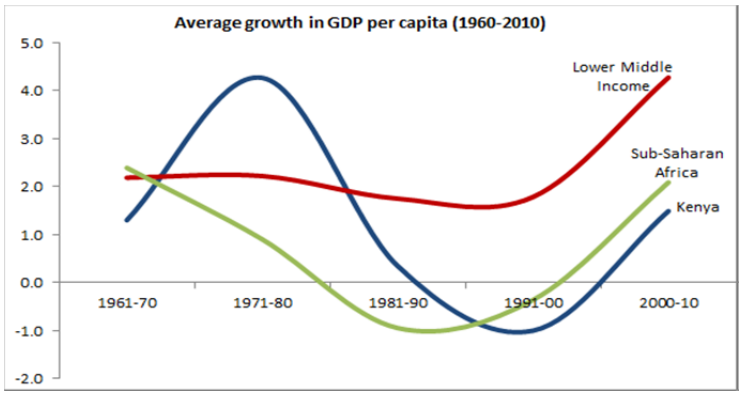
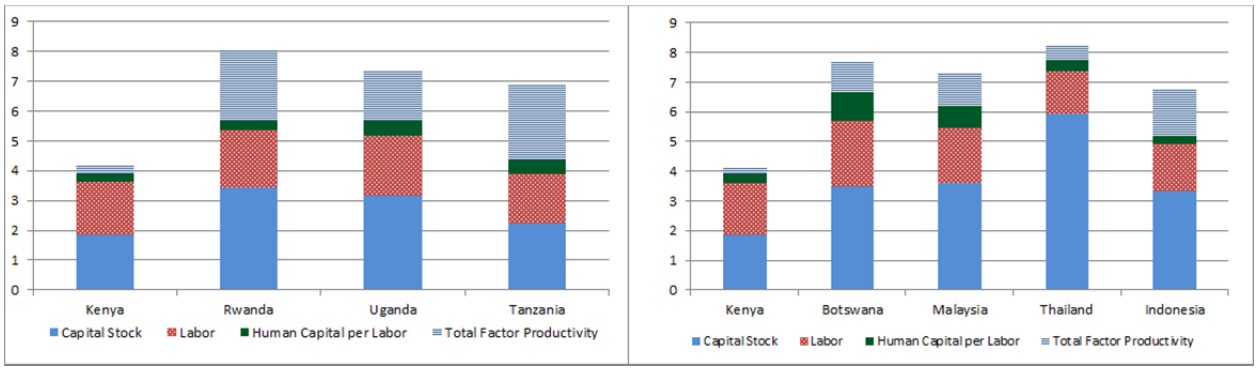


Figure 2: Contributions to Growth (in percent of GDP), 2000-2011 Annual Average



Note: The left chart shows regional comparators; the right chart some global comparators. The period corresponds to high growth period for Botswana (1985-2000), Malaysia (1980-1997), Thailand (1985-1997), and Indonesia (1980-1997).
Source: World Bank.

11. **What has held back growth? Kenya has been hampered by low investment and low productivity that in turn clog the "export engine".** There has been a weak contribution of capital stock to GDP growth as shown in Figure 2. Private sector investment, at around 15 percent of GDP, is below that of competitors; and foreign direct investment at 1 percent of GDP in recent years is far below what could be achieved (e.g., Tanzania and Uganda attract foreign direct investment of about 5 percent of GDP). Public investment has also been constrained. That

is not principally because of inherently inadequate funding considering Kenya collects revenue of around 24 percent of GDP annually—a leader in Africa. That strong performance has been driven by progress in economic policy and reform, including the review and update of the Value Added Tax (VAT) Law, supported by the US$750 million IMF External Credit Facility (ECF), which was completed successfully in December 2013. Rather a significant share of the tax revenue has to be deployed on a substantial public sector wage bill that is high by international standards. This means that while public sector development expenditure has edged up over the past decade, it is constantly under pressure and needs more room to increase.

12. **Low productivity, and low returns that constrain private investment persist for several reasons.** First, essential infrastructure services such as energy and transportation are too costly and inadequately supplied. Second, the environment for doing business, where Kenya notably lags its competitors, has weaknesses, including governance and corruption challenges, and regulatory frameworks, which in some cases are not well enforced and in other cases are too burdensome. Third, human capital has been improving and is relatively good compared to many other low-income countries in Africa, but still many firms—especially those competing on international markets—cannot secure the workforce to drive their growth. And fourth, limited access to finance often with overbearing requirements for collateral (e.g., for rural businesses), means companies in arid counties and small entrepreneurs are not grasping many growth opportunities. This is part of the broader challenge for the economy to mobilize domestic savings to direct toward investment needs. Many of these issues can be addressed at least in part by policy and market reforms, emulating some of the positive steps, such as trade reform and energy market liberalization that Kenya has taken in earlier years. Good clear laws backed by a strong and credible judiciary are an essential element in creating an environment that is conducive to business and financial activity to promote credit to a wider population.

13. **To unlock rapid and uninterrupted growth that is sustainable and inclusive, the WBG will continue to address significant binding constraints of low investment and low firm-level productivity.** The Government has been committed to fiscal discipline and the primary budget balance of the central government has remained at reasonable levels. The authorities seek to re-orient fiscal policy to providing infrastructure investment that lowers the cost of doing business. In addition the Government targets improving the business climate—part of which involves pursuing a careful tax policy that removes distortions and avoids undue burdens on private enterprise that could stifle entrepreneurship. Spending at national- and county-level government falls under the Public Financial Management (PFM) Law and within the Integrated Financial Management Information System (IFMIS), which should limit the risk of overspending and emphasize lowering non-priority outlays.

14. **Kenya's public sector debt remained sustainable with low risk of distress.** Overall, fiscal policy and borrowing decisions remained in line over the medium-term plans and its debt management strategy. Kenya's external debt has remained sustainable, largely on account of prudent borrowing on non-concessional terms while Government guarantees were limited to energy-related projects. According to the 2013 Debt Sustainability Assessment, the Eurobond issuance planned for the first half of 2014 does not change the favorable conclusions of Kenya's external and public debt position. Going forward, Kenya has planned a fiscal consolidation path of achieving a net public debt ratio of about 40 percent in 2017/18 and a deficit of 3 percent meeting the fiscal convergence criteria of the East African Community (EAC) Monetary Union much earlier than 2024.

15. **Appropriate monetary policy has kept inflation within the Central Bank of Kenya (CBK) target range (5, ± 2½, percent) for more than one year while the banking sector has built adequate capital buffers.** Average inflation in 2013 was 5.4 percent compared to 9.4 percent in 2012 and 14.0 percent in 2011. After the policy mishap in 2011, the Central Bank adopted a prudent approach by keeping its policy rate constant at 8.5 percent since mid-2012. In the banking sector, banks are implementing enhanced CBK-prudential guidelines in advance of the end-2014 deadlines. Kenyan commercial banks are increasing their capital adequacy buffers in line with individual banks' risk profiles, adopting more stringent provisioning requirement for non-performing loans and introducing contingency liquidity provisions into their planning in response to revised CBK-prudential guidelines.

16. **Kenya's external position has substantially strengthened**. The high current account deficit that has afflicted Kenya since 2005 and exposed its external vulnerability abated in 2013 to 8.4 percent of GDP due to tight fiscal and monetary policies, good weather, and improving exports of financial services. This also happened in an environment of a substantial increase in capital-goods imports emanating from foreign direct investment in oil-exploration equipment. Capital inflows and the participation of foreign investors in domestic bond markets have increased, attracted by high domestic interest rates and a stable exchange rate reflecting strong foreign investors' interest in Kenya's stock market and increased appetite for medium-term government securities. In addition Kenya has succeeded in building up international reserve buffers to above US$6.6 billion around 4.5 months of projected imports despite a large deterioration of the terms of trade. The strong external position has increasingly supported the shilling; improved public debt sustainability has placed the government in a more comfortable position to access international capital markets.

17. **Several sectors have performed particularly well, including high-value horticulture, tea, tourism, financial services, and emerging ICT—key ingredients in the modernization of Kenya's economy.** Consistent with this performance, the IFC has been able to step up financial investments dramatically—reaching about US$167 million of new business in FY13 and US$330 million in FY12. Kenya's faster growth has gained momentum by its rapidly growing working-age population, cities reaching significant scale to reap agglomeration gains, and the rising predominance of "modern" sectors. For example, Kenya's M-Pesa, the global leader in mobile money transfer systems, reaches more than 23 million subscribers or more than half of the population, and illustrates the power of innovation to make a dramatic change in people's lives. Still, foreign direct investment is limited, exports lag behind imports (a structural trade deficit that reflects weak competitiveness), and the private sector struggles to create one million new jobs needed each year for the country's growing labor force. Infrastructure needs are pressing, firm-level productivity is low, and weak governance and a poor business regulatory environment (the Doing Business rating dropped from 72nd place in 2007 to 129th place in 2014) stifles growth and entrepreneurship and holds back the effectiveness of some public spending.

18. **So what is Kenya's economic outlook? Can its growth accelerate and be maintained at a higher level? Yes, but it is a tall order.** The fact that historic growth of just under 5 percent per annum was below potential and below that of the country's peers is a good sign in so far as it shows there is room to improve. But it also shows that a significant agenda of policy reform and targeted investment is needed to accelerate economic performance across the board. The 2013 WBG report, "Achieving Shared Prosperity in Kenya," sets out systematically where there is considerable scope for change involving policy and institutional reforms and greater private

sector participation in key challenges. The country's manufacturing base is small and as a share of GDP (around 10 percent) has hardly risen in decades—whereas if Kenya were to emulate the success of global growth leaders among developing economies, manufacturing would have to expand dramatically. Improvements are also needed in the operations of the Port of Mombasa; in reform of agriculture, especially agricultural purchasing (the National Cereals and Produce Board); and in greater efficiency in public services. How far and how fast those types of adjustments take place will influence growth prospects along with global economic conditions and domestic macroeconomic policy. The Bank's central estimates (see Table 2) for the CPS period anticipate inflation being controlled and growth averaging about 6 percent per annum. More rapid growth is of course possible, and the WBG will work with the Government, the private sector, and other partners with exactly that aim.

Table 2: Kenya: Selected Economic and Financial Indicators, 2010-18

	2010	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*
Nominal GDP (US$, billions)	32.2	34.3	40.0	44.9	44.9	51.1	56.8	62.5	70.1
Real GDP (%)	5.8	4.4	4.6	5.0	5.5	6.0	6.0	6.0	6.0
CPI (annual average) %	4.3	14.0	9.4	5.4	5.0	5.0	5.0	5.0	5.0
Import volume growth %	8.0	0.0	9.8	3.6	11.8	8.2	7.6	6.8	8.9
Export volume growth %	6.2	-5.4	12.3	4.6	9.8	8.2	9.2	18.5	8.6
Current external balance (% of GDP)	-6.0	-9.6	-9.3	-7.8	-7.3	-6.6	-6.1	-4.8	-4.6
Gross International Reserves									
In billions of US$	5.1	6.0	7.2	7.2	8.0				
Import cover	3.85	3.71	4.0	4.3	4.0				
Central Government Budget (% of GDP)									
Total revenue	24.6	23.8	23.5	24.5	25.6	25.7	25.5	25.4	25.3
Total expenditure and net lending	30.1	28.9	29.8	30.3	29.9	29.4	29.1	28.9	28.7
Primary balance	-3.2	-2.8	-2.8	-3.1	-2.1	-1.8	-1.6	-1.4	-1.4
Public debt, Gross	49.8	48.2	48.7	49.4	48.9	48.6	47.9	47.6	47.0
External	25.9	27.5	25.9	25.6	24.9	26.1	26.1	26.1	26.1
Domestic debt	23.9	20.7	22.8	23.8	24.0	22.5	21.8	21.5	20.9

Source: IMF WEO database, The National Treasury - Estimates (shaded) from 2013 onwards.

C. Sustainability

19. **Accelerated growth will have sustainability implications.** When the country won its independence in 1963, its population was under 9 million and the pressure on natural resources (and human/animal conflict) was relatively modest. Now 50 years later, there are more than 43 million residents, and the population is projected to grow by around 1 million per year over the coming 40 years, to be the world's 20th most populous nation by 2050 (compared to 31st today). Although high fertility rates were the main driver in previous decades, these are now falling as incomes rise and family planning has become more prevalent.

20. **Managing population growth, both its scale and impact, remains a significant challenge.** A majority of Kenyans do not have reliable access to clean water and good sanitation. In rural areas women typically bear the brunt of life-sustaining household chores such as fetching water and firewood; this becomes even more challenging without sustainable land management practices. In the fast-growing cities (where in fact fertility rates are typically lower than rural

areas, which may lessen population growth somewhat over the longer term), the task of providing housing, proper waste and pollution management, and security is increasingly complex. Proper spatial planning and effective urban policies are essential if migration from the countryside to the city is really to improve people's lives over the long term.

21. **Overall the Millennium Development Goal on sustainability (MDG 7) is seriously off-track.** This is true for several other MDG targets (see Annex 7). Kenya is vulnerable to natural disasters and other climate-related impacts; droughts brought hardship and costs of US$12 billion over the last decade. Kenya is classified as "chronically water scarce" with one of the most degraded areas in the region; about 70 percent of the population lives in the small share (about 12 percent) of the country's total land area that has agricultural potential. The growing population and the resulting increase in demand for land, energy, and water is putting tremendous pressure on the natural resource base. These concerns are reinforced given that Kenya's natural assets—landscape and wildlife—are important for the population as a whole, for some specific indigenous groups whose livelihoods and culture are so tied up with the land, and for the pivotal position they play in the nation's tourism industry (which accounts for 2 percent of GDP and 15 percent of export earnings).

22. **Land issues are contentious and need to be approached carefully by all interested parties**. The Constitution puts emphasis on land and the environment, including aiming to achieve and maintain tree cover of at least 10 percent of Kenya's land area. The National Climate Change Action Plan (NCCAP) has identified restoration of forests on degraded lands and agroforestry as a 'big win' opportunity. Yet the challenge is to develop and sensitively implement win-win solutions that properly handle the rights and position of indigenous peoples, including those whose long-standing place of abode is in forest areas.

23. **Kenya's fiscal sustainability over the coming years has reasonably secure prospects based on Kenya's track record to date.** Policymakers would be loath to lose the hard-won gains from prudent macroeconomic policy. The potential Achilles heel is the public sector wage bill, which at over 50 percent of recurrent spending (compared to Sub-Saharan African average of 30-35 percent) and upwards of 7 percent of GDP is higher than many comparators. It is constantly under pressure especially now that account must be taken of former local authority staff salaries being absorbed by county governments and national civil servants whose functions have been devolved but are still on the government payroll. The move to devolution should not in and of itself raise public spending, but some policymakers especially at the county level may "turn on the spending taps." It will therefore be important that public financial management is strengthened, unnecessary or unplanned contingent fiscal liabilities are avoided, and fiscal responsibility is followed as required by the Public Financial Management Act 2012.

24. **Social cohesion requires renewed attention to equitable access to opportunities for all regions and communities, youth, and women as part of the Government's ambition for "unity" to ensure all groups have a proper share in Kenya's future.** The 2010 Constitution was a major step forward on women's rights and provides that at least 30 percent of all appointees to public bodies are female, including at the county level. However, there is a long way to go to ensure that women are economically empowered and can fully develop their potential (see Annex 12). In agriculture, women comprise more than 70 percent of the labor force, yet they own only 1-5 percent of agricultural land titles. In terms of non-agricultural employment, only 29 percent of those earning a formal wage are women and female youths are

twice as likely to be unemployed as adult females. Girls are also less likely than boys to enroll in secondary schools (female-male secondary enrollment ratio of 92 percent) and are more likely to drop out due to unfriendly school environments, early marriages, and the high cost of secondary schooling. Maternal mortality is one of the highest in Africa at 488 deaths per 100,000 live births and the proportion of women who receive child delivery with skilled attendance is only 44 percent and has remained unchanged over the last 10 years.

25. **To strengthen advancement of Kenya's women, this CPS has been informed by key gender analyses**. These analyses include a recently conducted gender portfolio review and a poverty and inequality assessment (see Annex 12). In addition, given that the last gender assessment predates gender-relevant provisions in the 2010 Constitution, the Bank will undertake a Joint Poverty and Gender Assessment targeted for FY15 that will directly inform the Kenya country program and ensure that activities are guided by the most accurate and up-to-date gender analysis (Box 1). Finally, support for setting, collecting, and monitoring sex-disaggregated data is planned in response to a lack of gender-disaggregated data.

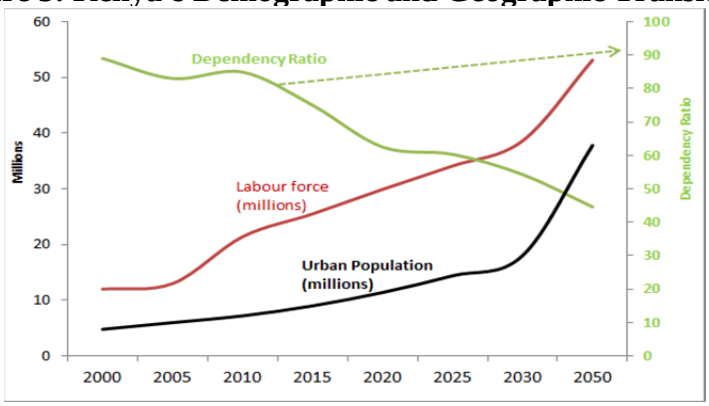
Box 1: Gender Focus: Enabling Women to Help Themselves, their Families, and their Country

Inclusion of women fully in Kenya's development is sensible from its intrinsic value of equal rights and its support for faster economic growth by helping all citizens, male and female, to achieve their greatest potential. The current development context in Kenya – devolution, the Constitution, and other policy reforms – offers compelling opportunities to advance these values. With the adoption of the new Constitution, women and men now formally have the right to equal treatment and opportunities in political, economic, cultural and social spheres without discrimination. The Constitution provides that not more than two-thirds of members of elective public bodies be of the same sex and also provides for numerous other rights for women, including those related to citizenship, marriage/divorce, land, and public service opportunities. However, there is still progress to be made in ensuring that women are able to realize these rights in practice.

The WBG, through the IDA portfolio, IFC investments, and analytical work is supporting key gender issues. A recent gender portfolio review estimated that 76 percent of active and pipeline IDA operations are gender informed. The current strategy builds on the previous CAS period that saw a focus on gender issues in agriculture, health, education, and social protection, with proposed indicators for each of these areas. WBG support has helped generate tangible results: a 10 percent increase in incomes for both female and male small-holder farmers; the provision of basic health, nutrition, and population services to over 21 million women; employment for 40 percent of interns benefiting from the Youth Empowerment Project (both female and male); and the provision of cash transfers to 56,000 orphan and vulnerable children households. The IFC SME Banking Advisory Program improves the availability of financial services to women by training commercial bank staff and supporting specific products aimed at women. The current CPS results framework includes gender-related outcome indicators in health services and water (see Outcome 5 in Annex 1, *CPS Results Framework*).

26. **How well Kenya's youth fare in the coming years will also have a significant bearing on social cohesion.** On the positive side there is a huge demographic dividend whereby some 26 million Kenyans (more than one-half the population) are below age 25, and this ratio will rise to almost two-thirds by 2030. More broadly it is economically productive adults (15-64 years) that are the fastest growing cohort, yielding a massive improvement in the dependency ratio over the coming decades (Figure 3). If these citizens—especially the young—are equipped with the skills and competencies for the changing marketplace and secure gainful work, they will provide a huge boost to productivity and output. But if too many of them fall from this path, there is a risk of social capital being undermined by crime and delinquency. That is why it is so important for the private sector to create jobs and for young people to continue their education and acquire skills to fit those jobs.

Figure 3: Kenya's Demographic and Geographic Transitions



D. Institutions and Governance

27. **The institutional and governance environment plays a part in the nation's performance and how the WBG program unfolds.** Kenya has a mixed record on governance performance, falling below the average for SSA countries in the World Governance Indicators, except in government effectiveness and regulatory quality (see Annex 9 for an overview of governance issues). Ratings in surveys such as those from Transparency International (where Kenya was rated 139 out of 174 countries in 2012) and extensive media coverage of governance and corruption justifiably draw attention to the issue. Likewise for the WBG, there is emphasis on tackling these issues, including taking measures to safeguard the use of WBG funds in projects, where deepened collaboration between the Bank's Department of Institutional Integrity (INT) and the Kenya National Audit Office has proven fruitful. The WBG has addressed the after-effects of somewhat contentious experiences with past (and closed) projects (that dealt with education and arid lands) where referrals have been made to the Ethics and Anti-Corruption Commission (EACC).

28. **It would be wrong to paint too gloomy a picture of governance problems**. But realistically, the governance analysis in this CPS shows that these problems have deep-rooted causes in accountability (or lack thereof), including vested interests, elite capture, and weaknesses in institutions of accountability that encompass the legal and judicial system and enforcement agencies**.** But in some respects it is the vibrancy, openness, and international connectivity of the media and civil society in Kenya that bring these issues to the attention of a much wider audience than perhaps is experienced by other countries with similar patterns of corruption. Many businesses do operate effectively; for example, IFC has been able to expand its business without governance issues grinding things to a halt. The country has an almost unparalleled openness among its peers in making public appointments, including Cabinet ministers, senior civil servants, and vetting of judges when replacement is necessary. A strengthened Ethics and Anti-Corruption Commission (EACC) and more creative and extensive use of technology can increasingly provide "sunshine" transparency (of public oversight) on public spending and other aspects of official public life. The 2010 Constitution has strengthened existing institutions and created new ones for oversight, including the Controller of Budget (who authorizes release of funds and is appointed on an eight-year, non-renewable tenure) and a reforming and independent Judiciary.

29. **Devolution in Kenya is a huge change in the institutional landscape.** The 2010 Constitution provided for the creation in 2013 of 47 new county governments with considerable oversight of affairs in their jurisdictions (see Annex 10 for the challenges and opportunities of devolution). If implemented successfully, it can, over the long term have a positive impact on governance and the promotion of shared prosperity. By bringing government closer to the people and enhancing local-level accountability mechanisms, governance can be improved; this will not happen automatically but rather requires specific actions, including establishing strong public financial management and budget transparency within county administrations. By improving and better targeting service delivery (such as education, core public services, local infrastructure) at the county level, local citizens and companies will benefit. There is considerable variation in capacity and resources among the counties, which will take a concerted effort to address. The new structures provide an avenue for a clearer and more equitable allocation of national resources across counties, which should help less-developed regions.

E. Regional Dimensions

30. **The country diagnostic would not be complete without recognition of the distinctive position Kenya holds in East Africa.** The country is a leader and connector within the East African Community (EAC), not least through its facilitation of regional trade, investment, and flow of skills across borders. But for it to become an economic powerhouse, Kenya must tackle key obstacles, among which is remedying major transport corridors, including border crossings that remain tortuous and hold back growth in neighboring countries (which in turn would benefit Kenya). Solidifying peace and security right across the Horn of Africa will also be of mutual benefit for Kenya and its neighbors. The new Government has affirmed its regional credentials, according considerable importance to cross-country collaboration as a way to promote economic development and security. President Kenyatta has formed active alliances with his counterparts to push forward specific initiatives, including transport connectivity, and to harmonize financial sector frameworks and infrastructure in the EAC. These last two initiatives are supported by the Bank's regional (multi-country) portfolio that has expanded considerably, albeit with growing pains (slow start up and disbursement). IFC clients and sponsors are increasingly being sourced from within Africa as well as among its global network. Some Kenyan enterprises such as those in financial services have made significant cross-border investments facilitated by IFC engagements. There is therefore potential to do more on regional issues; and while the transformative effect can be substantial over the long term, the costs and difficulties in delivering this must not be underestimated.

II VISION AND FRAMEWORK: GOVERNMENT PRIORITIES AND MEDIUM-TERM STRATEGY

31. **By 2030 Kenya wants to be a globally competitive and prosperous nation with a high quality of life for its citizens.** This clear ambition is encapsulated in "Vision 2030", a broad-based agenda straddling the current and previous administrations. The Vision provides a framework for this CPS. It rests on three pillars: economic, social, and political. The economic pillar envisages creating a modern economy by moving up the value chain in key areas, including agriculture and financial services, to consistently deliver 10 percent annual growth. The social pillar focuses on investing in people, including in education, health, and housing, with

a focus on women, youth, and vulnerable communities. The political pillar seeks to "move to the future as one nation," including improving the rule of law, transparency, and accountability.

32. **Vision 2030 is operationalized by the Medium-Term Plan (MTP), which drives policy actions, public investment priorities, and expenditure planning.** Its second edition, MTP2 (2013-17)—"Transforming Kenya"— was launched by the new administration in October 2013. It is clear that MTP2 is a sensible anchor for a good deal of the WBG work, including how IDA, IFC, and MIGA investments help leverage job creation. But WBG will need to have its own approach to selectivity in the deployment of its resources since it cannot match the appropriate comprehensiveness of the MTP2. The MTP2 and the Vision 2030 results framework provide a good anchor for the CPS to ensure solid monitoring of results of Bank-supported interventions with a clear line of sight to longer-term development results.

33. **Overall this national agenda is entirely consistent with the WBG aspirations.** The global timeline targeting an end to extreme poverty is aligned with Kenya's overall approach. Although the country has not explicitly proposed monitoring the growth in incomes of the bottom 40 percent (who are in fact those currently living below the poverty line), this focus resonates with the thrust of the domestic strategy. Policymakers are concerned—including for reasons of societal cohesion—and want to ensure that all groups share in advancing prosperity. And within the population, they have highlighted several segments, including the prospects for women and the rapidly growing youth cohort.

34. **It is important to enrich the understanding of this national vision with other sources of views from key stakeholders in Kenya's development**. For this reason the CPS has been informed by client and stakeholder views summarized in Annex 13. Dialogues and meetings with national and county governments have been held in various locations across the country. In many respects their views were consonant with the country's broad vision while providing additional insights into particular points of emphasis such as how to deliver "One Kenya" for women and men alike; dealing with the special challenges of youth; recognizing the intricate features of governance; and liberating the dynamism of the private sector, including by sensible tax policy at national and county level that avoids excessive or distortionary burdens on firms. Other feedback emphasized the issue of making devolution work, ensuring that WBG support helped as many counties as possible, especially those communities in the greatest need, and finding new methods of working with the counties.

III DEVELOPMENT CHALLENGES AND OPPORTUNITIES

35. **Some of Kenya's challenges are not new, and many exist similarly in other** WBG client countries. Yet there are certain distinctive features that have been identified in the systematic diagnosis of key constraints and opportunities relevant to the CPS timeframe. Those distinctive features provide one thrust (but not the only criteria) that accounts for how this CPS implements a selective approach to how the WBG deploys its resources going forward.

36. **Kenya's newly elected Government has a change mandate from an impatient citizenry, yet arguably with no diminution of the clientilism and interest group pressures that have influenced politics and business for decades.** There is potential within a burgeoning private sector, including the most effective of operations in fields as diverse as horticulture, tourism, power generation and transmission, and signs of significant new resources in the

extractive industries sector. Financial services innovations are particularly impressive, such as M-Pesa that leads the world in "mobile money for ordinary citizens," and in deepening stock exchange and capital markets. There are openings for Kenya to punch at a higher weight in regional East African Community activity—both in the public and private sectors.

37. **The new Constitution provides opportunities to implement major shifts in Kenya's institutions to improve how they serve the public.** With broad public support, the Constitution intends to accelerate development outcomes, reduce spatial inequality, and strengthen governance. Several key changes that it heralds are significant (Box 2) and set the scene for shaping how WBG input can help embed these changes over the coming year.

Box 2: A 50th Birthday Present: How the Constitution Opens New Doors for Kenya

Kenya's original Constitution adopted upon independence in 1963 provided a degree of stability in the subsequent decades, but its weaknesses in serving a modernizing and ambitious Kenya were becoming more apparent as time passed. The 2010 Constitution establishes significant new provisions in several areas including gender equality (where women are achieving fairer representation in elected chambers and executive positions, although there is still a fair way to go) and governance and the rule of law (where anti-corruption agencies are empowered more solidly). To improve public administration broadly, changes include a strengthened legislature and new senate; initial reforms in the judiciary; increased emphasis on transparency, participation, and accountability; and an ambitious devolution that transfers significant resources and responsibilities to 47 newly elected county governors and county assemblies. The March 2013 elections allowed the implementation phase to begin in earnest—an immense task of converting Constitutional provisions and laws into functioning institutions. The first steps in this daunting journey have been positive: election process issues are being resolved in court; public vetting of key leadership positions, especially in the judiciary, has increased; and devolution has largely proceeded according to Constitutional timetables, albeit with fits and starts.

38. **Against this backdrop, *achieving rapid and uninterrupted growth* over a decade or more is the foundational challenge.** Based on this diagnostic review in Kenya, there are prospects for maintaining a sound macroeconomic framework that needs, in part, prudent control of the public sector wage bill; but, this is linked with wider issues of equity and public service efficiency. The Salary and Remuneration Commission is in the forefront of trying to resolve wage demands in the public sector. How this Commission resolves labor disputes and helps stabilize the wage bill will be a test of fiscal resoluteness. At the same time, Bank-supported analysis of the delivery of public services has pinpointed glaring deficiencies in the way resources are deployed such as a troubling number of teachers failing to be present in the classroom for the equivalent of two days per week. All this points to public sector modernization as a continuing area of emphasis.

39. **The long-term economic engine is the private sector—including the large segment of informal activity—whose energy and dynamism should be the principal source of growth and where there are significant opportunities.** As part of its day-to-day business, the IFC has seen that several important sectors are attractive in their ability to create jobs, make an impact on poverty, and be commercially viable. These sectors include financial services, infrastructure, ICT, education, agriculture and food processing, and manufacturing. All these sectors are part of a modernization in the economy's structure. Overall firm-level productivity nevertheless remains low, constraining firms' abilities to grow and generate employment.[1]

[1] The Global Competitiveness Index (WEF) identifies low-productivity as one of Kenya's key constraints.

40. **Hence, progress on investment climate reforms, combined with improving firm-level productivity and innovation, is essential to raising private sector investment and job creation**. Moving vibrant sectors to the next level and critically ensuring that they are able to compete internationally, thus boosting Kenya's lagging exports, needs a mixture of capital and expertise from domestic and international partners. But beyond individual opportunities for the marketplace to grow across-the-board, the Government needs to deepen and build on the strengths of the financial sector and be much more forceful in improving the business environment. The WBG analytical work identified some of the deficiencies that need boosting: weak contract enforcement, overly regulated sub-markets (e.g., maize), and a stagnating manufacturing base. Innovation and competitiveness programs in key sectors could be helped by public support for science, technology, and higher education.

41. **The bottlenecks to private sector dynamism go well beyond the policy environment and are equally if not more rooted in on-the-ground realities of poor infrastructure; hence, leveraging private investment in infrastructure is essential and compels WBG engagement in the public-private partnership (PPP) agenda**. Firms are currently faced with high transport costs given dilapidated roads and railways, and a clogged-up Mombasa port: the average cost to export a container is US$2,255, compared to US$1,620 in South Africa, US$660 in Mauritius, and US$456 in Singapore. In addition, firms pay high energy costs at $0.21 per Kwh (versus per Kwh of $0.18 in Nigeria, $0.10 in South Africa, and $0.08 in China and India). To this end, the MTP2 identifies huge investments in infrastructure (roads, national railways, urban transport); energy; and agriculture among other areas. A fraction of these can legitimately be met from public resources, including those from IDA. But the real opportunity here is to leverage private sector resources through innovative public-private partnerships, which are currently rather underdeveloped. Parts of the legal framework for designing and executing PPPs are in reasonable shape. Hence specific transactions (including those with joint Bank, IFC, and MIGA support—see Annex 8 on WBG collaboration) in the power sector, for example, have been successfully arranged. More can be done on financing power generation and distribution yet the trick is now to expand and widen this approach. In terms of other infrastructural priorities, institutional and policy reforms with complex political economy considerations are long-needed such as liberalizing the grain and maize market.

42. **The effect of many of these actions on growth, and ultimately on poverty, can only be properly traced when relevant and accurate statistics are made available in a timely manner to policymakers and the general public alike.** Such an approach is an essential component of evidence-based policymaking and for monitoring and evaluating development impacts of programs being implemented. While Kenya has some strong statistical data, there are gaps (see Annex 11—Statistics for Results). The last MSME census was in 1999, and a nationwide household survey—central to reliable poverty data—was last conducted eight years ago. Action is needed to rectify this situation in the near-term, and to improve statistical coverage (including gender disaggregation where relevant), accuracy, dissemination and usage over the longer term.

43. ***Placing a premium on human development* is essential from several vantage points**. Critically, as the analysis in section 2 demonstrated, growth on its own almost certainly will not be enough to the deliver the "poverty yield" that Kenya seeks. Inroads must be made in inequality, and that is more productively achieved by empowering those at the lower ends of the distribution to move up than by squeezing the top. Furthermore, from an equity perspective, it

cannot be right that so many Kenyans face a life of full of hardships largely because of the place of their birth and family circumstances rather than their own talents and toils. Enhancing people's skills and capacity also allows them to become part of a better-qualified workforce needed to elevate firm-level productivity.

44. **There is an opportunity to make progress in improving public services that have a direct impact on people's well-being.** Health care may be foremost in this regard, given that the Government—and new county administrations—are behind a program of health reform. Although total national spending on health care, at around 5 percent of GDP is not low by comparable international standards, the effectiveness of such spending requires attention. Improved healthcare tends to be accompanied not only by better health status but also by lower fertility rates over the medium term. There is a great opportunity to help build better systems, including a stronger reliance on results-based healthcare financing at the local level, to leverage change. The central challenge in education is similar: apply resources more effectively and lift quality of outcomes rather than quantity of inputs. There is scope to attract more private sector investment and participation into health and education. Pointers can be taken from IFC's financing of a private sector service provider in Kenya and structured, social-service PPPs in other parts of the world. A brighter picture can be seen on social protection policy, where solid foundations have been laid to harmonize the somewhat disparate cash transfer programs and target those even more closely on poor households. This Bank-supported initiative is beginning to bear fruit now and should continue to do so over the next several years.

45. **In promoting human development, the Government has heightened its emphasis on youth and youth jobs.** Several schemes have been floated, including establishing "Institutes of Technology" in every ward of the country, and allocating 2.5 percent of national revenue to a "Youth Enterprise Capital Fund". From a private sector perspective, there may be interest and potentially growing involvement from companies who want to work alongside the public sector in creating jobs, such as those in the Bank-supported Youth Empowerment Project, to educate and train young people so they fit those openings. WBG is engaging the Ministry of Education's new PPP unit as well as other development partners, and exploring mechanisms with which to strengthen industry-academic linkages. Because the initiatives are so new, it is important to evaluate progress critically and adapt quickly as needed.

46. **For Kenya to make a huge dent on poverty, support for the growth and realization of people's potential must focus on sectors and locations where the majority of the poor can benefit.** In rural areas, the single biggest and most sustainable impact would be to improve agricultural performance. This is the area where the private sector has an important role to play in raising incomes by financing small farms, ensuring equitable access to markets, lowering risk and optimizing value chains. The agricultural agenda, of course, is very much tied up with Kenya's competitiveness, and policy/institutional reforms are needed to lift certain constraints to growth. There is considerable room to improve agricultural productivity, including through more effective extension services, sustainable soil management practices, better livestock management (a critical sub-sector for many of the poorest arid and semi-arid counties) and better management of market, production, and enabling environment risks. Basic rural infrastructure, notably access roads and irrigation, needs a huge upgrade. Finally long term enhancements to the use of land resources are called for, such as those facilitated by efficient land registries and secure tenure. The rural poor would also gains from community driven development which empowers local people, including women and marginalized groups, to take charge of their own fortunes. In other

cases mechanisms such as formal social safety nets, including cash transfers, food security for the most vulnerable, and sustainable land management support can make the best impact.

47. **In cities it is essential to engage the private sector to help put in place better infrastructure, housing, health and education to serve the growing population.** The prospects and approaches for doing this must be tailored to specific conditions. In the largest and relatively more prosperous cities, PPPs will become increasingly tenable (subject to a solid regulatory framework); and putting these in place will deliver better services and have a demonstration/knowledge-sharing dimension for elsewhere in the country. In the emerging secondary cities, there is a chance for public agencies to invest right at the outset to lay the platform for manageable growth over the long term. And whether in the countryside or on urban streets, the poor are most exposed to the impacts of disasters, thus making it important to strengthen disaster planning and management.

48. ***The changing institutional landscape is undergoing a tectonic shift* with powers and responsibilities moving from the national government to the 47 new county administrations.** The Bank provided a "Devolution without Disruption" report and supports implementation through the Accountable Devolution Trust Fund. This transition is truly historic and by no means easy—few if any countries have attempted anything on this scale or speed in the recent past. The Constitution envisaged transferring functions gradually over three years, but most county functions have already been transferred along with approximately 30 percent of government revenues rather than the Constitutional minimum of 15 percent, leaving some national government functions potentially under-funded. At this pace, the changes could bring about risk of service-delivery disruption, including in devolved functions like urban management, water, health, agriculture, and local roads.

49. **Devolution challenges will likely persist throughout the CPS period**, as reviewed in Annex 10. These include:

- Major capacity challenges to get core county planning, PFM, and HR systems in place.
- Risks in the largest cities that have inherited significant payroll and debt obligations, at the same time as reduced central transfers.
- Unique challenges of historically marginalized areas. Larger transfers to counties in arid and semi-arid regions provide an opportunity to address long-standing infrastructure and service delivery gaps. But these counties typically face major capacity gaps.
- Sectors that are being devolved to counties the fastest, including health, agriculture, and local infrastructure service delivery.
- Implementation of constitutional and legal provisions on incorporating transparency and citizen participation into county (and urban) planning, budgeting, and performance management systems.

50. **While it is essential to minimize what will be inevitable hiccups over the next several years, the real challenge is to deliver a "devolution dividend".** That dividend will be manifested through greater citizen engagement, direction, and oversight of public authorities to fundamentally deliver better services to ordinary people and build better local-level business environments. Maintaining expectations is important as devolution is a long-term process that goes well beyond this CPS period. At the local level it involves building new governmental structures, institutions, and systems that are responsive and responsible; and fresh inter-

governmental relationships, including resource transfers that translate policy priorities into meaningful on-the-ground services.

51. **In practice, the needs and opportunities for institutional improvement vary across the levels of agencies involved in the devolution landscape.** At the central level, ministries—especially the Treasury and the Ministry of Devolution—have to build capacity to oversee a new way of doing business in which a large share of national tax revenue is passed to county administrations. The approach has to be "lean and mean" (there is no point building local public administration if central government also expands) yet effective in rigorous public financial management and sensible fiscal discipline. At the county level, the 47 units need to develop their own ability to be responsive and accountable, not least through transparency in resource use and active citizen engagement. They must also find ways of working together, perhaps through the Council of County Governors, so they can exploit synergies on cross-boundary issues, such as sub-regional (multi-county) business competitiveness, and promote learning from each other.

52. **The 2010 Constitution ushered in other major changes to help reinforce the institutional "pillars of integrity".** Alongside the Public Financial Management Act (2012), it has clarified roles and responsibilities of the Office of the Auditor General, created the Office of the Controller of Budget, and increased the checks and balances with stronger oversight by the legislature over the executive. Furthermore, the judiciary has been strengthened with greater independence, with the roles of Chief Justice and Supreme Court undergoing transformation to improve their judicial performance.

IV STRATEGIC OPTIONS TO MAKE THE MOST OF WBG ASSETS

A. Aligning with WBG Twin Goals and Being Selective

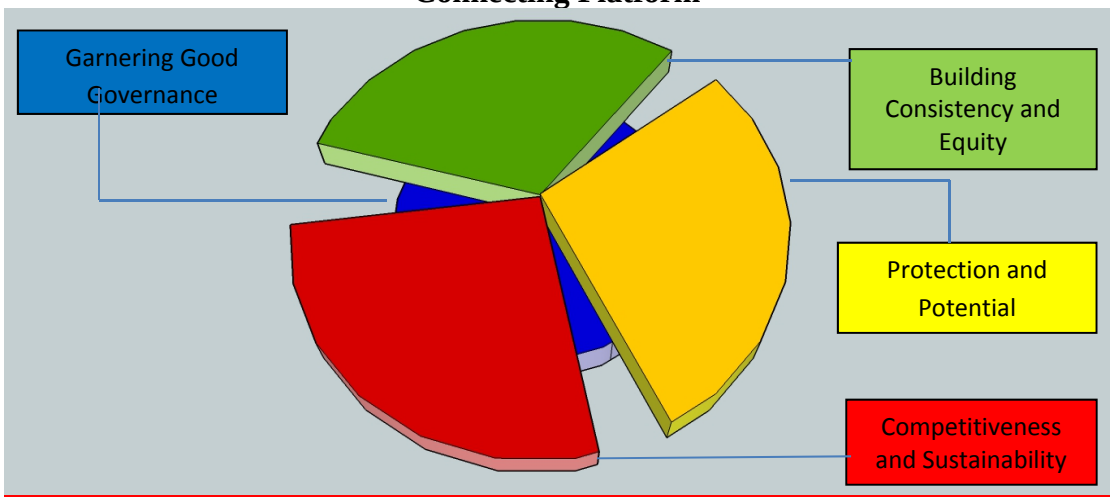
53. **The WBG-supported program in Kenya aligns with the WBG twin goals and must be—and will be—selective against a wide-ranging national agenda**. The MTP2, for example, identifies 38 areas of intervention, and its results framework sets as many as 292 targeted outputs. What is the best way of doing this? The Bank will use a selectivity test that deploys a four-pronged benchmark to guide deployment of its scarce resources to maximize the prospects of success. Specifically:

- ***Confirming a credible line of sight to make a sustainable impact on poverty and prosperity.*** Selectivity will be driven by the degree in which interventions directly target the poor, whether there is evidence to show that the expected economic benefit is substantial, taking into consideration, where appropriate, creating jobs and helping poor beneficiaries, including women.
- ***Critically reviewing WBG capability and comparative advantage (including assessing opportunities for collaboration).*** The role of other development players will be important in assessing how the WBG can add value. This benchmark also examines whether the WBG has an established track record in the suggested areas of intervention and, if not, whether an experienced team can be deployed.
- ***Cementing client ownership.*** The existence of a forceful, meaningful, and formal request from the relevant line ministry and Treasury, the intervention's inclusion in the MTP2, and a review of any resistance to the proposed intervention are some considerations that will gauge the level of client engagement.

- ***Calibrating client capacity and accompanying project design.*** The track record will be reviewed regarding adequate client capacity in relevant line ministries, credible procurement and financial management resources and expertise, integrity and corruption concerns, and how gaps in the above can be addressed and built into project design where needed.

54. **This selectivity test is used in a cascading fashion.** First, broad domains of engagement have been established that are drawn from the systematic diagnosis of constraints and opportunities highlighted above (see Figure 4 and Annex 15). A limited set of specific and measurable outcomes within each domain of engagement have been identified, in line with the Government of Kenya's key strategic vision. These targeted results help identify sectors within these domains that will be given priority. Conversely, as sectors gain higher priority, selectivity inevitably means that WBG will scale down or not engage in some areas. And in implementing the CPS, the selectivity test will be applied to make detailed choices on particular operations and analytical advisory activities (AAA).

Figure 4: Kenya CPS (FY14-18) - Three Domains of Engagement Bound Together by a Connecting Platform



B. Focus of Engagement

55. **The overall strategy will move forward with three domains of engagement**:

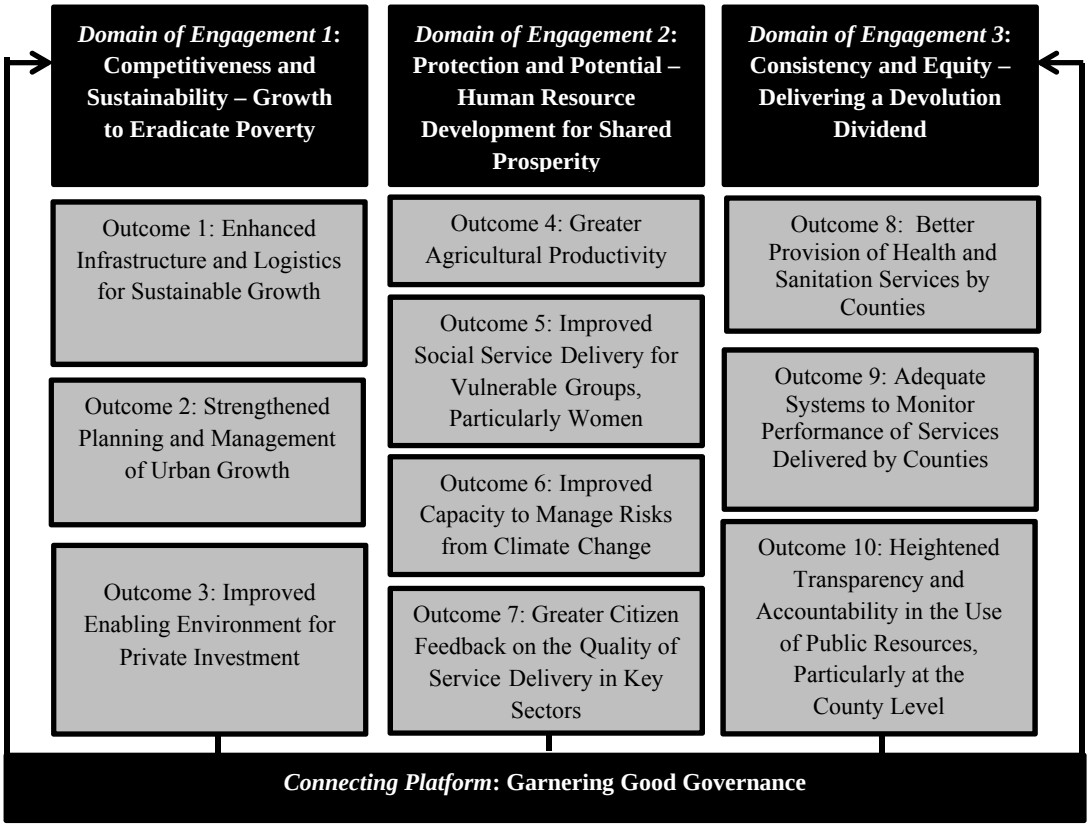
- ***Competitiveness and sustainability*** *– growth to eradicate poverty*;
- ***Protection and potential*** *– human resource development for shared prosperity*;
- ***Building consistency and equity*** *– delivering a devolution dividend*.

56. **Individually and collectively, the achievement of sustainable development results will only be possible if they are bound together through a connecting platform of *garnering good governance*, which in some ways has been an Achilles heel in the past.** More needs to be done on both the demand and supply side of governance. On the demand side of good governance, WBG interventions in the main domains will also build on governance-related dimensions such as transparency, accountability and openness, third-party monitoring, and increasingly robust public financial management. On the supply side of good governance,

accountability will be built through strengthening critical institutions and processes such as the Parliamentary Budget Office, Auditor General, Controller of the Budget, new county assemblies, and citizen participation in key issues. This is an area where the input and expertise of the World Bank Institute (WBI or its successor) will be particularly valuable.

57. **The results-based focus helps define the country program and its selectivity within each domain.** The overview is shown in Figure 5, with details in Annex 1. Each domain is discussed in specific sections that follow, which conclude with a summary of specific results being targeted (as shown in the overviews by domain in Figures 6, 7, and 8).

Figure 5: Targeted Outcomes of Kenya CPS FY14-18



C. Domain One: Competitiveness and Sustainability—Growth to Eradicate Poverty

58. ***On competitiveness and sustainability,* enhanced infrastructure and logistics are the backbone of long-term growth.** This is, however, a wide-ranging agenda; the MTP2 envisages investments upwards of US$43 billion over the next five years. Hence, the WBG is establishing some early priorities that are ambitious but not over-reaching. In the energy sector, WBG collaboration and long-established relationships with public and private sector partners will be expanded (Box 3). WBG policy advice will help the authorities create a well-functioning and properly regulated market and continue to provide technical assistance to selected government agencies. Support will extend to Kenya's cooperation with neighboring countries to facilitate energy cooperation, including through common technical standards and power-pool trading. IDA

financing will be used for some publicly merited investments, in the first instance targeted at electricity modernization through upgrading of selected transmission and distribution networks that will hugely improve technical and billing efficiency. IFC and MIGA instruments will help leverage more private resources, most notably in independent power production and renewables, perhaps also including geothermal sources. IFC, if market conditions allow, is open to substantially increasing its investments in infrastructure by drawing on an impressive network of investors that it has already built up. MIGA guarantees, which have recently been made more flexible to better cover breach of contract and state-owned enterprises, will also be marketed actively. A summary of the results for Domain One is in Figure 6 at end of this subsection.

Box 3: Three is Better than One: WBG Collaboration Powers Ahead

Over the last couple of years, the three WBG institutions along with MIGA, IFC, and IDA have pulled together path-breaking combinations of financial support in specific private-sector deals that are creating new power supply for the citizens of Kenya. In Thika Power and Triumph Power, MIGA has provided political risk insurance to make the projects bankable and attract foreign investment into Kenya. IDA has complemented that with a partial-risk guarantee supporting short-term liquidity. And IFC has underpinned it with direct investments into the private companies building and operating the new power plants. Thika Power itself will bring 87 megawatts of power on line with a 20-year power purchasing agreement. Just as importantly, a clear precedent has been set to demonstrate to the private sector, Government, and the WBG, that working together facilitates long-term investment and produces more results for all the players involved. Altogether, WBG engagement in the energy sector targets adding 2,300 MW installed generation capacity from diversified sources.

59. **More broadly the WBG will ramp up its already considerable support to public-private partnerships, especially in the energy, water, and transport sectors where there is medium-term potential.** This assistance is grounded in the recently commenced Infrastructure Financing and Private Public Partnership Project that builds capacity of the enabling regulatory and institutional framework, including the Treasury's PPP unit. It also pushes the agenda through extensive analytic work, including detailed legal and operational lessons from comparable experience in other regions, especially South-South exchanges. As the Government's PPP pipeline solidifies, WBG will have a greater "transactions focus", exploiting the synergies between IFC instruments, complemented by MIGA products, and potential IDA leveraging. One example arises with the Government-proposed viability gap financing, where private sector project capital can be mobilized to get projects done. Another example is in the water sector that has a rather nascent institutional environment where private participation has yet to emerge. Here WBG specialists (including from the Water and Sanitation Program) are providing capacity building to help move things forward in progressive counties, including potential support for public-private partnerships in water treatment plants and water delivery.

60. **On transport, the different instruments available across the WBG will be used judiciously to support trade-offs in selective engagement.** For IDA resources, the focus of new lending will be on significant feeder (rural) roads within and between counties, connecting communities to emerging economic opportunities (and so tying closely to the poverty agenda). The current IDA portfolio will follow through on commitments made to larger-scale infrastructure, including public resources, as an emergency response to re-build core infrastructure following the tragic fire at Jomo Kenyatta International Airport in the summer of 2013. But, beyond that, the shift in approach means doing less in terms of allocating IDA to highways and similar programs.

61. **For IFC and MIGA resources, combined with Bank AAA expertise, there should be growing possibilities over the longer term from private sector engagement.** Public-private partnerships in airports, highways, and modern urban transport may be on the horizon and will be pursued by WBG. MIGA, whose products include both traditional political risk insurance coverage and new cover for non-honoring of financial obligations, can help leverage cross-border investments. MIGA will actively seek to deepen its engagement in Kenya through proactive business development efforts in the infrastructure, manufacturing, and agribusiness sectors, in addition to its already strong engagement in the energy sector. There is no doubt about the importance of making improvements at the Port of Mombasa if Kenya is to serve its own and neighboring economies properly. Other development partners are providing financial support; WGB has delivered analytical and investment support in this area over recent years, so given selectivity pressures further IDA resource allocation in the near term is a lower priority.

62. **Competitiveness can also be enhanced through improving the enabling environment, unleashing the potential of specific sectors and geographic locations, increasing firm-level productivity, and ramping up financial sector and capital market development.** The joint IFC-IDA/donor-financed Investment Climate Program will actively support renewed and increased commitment to improving the "Doing Business" position, particularly in the areas of business regulation, trade logistics, and advising on tax policy that supports entrepreneurship (see Figure 6). On growth sectors, WBG has a carefully crafted involvement in the rapidly emerging oil and gas sector. More broadly, IFC and MIGA see potential market opportunities—with a poverty-reducing angle—in agribusiness, health, education, and niche manufacturing, many of which WBG can open up through analytical work such as the ongoing Kenya Industrialization Road Map and the National Tourism Strategy. The IFC is already a major player in Kenya's financial services industry and will continue to look for new opportunities. IFC expects to increase commitments to financial institutions over the coming years as market conditions allow. IFC and World Bank advisory services will focus on strengthening the banking system and capital markets through support to the Central Bank and Capital Markets Authority as well as in developing corporate bond markets and county-level pension schemes, mortgage markets, financial sector regionalization in the East African Community, and financial inclusion**.**

63. **Kenya's large cities are engines of growth and the urbanization trend is unstoppable, so improving access to water and transport services in urban areas will be key.** Nearly one-third of Kenyans live in cities with expected growth to one-half by 2030 (Figure 3). Nairobi could become a metropolis of nearly 8 million inhabitants, and Mombasa could be a second piston in the growth engine. Secondary cities provide an important rural-urban linkage in the system of cities and can serve as an important driver for off-farm employment opportunities for the rural population. So WBG involvement will blend IFC and Bank resources that create private sector jobs, improve infrastructure, and provide better services to make cities more livable and sustainable. To shape future support, WBG will draw upon the lessons from its current project-level engagement and a comprehensive analytical piece (an Urbanization Review) to be completed in the first months of this CPS period. There are several binding constraints that WBG might help tackle, including providing access to clean water, coping with waste management through sanitary landfills, improving informal settlements (a third or more of the capital's population reportedly reside in peri-urban slums), stimulating mortgage financing more broadly, reducing transport congestion, and enhancing urban governance and management.

There is considerable donor interest in this sector. And there is potential for the WBG to expand its already fruitful partnerships, perhaps even to include reimbursable service agreements to further this agenda. Moving from an input- to outcomes-based approach will be a fundamental tenant of the future support to urban development.

64. **As Kenya's rapid rise in population continues and if GDP growth accelerates, there will be commensurate pressure on environmental and social sustainability.** This is connected with the climate change agenda, which affects Kenya in its propensity to suffer from natural calamities, including both drought and flooding (given the country's weather and territorial conditions, each of these impacts sometimes take place even within the same year in neighboring locations). Based on experience, especially in the most recent CPS period, the WBG can expect selective engagement on climate change issues to be focused on providing more resources for water security and climate resilience. Other development partners are expected to lend assistance for protecting coastal areas, the rift valley, and highland plains—containing areas of outstanding natural beauty and precious wildlife— against threats that include encroachment and pollution.

65. **The Government is meeting many of these challenges such as protecting natural heritage and managing some aspects of climate change with strong support from the AfDB and other development partners.** Given this level of support, WBG involvement will be highly selective on its comparative advantage, and focused in the first instance on water security and water sanitation. While land reform could also be an important contributor to long-term growth, it is a highly contested area and unless conditions look propitious, the WBG does not anticipate a heavy involvement during this CPS period.

Figure 6: Domain One: Competitiveness and Sustainability – Expected Outcomes

Outcome 1: **Enhanced Infrastructure and Logistics for Sustainable Growth** • Additional 2300 MW installed generation capacity from diversified sources (geothermal, thermal, wind) • Reduction of 2.8 percentage points in electricity system losses • Reduction of waiting times in ports by 5 days and at border crossings by 1 day	Outcome 2: **Strengthened Planning and Management of Urban Growth** • 14 urban centers with integrated strategic plans
Outcome 3: **Improved Enabling Environment for Private Investment** ***(connecting platform)*** • 15 investment reforms in business regulation, trade logistics and industry	

D. Domain Two: Protection and Potential—Delivering Shared Prosperity

66. ***To protect the vulnerable and help them develop their potential,*** **multiple measures** are needed that focus on key groups. The WBG will continue its strong engagement in social protection. The Social Safety Nets Program for Results, which commenced operations in the fall of 2013, targets covering an additional 450,000 people (see Figure 7 at end of subsection). It is also being monitored closely along with the accompanying capacity-building work; WBG stands ready to supplement resources should that be merited in the latter part of the CPS period. With regard to health priority, the combined resources of IDA and IFC, alongside global funds and other partners, will be scaled up. IFC is pursuing an innovative combination of support for hospital care together with techniques to attract private sector expertise and resources into lower-level primary care as well. This is being complemented by near-term, IDA additional financing to scale-up results-based financing and support introduction of health insurance subsidies for the

poor. The financing also targets increasing access to a basic package of health, nutrition, or reproductive health services to an additional 1,000,000 women (see Figure 7). Another planned operation during the CPS with a strong focus on results will include a relevant gender-focus as informed by the WBG's forthcoming Poverty and Gender Assessment. The Bank will join the ongoing multi-partner-supported effort to help the government to develop innovative financing options to sustain priority national programs such as HIV/AIDS, tuberculosis, and malaria and prepare for the emerging burden of non-communicable diseases. A summary of expected results for Domain Two are found in Figure 7.

67. **Another high priority to target support for the poor is a focus on agriculture—a direct link with helping families in rural areas.** There is considerable scope for public investments (including with IDA) to raise productivity and economic returns. Potential IFC investments in infrastructure, agro processing, and financial institutions further support this goal. Indeed supporting agribusiness and food security in Africa as a whole and Kenya in particular are goals of an aggressive multiyear IFC initiative. The performance of agriculture in Kenya however is mixed. On the one hand, parts of its private sector-driven segments such as flowers and horticulture are global leaders—a lion's share of the huge European flower market is sourced from Kenya. Here the challenge is to continue that expansion in an environmentally sustainable way, which may provide opportunities for companies to benefit from IFC involvement, including through its internationally accepted performance standards on safeguards.

68. **On the other hand, much of publically influenced and small-scale agriculture performs very poorly.** Maize yields, for example, have hardly risen in years, and the domestic consumer price is actually higher than in major OECD economies. While women provide over 70 percent of the rural labor force, they own only less than 5 percent of land titles and face other obstacles to maximizing agricultural output. Part of existing operations are addressing women's productivity, technology adoption, and lifting other constraints to females generating sustainable livelihoods; but it is too early to declare success. Given this state of affairs, for the agricultural sector as a whole, the WBG will be deliberative in laying the groundwork to step up engagement in this sector where involvement has been modest to date. First, the WBG will reinvigorate that knowledge base to carefully delineate the precise constraints to and levers of change, including political economy considerations. Second, the WBG will use that knowledge to confirm energetic ownership by the authorities for specific transformative investments. Third, the WBG will continue to look for profitable, job-creating agribusiness; "access to rural finance"; and value-added opportunity investments for IFC support, especially since increasing agribusiness investments is a strategic goal for IFC in Sub-Saharan Africa. Fourth, IDA operations will be designed to perhaps include community development support and irrigation of an additional 45,000 hectares of land (see Figure 7), to respond to these lessons.

69. **The burgeoning youth population brings with it a distinctive set of opportunities and problems.** WBG will help the Government address joblessness. A Global Partnership for Education operation (US$88 million) is under preparation. In addition, IFC has invested US$10 million to support the expansion of Bridge International Academies to provide high-quality primary education for children of poor families. More planned analytical work could be complemented by IFC investments as market opportunities develop. Current financial management and other fiduciary work will refine assessments and improve the governance environment in the education sector. Robust evidence of improved governance would then make

possible deployment of IDA resources more feasible in the coming years. The Bank expects to continue its work as needed on youth employment, including exploring other interventions to help ensure young people are properly prepared for work. The AfDB has given particular emphasis to youth in its new strategy and plans significant investment. And across the board, the forthcoming Poverty and Gender Assessment will influence WBG operations and analytical work, including support for female education, entrepreneurship, and rural women's groups.

70. **The poor must be protected from the impact of disasters and climate-related changes to their environments.** Climate variability and hydro-climatic shocks (droughts and floods) impact disproportionately on the poor. It is estimated that as many as half of the population lacks access to adequate and nutritious food. Climate change is projected to exacerbate existing climate risks and water resource constraints. The WBG will work on this through several channels. The Water Security and Climate Resilience Project helps set a sound institutional and investment framework to reduce vulnerability of the country and the poor segments of its population to these events. A new phase of this program will support the Coastal region through financing of infrastructure that will enhance the resilience of the poor in this region. The additional financing to the health sector project under the IDA Crisis Response Window provides the urgent response required to the drought-affected districts to manage acute malnutrition cases at health facilities and distribute supplementary foods at the community level for the moderately malnourished children using existing channels.

71. **In the four most marginalized counties of northern Kenya, the Bank is supporting the improved social safety nets that will be financed through the National Drought Contingency Fund.** Subject to Trust Fund resources being available, the WBG can work with the nascent National Disaster Risk Management Authority to build its capacity. There may also be scope for insurance instruments (involving the private sector) to help finance disaster-related spending. Across its portfolio, the WBG will support public and private sector counterparts in ensuring that building and design standards take into account disaster risks; the WBG will leave flexibility in IDA operations to respond to disaster needs should that occur. The WBG can also consider stand-alone investments on disaster risk management, but it is possible that other partners may have more of an opportunity in this field. The WBG will keep this under review as part of regular donor coordination.

Figure 7: Domain Two: Protection and Potential—Expected Outcomes

Outcome 4: **Greater Agricultural Productivity**	Outcome 5: **Improved Social Service Delivery for Vulnerable Groups, Particularly Women**	Outcome 6: **Improved Capacity to Manage Risks from Climate Change**
• 5 percentage points increase in annual yields of smallholder farmers of maize, beans and Irish potatoes • Additional 45,000 ha of agricultural irrigated land and 10,000 ha of drainage	• Additional 1,000,000 women with access to a basic package of health, nutrition or reproductive health services • Additional 500,000 women with access to improved water sources in areas supported by Bank operations • 9 percentage points increase in number of interns employed or self-employed within 6 months after internship completion • Additional 450,000 people covered by social safety nets • 75 percentage points increase in beneficiaries for whom payments are made electronically using two factor authentication	• Reduction of 5% in crop losses due to droughts • 32 community action plans with concrete climate risk management activities reflected in the budget
Outcome 7: **Greater Citizen Feedback on the Quality of Service Delivery in Key Sectors** ***(connecting platform)*** • 2 sectors use citizen report cards on service delivery		

E. Domain Three. Consistency and Equity: Delivering a Devolution Dividend

72. ***The focus on building consistency and equity*—a really long-term drive—has devolution at its core**. The WBG will use a large-scale, capacity-building and AAA program to inform a series of IDA operations, which help both counties and national agencies to make devolution work. The first of these will be completed in FY15, and others will follow—perhaps using a results-based instrument and quite possibly with substantial co-financing from other development partners. Upon request, the WBG is prepared to take a lead role in assembling and managing a trust fund framework to maximize donor coherence in this fluid arena. IFC will be engaged, but likely in a more limited way initially—such as engaging with subnational authorities on infrastructure provision or subnational reviews of the business climate—since devolution-related market opportunities are few and far between at this early stage. Analytical work will assess the fiscal impacts of devolution, including the approach to revenue collection, sharing, and debt management, with particular attention to potential imbalances between counties and among communities within counties. The WBG will also support the authorities in helping address the different risks faced by urban and marginalized rural areas so that their growth potential can be maximized. This will include on-the-ground investments targeting at least 25 percent of counties to deliver improved sanitation against benchmark standards, and an additional 200,000 children immunized in local health facilities. A summary of expected results for Domain Three is found in Figure 8 at end of this subsection.

73. **On governance, the Bank will expand support for programs to create and strengthen fiscal management capabilities at the county level and provide support to strengthen oversight institutions**. These institutions include the Office of the Controller of Budget, Office of the Auditor General, anti-corruption agency, finance committees in Parliament and country assemblies, and public procurement institutions. Also, the Bank will support roll-out of basic transparency and citizen participation mechanisms in county planning, budgeting, and performance management (consistent with the Constitution and the legal framework) and will draw on growing global experience linking social accountability with enhanced development outcomes, targeting at least 20 percent of the counties (see Figure 8).

74. **Consistent and equitable treatment of vulnerable groups, including indigenous peoples, will be a focus of tailored Bank engagement.** In addition to careful application of good practice safeguards in Bank-supported operations, a program of dialogue and capacity building of key national authorities working in this field is anticipated. This long-term initiative will be calibrated to respond to Government ownership and also the engagement of other international partners, especially bilateral donors.

75. **A more evidence-based approach to policymaking and public investment decisions will certainly aid the consistency and impact of public administration reform.** A prerequisite for this is the availability and open dissemination of quality and timely statistics. Kenya has made some progress in this area (with support from the Bank and others) but remains vulnerable to some woeful gaps (see Annex 11). Given this, the WBG anticipates renewing its engagement with the Kenya National Bureau of Statistics (KNBS), the Treasury, the Ministry of Information Communications Technology, and other relevant institutions. The WBG will help in meeting an urgent need for a rigorous national Household Budget Survey (targeted for 2014/15), pivotal to producing up-to-date estimates of poverty and income growth. The Bank will also encourage and support strengthened collection and monitoring of gender disaggregated. In addition, WBG

joined the partners supporting the Kenya Demographic and Health Survey (KDHS2014). Data from these new surveys will confirm aspects of this CPS's approach; permit mid-course corrections as needed, including through a progress report to the Board; and inform the CPS results framework.

76. **The consistency of Kenya's development will be buttressed by deepening regional integration with its neighbors**. The WBG will provide a mixture of analytical activities and investment for near and longer-term initiatives. Some—such as advisory services to the capital markets authority to help facilitate regional financial deepening, or partnering for results with TradeMark East Africa on a Mombasa Port Charter to enhance operations—can be delivered primarily with Kenya counterparts. Others such as continuing transformative road and energy investments linking Kenya with Tanzania, Ethiopia, and other locations require multi-country agreements.

77. **To garner good governance, which is a connecting platform for equity and influences the success of broad efforts in all areas, a multi-pronged approach is used.** At its heart is capacity building to strengthen oversight institutions, including support for better public fiscal management and heightened transparency and accountability in the use of public resources through demand-side institutions such as the use of *barazas* (open community meetings) for beneficiary engagement. WBG support will help ensure greater citizen feedback on the quality of service delivery, including the use of citizen report cards in key sectors such as health. Other work includes (a) integrated Bank and IFC advice on investment climate (national and subnational), public-private partnerships, and corporate governance; (b) partnering with WBI (or its successor) on transparency, social accountability, and citizen engagement, including the voices of women, in coalitions of change; (c) reviewing the impact of project-level governance measures; and (d) scaling up those that have been effective, including drawing on input from the Department for Institutional Integrity on project safeguards and institutional support to agencies such as the Ethics and Anti-Corruption Commission (EACC). WBG stands ready to deploy "corruption calibration" to its lending program by which it adjusts areas of focus and/or scales back resources in the event of issues that unduly threaten the security of IDA and IFC resource use.

Figure 8: Domain Three: Building Consistency and Equity—Expected Outcomes

Outcome 8: **Better Provision of Health and Sanitation Services by Counties** • 25% of counties with improved sanitation performance as measured by annual benchmarking • Additional 200,000 children immunized in local health facilities	Outcome 9: **Adequate Systems to Monitor Performance of Services Delivered by Counties** • 20% of counties establish a performance monitoring system
Outcome 10: **Heightened Transparency and Accountability in the Use of Public Resources, Particularly at the County Level** • 4 month reduction in the time it takes for the Kenya National Audit Office to submit the consolidated annual financial statements to Parliament • Additional 27 counties use IFMIS for budget preparation and execution, accounting, and financial reporting	

V IMPLEMENTING FOR RESULTS

A. Lessons Learned from the CPS Completion Report

78. **Lessons from experience including analysis from the Independent Evaluation Group (IEG) have contributed to this strategy.** Among past achievements have been (a) a gradual move to larger projects (i.e., those over US$100 million), some of which have simpler design; (b) notable WBG collaboration and performance in selected areas, including the power sector where IFC, MIGA, and Bank resources have been combined in specific investments; (c) expansion of IFC investments and improving profitability, helped by a strong on-the-ground presence in IFC's Nairobi-based hub office; and (d) effective collaboration between the Bank and Government to strengthen fiduciary management at project level. Energy, water and sanitation, ICT, agriculture, social protection, and the environment represent the sectors with outcomes that "achieved" or "mostly achieved" success with CPS outcomes. For more details of past achievements, Annex 2 provides the Completion Report for the CPS FY10-13.

79. **Lessons learned also include some weaknesses.** Several projects had not fully met their objectives because of poor monitoring and evaluation, and insufficient attention to political economy. One weakness observed was a heavy share of AAA that although technically competent was not driven by unambiguous client demand and thus had difficulty gaining traction. In another case, CPS results framework did not always fully capture Bank activities or in some instances was too ambitious. Private sector development, transport, education, urban development, and governance represent sectors with outcomes that were only "partially achieved" or "not achieved".

80. **Past components of success included dynamic government sponsorship (ICT), systemic and strategic objective setting (energy), solid AAA (social protection), and maximizing opportunities for WBG collaboration and private sector involvement (energy).** Conversely, weaknesses were more apparent when these components were absent or when as in the case of the governance theme WBG work was not well captured in the results framework. The overall assessment of the outcome of the last CPS was "moderately satisfactory". This compares favorably with an outcome rating of "unsatisfactory" in the previous FY04-09 CPS Completion Report while suggesting room for improvement.

B. Operational Responses and the Focus on Results

81. **In targeting such improvement, there are several practical areas to pursue over the coming years.** It is important to continue to "move to scale" especially in IDA investments, but also in IFC commitments, by focusing on larger projects and the judicious use of additional finance. IEG evidence suggests that historically larger IDA projects (above US$100 million) are twice as likely to be successful as smaller ones. Fiduciary management can be strengthened at project level by focusing more on governance systems at national and subnational levels. Renewed efforts to "stay on schedule" are also important since IDA projects, which complete within five years or so, are notably more successful than those that spin out over longer periods. This may necessitate some tough decisions in closing lagging projects as part of regular portfolio clean up.

82. **To ensure that client service is prompt and responsive, the WBG will make maximum use of Nairobi-based expertise.** The new hub co-locates IFC and the Bank, and will help facilitate rapid deployment of expertise from the Global Practices. Working closely as well with the private sector will signal at an early stage to all parties what the due diligence requirements are, how long they are likely to take, and what the cost implications are likely to be. Verifying that there is sufficient capacity to commission and supervise these due diligence requirements within the relevant government ministries, utilities, and other corporate bodies is also important.

83. **A results focus will drive the implementation of the CPS, including with careful monitoring and evaluation.** The results matrix is detailed in Annex 1. Targeted outcomes have been articulated in a multi-sector fashion, reflecting the interdependence of the activities across the strategy. Multidisciplinary WBG teams that produced the key elements of this results framework will continue to operate through strategy implementation. They will be responsible for conducting multi-sector dialogue for each outcome, ensuring adequate coordination and real-time monitoring of progress. Every six months, a country team workshop will assess progress toward CPS targets and make programmatic decisions toward results. Annually, a joint client-WBG workshop will review progress toward results, moving beyond the standard metrics of portfolio implementation and keeping an eye on the poverty and shared prosperity ambitions. Adjustments will be considered as needed to implementation modalities or the strategy itself.

84. **WBG's efforts to manage for results across the country program build on country systems and capabilities for measuring and monitoring progress.** Most of the indicators included in the results matrix have been drawn from the Government's MTP2, allowing for synergies in monitoring and capacity building (these are marked with an asterisk in Annex 1). The strategy also seeks to provide diverse support for relevant government partners in planning and budgeting, institutional strengthening, and statistical capacity building. Raising awareness and strengthening capacity among implementing agencies to manage for results is fundamental; and new operations will, where possible, support sector monitoring and evaluation systems and reform of incentives to achieve results. Ultimately, strengthening domestic accountability mechanisms will create sustained incentives to achieve better results. Third-party monitoring in signature projects across strategic objectives of the CPS will be used where appropriate to provide an independent perspective on progress toward results, enhancing accountability for resources and outcomes.

C. Selectivity in Practice

85. **Selectivity is key and at an operational level involves difficult trade-offs and**, **indeed competing pressures.** Coping with demands from line ministries and in-country donors for Bank involvement needs strong partnerships and mature dialogue. The potential pressure from such demands will also be managed by a disciplined strategic and operational approach. The latter is not a mechanistic filtering exercise and will call for professional judgment, but the process can be disciplined with a simple checklist that teams utilize during project concept and preparation. This process is dynamic and the assessments will be continuously updated. The current findings in Figure 9 show areas where more is likely to be done especially in terms of IDA investment and, correspondingly, sectors where less will be done (or a new approach such as relying on private finance or other development partners).

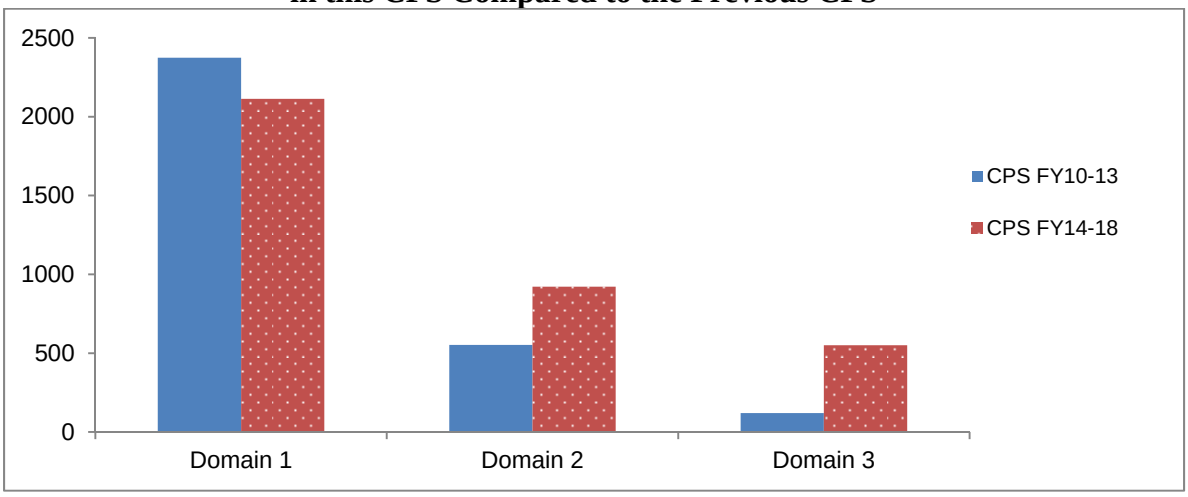
Figure 9: Dynamic Selectivity in the Kenya CPS: Directing WBG Resources

Domains of engagement		Doing Less / Doing Differently	Maintaining a robust engagement (About the same)	Doing More / Doing Differently
Competitiveness and Sustainability	**Garnering Good Governance**	Railways Ports/airports National highways Tourism Natural resource management Telecoms MSE finance/credit guarantees	Access to water and transport services	Infrastructure for sustainable growth Enabling environment for private investment
Protection and Potential		Secondary healthcare Orphans and street children	Climate change and natural disasters	Social service delivery for vulnerable groups, including youth Rural development & agricultural productivity
Equity and Consistency		Law enforcement Legal/judicial reform	Fiscal management, transparency and accountability (national & county level)	County-level service delivery, including citizen feedback on quality

Note: This represents the current assessment of selectivity, especially in the relative allocation of new IDA resources in the CPS period. IFC investments are determined by market conditions and are also part of doing things differently (e.g., in PPPs in major transport schemes, other infrastructure). AAA planning will complement this approach and be available to meet other demands where the WBG has a comparative advantage and the resources to respond.

86. **The approach also means that this is not business as usual.** To the contrary, this new CPS differs from the previous one. There is a strategic shift in IDA resource allocation that emerges from aligning with the WBG twin goals and the selectivity test, as shown in Figure 10. Relatively more is likely to be directed toward human resource development (Domain II) including in agriculture/rural development, and in delivering a devolution dividend (Domain III, which is new). Relatively less IDA financing will be deployed on competitiveness (Domain I), where new opportunities for private financing, including with growing IFC support, are expected to emerge.

Figure 10: Strategic Shifts as IDA is Selectively Deployed: Likely Focus of IDA in this CPS Compared to the Previous CPS



Note: Lending made in the CPS FY10-13 period came under different themes but has been reclassified into the three domains of engagement in the new CPS to illustrate the strategic shift of the allocation of resources. Pipeline planning is advanced for FY15 (see Table 3). Outer years are still being developed and so are not shown in detail; but indicative broad allocations have been used to show likely evolution.

87. **Careful portfolio management will continue to be important with tailored approaches to suit the particular circumstances of Bank, IFC, and MIGA investments**. At mid-FY14, the total IDA portfolio in Kenya was US$4.3 billion, covering 23 national projects (US$3.5 billion) and 7 regional projects in which Kenya is a partner (US$0.8 billion)—see Annex 4. Portfolio value more than doubled over the last four years and in many respects performance has been robust. The disbursement ratio, for example, was 18 percent in FY13, around Africa norms. But there are significant challenges—more than 20 percent of projects have less-than-satisfactory implementation progress, and vigilance is needed on governance and safeguard issues in some sectors. The slow flow of funds through government systems has been an obstacle to smooth project implementation. Further, some projects suffer from weak fiduciary performance and project management leading to slow project implementation. Delays in receiving audit reports and Interim Financial Reports (IFRs) are a continuing problem. The Bank also receives audit reports with qualifications relating to issues that the accountants should address, such as missing documentation. This occasionally leads to ineligible expenditures that take time to resolve (by the government submitting eligible receipts or returning the ineligible funds). To help, many accountants, auditors, and project staff have participated in Bank-supported FM capacity-building training that will continue during this CPS.

88. **Acknowledging this problem, the Government of Kenya has initiated far-reaching portfolio-level FM reforms with the Bank's support to address identified fiduciary weaknesses in management of donor projects and devolved funds**. Over the CPS period, practical measures to address these will include (a) regular client-led reviews, at senior level, on cross-cutting portfolio issues; (b) semi-annual workshops for project implementation client teams on fiduciary, contract management, and disbursement performance; (c) locating a senior environmental expert in Nairobi to strengthen Bank safeguard resources; (d) collaborating with INT in outreach to Government counterparts in developing stronger vigilance measures; and (e) establishing a country-coordination mechanism across the WBG's new Global Practices to share experience and bring the best expertise to bear on implementation issues.

89. **The IFC portfolio has grown even more rapidly than that of IDA and stood at US$785 million at mid-FY14**. Decent market conditions have helped, and IFC has been able to drive forward development impact while retaining an appropriate focus on profitability. The IFC region-wide hub, co-located with the Bank in Nairobi, provides a critical mass of on-the-ground expertise, which helps foster ever-closer client connections, including just-in-time responses to portfolio challenges. MIGA's current total exposure to Kenya is US$255 million, and international investors' interest in the infrastructure, power, and agri-business sectors provides potential for this regional interaction to expand further.

90. **The WBG could be providing over US$1 billion per year to Kenya over the timeframe of this CPS.** With regard to the portfolio, IFC hopes to continue its expansion—perhaps even beyond the US$200 million rise each year in commitments over the last two full fiscal years—if market conditions permit, as well as a steady increase in Advisory Services engagements. MIGA is following a similar path and already extended over US$100 million of guarantees in each of the last couple of years. The Bank's annual commitments will be governed by the IDA17 settlement, provisionally around US$600 million each year. It should be noted that actual IDA allocations will depend on (a) total IDA resources available; (b) the country's performance rating, GNI per capita, and population; (c) the terms of IDA assistance (grants/credits) and the allocation deductions associated with Multilateral Debt Relief Initiative (MDRI) annual debt service forgone; (d) the performance, other allocation parameters, and IDA assistance terms for other IDA borrowers; and (e) the number of IDA-eligible countries.

91. **The lending program will be concentrated in key areas**. The near-term plan is shown in Table 3. Outer years will be firmed up as the CPS progresses, consistent with achieving the results framework targets. Kenya is also expected to continue to engage in regional projects that will leverage additional IDA resources from the set-aside pool. The new IDA portfolio will give significant emphasis to more systematically impactful projects—each informed by prior AAA.

Table 3: Proposed Lending Program

	IDA in US$ million	
	FY14	***FY15***
Competitiveness and Sustainability -- Growth to Eradicate Poverty		
Transport	204	100
Energy		250
Water Security		200
Protection and Potential -- Human Resource Development for Shared Prosperity		
Social Safety Nets	260	
Health Sector Support	41	
Pastoral Livelihoods / Community Development	77	44
Equity and Consistency -- Delivering a Devolution Dividend		
Transparency and Communication (ICT)	30	
Devolution Support		120
Better Statistics		50
Total	**612**	**764**

Note: The outer year pipeline will be firmed up using the selectivity test and other updates will be made in the CPS Progress Report. The amount in FY15 includes front-loading from outer years.

92. **Knowledge work will play an important role in the CPS program.** In the near term, the CPS will develop a strong knowledge platform around poverty, gender, infrastructure,

agriculture, jobs/skills, and devolution as Table 4 shows. In outer years, AAA will be tailored to inform future lending, respond to Government needs, and deepen advice in key areas, including governance and public financial management.

Table 4: Proposed AAA program

FY2014	FY2015
Domain 1: Competitiveness and Sustainability	
• Joint Staff Assessment Note • Kenya PER • Powering Kenya's Future • TA on Regional Transport • TA on Infrastructure Finance/PPP • Financial Innovation NLTA	• Growth and Competitiveness CEM • Investment Climate
Domain 2: Protection and Potential	
• Agriculture ESW • Education AAA	• Youth skills and training • Heath financing and service delivery (South-South)
Domain 3: Equity and Consistency	
• Accountable Devolution	• Devolution Fiscal Risk Analysis • Political Economy of Governance and Sector Reform
Cross-Cutting Knowledge Work	
• Economic and Poverty Monitoring • Governance Dialogue • Gender Policy Notes • Demand-side Governance • Open Data Incubator Innovation	• Kenya Urbanization Review • Governance AAA • Poverty and Gender Assessment • Public Financial Management

Note: The outer year pipeline will be firmed up using the selectivity test and other updates will be made in the CPS Progress Report.

93. **A broad range of WBG instruments will be used, including the Program-for-Results (PforR) tool, and financing innovations will be sought.** IDA investment lending has been the bread-and-butter of financial engagement in Kenya. This is expected to continue in this CPS period and be complemented by IDA's other lending instruments that provide the best fit for delivering strong development impact. The first PforR operation for Kenya was approved in July 2013 and more use of PforR is expected, including for the devolution programs. The Government has indicated interest in also tapping into IBRD resources, perhaps as "enclave financing" for high-profile infrastructure projects. This is worth exploring as it can lay the foundations for Kenya to smoothly transition to fuller use of IBRD over the longer term.

94. **The WBG resources and activities are being aligned around collaboration with donors and other financiers.** Kenya has a multiplicity of donors. There are good mechanisms to cooperate, not least of which is the semi-annual Government-led Development Partnership Forum and the complementary monthly Development Partners Group meeting (see Annex 14 for details). In several areas—investment climate, social protection, water security, and health, to name a few—there is explicit and large-scale co-financing of WBG-supported programs. That said, it is a fairly crowded landscape, and there is scope for clarification of comparative advantage and simplification of some processing burdens on the Kenyan administration. With this in mind, WBG will lead more explicitly taking a back seat or even withdrawing from some sectors where the AfDB and others may fit better. The WBG will continue to assist Kenya by

raising and managing trust funds but only on a very selective basis since it is important to note that traditionally these have not been of a large-scale overall. That picture may not change in the near term.

95. **The benefits from the WBG program would be amplified *by improved governance and reduced corruption*, or undermined by any deterioration in the prevailing environment.** In moving forward the Bank will be firm in its intolerance for corruption and desire for impunity to end. Inevitably, scandals will occur; but as not to be thrown off course, the WBG will set sensible expectations to make step-by-step progress. Prudent features, informed by governance specialists from across the Bank, will continue to be built into project design. These include, for example, in-depth fiduciary reviews, third-party monitoring and reporting on physical project outputs, and robust procurement packages.

96. **The Bank's analytical work will continue to help improve public financial management**—most notably solidifying and extending the IFMIS, making greater use of properly controlled electronic funds transfer, and supporting capacity in the country's supreme audit institution (KENAO) to deepen its work, including in performance audits. The WBG together with other development partners will extend further support for better procurement practices, including through potential revisions to the Public Procurement Law, more efficient e-procurement, reforming of the supplies branch, and capacity building, especially at county level. This is part of a broader drive for institution building and the enhancing of corporate governance standards, openness, transparency, and accountability in government. This applies at a national and county level—and should help protect the integrity of WBG resources as well as Kenya's internally generated resources, which contribute to 90 percent of all public spending.

97. **Implementation of the CPS will receive guidance through a mid-way progress report to the Board, which will propose course corrections as needed**. In the coming year, for example, it is expected that the authorities will produce more up-to-date poverty estimates, which the Bank will complement with a new and detailed Poverty and Gender Assessment. The WBG should be open to the possibility that such findings may call for adjustments in the program. Similarly, the devolution field is fast moving so the WBG will adapt as new information and demands emerge. Finally, governance conditions and their implications for the WBG program will be monitored vigilantly.

VI MANAGING RISKS

98. **The WBG faces significant risks in Kenya, yet broadly it has a sanguine outlook that the downsides, which may emerge, are likely to be manageable and/or have a modest probability of occurring.**

99. **The greatest risk to prospects of poverty reduction is any potential macroeconomic instability, including from possible fiscal pressures associated with devolution**. Kenya has a fairly open economy and even now its net exports remain a drag on GDP growth. If it were to be hit by an external shock such as reduced international demand, tightening global liquidity that curtailed short-term inflows, oil shock, or other deterioration in the terms of trade, the impact would be noticeable. The mitigation strategy has to revolve around the long-term drive to improve competitiveness and exports, combined with a prudent strategy on reserves and international capital access to cope with potential volatility. The threats to undermining sensible

macroeconomic policy come largely from wage pressures on fiscal policy and populist politics that can create actual or contingent liabilities. For example, there are pressures to hold down power tariffs at unrealistic levels. More broadly the devolution process carries significant fiscal risks such as passing unaffordable central transfers to devolved administrative units, counties not controlling spending to fit available resources, or allowing counties to borrow without careful regulation and oversight.

100. **Disasters and insecurity, natural or man-made, can be expected to occur even though their timing and severity typically cannot be predicted.** Weather-related impacts such as droughts need a combination of long-term preventative measures combined with emergency responses (and on-hand resources) when they occur. Being a major exporter to the region, Kenya could experience interruptions with trade due to the conflicts in South Sudan and continued instability in Somalia. Trade with these economies also raises security concerns that spill across the border, including in terms of small arms proliferations. The recent terrorist atrocities at the Westgate Mall created great suffering but also served as an unwelcome reminder of the position Kenya holds in being a target of such threats. Instability in the region can also displace local populations and disrupt their livelihoods. It has a negative impact on tourism, which is Kenya's main foreign exchange earner. In many ways instability and insecurity create a shock to the economy akin to that from natural sources that the Bank, IMF, and international community have in the past been able to react to with specific instruments.

101. **Other strategic risks** include unexpected changes in political leadership, policy direction, and ministerial leads in key sectors. Unexpected changes in the funding priorities of other donors or a loss of appetite of strategic partners for IFC- and MIGA-supported deals could also constitute a strategic risk. Each of these would require nimble re-engagement with partners to prevent changes unduly affecting the WBG-supported program.

102. **Operational risks include a worsening of the governance and corruption environment—or stakeholders' views and responses to such circumstances.** Corruption is corrosive and eats away at development prospects. The potential turbulence during the devolution process, for example, may see cases of irregularities reported in some of the new county administrations as their activities expand. Closer to home, if a major Bank engagement was to be hit by a proven fraud, theft, or other irregularity, it will undoubtedly require downscaling or termination of WBG work in that area and throw things off course (as has happened in the past). The mitigating measures include (a) the thrust of this CPS to help garner good governance, including as part of the devolution process; (b) active cooperation between INT, the Bank, and the authorities so that preventive measures are built into project design and allegations can be handled firmly and decisively when received; and (c) good communication with stakeholders, including the WBG Executive Board, in order that due proportionality can be applied in any strategic response needed by the Bank.

103. **Ineffective application of good practice social and environmental safeguards could also pose a risk to successful project implementation.** This is being mitigated by a combination of thorough preparatory work in project preparation, intensive supervision, and longer-term support for national capacity building in this area.

VII CONCLUSION

104. **There is an optimistic yet credible scenario for Kenya to drive forward as a success story in Africa.** Certainly there are risks which may throw Kenya off course. By mitigating such risks, consistent with a renewed impetus to manage for results, the WBG will support Kenya's efforts to communicate its successes and its development story more effectively. This CPS sets the groundwork for the WBG to help Kenya and its citizens achieve their ambitions.

Annex 1: CPS Results Framework

Overarching Goals: Sustainable Reduction in Poverty and Increased Shared Prosperity

This results framework is situated against a broad ambition of reducing poverty and promoting shared prosperity.
Even though the near-term CPS outcomes cannot really be measured on such high-level metrics, this is useful to present them as a guiding force.

Vision 2030 aspires to 10% annual GDP growth rates which are well above historical levels. This CPS aspires to contribute to average growth rates during the CPS period. To play some part in reaching these goals, the WBG program will seek to increase productivity and improve consumption in a sustainable manner, with particular attention to the poorest segments of society. The Devolution Agenda offers an opportunity to provide historically disadvantaged counties with greater transfers per citizen, setting the basis for improved decentralized service delivery. This opens new opportunities to address long-standing inequalities, but also brings new challenges that have major implications for reducing poverty and achieving shared prosperity. The CPS will contribute to address these challenges by adopting a mainstreamed approach to better governance across all three domains of engagement.

Population: 43.18 million (2013)
Growth rate: 4% (2012)
Poverty rate: 47% (2005)
GNI Coefficient: 47.7 (2013)

Domain of Engagement 1: Competitiveness and Sustainability— Growth to Eradicate Poverty

Vision 2030 Goals

↓

MTP2 Goals

Vision 2030 Goals:[1]

- Create a globally competitive and prosperous nation
- Transform Kenya into a newly industrializing, middle-income country

Second Medium Term Plan 2013-2017 (MTP2) Goals:[2]

- Deploy world class infrastructure facilities and services
- Develop and maintain an integrated safe and efficient transport network
- Enhance private sector participation in the provision of infrastructure facilities and services strategically complemented by government sector interventions
- Increase water availability in the country

Issues and Obstacles:

- High growth rates alone will not have significant impact on poverty reduction without addressing equity; a more inclusive growth model that focuses on quality

[1, 2] This results framework measures in some extent how WBG-financed projects have a close link of influence in some of the Government of Kenya's broader targets.

job creation is needed

- Political economy around devolution, combined with growing pains of the process may impede target growth rates in the short term
- Implementation problems in key sectors such as urban, energy, transport and agriculture need to be addressed
- Regional integration will be important and more private sector participation is required to meet investment targets in infrastructure sectors
- Kenya's private sector is underperforming primarily due to constraints on infrastructure, investment climate, competitiveness; reforms that focus on the business environment, access to finance for firms, and public private partnerships are essential
- Economic growth and urbanization must do a better job of creating jobs and employment and internationally competitive cities
- Bridging growth of demand for energy with increases in power capacity (5,000 MW by 2017) is critical and will stimulate reduction in overall electricity prices; however the off-taker's (KPLC) credit-worthiness needs to be safeguarded. In addition, sustainable funding mechanisms are necessary to realize the planned 2 million new household connections where citizens benefit.

Governance

- Improving the governance/ enabling environment through better regulations, control of corruption, improved judiciary that impartially and speedy enforcement of contracts and administration of justice will improve the climate for doing business and attracting investments that leads to creation of more wealth and employment

End FY18 CPS Outcomes[3]	Selected Milestones and Outputs	World Bank Group Program
Outcome 1: Enhanced Infrastructure and Logistics for Sustainable Growth **Outcome 1.1: Reliable and efficient energy supply, including through regional cooperation** 1. Installed generation capacity from diversified sources (geothermal, thermal, wind) (MW)* Baseline: 1,765 MW (2013) Target: 4,065 MW (2018) **This indicator is part of the implementation plan of the Second Medium Term Plan (MTP) 2013-2017* 2. System loss reduction (% of output)* Baseline: 18.7% of output (2013) Target: 15.9% of output (2018)	• The Ethiopian- Kenya 500kV, 200MW capacity line and converter substations are commissioned by 2017. • Construction of 330km of transmission lines and 2,300km distribution lines together with associated substations by 2016 • System to measure system availability and repair times implemented	**Ongoing:** *World Bank:* [P083131] KE Energy Sec Recovery; [P103037] KE Electricity Expansion Project; [P126579] Eastern Electricity Highway Project; [P122671] Kenya Private Sector Power Generation Support; P125388] KE GPOBA Kenya Electricity; [P083131] KE Energy Sec Recovery Project; [P103037] KE Electricity Expansion Project; [P133675] Powering Kenya's Future: Future Role of the Public and Private Sectors (ESW) *IFC:* [IFPPP] [29801] Thika IPP (Investment); [29418] Gulf Power Ltd (Investment); [8917] Kipevu II Power Project (Investment); [28550] Kenya Power and Lighting Company (Investment); [592107] Kenya – Utility Efficiency in Africa Program (Advisory Services); [590607] Kenya Investment Climate Power Project (Advisory Services); [555905] Lighting Kenya (Advisory Services) [P148371] Realizing PPP opportunities (ESW); KICP2 NLTA on business environment reform; NLTA on export competitiveness and innovation; NLTA on

[3] The outcome indicators in this results framework are a mix of projects inherited from the previous CPS period and proposed operations under this CPS period.
* This indicator is part of the implementation plan of the Second Medium Term Plan (MTP) 2013-2017

		investment climate diagnostics; KICP2 NLTA on trade and competitiveness; Financial innovation NLTA *MIGA:* [9993] Triumph Power Generating Company Limited; [3658] OrPower 4, Inc.; [9722] Thika Power Ltd. **Planned** *World Bank:* [P129910] KE Menengai Geothermal Project; [P120014] KE Energy Modernization Project; [P14234] Kenya Petroleum Technical Assistance Project (TA); [P132836] Financial Sector Development in Kenya (TA); [P147897] Financial Sector Innovation (TA) *IFC:* Additional financing for SEZ program; AAA on PPPs; Scale up of KICP2 NLTA on business environment reforms; AAA on investment climate diagnostics; AAA on sector competitiveness including services, agribusiness and extractive industries; AAA on financial sector development; New financial sector operation.
Outcome 1.2: Enhanced logistics and distribution network, and more efficient major gateways Waiting times at ports and border crossings (days)* Baseline: Ports: 13 days; Border crossings: 2 days (2013) Target: Ports: 8 days; Border crossings 1 day (2018)	• All operators and activities at the port managed and coordinated from one focal point • A border management organization established • All operators and activities at airports managed and coordinated from one focal point.	**Ongoing** *World Bank:* [P082615] KE Northern Corridor Transport SIL; [P126321] KE National Urban Transport; [P124109] KE Kenya Transport Sector Support; [P079734] East Africa Trade and Transport Facilitation (Regional) *IFC:* [24766] Kenya Uganda Rail; [31650] Kenya Airways
Outcome 2: Strengthened Planning and Management of Urban Growth Urban centers with integrated strategic plans (number) Baseline: 0 (2014) Target: 14 (2018)		**Ongoing** *World Bank:* [P107314] KE Nairobi Metropolitan Services; [P126321] KE National Urban Transport; [P124109] KE Transport Sector Support Project; [P149019] KE AF Transparency and Infrastructure Project; [P096367] KE Water & Sanitation Service Improvement ; [P123367] Additional Finance

* This indicator is part of the implementation plan of the Second Medium Term Plan (MTP) 2013-2017

		Planned *World Bank:* [P145559] KE Water Security and Climate Resilience in the Coastal Region Project
Outcome 3: Improved Enabling Environment for Private Investment ***(Capturing the Connecting Platform Outcome of Garnering Good Governance)*** Completed key investment reforms in business regulation, trade logistics and industry (number) Baseline: 0 (2014) Target: 15 (2018)	• Investment climate assessments in business regulation, trade logistics and industry completed Impact assessment of export promotion and support schemes and business and technology incubator services completed by 2015	**Ongoing** *World Bank*: Judicial Performance Improvement Project; [P147220] KE Export Competitiveness and Innovation (TA); [P121019] KE Infrastructure Finance PPP; [P144507] KE Commercial Financing for Urban Water and Sanitation (TA); [P133163] KE Investment Climate Assessment (ESW); [P133164] Manufacturing Export Competitiveness in Kenya Policy Note (TA) *IFC*: [593208] IC Sub-National Business Regulation; [570008] IC Trade Logistics; [594987] IC for Industry; [27728] KMIP (Advisory Services in ICT)
Domain of Engagement 2: Protection and Potential— Human Resource Development for Shared Prosperity		
Vision 2030 Goals ↓ **MTP2 Goals**	**Vision 2030 Goals[4]:** • Provide a high quality of life to all its citizens by 2030 in a clean and secure environment • Improve livelihoods of vulnerable groups • Provide an efficient and high quality health care system • Provide a globally competitive quality education, training and research • Enhance drought resilience and climate change adaptation **Second Medium Term Plan 2013-2017 (MTP2) Goals[5]:** • Improve the socioeconomic status of citizens and vulnerable groups • Advance an Innovative, commercially-oriented, competitive and modern agriculture • Scale up high impact interventions to reduce maternal and neonatal mortality and morbidity in the country • Develop human resources within employment; to equip the youth with appropriate technical and vocational skills for the industry • Reduce drought vulnerability to natural disasters, such as droughts, and enhance adaptation to climate change	

[4,5] The outcome indicators in this results framework are a mix of projects inherited from the previous CPS period and proposed operations under this CPS period.

Issues and Obstacles:

- High rates of poverty persist among vulnerable groups, especially children (53.5 percent), including orphans and vulnerable children (54.1 percent).
- Expenditure on safety net, including cash transfers, is still low compared to the size of the population in need. Cash transfer programs tend to be limited in size, fragmented and are largely uncoordinated.
- Maternal mortality is among the highest in Africa at 488 deaths per 100,000 live births. The proportion of women who deliver with skilled attendance is only 44 percent and has remained largely unchanged since 1993.
- Over a third of Kenyan children are stunted, while 14 percent are severely stunted.
- Unemployment rate for youth is double the adult average, at about 21 percent, with 28 percent of youth neither in school nor at work. Ensuring that young people are successfully integrated into the economy and are employed will open the pathway to a demographic dividend for development that will improve Kenya's competitiveness, raise household incomes, reduce poverty and create a virtuous circle of investment and growth.
- Livelihoods and economic activities in Kenya are highly vulnerable to climate fluctuations. The country's inland areas are largely arid with two-thirds of the country receiving less than 500 mm of rainfall per year, limiting the potential for agriculture.

Governance

- Weak governance in sectors manifested in poor quality of public expenditure, elite capture, leakages, inefficiencies and mismanagement have impact on quality of, and access to services and service delivery outcomes in infrastructure and social sectors (e.g. electricity, water, agriculture, health and education. The poorest Kenyans have most difficulties accessing services due to these constraints.

End FY18 CPS Outcomes[6]	Selected Milestones and Outputs	World Bank Group Program
Outcome 4: Greater Agricultural Productivity 1. Annual increase in yields of smallholder farmers of selected agricultural commodities (average percentage)* Baseline: 17 bags/ha maize; 4.5 bags/ha beans; 60 bags/ha Irish potatoes (2013) Target: 5% bags/ha increase for maize, beans and Irish potatoes (2018) 2. Agricultural irrigated land (ha)* Baseline: 130,000 hectares of irrigation and 30,000 hectares of drainage (2013) Target: 175,000 hectares of irrigation and 40,000 hectares of drainage (2018)	• Harmonized agricultural sector development strategy and its implementation framework completed by 2014 • Technologies and innovations that respond to women and men smallholder priorities along selected product value chains generated (target: 82) • National sustainable land management planning framework established by 2015 • Water policy adopted and water bill submitted to Parliament by 2016 • Staff and water resources users association trained in areas related to water management and planning (target: 600)	**Ongoing** *World Bank*: [P109683] KE Agricultural Productivity & Agribusiness; [PO74106] Eastern Africa Agricultural Productivity Project; [P088600] KE Agricultural Productivity & Sustainable Land Management Project; [P094692] KE Coastal Development Project; [P091979] KE Adaptation Climate Change; [P074106] KE W Kenya CDD Flood Mitigation; [P108845] KE FMSCEDP Coastal CD GEF Fish; [P117635] KE Enhancing Water Security and Climate Resistance; [P129610] Readiness for Climate-Smart Agriculture (TA); [P149891] KE Political Economy of the Agriculture Sector (ESW); [P149072 & P149796] Political Economy Analysis of Kenya's Agriculture – the Food Sector (ESW); [P148649] KE Agriculture Sector Review (ESW) *IFC:* [32216] Kenya Tea Development Agency

[6] The outcome indicators in this results framework are a mix of projects inherited from the previous CPS period and proposed operations under this CPS period.

* This indicator is part of the implementation plan of the Second Medium Term Plan (MTP) 2013-2017

		MIGA: [6734] Kibos Sugar and Allied Industries Limited **Planned** *World Bank*: [P129408] Regional Pastoralism Livelihood and Climate Resilience Project; Kenya National Irrigation Program; Kenya Rural Poverty Alleviation Program; [P149129] Kenya Agriculture Devolution P4R; [P109683]Kenya Agriculture Productivity and Agribusiness Program; [P145559] Coastal Region Water Security and Climate Resilience Project
Outcome 5: Improved Social Service Delivery for Vulnerable Groups, Particularly Women **Outcome 5.1: Increased women's access to health services** Women with access to a basic package of health, nutrition or reproductive health services (number)* Baseline: 21,292,054 (2013) Target: 22,500,100 (2018)	• Poor households receiving health insurance subsidies (Target: 30,000). • Counties implementing Public Private Partnerships to improve delivery of basic package of health services (Target: At least 3 counties).	**Ongoing** *World Bank:* [P074091] KE Health Sector Support; [P144197] AF KE Health Sector Support Project; [P111556] 3A East Africa Health Laboratory Networking Project; [P144629] KE Technical Capacity for Nutrition; [P129535] KE Gender Policy Notes (ESW); [P148754] KE Medium-Term Strategy to Transform the Health Sector (TA) *IFC:* [24994] Advanced Bio-Extracts Limited *MIGA:* [9976] Resolution Health East Africa Limited **Planned** *World Bank:* Kenya Health Sector Support Project – Additional Financing; Universal Health Coverage and health promotion– PforR; Health Policy and Practice Forum – AAA
Outcome 5.2: Increased women's access to water services Women with access to improved water sources in areas supported by Bank operations (number) Baseline: 260,050 (2013)	• Options developed and financed to improve delivery and sustainability of urban services under new county structure. • 20 sub-counties declared open defecation free (baseline is 2)	**Ongoing** *World Bank:* [P096367] KE Water & Sanitation Service Improvement; [P126637] Additional Finance; [P107314] KE Nairobi Metropolitan Services; [P113542] KE Informal Settlements Improvement Project;

* This indicator is part of the implementation plan of the Second Medium Term Plan (MTP) 2013-2017

Target: 770,000 (2018)	• Disseminate best practices through the delivery of 2 knowledge products on innovative solutions for improved WSS access for the urban poor by June 2015 (baseline is 0).	[P066488] KE Municipal Program; [P100406] Lake Victoria Environmental Management Program; [P144507] KE Commercial Financing for Urban Water and Sanitation (TA); [P132015] Innovations in Scaling Up Water & Sanitation Services to Urban Poor (TA); [P131284] Nairobi Sanitation Preparation (TA); [P131284] GPOBA (RE) Nairobi Sanitation; [P132979] Kenya Urban Water and Sanitation OBA Fund for Low Income Areas**;** [P132161] Accelerating Access to Improved Sanitation (TA); [P125526] KE Baseline "State of the City" Surveys (TA); [P132486] Enhancing Municipal Revenue in Nairobi (TA); [P144913] KE Water Supply and Sanitation Sector Reform (TA); [P148360] KE Urbanization Review (ESW)
Outcome 5.3: Enhanced Market Skills for Youth at-risk Interns, covered by the Bank-supported project, employed or self-employed within six months after internship completion (%)* Baseline: 71 % (2013) Target: 80% (2015)	• Total number of internships weeks provided (target: 200,000) • Total number of youth completing life skills training (target: 15,000)	**Ongoing** *World Bank:* [P111546] Youth Empowerment Project; [P149334] Stocktaking Youth Employment Activities (ESW); [P133772] KE STEP Skills Measurement Study (ESW); [P146022] KE Education Sector Financial Management Analysis; [P146381] GPE Education Plan Preparation (TA); [P130804] Integrated Education Database EFO (TA) **Planned** *World Bank:* [P146797] Kenya GPE Education Sector Support Project; Youth Development investment operation *IFC:* [32171] Bridge International Academies; [29350] Braeburn Schools

* This indicator is part of the implementation plan of the Second Medium Term Plan (MTP) 2013-2017

Outcome 5.4: Enhanced and More Systematic Social Protection 1. People covered by social safety nets (number) Baseline: 1,650,000 (2013) Target: 2,100,000 (2018) 2. Beneficiaries for whom payments are made electronically using two factor authentication (percentage) Baseline: 0% (2013) Target: 75% (2018)	• 93% NSNP beneficiaries conform to program targeting criteria • 70% Payments disbursed to service providers on time by 2018	**Ongoing** *World Bank*: [P111545] KE Cash transfer for OVC; [P146161] AF KE for Cash Transfers for OVC; [P131305] KE National Safety Net for Results; [P121594] Social Protection Interventions – DFID (TA); [P147507] Poverty Monitoring (TA) **Planned** *World Bank*: Just in time Technical Assistance and South-South Knowledge exchange; A series of policy briefs, technical papers and World Bank working papers
Outcome 6: Improved Capacity to Manage Risks from Climate Change 1. Crop losses due to droughts (USD)* Baseline: USD 2.8 billion (2008) Target: 5% reduction (2018) 2. Community action plans with concrete climate risk management activities reflected in the budget (number) Baseline: 0 (2013) Target: 32 (2018)	• Methodology and tool for screening agricultural investment programs for climate risk developed (target: 1) • Climate risk profiles developed and used for district management plans (target: 4) • Community adaptation micro-projects developed and implemented (target: 80) • Officers from lead agencies trained on integrated coastal zone management and environmental impact assessments by 2016 (target: 85) • Conservation areas receive a Management Effectiveness Tracking Tool score of at least 55 by 2016 (target: 3) • Number of district management plans with concrete climate risk management activities risk management activities reflected in the budget	**Ongoing** *World Bank:* [P091979] Adaptation to Climate Change in Arid and Semi-Arid Lands (KAACCAL); [P144770] KE Natural Resource Management Strategy (TA) **Planned** [P117635] KE Enhancing Water Security and Climate Resilience
Outcome 7: Greater Citizen Feedback on the Quality of Service Delivery in Key Sectors ***(Capturing the Connecting Platform Outcome of Garnering Good Governance)***	• Public Expenditure Reviews undertaken in the education, health and water sectors	**Ongoing** *World Bank***:** [P133643] Kenya PER (ESW) **Planned** *World Bank:* [P131037] KE Open Data Incubator Innovation

* This indicator is part of the implementation plan of the Second Medium Term Plan (MTP) 2013-2017

Health, education, or water sectors using citizen report cards to monitor service delivery (number) Baseline: 0 sectors (2014) Target: 2 (2018)		(TA);[P143245] Country Analysis on Social Inclusion and Enhancing the application of OP 4.1 in Kenya (Indigenous Peoples)

Domain of Engagement 3: Consistency and Equity— Delivering a Devolution Dividend

Vision 2030 Goals

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MTP2 Goals

Vision 2030 Goals:[7]

- To meet objectives outlined in the economic and social pillars, Kenya's national governance system will be transformed and reformed to acquire high-level executive capability consistent with a rapidly industrializing country.
- Kenya will adopt a democratic decentralization process with substantial devolution in policy-making, public resource management and revenue sharing through devolved funds

Second Medium Term Plan 2013-2017 (MTP2) Goals:[8]

- To enact and operationalize policies and legal framework toward national cohesion and integration
- To establish a comprehensive framework for human rights
- To undertake various legal reforms including development, review and implementation of all legalizations relating reforms in governance, judiciary and the rule of law

Issues and Obstacles:

- Kenya's devolution comes with high expectations for improving service delivery and bringing government closer to the people.
- The devolution also carries significant risks for service delivery disruption, some already occurring.
- Fiscal sustainability is threatened, especially of the wage bill is a major risk, particularly for larger urbanized counties.
- Although they are the key drivers of growth, large urban counties have inherited significant payroll and debt obligations, at the same time reduced central transfers.
- Need to build county institutional capacity, especially in core county planning, PFM, and HR systems, along with basic data-driven performance monitoring, which flags capacity gaps and reinforces county incentives to get working systems in place.
- Operationalizing transparency and citizen participation in county planning, budgeting, and performance management systems as per Constitution is a major challenge.
- There is a need to build capacity of historically marginalized counties to make use of new financing. Larger per-capita transfers to arid and semi-arid counties

[7, 8] The outcome indicators in this results framework are a mix of projects inherited from the previous CPS period and proposed operations under this CPS period.

provide an opportunity to address long-standing infrastructure and service delivery gaps.

Governance

- Public sector institutional and political economy constraints and weaknesses are key obstacles to reforms pose serious challenges in the implementation of devolution and reforms aimed at enhancing transparency, accountability and efficiency in resource allocation and /quality of public expenditure.

End FY18 CPS Outcomes[9]	Selected Milestones and Outputs	World Bank Group Program
Outcome 8: Better Provision of Health and Sanitation Services by Counties 1. Counties with improved sanitation performance as measured by annual benchmarking (percentage) Baseline: 0% (2013) Target: 25% (2018) 2. Children immunized in local health facilities (number) Baseline: 1,090,751 (2014) Target: 1,298,058 (2018)	• 30 counties place orders for essential medicines and medical supplies with Kenya Medical Supplies Authority	**Ongoing** *World Bank:* KADP TA to CoG on county performance dashboard; KADP support for county PFM training modules; Kenya Accountable Devolution Program (KADP); MoDP on county M&E standards (TA); Fiscal impacts of revenue sharing & sustainability analysis (ESW); [P130650] KE Report on the Observance of Standards and Codes Accounting and Auditing (TA); [P090208] KE Decentralization (ESW); [P146879] KE Country Economic Memorandum (ESW); [P148160] KE Public Expenditure Review (ESW); [P148187] KE Economic Note (ESW); [P144197] AF KE Health Sector Support Project **Planned** *World Bank:* [P129129] KE Devolution Project – Pfor4; KAPSMLP – Phase II Structural adjustment lending for large urban counties; Statistics P4R; *PER; PEFA academy;* Household Poverty Survey; Capacity Building for Devolved Service Delivery multi-donor TF; Conditional grants paper; [P145457] KE Service Delivery Indicators (ESW) *IFC*: Doing Business
Outcome 9: Adequate Systems to Monitor Performance of Services Delivered by Counties Counties with a county performance monitoring system (%) Baseline: 0 % counties (2013) Target: 20% of 47 counties (2018)	• Core set of county capacity indicators identified and vetted with county/national government –including PFM, HR, planning, performance; investment climate • Updated household poverty survey completed at the county or national level • County performance management platforms designed and piloted in 5 counties. • County data portal strengthened – with links to open data portal. • 20% counties with up-to-date budgets published online by 2017 • Minimum standards and guidelines for	

[9] The outcome indicators in this results framework are a mix of projects inherited from the previous CPS period and proposed operations under this CPS period.

	citizen participation in counties defined with consultation.	
Outcome 10*:* Heightened Transparency and Accountability in the Use of Public Resources, particularly at the County Level ***(Capturing the Connecting Platform Outcome of Garnering Good Governance)*** 1. Timely submission of consolidated annual financial statements to Parliament by the Kenya National Audit Office (months) Baseline: within 11 months from year-end (2013) Target: within 7 months of year end (2018) 2. Counties using IFMIS for budget preparation and execution, accounting, and financial reporting (number) Baseline: 10 (2014) Target: 37 (2018)	• Quarterly consolidated financial statements published by the National Treasury for national government and county governments entities to show overall General Government Fiscal (within 30 days of end of each quarter) • Public Sector Accounting Standards Board established with supporting Secretariat – guidelines for reporting format issued • Audit manuals issued consistent with International Standards of Supreme Audit Institutions (ISSAI) guidelines • Template to consolidate reports of annual appropriation accounts and other financial statements of the national government and county governments and their entities • 25% counties with publicly available and published budgets by 2018 • County PFM training modules/guidelines developed and rolled out across counties • Academy on public financial management assessment system held to train trainers • Integrated Financial Management Information System (IFIMIS) functioning in at least 37 counties (of 47)	**Ongoing** *World Bank:* Programmatic Governance Analytical knowledge program; [P149074 & P149788] Political Economy Analysis of Devolution (ESW); [P148820] Governance and Political Economy for Results (ESW); [P124042] Community-Driven Development and Demand-Side Governance (TA); [P133332] Kenya Governance Partnership Facility: Accountable Devolution (TA) **Planned** *World Bank*: Public Sector Governance Project (PFM/IFMIS, procurement and selected HRM for national and county governments)

Annex 2: CPS Completion Report

CPS COMPLETION REPORT

COUNTRY: Kenya

COVERAGE: FY2010-2013

DATE OF PROGRESS REPORT: April 5, 2012

I. Introduction

1. **The FY2010-2013 Country Partnership Strategy (CPS) was approved by the Board in March 2010.** The period covered by the CPS witnessed profound changes and some remarkable achievements in Kenya's political and economic governance arrangements. It was book-ended by the adoption of a new Constitution in 2010 that limited presidential power and set in train a far-reaching set of governance initiatives; and by the holding of a general election in March 2013 that was among the most peaceful, with least negative economic impact, that Kenya has ever experienced. In between these key achievements the Government put in place the framework for one of the world's most ambitious fiscal, political, and administrative decentralizations. This included a Public Financial Management Act in 2012 that has, inter alia, clarified roles and responsibilities between the Auditor General, Controller of Budget and Treasury.

2. **During this time the Government vigorously pressed forward with implementation of its long term development strategy, Vision 2030 (launched in 2008).** The strategy aims to transform Kenya into a middle income country by 2030. Specific proposals for the period 2008-2012 are contained in the Government's first Medium Term Plan (MTP). An interim assessment of progress under the MTP was undertaken in 2011 and a Vision 2030 Progress Report issued in February 2013. The FY2010-2013 CPS was closely aligned with the priorities set out in the MTP as further detailed below.

3. **This Completion Report reviews the World Bank Group's program in Kenya during FY2010-2013.** The Report covers both program implementation and Bank performance. It has drawn on extensive discussions with Bank Group staff members who have been involved in the delivery of projects and investments, AAA and advisory work; a range of World Bank documents including ICRs, ISRs and other project documents as well as reports, policy updates, and IMF reports; the results of the 2012 Client Survey; and discussions with Government counterparts.

4. **The FY2010-2013 CPS (as amended by the CPS Progress Report in 2012) was divided into three key pillars.** The first of these, 'Unleashing Kenya's Growth Potential', was mostly achieved. Outcomes under ICT, energy, water and agriculture were all fully or mostly achieved while those under private sector development and transport were partially achieved. The second pillar, 'Reducing Inequality and Strengthening Resilience', was also mostly achieved: the combined outcome for health, education and urban development was partially achieved while those for environment and social protection were achieved. The third pillar,

'Increasing Transparency and Accountability', was not achieved, based on a strict reading of the results matrix targets. However, as discussed further below, there was a wide range of Bank–supported activity under this pillar, not fully captured by the results framework, which supported the Government's constitutional and governance related reforms during this period.

5. **In summary, the overall rating for Program implementation is moderately satisfactory and that for Bank performance is good**. A majority of CPS outcomes (7 out of 12) were achieved or mostly achieved (as shown in Box 1) and therefore the overall objective rating for the CPS Program FY2010-13 is moderately satisfactory. The design and implementation of the program contributed successfully to the pursuit and achievement of CPS objectives resulting in a 'good' assessment of bank performance.

Box 1: Summary of Program Implementation

Sector	CPS indicators (summary)	Program result
Pillar 1: unleashing Kenya's growth potential		***Mostly achieved***
PSD	*Doing business ranking, Access to finance*	*Partially achieved*
Transport	*Northern corridor road, avg travel time Mombasa to Malaba, annual railway freight carried, time of cross border trade (partially achieved)*	*Mostly achieved*
Energy	*Electricity connections, transmission losses, 5 new IPPs (mostly achieved)*	
W&S	*Access to improved water sources, access to adequate sewerage (mostly achieved)*	
ICT	*Access to internet (achieved)*	
Agriculture	*Avg product yields, smallholder earnings*	*Mostly achieved*
Pillar 2: Reducing inequality and strengthening resilience		***Mostly achieved***
Health	*Access to basic health, U-1yr immunization, HSSF facilities FM, youth use of condoms (mostly achieved)*	*Partially achieved*
Education	*Primary completion rates, primary to secondary transition, university gross enrolment (partially achieved)*	
Urban	*Slum residents with better access to services (not achieved)*	
Soc Protection	*Interns employed or self-employed, beneficiary households receiving predictable cash transfers*	*Achieved*
Environment	*Area of forest managed per plan*	*Achieved*
Pillar 3: increasing transparency and accountability		***Not achieved***
Governance	*Preparation of financial statements ,PEFA scores of A/B,*	*Not achieved*

6. **The Review also points to a number of ways in which the Bank could have greater impact going forward.** These include: (i) the importance of designing projects for strategic impact to increase the chance of project success; (ii) the opportunities that exist for leveraging private sector finance in support of development goals through innovative use of Bank funding; (iii) the benefits that accrue from effective cross-Bank Group working; (iv) the need to strengthen gender representation in our M&E; (v) the need to draw on non-administrative sources of data to enable effective monitoring and evaluation of programs; (vi) the merit of close collaboration between Bank's Integrity Unit (INT) and the Government's audit agency when investigating allegations of fraud and corruption in Bank-financed projects.

II. Review of Kenya's progress toward country level goals

7. **Overall progress against the targets set out in the first Medium Term Plan (covering 2008-2012) has been good.** There has been good progress in all the main components of the Plan including growth and competitiveness, service delivery and human development, and governance.

8. **Growth and macroeconomic management have been strong in recent years.** Real GDP growth in Kenya during the 4 years from 2010 to 2013 is projected to average 5%, among the highest average rates of growth in the country of any 4 year period during the last three decades.[1] Fiscal performance has remained in line with the country's IMF program requirements. Tax revenue has improved as a share of GDP (driven by VAT and excise tax collections). Meanwhile central government wages as a share of GDP remained stable which provided additional space in the budget for increased capital expenditure.[2] Inflation, despite internal and external pressures and a number of spikes, has been kept to an average 8.1% during 2010 to 2013 (compared with 8.9% in the previous 4 years).[3] Public debt, while still relatively high for an emerging economy, has fallen significantly[4] and the financial system remains sound.[5] While poverty levels have fallen somewhat alongside the pick-up in economic growth they are still high. The lack of any recent survey makes it difficult to estimate poverty rates precisely.[6] Based on available data, however, poverty is estimated to have fallen from 44% in 2005 at the time of the last Household Budget Survey to between 32% and 41% by 2011, depending on how fast income inequality has fallen, with a base case estimate of 38%. However female headed households experience an incidence of poverty that is 5 percentage points higher than amongst male headed households.

9. **Competitive conditions also improved.** The regulatory environment for businesses in Kenya improved during 2010 to 2013 although not as much as in other countries. According to the 2012 Doing Business indicators, access to electricity and credit improved both in terms of lower costs and shorter time required. Insolvency procedures also improved. Starting a business also became cheaper albeit a slightly longer process. On the other hand the cost and time required for importing and obtaining construction permits worsened. Access to finance increased from just over 41% of the adult population in 2009 to nearly 67% in 2013 and the underlying ratio of credit-to-GDP increased from about 32% in 2010 to about 35% in 2013. The index of quality of trade and transport related infrastructure for Kenya edged up between 2010 and 2012. Overall performance in the transport sector improved in recent years as a result of higher public spending in the sector.[7] However although the extent of the road network in Kenya compares favorably with its neighbours, quality needs to improve as more than half of roads (56%) are in poor condition as a result of inadequate maintenance. The port of Mombasa and Jomo Kenyatta International Airport perform considerably below international standards and represent a bottleneck. The performance of railways continues to disappoint due to dilapidated infrastructure and poor management.

10. In the energy sector Kenya has advanced rapidly (annual electricity production increased from approximately 6900 GWh in to 7800 GWh between 2009 and 2011) although it lags behind countries in Asia and Latin America at similar income levels. For example, the number of households with access to electricity doubled between 2008 and 2013 to 2 million

customers. [8] Yet coverage at 30% is well below countries such as Ghana where it is over 50%.[9] In the area of ICT a mobile revolution has swept the country in recent years.[10] Access to water increased (from 59% of households to nearly 61%) between 2009 and 2011, albeit from a low base. Water in Kenya is a critically scarce resource. The country's per capita water storage capacity of 526 m3 places it in the bottom 8% of countries world-wide**.**

11. **There were key advances in the social sectors.** In health there was very good progress in reducing communicable diseases and child mortality although key challenges remain particularly to reduce maternal mortality and to reverse stubbornly high levels of child stunting.[11] Successive demographic health surveys show that child mortality rates declined by over a third and the recent national immunization survey (2012) suggests that Kenya has achieved full immunization coverage among eligible children i.e. close to 80%. The recent Kenya AIDS indicators Survey (2012) shows that National HIV prevalence has reduced from 7.2% in 2007 to 5.6%. HIV testing has increased significantly with 72% of adults in 2012 reporting having been tested for HIV compared to 34% reported in 2007. The proportion of sexually active youth (15 -24 years) who report having had sex with a non-spousal, non-regular partner in the past 12 months has drastically reduced from 33% and 83% respectively for females and males (2008 KDHS) to 2.7% and 23.7%. More data will become available when the latest Demographic and Health Survey is completed (the last one dates from 2008). Other key achievements in recent years include the rehabilitation of 70% of health facilities; delinking the Ministry of Health from service delivery; and the establishment of community units to enable households and communities to take charge of improving their own health.[12] Likewise in education there has been significant progress at all levels. The primary school net enrolment rate rose from 92.5% in 2008 to 95.3% in 2012 as did completion rates (from 79.8% to 80.3%). Primary transition rates also improved from 64.1% to 76.6%. Enrolment rates in secondary school equivalent rose from 28.9% in 2008 to 33.1% in 2012. The number of students in university education rose from under 123,000 in 2008 to over 240,000 in 2012.

12. Kenya has also increased its focus on social protection. Social protection spending increased steadily between 2005 and 2010 informed by a new sectoral strategy (supported by the Bank). The coverage of cash transfer programmes has grown significantly. The Government of Kenya's five main cash transfer programmes – the Older Persons Cash Transfer (OPCT), the Cash Transfers to Orphans and Vulnerable Children (CT-OVC), the Hunger Safety Net Programme (HSNP), the Urban Food Subsidy Cash Transfer (UFS-CT), and the Persons with Severe Disability Cash Transfer (PWSD-CT) – have collectively increased their coverage more than tenfold since 2005 and currently provide regular support to 1.6 million people in 279,843 households or 4% of the population. The number of households receiving timely payments under the OVC program, supported by the Bank, increased by over 55,000 between 2009 and 2012. With these gains, cash transfers now cover almost half (an estimated 46.6%) of the absolute poor population, and coverage should be expanded in the future.

13. **The country has taken steps to safeguard natural resources but more is required.** Sound environmental conservation measures are key to confronting the growing risks of temperature and rainfall variability and change in Kenya. These include better water management and increasing the area covered by forest. Currently just over 5.5% of the

country is covered by forest. Kenya's Vision 2030 aims to increase the share of forest set aside for soil, water, biodiversity, carbon sequestration and other ecological services to 10% by 2030 from 4% in 2012. While Government Forest Plantation Stocking has increased from 112,700 hectares in 2009 to 121,700 hectares in 2011 this increase is low relative to what has been achieved in other African countries.[13] Only a small percentage of agricultural land (0.036%) was irrigated in 2009.

14. **There has been notable progress in the area of governance.** The new Constitution and Public Financial Management (PFM) Act of 2012 helped, inter alia, clarify PFM roles and responsibilities, assigning responsibility for confirming whether or not public money has been applied lawfully and in an effective way to the Auditor General; authorization of withdrawals from public funds to the Controller of Budget who reports to Parliament every 4 months; and accounting to the National and County Treasury. Other developments included the passing of a County Government Act and establishment of 47 elected county governor positions and county assemblies; an overhaul of the judiciary including public vetting of key public appointments; a new Senate; legal framework and bodies needed to implement the new Constitution; accelerated roll out of the IFMIS; consolidation of a number of government ministries; and increased emphasis on transparency and downward accountability to citizens (discussed further below under program performance).

15. **But Kenya's poor record on governance has a long history, runs deep and will take time to turn around.** Among Kenya's Public Expenditure and Financial Accountability (PEFA) report scores in 2012, the degree of policy-based budgeting and predictability in budget execution received the highest scores while accounting, recording and reporting and donor practices received the lowest scores. Enactment of the 2012 PFM Act should help to underpin the progress of key reforms in this area. CPIA scores for public sector management improved slightly from 3.3 to 3.4 between 2010 and 2012. More specifically Kenya's poor record on transparency and accountability continue to be a constraint on development. Kenya's position in the 2012 Transparency International Index is 19th out of 23 among sub-Saharan countries that have been major recipients of Bank funding since 2000. Its CPIA score for transparency, accountability and corruption remained at 3 during the CPS period. Kenya's score in the 2012 Open Budget Survey was 49 (same as 2010); in-year reporting showing a marked improvement but there was a fall in the information made available around the enacted budget. Problems of ineligibility of financial claims, allegations of fraud and corruption in service delivery and district administered development projects that arose during the previous CPS period (FY04-FY09) led to the suspension of three World Bank projects and impacted on results during FY10-FY13. These suspensions and the actions taken by Government and the Bank to address them are further discussed below.

III. Highlights of program performance

16. **The CPS Program in Kenya during FY10-13 achieved, or mostly achieved, the majority of its objectives.** Consequently the overall rating for program performance is moderately satisfactory. Details of the evaluation are contained in the results matrix and highlights are summarized below.

Pillar 1: Unleashing Kenya's growth potential

17. **Overall this outcome was mostly achieved** with the improved business environment outcome partially achieved; combined outcome for improved core infrastructure mostly achieved, and enhanced agriculture productivity mostly achieved.

CPS outcome: An improved business environment and competitiveness

18. **This objective was partially achieved.** In particular improvements to the regulatory environment for SMEs occurred, although not to the extent targeted in the CPS results matrix. The CPS targets for access to finance on the other hand were fully achieved.

19. **The CPS program in business environment and competitiveness was broad-based and involved close working between the Bank and IFC.** It contributed to an improvement in Kenya's business environment and competitiveness across a very wide front including supporting access to finance, skills and markets for MSMEs and trade logistics assistance; support for strategic, legal, regulatory and structural reforms in the financial sector as well as improvements in the national payments system and in debt management; strengthening the environment for foreign investment including support for a Special Economic Zone.

20. **IFC led a number of initiatives in the area of access to finance** and has played an important role enabling Kenya's banks to increase their lending to SMEs. IFC senior loans in 2011-2013 to Co-op Bank ($60 million), KCB ($140 million) and Equity Bank ($100 million) all represented fresh engagements (an earlier relationship with KCB had ended in the mid-1990s). These loans helped banks diversify their funding sources, reduce balance sheet risk, and increase their lending to SMEs. IFC also financed banks with a unique market niche, with the potential to drive innovation and address underserved markets. An example of this is IFC's $5 million equity investment in December 2012 in Gulf African Bank (GAB), Kenya's first shariah-compliant bank. This investment gave GAB added credibility in the market, helping it expand an important banking niche. IFC also supported banks to increase lending to the real sector - e.g. agribusiness and infrastructure. IFC also provided 21 trade finance guarantees to nine banks – starting with $36.6 million in FY10 and reaching $163 million in FY12 thereby supporting external trade and boosting bank liquidity.

CPS outcome: Improved core infrastructure with deeper regional integration: transport, energy, water, ICT

21. **Overall this objective was mostly achieved** reflecting objectives that were partially achieved in the transport sector, mostly achieved in the energy and water sectors and fully achieved in the ICT sector.

22. **The CPS transport program had notable successes in roads but progress was uneven elsewhere.** The Bank's program in transport focused on the rehabilitation and improvement of roads, road facilities and road safety interventions; strengthening institutional capacity in the transport sector including the airport and civil aviation sectors; and IFC financing of an upgrade of Kenya Airway's five-year fleet and network expansion plan and of improvements to the rolling stock and infrastructure associated with the Kenya-Uganda railway managed by

Rift Valley Railways International. Within the road sector Bank support has focused on the main road transport arteries with links to neighboring countries to boost trade and regional integration (i.e. the Northern road (920 km) and Tanzania-Kenya-South Sudan road (894 km) corridors) which are about 1,814 km. These routes represent an economic lifeline for Kenya and the East Africa region. As a result of this support the condition of the Mombasa-Malaba section of the Northern Corridor road in Kenya has shown a marked improvement (with the share of the road in fair or good condition rising from 54% to 80%) and travel times have fallen (e.g. it used to take approximately 8 hours by car from Nairobi to Mombasa and now takes in the region of 5 hours). The time required to export and import containers has also improved, modestly. In addition the Rift Valley Railways project suffered from weak financial and managerial capabilities, an under-estimate of the extent of asset dereliction and post-election violence in 2008. IFC successfully led a restructuring of the project during the FY10-FY13 CPS period, bringing in new investors and an operator as well as an experienced consultant to advise the concessionaire. Consequently, although the quantity of freight carried by railways has declined rather than increased as projected during the period of the current CPS, the outlook is now more positive. Overall the CPS objective was partially achieved in transport.

23. **In the energy sector, the Bank's Program has sought to boost private sector participation as well as the share of energy generated from renewable energy.** Comprising both IDA and IFC lending, IFC advisory services and IDA and MIGA risk mitigation the Program has helped increase geothermal generating capacity (on course to more than double the country's geothermal capacity) and improved transmission and distribution networks; strengthened the policy and regulatory framework; and helped establish the feasibility of a number of investment projects. As a result more than half a million households obtained electricity connections, vastly in excess of CPS targets. IDA, IFC and MIGA have also worked together effectively to support private sector thermal, geothermal and wind generation. For example IFC financed two private sector financed power generation projects, MIGA provided political risk insurance cover for two, and IDA provided partial credit guarantees for four. IFC and IDA also provided financing for KPLC's investment program, the state-owned electricity distribution company. Overall the number of new independent power projects established exceeded CPS targets albeit with slightly fewer in the geothermal sector than projected. Although transmission losses increased during the CPS period this was overall outweighed by major success on the other two quantitative indicators for energy suggesting an overall rating of mostly achieved.

24. **The Water and Sanitation Program (WSP) was highly integrated with the CPS urban program.** WSP has primarily supported three of the country's seven water boards in the rehabilitation of multiple aspects of water supply, sewerage networks and treatment facilities, the provision of equipment and technical assistance to improve the overall operations of all three Boards. As a result there has been a large increase in the number of people with access to improved water and adequate sewerage services. (Note that the baseline data for the two water and sanitation sector CPS indicators has been corrected to bring it into line with data made available in 2008 after the WASSIP project appraisal document which was the source of data for the CPS. This was not updated in the CPS PR due to an oversight.) Overall the CPS objective was mostly achieved in the water and sanitation sector.

25. **The CPS program in ICT included strategic interventions to increase Kenya's external connectivity as well as increasing the number of internet users within the country.** It included the important EASSy Cable project (IFC Portfolio project with Bank support) as well as IFC's KMIP (IFC Special Economic Zone Project). The introduction of the EASSy cable demonstrated to other investors that the laying of sub-marine cables was a viable investment. Today there are four cables while five years ago there were none. There is approximately 20 times as much data now being transmitted and prices are approximately 10 times lower than they were.

26. **Internally, the Bank also helped stimulate demand for data by buying capacity to connect university campuses across the country.** This led to an increase in megabytes and fall in unit prices. Overall the Bank's technical strategy was very sound. Internal prices have also fallen but not as much.

27. **In the area of internet usage the Bank's role was to encourage and support the Government through its on-going policy dialogue; as well as implementation of the Regional Communications Infrastructure Project, KTCIP.** The regional dimension of this project helped give the Bank added profile (although this was also a challenge). Overall the CPS objective was achieved in ICT.

CPS outcome: Enhanced agricultural productivity with a focus on food security

28. **This objective was mostly achieved** in terms of the specific indicators contained within the CASPR results matrix, but achieving a broader impact in the sector remains a challenge for the Bank Group.

29. **Bank Group support to the agricultural sector was aimed at supporting: 1) the generation, dissemination and adoption of agricultural technology; 2) a package of measures to improve basic services and livelihoods in arid and semi-arid lands; and 3) the provision of finance to key private sector organizations operating in the agribusiness sector.** Bank support largely comprised support for policy and institutional reforms, extension system reform, agricultural research system reform and farmer client empowerment; and targeted support to the poorest farmers in the country's 28 arid and semi-arid land districts including natural resource and drought management techniques and other community level capacity building.

30. The overall performance of agriculture has been variable due in large part to an over-reliance on rain-fed agriculture. For example average cereal yields declined from 1710 kg/ha in 2010 to 1659 kg/ha in 2012. However a**s a result of WBG initiatives maize yields, a key weakness in the agricultural sector, increased by over 7% in targeted areas**. Tea, horticulture and dairy have performed considerably better than food crops. Storage capacity for tea was given a boost by IFC's financing of a Mombasa warehouse facility.

31. Across the country there has been some improvement in overall indicators of food security. For example the depth of the food deficit was reduced from 213 calories in 2010 to 201 calories in 2012. The share of the population experiencing undernourishment fell from 31.8%

in 2010 to 30.4% in 2011. As a result of WBG initiatives earnings of small holders farmers, men and women, in specific product sub-sectors increased during the period of the CPS albeit by amounts less than those targeted. Male incomes remained three times higher than female incomes. Bank support for farmers in arid and semi-arid land, however, was interrupted: based on an understanding of preliminary findings of an Institutional Integrity (INT) forensic audit, in July 2010 management informally suspended IDA financing for ALRMP II, and the suspension remained in place through closing on December 31, 2010. The implications of this for the CPS are further discussed below under the Governance Pillar.

32. **In addition, IFC, for which agribusiness and food security have become a strategic priority in Kenya, booked two agribusiness transactions** in FY10-FY13 for a total $22 million in long term debt. In October 2012, IFC committed a $12 million loan to the privatized Kenya Tea Development Agency (KTDA) to build a 200,000-square-foot warehouse in Mombasa. The warehouse will increase revenues for KTDA, ultimately benefitting the 562,000 farmers who are the agency's shareholders. IFC agreed a $10 million loan to ETC Group, an agricultural supply chain manager and food processor, in June 2013.

33. **IFC's financial markets and agribusiness departments also jointly funded local banks to channel financing to Kenyan farms.** For instance, a seven-year, $60 million senior loan in December 2012 to Cooperative Bank of Kenya requires it to direct about $10 million to agribusiness clients.

34. **Despite the examples of success noted above it is clear that the poor performance of the food sector as a whole, particularly with respect to maize, remains a major challenge**. Understanding whether and how the Bank can help meet this challenge is an important prior condition for any future Bank involvement in the sector. This is further discussed under lessons and suggestions below.

Pillar 2: Reducing inequality and strengthening resilience.

35. **Overall this outcome was mostly achieved** with the combined outcome for health, education and urban development partially achieved and those for environment and social protection achieved.

CPS outcome: Better access to health care, education, and basic infrastructure services

36. **The Bank's health program during FY10-FY13 targeted an improvement in the delivery of basic health services and in the efficiency of pharmaceutical planning, processes and management.** The Bank's main lending instrument was a health SWAp. This included two core reforms started by the Government of Kenya: namely a) direct facility cash transfers to ensure timely availability of resources and enable local policy relevant planning; and b) establishment of a system of demand-based drawing rights for Essential Medicines and Medical Supplies to respond to actual needs and reduce wastage. It also included 5 pilots. Two of these showed good progress namely a) social accountability and b) results based financing.

37. **In addition IFC's Health in Africa Initiative (launched in 2007)**, a multi-country advisory service targeting legal, regulatory, and institutional reforms in the health sector, led to enactment of legislation in Kenya in 2012 creating equal opportunity for public and private healthcare providers and is expected to result in expanded coverage for up to 20 million Kenyans.

38. **Overall the health CPS outcome was partially achieved.** Two of the four health sector CPS targets have been fully achieved: firstly 38.9 million people – of which 21.3 million are females - now have access to basic services against a target of 18.3 million. This is confirmed by the recent household survey on health care utilization and expenditure. The preliminary results of the survey has shown that per-capita outpatient utilization increased from 1.9 visits to 3.1 visits from 2003 to 2013 and the share of those who reported sick but not sought health care reduced from 22.8 to 12.7% during the same period. The inpatient admissions also increased from 15 to 38 per 1000 population. There were no inequities noted for outpatient care while inequities continue for in-patient care. More importantly, the public sector remains the main source of care with the exception of the richest quintile. Secondly 97.3% of facilities receiving HSSF grants meet core financial management requirements have improved FM (against a target of 50%). There was an error in the target for immunization of children aged less than 1 year which should have been 1.23 million and not 1.8 million which is greater than the entire birth cohort of 1.5 million. The actual result was 1.11 million (partly because of disruption of services in the north-east of the country because of tensions with Somalia). Hence this target is partially achieved. Recent National Immunization survey data suggests full immunization coverage of 80%.

39. **The target for use of condoms by youth, both male and female, was partially achieved** according to the Kenya AIDS Indicators Survey (KAIS 2012). The Proportion of youth aged 15-24 reporting condom use in the last sexual encounter with a non-regular partner increased from 24% and 47% (2009) to 48.7% and 58.7% respectively for females and males. While this is a notable increase, especially among women, the targets set (55% and 75%) could not be fully achieved. While administrative data is improving, there are still challenges in timely and complete reporting. In future, the Bank will aim to obtain population based statistics by financing surveys to obtain more reliable estimates of this indicator.

40. **The Bank's overall objective in the education sector was to improve basic education ensuring equity of access and enhancing quality and learning achievement as well as providing opportunities for further education and training and improving sector management**. The Bank's main instrument was the Education Sector Support Project. However IDA disbursements for the project were effectively suspended in July 2009 due to emerging evidence of fraud and corruption and the project was formally closed in December 2010, a year ahead of schedule. The ICR for the project, completed in September 2011, found that the project was unsatisfactory due to non-achievement of the majority of PDO indicators at the time of assessment i.e. December 2010. In addition, in June 2010 IFC committed a $4 million loan to Braeburn Group of Schools which operates 13 private kindergarten, primary, and high schools across seven campuses in Kenya and Tanzania serving over 3,000 students. IFC's financing helped Braeburn expand technical and vocational training, and invest in teacher training and professional staff development, a modest but still important contribution to progress in this area. This includes a partnership

with Kenyatta University on specially designed graduate education courses to increase the availability of highly qualified teaching staff in Kenya and Tanzania.

41. **The specific CPS targets for education were partially achieved**: a) primary completion rates rose from 79.5% in 2008 to 80.3% by 2012; b) primary to secondary education transition rates rose from 64.1% to 76.6% by 2012; and c) there was a near doubling in the number of students attending university. The overall assessment for the sector is that the CPS objective was partially achieved. The implications of the early closure of the project because of irregularities are further discussed under the governance section below.

42. **The Bank's primary objective in the area of urban development was to improve living conditions in informal settlements in selected municipalities in Kenya.** This was to be achieved by enhancing security of tenure and improving infrastructure based on plans developed in consultation with the community. The Bank's program in the area of slum upgrading included institutional support to the Ministries of Housing and Land and a number of local authorities; help implementing the new national land policy in informal urban settlements; financing for a range of investments in roads, walkways, public spaces and the like, and involved close collaboration with the Bank's program of investment in water and sanitation in Nairobi, Mombasa and Malindi as well as its investments in increasing access to electricity.

43. **The largest part of the Bank's program, namely the works investment program, was significantly delayed**. Consequently the target of providing access to improved infrastructure services for 50,000 has not been achieved. The cause of the delay in completing preparatory work was primarily due to unrealistic target-setting on the Bank's side combined with some delays due to weak counterpart capacity. In particular, the project was designed as a framework project, yet there were no activities that were ready to appraise/implement when the project was approved; community consultation and design work only started during implementation; and there was no advance procurement. Given that the project was approved in February 2011 it is clear that even under a best scenario results were unlikely to materialize until at least 3 years later i.e. more than 6 months after the end of the FY10-FY13 CPS period. Weak counterpart capacity resulting in delays in payments to the consortium added some additional months to the overall delay.

CPS outcome: establishing comprehensive, scalable social protection mechanisms

44. **As a first step toward achieving the CPS outcome for social protection the Bank focused on supporting the development of a national social protection framework and providing specific support to orphans and vulnerable children.** This objective was achieved with support from the Bank on two main fronts: a program of private sector internships together with policy support for the Ministry of Youth and Sports; and a major and innovative program of cash transfers targeting orphans and vulnerable children. Both programs achieved their targets and more. The Bank's social protection program benefited from a sustained analytical effort to understand the priorities in the sector which resulted in a social protection strategy that was adopted by the Government as their own. Building on this

success the priority now is to consolidate the many cash transfer and safety net initiatives that are administered by different government departments.

CPS outcome: improved management of key natural resources and adapting to climate change

45. **This objective was achieved.** The Bank's program has focused on extending the area of land under irrigation by rehabilitating existing networks and constructing new ones; as well as increasing the area of forest managed in accordance with approved forest management plans. An additional 8270 ha of land was brought under irrigation as a result of WBG efforts. An additional 320,000 ha of forests were brought under management in target areas. The Bank also supported this objective through its work supporting farmers in drought and natural resource management techniques in arid and semi-arid land districts (also noted above under agriculture).

Pillar 3: Increasing Transparency and Accountability

CPS outcome: improved transparency and accountability

46. **At the time of the CASPR governance was reconstituted as a separate pillar in order to highlight its importance**. Based on the indicators contained within the CPS PR (April 2012) the objective of the new pillar was not achieved.

47. **The Bank was active in a number of areas in support of these indicators.** It supported the Government in strengthening budget processes, public financial management including auditing, procurement, revenue mobilization, parliamentary oversight and institutional capacity building in ministries; as well as institutional strengthening at municipal level. The Bank's main project in this area included a wide range of PDO and intermediate outcome indicators which included the CPS indicators of timely financial statement (partially achieved) and external audit preparation and publication (not achieved). Slower than expected progress in achieving these indicators was due in part to delays in putting in place the requisite infrastructure at both central and local levels. The third indicator, improvement in Kenya's PEFA score, was not achieved.

48. **In fact the Bank's activities in this area go well beyond those summarized in the CASPR indicators and delivered through the projects listed in the results framework.** Although not explicitly captured by the CPS targets, the Bank has also played an important role in the area of decentralization via the Fiscal Decentralization Knowledge Program (now scaled up into a $6.5 million Kenya Accountable Devolution program financed by the Governance Partnership Facility, GPF, with support from AusAID and DFID); has established itself as a leading external partner on devolution; issued multiple pieces of analysis on devolution; and is supporting judicial reform. The Bank supported the Government as convenor, facilitator and catalyst in support of the Government's Open Data Initiative, launched in July 2011, which has propelled Kenya to center stage among developing country efforts to release government data, making over 400 datasets available to the public through the opendata.go.ke government portal. The initial Innovation Fund award of $100,000 catalyzed other financing, and ownership of open data outreach was increasingly shouldered by Kenyan partners. Similarly the Bank supported the GoK through provision of

input on international best practice in Access to Information and data protection, and provided comments on the draft 2012 Freedom of Information and Data Protection Bills before they were submitted to Cabinet for debate. None of these Bank activities is fully captured by the existing CPS indicators. In part they speak to Bank performance. But they also point to the fact that a significant share of the very positive governance developments that occurred at national level are also to some degree CPS program successes.

49. **During this period the Bank worked closely with Government to investigate and respond to a number of financial losses flowing from irregularities arising prior to the FY10-FY13 CPS.** In September 2009, i.e. several months prior to Board approval of the FY10-FY13 CPS, the government's Internal Audit Department (IAD) concluded a forensic audit of the Kenya Education Sector Support Project (KESSP) and the Western Kenya Community Driven Development (CDD) project, finding substantial questionable spending, and possible fraud and corruption, under each project. Disbursements were immediately suspended and work undertaken to determine what caused the integrity failures, whether systemic issues contributed, and how such systemic issues could best be addressed. During this period, the Bank's Integrity Vice Presidency (INT) conducted and finalized a forensic audit of phase two of the Arid Lands Management Project, presenting its findings to the government in April 2011. In this case, project disbursements were informally suspended in July 2010, based on a verbal communication of INT's initial findings. KESSP and Arid Lands both closed in December 2010, as scheduled, without resuming disbursements but Western Kenya CDD has resumed operations, after a 16-month suspension, with (inter alia) a new professionally-recruited project implementation unit.

50. **The excellent and exhaustive work by Government and Bank teams (described further in the next section) in response to these irregularities have reduced the incidence of fraud and corruption and ineligible expenditures from 15 projects in FY11/12 to only one project in FY12/13.** This work has also been recognized by the OPCS Governance and Corruption (GAC) team at the Bank and included in its database for wider reference. Starting in the fall of 2010, the suspended Western Kenya CDD project underwent a major restructuring, based on a detailed governance and anti-corruption plan developed in response to the audit findings, that included appointment of an independent fiduciary agent, new project procedures and manuals on record-keeping, reporting, transparency (including signboards, participation, complaints handling system); a vehicle tracking system was put in place, and a system was set up to geo-map all sub-projects (CDD, local development, flood mitigation). Using "home-grown" GAC FM mechanisms with support from the GPF, and relying on country systems and government institutions the Government and Bank teams have turned a project that was suspended in 2009, before Board approval of the FY10-FY13 CPS, on account of fraud and corruption into the CDD project in Kenya with the most robust FM systems.

51. **New governance measures were also applied to other projects in the Kenya portfolio.** Independent fiduciary agents were put in place for three other projects (Health Sector Support Project-HSSF, Total War on Aids, Cash Transfers for Orphans and Vulnerable Children). Supervision of project record-keeping and accounting was intensified across the portfolio with a particular focus on CDD and local service delivery components. Governance

and social accountability measures on transparency, participation, and complaints handling were strengthened in HSSF, the Kenya Coastal Development Program, the Kenya Youth Empowerment Program, and the Natural Resource Management project.

IV. Review of Bank performance

52. **Bank performance during the Kenya FY2010-13 CPS was good.** Both program design and implementation successfully contributed to CPS objectives, with minor weaknesses, and there is a sound program of ongoing activities.

Design of the CPS

53. **The CPS as a whole was highly relevant and well aligned** with the key building blocks of Kenya's long term development strategy, Vision 2030, and the specific priorities contained within the MTP. This is particularly true for transport, energy, water and sanitation, ICT, health and social protection. In the area of agriculture, although the CPS results were mostly achieved, the Bank program could have given greater emphasis to supporting reform of the regulatory and enabling environment, particularly in the food sector.

54. **The results framework was in general strong and avoided the common problem of an excessive number of outcomes.** The three pillars that focused on growth, social inclusion and governance were highly appropriate. Most CPS outcomes aimed to achieve incremental improvements in particular economic or social objectives. In one case, social protection, the CPS objective of establishing comprehensive, scalable social protection mechanisms was perhaps over-ambitious given the complexity of the challenge facing the Bank particularly given the low knowledge base from which the Bank was initially starting. Some baseline data (e.g. in the water and sanitation sector) and targets (e.g. in the health sector) that required adjusting were overlooked at the time of the CPS PR but have been adjusted now.

55. **But in some areas such as governance, some highly strategic and significant Bank activities were not well captured by indicators in the results framework.** In this area, the Bank was active in a wide range of activities, many of which were supported by a GPF trust fund for Kenya initiated in late 2010. Some of these activities are described above in the previous section (paragraphs 44-45). As a result, although the CPS outcomes were not achieved this is not considered to be a major short coming for the purposes of rating the CPS. As discussed above part of the Bank's work involved responding to issues arising from the pre-CPS period. Project-level governance issues in Kenya thus received high-level visibility from WB management and the Executive Directors, requiring significant resources and attention by the country team. In the new CPS it will be important for the Bank and GoK to translate the lessons learned into joint work on building improved government systems for public financial management, procurement, transparency, and oversight at the national and subnational levels.

56. **Although gender issues were highlighted in the FY10-FY13 CPS, gender-specific dimensions were not incorporated in any of the formulated CPS outcomes**. The CPS highlighted gender disparities as shown by relatively low employment rates, income levels,

political representation, access to land and agricultural support services; and relatively high shares of household and caring duties as well as overall poverty levels. It focused on the role that gender mainstreaming can and has played in the agricultural sector. Gender specific targets were set and partially achieved in agriculture and health. Disaggregated data was also collected in education and social protection. This suggests that there are opportunities in the forthcoming CPS to consider a more systematic inclusion of gender disaggregated indicators e.g. in additional sectors where women are disproportionately excluded such as access to finance, governance, and water and sanitation.

57. **In ICT the target of 3 million users of internet services was in hindsight clearly too modest** (given the actual outcome of over 16 million). However, given the information that was available at the time that the targets were set, it is not obvious that a different target should have been chosen.

Implementation of the CPS

58. **Overall, the Bank's project portfolio performed well,** with 82% of projects on-track to meet their end-project targets based on the Development Objective (DO) rating in the last Implementation Status and Results Report (ISR) before end FY13. The likelihood that projects would achieve the PDO as rated Marginally Satisfactory (MS)/Satisfactory (S) for DO increased from 80% of the portfolio in FY09 to 94% in FY13. The trend was similar with respect to Implementation Progress (IP): implementation of 94% of the portfolio was either MS/S compared to 80% in FY09 as at end FY13. There was only one problem project by end FY13 in the portfolio, down from three in FY12, namely the Kenya Youth Employment Project which was restructured to cancel one component because of challenges related to financial management (FM) and implementation. Disbursements have remained low during the CPS period, but showed improvement in the last year of the CPS – increasing from $160 million in FY09 to $229 million in FY11 and $397 million in FY13. Both the Bank and GoK teams have made good efforts toward cancelling IDA funds from slow disbursing and non-performing projects and re-allocating them to other good performing and fast disbursing projects in the Kenya portfolio. Between FY12 and FY14 SDR 62.6 million of IDA funds were cancelled from six projects and reallocated to other well-performing projects in the Kenya portfolio.

59. **The FY10-FY13 CAS identified a number of risks to the program and mitigating measures.** These included: political uncertainty arising from elections and the need to remain flexible in its programming; a reversal or slowing of macroeconomic progress and the need to ensure that projects underwent thorough cost benefit analysis; exposure to external shocks and the need to maintain sound macroeconomic management; vulnerability to climate change and the need to support the Government in undertaking adaptation measures; terrorism and the need to remain vigilant; and project management and fiduciary risks and the need to provide bespoke training, undertake regular supervision and learn the lessons of the previous CAS. In practice, as already noted above, the political and macroeconomic environment was remarkably steady throughout the CAS. Environmental stresses have continued to play a role but the Bank has been active along the lines anticipated in the CAS. Finally the problems

relating to project management and fiduciary issues that arose in the previous period have if anything resulted in stronger systems and processes during the FY10-FY13 CAS.

60. **Kenya is now one of IFC's most important markets in Sub-Saharan Africa,** particularly for its global financial markets franchise. Kenya is IFC's fourth largest exposure in the Sub-Sahara region with a committed and outstanding portfolio at the end of FY13 of $702.5 million, and IFC's 17th largest global market. The Corporation and its investment partners committed $860.9 million to clients in the country during FY10-FY13 in transactions with 26 clients. Energy was particularly important for IFC in Kenya with commitments of $121 million in six projects during FY10-FY13. IFC investment partners committed $27 million of this in a single $53.8 million infrastructure deal with Gulf Power Ltd intended to support development of an 80 MW heavy fuel oil diesel plant in Nairobi. Nevertheless IFC's activities in Kenya are fairly recent and have accelerated rapidly in a short period of time. As a result, most projects in the portfolio are still either under development, or have not generated more than two years of development impact data. In many cases it is therefore still too early to tell how IFC operations have benefited women, farmers, or MSMEs among others.

61. **There were examples of outstanding analytical and advisory (AAA) work** notably in the area of social protection where the Bank invested strongly in deepening its understanding of the sector and did so in a manner that enabled the Government to publish the Bank's economic and sector work as its own. In agriculture more investment in AAA might have positioned the Bank to play a more strategic role in shaping the policy environment in the food sector. IFC's Advisory Services (AS) arm has also played significant role in Kenya, with $29.8 million in total project expenditures during the CPS period, the largest in the region. Investment Climate work is a major part of AS caseload in Kenya, with four projects underway in FY13, compared with two in FY10. Project spending in the period was $8.5 million. Operations included work on streamlining national regulations, work with local authorities, and support for regional integration.

62. **As already noted in the section above, the Bank's governance team was extensively involved in putting in place robust fiduciary mechanisms at project level that have since been recognized by GAC team as excellent practice.** In addition, more WB staff resources were devoted to governance: a senior social development specialist was recruited starting in Sept 2010 to review the governance weaknesses emerging from the forensic audits and help GoK counterparts and task team leaders strengthen governance in CDD and local service delivery projects. A lead public sector/governance specialist was recruited; and extended consultancies were put in place (funded by TFs) to review CDD (see below) and to strengthen social accountability, transparency, complaints handling in WKCDD and Health projects and related government systems. Led by the CMU, a cross-sectoral governance team was put together in 2012 to review and strengthen these governance measures across the portfolio.

63. **Work was also initiated to scale up the lessons from the problem projects into government systems**. In response to a request from Treasury, a detailed review of fiduciary issues in WB portfolio involving CDD and decentralized expenditures was conducted. Based

on this review, the WB team together with the Ministry of Finance developed a draft GoK CDD policy that lays out the key principles and actions to reduce governance risks. The Bank team also placed a strong emphasis on governance in the devolution technical assistance and analysis (especially around PFM, transparency, accountability).

64. **In general there was a good level of trust and dialogue between the Bank and the GoK as well as with the donor community in general.** In those instances where projects resulted in fraud and corruption the GoK was quick to react. For example in KESSP, the strengthening of KENAO and IAD were key ingredients in uncovering the fraud and corruption that occurred. Without these, it is unlikely that the fraud and corruption would have been discovered at that time. However it remains unclear whether as a result of the investigations that have since occurred those responsible have been held to full account.

65. **As with most country programs, there are examples of project preparation starting, but then having to be re-timetabled or discontinued**. For example the Bank initially suspended preparation of a judicial performance improvement project on the basis that Government support for the project was likely to be stronger following approval of a new, progressive Constitution in August 2010. Project preparation resumed in 2011 once enabling conditions had improved and a new Judicial Performance Improvement project was approved in FY13. Re-timetabling or discontinuing projects during preparation helped avoid implementation problems that might have emerged at a later stage. Such decisions were generally taken as swiftly as possible although the decision by IDA and IFC not to finance the Nairobi toll road project, which also involved private sector investors, took about one year.

V. Key lessons and suggestions

66. **The importance of scale and strategic scope.** An example where the Bank was able to engage the GoK at a highly strategic level was in social protection on the back of its AAA work. The Bank's AAA work helped provide a solid foundation for its future program of work in the sector, built credibility with the Government and with partners, and created a shared vision and framework for interventions. However in agriculture the Bank did not address the major strategic issue of regulation of the food sector and hence did not have an impact on the all-important issue of excessive maize prices. Some aspects of the finance and private sector development program appeared to fall beneath the GoK's radar. Analysis of IEG ratings of Kenya projects supports this lesson. Since at least 1990 the percentage of project outcomes rated MS or better has been consistently below the regional average and within this it appears that larger projects (i.e. those over $100 million) are twice as likely to be rated moderately satisfactory as smaller projects. Projects that close on time have also done better than those that continue beyond 5 years. Ratings of Bank and Borrower performance have also been below regional averages.

67. **Effective Bank group collaboration.** Collaboration within the Bank works best where actors each bring something different to the table. In the area of business regulation and access to finance IFC and the Bank have worked in tandem to improve the business environment for MSMEs. In the energy sector there was good collaboration between the Bank, IFC and MIGA in the creation of a number of new Independent Power Producers

through a combination of financing, partial credit guarantees, political risk insurance and advisory services. In railways collaboration also worked well (even though the project encountered difficulties) with IFC providing finance and IDA dealing with 70,000 resettlements. IFC and the Bank are also working side by side in the agribusiness and health sectors albeit IFC's involvement is relatively recent.

68. **The need to strengthen M&E**. M&E systems in Kenya have improved, particularly with respect to the production of data and progress reports, however, quality and the use of the result information in decision-making remains a challenge. Throughout the CPS period the Bank provided financial and technical assistance to strengthen M&E systems at national/sectoral and decentralized (district/county) levels. This was achieved through a number of lending operations at sector level, including the STATCAP project. High level technical assistance focused on support formulating the new M&E Policy and strengthening the Annual Progress Reports to include a greater emphasis on dissemination and use in planning, budgeting and program/project implementation.

69. **The CPS results framework could have been stronger** in two respects: 1) gender and 2) alignment of results with activities. With respect to gender, although the CPS highlighted the issue of gender and included gender specific targets in two sectors, agriculture and health, it did not mainstream gender across the results matrix. Without – at least - gender specific targets in key sectors there is inevitably a significant risk that Bank Group attention to this critical issue will slip. More generally there were several instances, most notably under governance, where the results set out in the results framework were not well-aligned with the Bank program and failed properly to reflect the wide front across which the Bank was active.

70. **The importance of clearly signalling, particularly in projects involving private finance, the likely time, cost and Government supervisory implications of Bank Group due diligence requirements**. In its September 2013 Investment Prospectus the Government of Kenya states that it will approach IDA for partial risk guarantees (PRGs) to help encourage private investment into a pipeline of privately financed electricity and other infrastructure generation projects. In order to provide such PRGs the Bank would require independent professional assessments to be carried out, as part of its due diligence requirements, to ensure that projects proposed are consistent with least-cost development planning and realistic growth assumptions. In order that all parties fully understand these requirements, and to avoid possible misunderstanding and disappointment, it will be important for the Bank to clearly signal at an early stage what these due diligence requirements are, how long they are likely to take and cost implications. It will also be important to ensure that there is sufficient capacity to commission and supervise these due diligence requirements within the relevant government ministries, utilities and other corporate bodies.

71. **In addition to the insights and lessons that emerge from ICRs and discussions with Bank staff, as well as IEG analysis, the Bank's stakeholders have also provided a range of insights through the latest client survey undertaken in 2012.** Some challenges emerging from the survey include the following: the 3rd highest priority for poverty reduction according to stakeholders is job creation and employment; yet this is the sector where stakeholders rate the Bank second lowest. Second, while the Bank values gender, the

environment and natural resource management, these do not appear to be prioritised by stakeholders to the same extent. Third, agriculture and education are two of the top three sectors for poverty reduction and growth according to stakeholders. Yet in some respects, and for reasons discussed above in this CASCR, the Bank has struggled to have an impact in these sectors during FY10-13. Each of these insights are useful challenges for the new CPS.

Notes

[1] IMF WEO database and team calculations
[2] IMF Fifth Review under the Three Year Arrangement, p 5.
[3] IMF WEO data, CPI index 2005-13, and team calculations
[4] World Bank, Republic of Kenya Policy Notes, Achieving Shared Prosperity in Kenya, June 2013, page 58
[5] IMF Staff Report January 2012 para 24
[6] Note on Poverty, World Bank, p 1
[7] World Bank, Republic of Kenya Policy Notes, Achieving Shared Prosperity in Kenya, June 2013, page 79
[8] World Bank, Republic of Kenya Policy Notes, Achieving Shared Prosperity in Kenya, June 2013, page 79
[9] Fact sheet: the World Bank and Energy in Africa (http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:21935594~pagePK:146736~piPK:146830~theSitePK:258644,00.html) ; Electricity PAD para 11
[10] Kenya Economic Update p 43
[11] World Bank, Republic of Kenya Policy Notes, Achieving Shared Prosperity in Kenya, June 2013, page 24
[12] Vision 2030 Progress Report, Health section
[13] World Bank, Republic of Kenya Policy Notes, Achieving Shared Prosperity in Kenya, June 2013, page 44 Table 1.6.1

Table 1: Summary of CPS Program Self-evaluation			
Cluster of outcomes and outcome indicators	**Status and evaluation summary**	**Lending and non-lending activities that contributed to the outcome**	**Lessons and suggestions for the new CPS**
PILLAR 1: UNLEASHING KENYA'S GROWTH POTENTIAL			**MOSTLY ACHIEVED**
Private sector development			
MTP objective: A vibrant and globally competitive financial sector driving high levels of savings and Kenya's investment need: • Drive increases in efficiency and depth through selected reforms • Broaden access to financial services, including formalizing informal finance and extend access to microfinance • Deepen capital markets by raising institutional capital and expanding bond and equity markets • Improve the business environment in critical areas, such as licensing and security • Implement efficiency-enhancing reforms in the sector.			
CPS Outcome: Improved business environment and competitiveness.			**PARTIALLY ACHIEVED**
• *Kenya's Doing Business ranking improves.* Baseline (2009): 95, Target (2013) 78. • *Access to finance increases* Baseline (2009): 40.5%, Target (2013) 55%. Source: Biennial FinAccess surveys.	• **Not achieved.** Actual (2013) 121 Source: Doing Business. • **Achieved.** Proxy indicators that show progress are: Number of deposit accounts has increased from 2.55m in 2005 to 14.7 million at end of August 2011 to 17.61 million in December 2012 (including deposit taking MFIs); branch network increased from 534 in 2005 to 1,113 end of August 2011 to 1,209 in September 2012; 14,168 agents approved in September 2012 as compared to 7,828 agents approved as of end August 2010.]	**Ongoing:** FLSTAP (closed March 2013), MSME (closed June 2012), Kenya Investment Climate Program (Regulatory Reform, Special Economic Zone, Sub-national Doing Business), AMSME, Municipal Program, WIN and ESMID. **AAA:** Kenya Economic Update (FY10-14), PER (1st done in FY10, 2nd for FY12), Governance ESW, Growth Diagnostic Notes, FSAP update 2010, Post-FSAP update (mortgage market, spreads analysis; access to finance, FY10-12), Tourism: Polishing the jewel (FY10), FPD Policy notes (FY10–11), Insolvency and Creditor Rights ROSC (FY12), Doing Business Report (FY11–14), Integrated	• ***Complexity:*** FLSTAP suffered from having over 20 beneficiaries i.e. too many to keep track of and too complex. • ***IFC collaboration***: IFC collaboration in this sector is key. It is particularly important that IFC advisory work is well integrated into the CPS. • ***Size matters***: Because the FPD program was a small program it was not given the attention by government of other programs. As a small program it is important to focus on the things that the Government cares about notably experience from elsewhere, what works and analytics. • ***Future directions***: PPP is going to be key and reforms will need to be linked to this. Previous government passed a PPP Act but the various line ministries worked on PPP in their own way. The government therefore struggled to develop a common framework.

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		Growth Poles/competitive partnership initiative (FY11), Manufacturing exports analytics (FY11), Subnational Doing Business (1st done in FY10, 2nd for FY12), Kenya Investment Climate Program (FY10-13), Investment Climate Assessment (FY13). **Regional:** Regional Tourism ESW (FY11), Regional Study on SME Financing (FY13).	
Infrastructure			
MTP Infrastructure Objective: Deploying world class infrastructure facilities and services			
CPS Infrastructure Outcome: Improved core infrastructure, with deeper regional integration. **MOSTLY ACHIEVED**			
Transport			
MTP objectives for Transport: • Strengthen the institutional and regulatory framework for infrastructure development • Raise efficiency and quality of transport infrastructure and services • Enhance private sector participation in the provision of infrastructure facilities and services.			
CPS infrastructure sub-outcome: Improved core infrastructure (transport) with deeper regional integration **PARTIALLY ACHIEVED**			
• *Northern Corridor road in Kenya (Mombasa-Malaba) in fair or good condition rises (percentage).* Baseline (2009): 54%, target (2013): 80%. Source: University of Nairobi Enterprises and Services (M&E consultants) data. • *Average time to travel by*	• **Achieved [80% (December 2012)]** • **Mostly achieved.** 8 hours by car	• **Ongoing:** Transport Sector Support Project (FY11), Northern Corridor Transport Improvement Project (FY04, FY09), East Africa Trade and Transport Facilitation Project (Regional FY06), Kenya Investment Climate Program (Trade Facilitation), Rift Valley Railways (IFC Portfolio),	

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road from the port of Mombasa to Malaba (border of Uganda) falls. Baseline (2009): annual average 18 hours, target (2013) 12 hours. Source: University of Nairobi Enterprises and Services data, reported in NCTIP reports	Mombasa-Timboroa (750km of about 920 km) (June 2012)	National Urban Transport Improvement (FY13)	
• *Annual freight carried by Kenya-Uganda railway rises.* Baseline (2009): 1.56 million tons, target (2013) more than 2.3 million tons. Source: Kenya Railway Corporation/Rift Valley Railways.	• **Not Achieved:** Freight handled has not increased to reach the target. In FY11 it was 1.7 million tonnes and 1.6 million tonnes in FY12 and is expected to fall further in FY13.		
• *Time of cross-border trade declines (baseline (2009): 27 days to export a container, 25 days to import a container Target (2013): 21 days to export a container, 20 days to import a container.* Source: Doing Business surveys).	• **Partially achieved**. 26 days for export; 24 days for import (June 2011) Malaba border 6 hrs crossing time. Dwell time at the port of Mombasa for import container 6.5-8.5 days.		
Energy • Rural electrification • Energy access scale-up.			
CPS infrastructure sub-outcome: Improved core infrastructure (energy), with deeper regional integration. MOSTLY ACHIEVED			
• *Number of electricity connections rises*. Baseline (June 2009): 1,267,198	• **Achieved** 526,000 households under the ESRP March 2013	**Ongoing:** Electricity Expansion Project (FY10), Energy Sector Recovery Project	***To be updated:*** Rapidly expanding Kenyan households' access to electricity service and ensuring adequate and reliable supply of power remain key challenges in the

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connections, target (June 2013): additional 30,000 (Electricity Expansion Project) and 250,000 (Energy Sector Recovery Project). Source: KPLC Reports/Project data. • *Transmission and distribution losses decline.* Baseline (June 2009): 16.3% of energy purchased, target (2013): 15.2%. Source: KPLC Reports • *Five new Independent Power Projects (IPP)*-at least two of which are wind/geothermal-reached financial closure.	• **Not achieved** 18.6% in June 2013 • **Mostly achieved** Six IPPs operating (one of them geothermal) and three IPPs reached financial closures as of March 2013	(FY05, FY09), Lighting Africa (TA) (FY09), IFC Tsavo Power Portfolio Project, Private Sector Power Generation Support Project (PRG) (FY12), Eastern Electricity Highway Project (APL 1) (FY12), IFC Investment in KPLC (FY12) **Ongoing AAA:**TA portfolio to strengthen the capacity of sector entities for improved sector regulation, planning, and operation	sector. As KPLC moves to connect households farther away from the national grid, it has increasingly become difficult for the company to maintain financial sustainability while accelerating the connection to over 200,000-300,000 households per year. With the increased connection of new customers and delays in reinforcement of transmission and distribution network, system losses have increased and the network continues to be unreliable.
Water and sanitation			
MTP objectives: Enhancing access to clean, secure, and sustainable environment, water and sanitation • Upgrade water supply systems in all urban areas and augment/expand rural water supplies • Expand sewage coverage.			
CPS infrastructure sub-outcome: Improved core infrastructure (water), with deeper regional integration. MOSTLY ACHIEVED			
• *Number of people in project area with access to improved water sources* (baseline (June 2007): 5.4 million (REVISED), target (2012) 9.5 million. Source: Water Regulation Information System, with data reported in the WaSSIP reports).	• **Mostly achieved:** Total number of people in the project area with improved water sources in 2011 was 8.3 million (56% coverage) (Source: Water Regulation Information System). That is an increase of 2.9 million until 2011. The report for 2012 should become available late September 2013.	**Ongoing:** IDA: Water and Sanitation Services Improvement Project (WaSSIP; FY08), WSP Global Partnership on Output-Based Aid (GPOBA): Kenya Microfinance for Water Project **Pipeline:** IDA: WaSSIP AF **(FY12),**	• ***Integrated planning:*** Integrated urban infrastructure planning is key to successful delivery of WSP but can also take significant time. • ***Local benefits:*** There are ways of structuring contracts such that they are both efficiently implemented and also benefit the local economies in which they are being implemented. E.g. WaSSIP financed a works contract in Kayole Soweto where the utility and contractor worked with labor-intensive technologies and employed local

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• *Percentage of people in project area with access to adequate sewerage services or safe sanitation rises* (baseline (2007): 17%, target (2012): 30%. Source: with data reported in the WaSSIP reports).	• **Achieved:** Percentage of people in project area with access to adequate sewerage or safe sanitation services or safe sanitation in 2011 was 64% (Source: Water Regulation Information System)	WSP/GPOBA: Nairobi Sanitation (FY13), Water Development and Climate Resilience Project (FY13); WSP, IFC, IDA: Embu and Malindi water services providers gain access to commercial finance for expanded supply (**FY12),** WSP finance facility for urban water service providers (FY13); **AAA:** Enhancing Women's Participation in Water Governance structures; TA for Commercial Finance Facility for Urban Water Supply (WSP, FY12) Supporting the new Water Policy and Act in alignment to the new Constitution of Kenya- P132025 (FY13) Innovation in scaling up Access to WSS for Urban Poor -P132015 (FY13)	people including women and young people delivering local employment and increased local buy-in and ownership. • ***Leveraging private finance into hard to reach areas:*** It is possible to leverage commercial finance into hard-to-reach, peri-urban areas with IDA money by a) subsidizing the cost of finance (provided by local finance institutions) available to utilities (to pay contractors) and b) financing the upfront construction of household distribution networks so that households are immediately in a position to start consuming and paying for water and hence enabling the utility to repay the debt incurred in the initial investment.
Information and communication technology			
MTP objectives: • Lay under-sea fiber optic cable • Offer government services online.			
CPS infrastructure sub-outcome: improved core infrastructure (ICT), with deeper regional integration. ACHIEVED			
• *Access to Internet services rises (*number of users*).* Baseline (2007): 1.25 million, target: 3 million. Source:	• **Achieved.** 16.2 million subscribers; 41.1% of the population with Internet access (May 2013)	**Ongoing:** Regional Communications Infrastructure Project/KTCIP; IFC KMIP (IFC Special Economic Zone	• ***Government leadership:*** The Bank's involvement in ICT was successful because of a strong partnership with government which was able to push the reforms through. The question now is how to leverage this to make ICT

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Communications Commission of Kenya data.		Project); EASSy Cable (IFC Portfolio project) KTCIP AF.	more relevant and support issues like youth unemployment, transparency, open platform, better delivery of health and education, a one stop shop for business, even immigration. • ***Complexity:*** The design of the Regional Communications project was overly complex initially and under-staffed. This was fixed by increasing the management resources available. Future project design should aim to do fewer things but do them well.
Agriculture			
MTP Objective: Innovative, commercially-oriented, competitive, and modern agricultural sector • Increase productivity • ASAL development.			
CPS outcome: Enhanced agricultural productivity, with a focus on food security. **MOSTLY ACHIEVED**			
• *Average yields of selected agricultural products in smallholder farming systems in project area rise.* Baseline (2009): maize yields increase by annual average of 3%; target (2013): 5%. Source: KAPAP-specific surveys carried out at mid-term and end of project). KAPAP gender disaggregated baseline survey finalized in November 2011. • *Earnings from small holder agricultural activities in project area rise.* Baseline (2009): net annual income: male Ksh 128,270, female	• **Achieved.** Baseline figures indicate maize yield of 7.6bags per acre and by December 2012 the yield was estimated at 10 bags per acre (7.1%).The national maize yields have stagnated at around 1.7 tons per hectare during the CPS period (see chart below). Yields of other crops[xiv] have increased by 22.5% while local poultry and fish farming yields have increased by 93% and 162%, respectively in the project areas. • **Partially achieved.** As of December 2012, the mean income of male and female farmers had increased by 10% while for those participating in particular	**Ongoing:** KAPAP (FY09); WKCDD; GEF Kenya adaptation to climate change in the Arid Lands NRMP (FY07), East Africa Agricultural Productivity (Regional FY09); IFC Project, GEF-Western Indian Ocean Marine Highway Dev and Coastal and Marine Contamination Prevention. **AAA:** Land TA (FY08–10), Agriculture Policy Review (finalized and shared with the client), ESW-Rural gender	• ***Enabling environment***: The CPS was right to focus on productivity, but it should have given greater attention to the enabling environment i.e. policy reform, especially in food. For example in the food sector most farmers are a) net buyers of maize and b) tend to sell in bulk at harvest time when prices are low and buy throughout the year when prices are higher. In addition prices have been above world prices because of lack of access to world markets. • ***Value added and income security:*** Key areas that need more focus are: extension and helping farmers to go up the value chain. Also there is too much vulnerability to rain fed agriculture and hence climatic swings. • ***Bank team:*** the Bank could have done more to support the client on FM issues as well as technical aspects egg in the area of agribusiness. There was a limited budget for supervision and a limited pool of skills to draw on within the Bank. The team was basically too small

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Ksh 98,748, target (2013): male 20% increase, female: 25% increase. Source: KAPAP-specific surveys. KAPAP baseline survey estimate annual household income at Ksh 130, 207 (55% from farming and 45% from off-farm income).	enterprises such as mangos and banana production had increased by 38%. Final figures will be available after the final evaluation in 2014.	methodology and baseline data (co-financed by the Gender Action Plan) (The gender ESW was finalized and shared with the client by June 30, 2013). Western Indian Ocean Fisheries TA.	
PILLAR 2: REDUCING INEQUALITY AND STRENGTHENING RESILIENCE **MOSTLY ACHIEVED**			
Social and Infrastructure Services ***Partially achieved***			
Health **Vision 2030: Equitable and affordable healthcare system of the highest possible quality** • Provide a functional, efficient and sustainable health infrastructure network • Reduce health inequalities and reverse downward trends.			
CPS outcome: better access to health care, education, and basic infrastructure services (1 of 3 : Health) **MOSTLY ACHIEVED**			
• *People with access to a basic package of health, nutrition, or population services rises.* Baseline (2009): 0, target (2013): (18,300,000). Source: Health SWAp reports. • *Eligible children under-one year fully immunized nationwide* (totals). Baseline (2010): 1.2 million, Target (2013): 1.23 million (revised target). Source: Health	• **Achieved** During FY11-12, over 38.9 million individuals directly benefited from the project and over half of them (21.26 million) were females. • **Mostly achieved** During FY 11-12, 1.1 million children immunized. Only marginal improvements in NE region due to instability during the CPS.	**Ongoing:** Health SWAp (FY10) and Additional Financing (FY12); East Africa Public Health Laboratory Networking Project (FY10); Total War Against HIV/AIDS (FY07); JSDF grant for traditional medicine, IFC Health in Africa Initiative and Medicine Regulatory Harmonization (FY12). **AAA:** Health PETS and	• ***Over-ambition:*** In hindsight the SWAp was overly ambitious and probably should have focused only on the two core reforms and left out the 5 pilots. Pilots need a lot of groundwork and the Government doesn't always have the time. • ***Transaction costs:*** Transaction costs were high: too much time was taken up reviewing and approving international competitive bids (although one upside was that procurement capacity in the Kenya Medical Supply Agency improved and is now used by other donors like USAID and Global Fund). This will improve with a move to P4R which will allow the Bank team to focus on results and systems strengthening.

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SWAp data. • *HSSF facilities meeting core financial management requirements rise. (per cent)* Baseline (2010): 0%, Target (2013): 50%. Source: Health Sector Services Fund. • *Proportion of youth aged 15-24 reporting condom use in the last sexual encounter with a non-regular partner (of those reporting sexual intercourse with a non-regular partner in the last 12 months).* Baseline (2003): F=24%, M=47%, Target (2013) F=55%, M=75%. Sources: TOWA project data.	• **Achieved**. 97.3% in 2011. • **Partially achieved** New Indicator; F=48.7%, M=58.7% in 2009.	Service Delivery Indicators Study (FY13), Health Financing (Strategic review of NHIF and Market Study of Prepaid health schemes concluded, technical assistance for inspection reform and improvement of patient safety ongoing, technical assistance for simplification of health licensing and registration processes ongoing, NHIF – Quality assurance accreditation work(FY12) (IFC), Multi-sector Nutrition Assessment (FY12)' Human Resources in Health Study (FY13)	• ***WBG collaboration:*** Collaboration within the Bank is most effective where each member of the team is bringing something new. E.g. the devolution agenda is encouraging a more effective working partnership between PREM and the health sector around issues of local management of services. Similarly drawing on WBI and IFC expertise for capacity building and PPPs respectively is also very useful. • ***Donor collaboration:*** Collaboration with other donors can be challenging when only a limited # of partners are pooling in the SWAp and organizational approaches of partners vary.
Education			
MTP objectives: Improve access and equity to education at all levels • Raise enrolment and transition rates • Improve quality of education at all levels			
CPS outcome: CPS outcome: better access to health care, education, and basic infrastructure services (2 of 3 : Education) PARTIALLY ACHIEVED			
• *Primary completion rates rises (per cent).* Baseline (2008): 79.5%, target (2012): 85%; and in North-eastern, baseline 36.5%, target, 45%. Source: Ministry of Education.	• **Not achieved.** 74.6% in 2011; Northeast n/a	**Completed or ongoing:** Kenya Education Sector Support Project (closed FY11) **AAA:** Education PER (FY10), Education PETS and Service Delivery Indicators	• ***Government anti-corruption mechanisms.*** In KESSP, the strengthening of KENAO and IAD were key ingredients to uncovering the fraud and corruption that occurred. Without these, it is unlikely that the fraud and corruption would have been discovered at that time. To ensure VfM and control corruption risks the focus needs to be on strengthening Government systems, especially risk based

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• *Primary to secondary education transition rate rises (per cent).* Baseline (2008) 60%, target (2012), 75%. Source: Ministry of Education. • *University education gross enrolment rate rises (per cent).* Baseline (2008): 3%, target (2012): 5% (reaching Sub-Saharan Africa average). Source: Ministry of Education.	• **Mostly achieved.** 73.3% in 2011 • **Mostly achieved** 4% in 2009.	(FY12), System Assessment Benchmarking for Results (SABER); Early Childhood (FY12), School Health and Nutrition (FY12); Teacher Performance and Student Learning (FY12); Realizing the Youth Dividend (FY12); Innovative Financing for Higher Education (FY12)	approaches in FM, procurement and auditing systems. • ***NGOs as monitors:*** There are many NGOs, CBOs and research institutions in Kenya with good technical expertise, as demonstrated during the earlier years of KESSP that could have participated more in monitoring program achievements. • ***Over-reliance on administrative data:*** A near exclusive reliance on MoE information systems which were weak and uncoordinated made it difficult to generate robust indicators necessary for planning and supporting effectiveness and efficiency in resource targeting and utilization. This can be mitigated by: (i) ensuring that there is an effectively functioning EMIS; (ii) using periodic independent school sample surveys for school-level indicators and household surveys to supplement EMIS; (iii) developing incentives (and sanctions) for schools and the MoE to report accurately; and (v) undertaking more independent analytical work
Urban upgrading			
MTP Objective: Adequate and decent housing in a sustainable environment • Facilitate the development and access to affordable and adequate housing			
CPS objectives: CPS outcome: better access to health care, education, and basic infrastructure services (3 of 3 : Basic Infrastructure Services) NOT ACHIEVED			
• *Urban slum residents who gain access to improved infrastructure services under the Informal Settlements Improvement Project (number beneficiaries, disaggregated by gender).* Baseline: 0, Target: 50,000 (revised target). Source: project surveys. [Project	• **Not achieved.** Infrastructure investments have not yet begun, but upgrading plans have been prepared for 18 settlements in six cities, which are home to nearly 470,000 people. Works will begin by July 2013.	**Ongoing:** Slum Upgrading/Informal Settlements Improvement (FY11); Pro-poor component of WASSIP, FIRST Shelter Afrique, ESMID, FLSTAP. **Pipeline:** Nairobi Metropolitan Services Project (FY12). **AAA:** FPD Dialogue,	• ***Client engagement:*** Overall key lessons include: a) the need for perseverance in working with the government to engage them in an agenda; b) having staff in the field to enable relationship building; c) the importance of listening to the client to really understand their objectives. • ***Fiduciary capacity:*** The cause of the delay in completing preparatory work was the poor quality of drafting of the contracts for the work which resulted in delays in payment of key members of the consortium of firms involved and hence delays in implementation of the work. This in turn

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effective since June 2011.]		FSAP update/part 2 – housing finance (FY11/12).	was the result of low capacity in the Ministry of Housing which lacked both procurement and financial management expertise. The project financed a specialist to join the procurement and financial management teams which helped address the delays in both procurement and financial management.
Vulnerable groups			
MTP Objective: Gender equity in power and resource distribution, improved livelihoods for vulnerable groups, and a responsible, globally competitive and prosperous youth • Increase opportunity • Provide financial support to all vulnerable groups.			
CPS Outcome: Establishing comprehensive scalable social protection mechanisms. ACHIEVED			
• *Interns employed or self-employed immediately after internship, and a year after internship completion rises* (per cent, to be disaggregated by gender). Baseline (2010): 0, Target: 35% (2013). Source: Project-specific surveys. • *Beneficiary households receiving predictable cash transfers rises under the Cash Transfer for OVC* (number). Baseline (2009): 0, target (end- 2013): 50,000. Source: OVC Project specific surveys.	• **Achieved.** 48.3 %, based on the Beneficiary Assessment on cycle 2 of which 41.5% female. • **Achieved** 56,000 financed by IDA (February 2013),	**Ongoing:** Orphans and Vulnerable Children Cash Transfer Project (FY09), Youth Empowerment (FY10). Integrated Social Protection Program (FY13) **AAA:** Social Protection Sector Review (FY12), Building Social Protection Systems in Kenya (RSR grant for advisory activities) FY11-13).	• ***Integration of AAA work.*** Overall the Bank's AAA work in SP in Kenya can be considered best practice. This was in part the result of a Bank-wide investment in the 2012-2022 SP Strategy and Africa SP Strategy 2012-2022 which was reflected in sustained work across the Africa region and also in Kenya. It meant the Bank was able to demonstrate that social protection is a powerful way to fight poverty and promote growth and social protection is affordable in low-income countries despite tight budget. • ***Multiple safety net initiatives.*** There are still too many cash transfer and safety net initiatives across Government and implementation capacity is still very weak in hindsight it would have been better if the Bank could have helped to consolidate more of these and invested in building capacity. In fact the Bank needed to first understand the situation. Building capacity will be a key objective of the Additional Financing currently being sought for the OVC transfer project as well as the new P4R program.

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Environment			
MTP Objective: Enhancing access to clean, secure, and sustainable environment, water and sanitation • Increase fresh water availability and establish a monitoring program for water • Improve water storage capacity • Conserve strategic natural resources in a sustainable manner without compromising economic growth • Map ASAL and high risk disaster zones.			
CPS Outcome: Improved management of key natural resources and adapting to climate change ACHIEVED			
• *Area of forests managed according to approved plans rises*. Baseline (end 2009): 21,000 hectares, target (2013): 300,000 hectares. Source: NRM Project surveys.	• **Achieved.** 320,000 ha in June 2013 More awareness on participatory forest management has been conducted, with support for development of participatory forest management plans, one in Nyeri and another in Mt Elgon forest zones.	**Ongoing:** GEF Adaptation to Climate Change in Arid Lands, WKCDD (FY07), Natural Resources Management Project (FY07), Lake Victoria Environmental Management Phase II (Regional FY09); Coastal Development Project (FY11).	• ***Balancing short term and longer term priorities.*** Need to include robust components that facilitate sustainable asset creation/income improvements and long-term out-migration from fragile areas, and these components should not become victim to 'unanticipated' severe droughts. • ***Social conflict and climate change.*** Addressing conflicts over natural resources needs to be an integral part of projects in fragile locations that are experiencing in-migration and/or are over-populated (in relation to the resource base) and subject to increasingly adverse climate change impacts. • Because forest health is intimately related to water security and climate resilience in Kenya, as well as irrigated agriculture, there is a need to strengthen the Bank portfolio by taking into consideration the trade-offs and mutual benefits of larger multisector landscape approaches such as watershed mgt.
PILLAR 3: INCREASING TRANSPARENCY AND ACCOUNTABILITY NOT ACHIEVED			
Public sector governance			
MTP Objective: A citizen-focused and results-oriented institution • Promote transparency, accountability, participation, and the rule of law.			
CPS Outcome: Improved Transparency and Accountability. NOT ACHIEVED			
• *Financial statements prepared on time in*	• **Partially achieved.** Consolidated Appropriation Accounts are	**Ongoing:** Institutional Reform and Capacity Building	• ***Political economy:*** There is a need to look at political economy as well as technical aspects of governance both

Table 1: Summary of CPS Program Self-evaluation			
Cluster of outcomes and outcome indicators	**Status and evaluation summary**	**Lending and non-lending activities that contributed to the outcome**	**Lessons and suggestions for the new CPS**
accordance with acceptable accounting standards through IFMIS (central government) and LAIFOMS (local government). Central baseline (2005): 0. TARGET: 3-4 months. Source: Institutional Reform Capacity Building Project reports. Municipal baseline (2009): 0 Target (2013): 6. Source: Municipal Program reports). ICT Project reports and IFIMIS Newsletter. • *PEFA scores of A/B rise. Baseline (2008): 12 of 28, target (2013): 15 of 28.* • *External audit reports prepared and published in a timely fashion in accordance with Public Audit Act 2003.*	prepared in central government although a complete set of annual financial statements in accordance with International Public Sector Accounting Standards (IPSAS) are not prepared. The time taken by the National Treasury to submit Accounts to KENAO has fallen from 5 months in 2007/8 to 4 months in 2012 but is still more than the 3-4 months that is the accepted international practice. The infrastructure required to enable timely reporting at local authority level was installed in 67 out of 175 local authorities but this has now been superseded by the 2012 PFM Act which requires counties to adopt the same processes as central government. • **Not achieved.** 10 out of 28 A/B scores achieved in PEFA 2012 due to deterioration in credibility of budget and accounting, recording and reporting. • **Not achieved** No improvement in the time (5 months) taken by the Kenya National Audit Office (KENAO) to submit audit reports on the summary consolidated Appropriation Accounts to Parliament from time of receipt from the National Treasury. Overall time (including time taken	project (FY06; closed Dec. 2011); Municipal Program (FY10), Kenya Transparency Communications Infrastructure Project (KTCIP) (FY08), FLSTAP (closes March 2013), GPF (TF), STATCAP **AAA:** Country Procurement Assessment Review, Insolvency and Creditor Rights ROSC (FY12), Policy Notes (M&E Assessment, Social Accountability); PEFA (FY12/13)	in the portfolio and as a pillar in itself. Because of the various INT cases the Bank has tended to approach governance and anti-corruption with a narrow focus on technical fiduciary issues at a project level. However the root causes of the INT cases were often deeper issues relating to governance and political economy especially vested interests and conflicts between interests, not just at project level but more broadly at the sector and national level. The INT cases were reflections of symptoms of weak institutions and need to address this more broadly not on case by case basis. • ***Fiduciary risks of devolution:*** INT cases also sometimes arose when funds were devolved to district levels resulting in capture of funds by elite groups. E.g. this was the case with the Western Kenya CDD. This requires mitigation through improved oversight mechanisms that are more transparent and involve a broader group of interests. Focusing more on these mechanisms at a local level will be key as the devolution agenda gathers pace. Increasing participation in decision making and reducing discretion by officials will go some way to improve accountability. • ***PMU:*** PFMRS suffered from lack of a) mandated authority to give instructions to component Managers and stable full time project coordinator; b) component leader with strong leadership skills; c) dedicated desk officer at the sub-component level to address operational issues; d) integration of proposed activities into strategic plans, annual work plans, performance contracts and budgets of MDAs; e) understanding how to harmonize government and project procedures and systems; f) speed in introducing agreed M&E framework; g) strong, elaborate and effective communication strategy between coordinating unit and stakeholders; h) regular higher level management guidance; i) initial capacity building activities on project design, procurement, disbursement, and

Table 1: Summary of CPS Program Self-evaluation			
Cluster of outcomes and outcome indicators	**Status and evaluation summary**	**Lending and non-lending activities that contributed to the outcome**	**Lessons and suggestions for the new CPS**
	by National Treasury to submit Accounts to KENAO) to submit audit reports is well in excess (10 months down from 11 months) of the 6 months after the year end required.		financial management procedures of the Bank.

[xiv] These crops include green grams, mangoes, groundnuts and sunflower.

Table 2: Kenya Planned and Delivered Operations FY10-FY13 CPS (US$ millions)

CPS PLANS (03/23/2010)			STATUS	
FY	**Project**	**Projected IDA (US$ millions)**		**Committed IDA (US$ millions)**
2010	Municipal Program	100.0	Actual	100.0
	Electricity expansion	350.0	Actual	330.0
	Youth Empowerment	60.0	Actual	60.0
	Coastal Development	35.0	Rescheduled to 2011	
			Additional actuals:	
			Health SWAP - delivered earlier than planned(FY12)	156.8
	Subtotal:	*545.0*		*646.8*
2011	Nairobi Urban Toll Road (PRG)	180.0	Dropped due to integrity concerns	
	Slum Upgrading	100.0	Actual (renamed Informal Settlements Improvement)	100.0
	Kenya Education Sector Support Project II	100.0	Dropped due to integrity concerns	
	DPL	100.0	Dropped as not a good fit at that time	
			Additional actuals:	
			Transport Sector Support Project	300.0
			Coastal Development SIL (from 2010)	35.0
	Subtotal:	*480.0*		*435.0*
	Subtotal FY2010-2011	*1025.0*		*1081.8*
PROGRESS REPORT PLANS (04/05/2012)			**STATUS**	
2012	Health SWAP	100.0	Brought forward to 2010	
	Arid Lands Resource Management Project II	100.0	Dropped due to corruption issues in predecessor project	
	Water and Sanitation Services Improvement AF	300.0	Actual	300.0
	Nairobi Metropolitan Services	300.0	Actual	300.0
	KCTIP AF	39.0	Actual	55.0
	Northern Corridor Transport AF	43.0	Actual	253.0
	Eastern Electricity Highway Project (regional)	131.0	Actual	441.0
	Subtotal:	*1013.0*		*1349.0*

PROGRESS REPORT PLANS (04/05/2012)			STATUS	
2013+	Water Security and Climate Resilience	250.0	Actual	155.0
	Pastoral Livelihoods Recovery and Resilience	25.0	Rescheduled to FY14	
	Infrastructure Finance and Public Private Partnerships	100.0	Actual	40.0
	Judicial Performance Improvement SIL	100.0	Actual	120.0
	Integrated Social Protection Program	200.0	Rescheduled to FY14 (renamed National Safety Net Program for Results)	
	Turkana Wind Project	20.0	Dropped	
	National Urban Transport Improvement	200.0	Actual	300.0
	Subtotal:	895.0		615.0
	Subtotal FY 2012-2013	1908.0		1964.0

Table 3: Summary of Planned and Delivery Non-lending Services FY10-13

CAS PLANS (03/23/2010)		STATUS
2010	FSAP Follow-up Crisis Simulation/Housing Finance (FIRST)/Study on Access to Finance	<u>Additional Products</u> *ESW:* E-Tourism Economic Notes Budget Note – Lessons from Global Crisis GAP Women Rights in Kenya-LEGJR MTDS ROSC Accounting and Auditing *TA:* Eastern Africa Poverty Capacity PADI First 8054: Development Risk Management HD Sector Dialogue
2011	Land Reform TA Rural Gender Methodology and baseline data (KAPAP Gender Action Plan – GAP) Pro-Poor Notes Water Resources Assessment Country Procurement Assessment Review Governance ESW Health, Education and SP PERs School to Work Initiatives Health Financing Growth Diagnostics Integrated Growth Poles EAC Regional Integration IAD Capacity Building Social Protection Targeting	<u>Additional Products</u> *ESW:* Economic Notes *TA:* FSAP Update GCMGL Gemioc TA Kenya
2012	ESW on enhancing women's participation in water governance structures Maize Policy Review	<u>Additional Products</u> *ESW:* Judicial Sector Assessment Economic Note MTDS Follow up Safety Net Sector Review ICR ROSC *TA:* Health Systems for Outcomes Indigenous Peoples Policy Irrigation PPP Study Use of Country FM Systems Review FCMGL II GDC Enhanced Financial Access Assessment Post Disaster Needs Assessment (PDNA)

PROGRESS REPORT PLANS (04/05/2012)		STATUS
2013	Port Development Study Oil and Gas Study Poverty Updates Devolution Access to Service Delivery Health Service Delivery Indicators Human Resources in Health Study Measuring Skills and Knowledge for Greater Growth and Competitiveness Integrated Education Data Management Teacher Performance and Student Learning Access to Information and Learning County Systems Assessment Judicial Performance	<u>Additional Products</u> *ESW:* PER Manufacturing Exports Study Realizing the Youth Dividend Policy Notes for New Government Gender Policy Notes Economic Notes DeMPA Training *TA:* Implementation of AML Act 2009 Competitive Partnership Initiative StAR Climate Innovation Centre Nairobi Sanitation Preparation Gemloc III

Annex 3: Selected Indicators of Bank Portfolio Performance and Management

As Of Date 1/30/2014

Indicator	2011	2012	2013	2014
Portfolio Assessment				
Number of Projects Under Implementation [a]	21	20	21	23
Average Implementation Period (years) [b]	3.5	3.7	3.6	3.7
Percent of Problem Projects by Number [a, c]	4.8	15.0	23.8	13.0
Percent of Problem Projects by Amount [a, c]	3.7	4.9	20.4	13.3
Percent of Projects at Risk by Number [a, d]	9.5	20.0	28.6	21.7
Percent of Projects at Risk by Amount [a, d]	6.6	5.6	22.9	25.1
Disbursement Ratio (%) [e]	11.9	13.7	18.7	9.9
Portfolio Management				
CPPR during the year (yes/no)	yes	no	no	no
Supervision Resources (total US$)	2,785,000	4,389,485	4,080,543	4,026,600
Average Supervision (US$/project)	103,148	99,761	94,896	98,210

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	112	6
Proj Eval by OED by Amt (US$ millions)	3,726.0	96.0
% of OED Projects Rated U or HU by Number	58.9	83.3
% of OED Projects Rated U or HU by Amt	52.9	83.9

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 4: Operations Portfolio

CAS Annex B8 - Kenya

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 2/18/2014

Closed Projects 140

IBRD/IDA *

Total Disbursed (Active)	1,201.90
of which has been repaid	0.00
Total Disbursed (Closed)	791.77
of which has been repaid	888.79
Total Disbursed (Active + Closed)	1,993.67
of which has been repaid	888.79
Total Undisbursed (Active)	2,342.80
Total Undisbursed (Closed)	11.07
Total Undisbursed (Active + Closed)	2,353.87

Active Projects

Project ID	Project Name	Last PSR Supervision Rating: Development Objectives	Last PSR Supervision Rating: Implementation Progress	Fiscal Year	Original Amount in US$ Millions: IBRD	IDA	GRANT	Cancel.	Undisb.	Difference Between Expected and Actual Disbursements*: Orig.	Frm Rev'd
P091979	E- Adaptation Climate Chai	MS	MU	2010			5.5		4.696434		
P117635	KE Enhancing Wat Securit	S	MS	2013		155			157.043		
P111545	KE-Cash Transfer for OVC	S	MS	2009		60			10.97468	0.1014682	
P094692	KE-Coastal CD SIL (FY08)	MS	MS	2011		35			27.81636		
P103037	KE-Electricity SIL (2010)	MS	MS	2010		330			185.4261	49.397136	
P108845	KE-FMSCEDP (Coastal CI	MS	MS	2011			5		3.718915		
P088600	KE-GEF Ag prd & Sust. La	MS	MS	2011			10		5.554112		
P074091	KE-Health SWAP (FY10)	S	S	2010		197.8			85.57365	-45.87896	
P113542	KE-Informal Settlements In	MS	MS	2011		100			83.00272	25.942138	
P105269	KE-Judicial Performance In	S	MS	2013		120			112.6273		
P066488	KE-Municipal Program (FY	MS	MS	2010		100			69.75915	33.709489	
P107314	KE-Nairobi Metropolitan Se	S	S	2012		300			283.135	18.765527	
P126321	KE-National Urban Transpo	S	MS	2013		300			292.0026	23.088461	
P082615	KE-Northern Corridor Trnsp	S	MU	2004		460			139.2434	-131.0558	-10.9686
P081712	KE-Tot War Against HIV/AI	MS	MS	2007		135			3.809308	-19.54066	
P074106	KE-W Kenya CDD/Flood M	MS	MS	2007		86			45.0058	27.81039	
P096367	KE-Water & Sanitation Srv	S	S	2008		450			258.8996	-34.91207	37.42127
P111546	KE-Youth Empowerment P	MS	MS	2010		60		42.5325344	8.063667	45.564652	6.595986
P131305	KE: National Safety Net Pr	S	MS	2014		250			256.1081		
P124109	KE:Transport Sector Suppo	S	MS	2011		300			264.0556	106.93821	
P125388	KE GPOBA W3: Kenya Electr	U	U	2011			5		4.9		
P109683	Kenya Agric Productivity &	MS	MS	2009		82		16.20717	3.225044	14.331586	
P121019	Kenya Infrastructure Financ	S	S	2013		40			37.99511	0.4672115	
Overall Result						3560.8	25.5	58.7397044	2342.635	90.872811	33.04862

Annex 5: IFC and MIGA Activities

MIS

International Finance Corporation

Report Run Date: 01/10/2014

Statement of IFC's Committed and Outstanding Portfolio

Amounts in US Dollar Millions

Accounting Date as of : 12/31/2013

Page 1

Region(s):Sub-Saharan Africa Country(s) : Kenya

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2007	ABE-Kenya	0	0.48	0	0	0	0.48	0	0	0.48	0	0	0	0.48	0.00
2014	Actis Properties	0	1.40	0	0	0	1.40	0	0	0	0	0	0	0	0.00
	Alios Kenya	5.00	0	0	0	0	5.00	0	0	0	0	0	0	0	0.00
2006/ 2007/ 2008/ 2009/ 2010/ 2011/ 2012	BARCLAYS BK KEN	0	0	0	0.00	0	0.00	0	0	0	0	0	0	0	0.00
2011/ 2012/ 2013/ 2014	BOA - Kenya	0	0	8.00	2.50	0	10.50	0	0	0	8.00	2.50	0	10.50	0.00
2007	BP Kenya	0	5.00	0	0	0	5.00	0	0	3.04	0	0	0	3.04	0.00
2011	Braeburn	3.73	0	0	0	0	3.73	0	3.73	0	0	0	0	3.73	0.00
	CfC Stanbic	0	0	10.00	0	0	10.00	0	0	0	10.00	0	0	10.00	0.00
2013/ 2014	Chase Bank Ke	0	0	0	0.19	0	0.19	0	0	0	0	0.19	0	0.19	0.00
2013	Cooperative Bank	60.00	0	0	0	0	60.00	0	30.00	0	0	0	0	30.00	0.00
1982/ 1993/ 2007/ 2008/ 2009/ 2010/ 2011/ 2012/ 2013/ 2014	DTB Kenya	22.92	6.59	33.33	1.17	0	64.02	0	22.92	6.59	33.33	1.17	0	64.02	0.00
2013	DTBK RSF	0	0	0	9.83	0	9.83	0	0	0	0	0	0	0	0.00
2013	ETC Group	10.00	0	0	0	0	10.00	0	10.00	0	0	0	0	10.00	0.00
2010/ 2011/ 2012/ 2013/ 2014	Ecobank Kenya	0	0	12.50	4.99	0	17.49	0	0	0	12.50	4.99	0	17.49	0.00
2013	Electrawinds SE	0	0	2.57	0	0	2.57	0	0	0	0	0	0	0	0.00
2012	Equity Bank	100.00	0	0	0	0	100.00	0	100.00	0	0	0	0	100.00	0.00
2013/ 2014	FINA BANK	0	0	0	0.28	0	0.28	0	0	0	0	0.28	0	0.28	0.00
2009	Faulu Kenya	0	0	0	0.69	0	0.69	0	0	0	0	0.69	0	0.69	0.00
2013	Gulf Africa Bank	0	4.97	0	0	0	4.97	0	0	4.97	0	0	0	4.97	0.00
2013/ 2014	Gulf Power	22.85	0	5.64	0	1.00	29.50	29.46	15.13	0	5.64	0	0.84	21.61	19.50
2013	HFCK	16.00	0	0	0	0	16.00	0	16.00	0	0	0	0	16.00	0.00
2005/ 2006/ 2007/ 2008/ 2009/ 2010/ 2011/ 2012/ 2013/ 2014	I & M Bank	50.00	0	0	17.15	0	67.15	0	50.00	0	0	17.14			
1982/ 1993/ 2002/ 2004/ 2014	IPS(K)	0	3.02	0	0	0	3.02	0	0	0	0	0	0	0	0.00
1987	IPS(K)-Frigoken	0	0.06	0	0	0	0.06	0	0	0.06	0	0	0	0.06	0.00
1987	IPS(K)-Prem Food	0	0.11	0	0	0	0.11	0	0	0.11	0	0	0	0.11	0.00
1987/ 1993	IPS(K)-Allpack	0	0.36	0	0	0	0.36	0	0	0.36	0	0	0	0.36	0.00
1997/ 2000/ 2009	K-Rep Bank	0	3.58	0	0	0	3.58	0	0	1.41	0	0	0	1.41	0.00
2008/ 2009/ 2010/ 2011/ 2012/ 2013/ 2014	KCB	121.82	0	0	16.27	0	138.09	0	81.82	0	0	16.27	0	98.09	0.00
2012	KENYA AIRWAYS	0	16.99	0	0	0	16.99	0	0	16.03	0	0	0	16.03	0.00
2013	KPLC	50.00	0	0	0	0	50.00	0	27.00	0	0	0	0	27.00	0.00
2013	KTDA	10.80	0	0	0	0	10.80	0	10.80	0	0	0	0	10.80	0.00
2006	Kingdom Hotel	4.80	0	0	0	0	4.80	0	4.80	0	0	0	0	4.80	0.00
2013	Kipeto	0	0	0.99	0	0	0.99	0	0	0	0	0	0	0	0.00
2014	NewGlobe Schools	0	10.00	0	0	0	10.00	0	0	0	0	0	0	0	0.00
2007/ 2008/ 2009/ 2010/ 2011/ 2012/ 2013/ 2014	Prime Kenya	0	0	0	2.60	0	2.60	0	0	0	0	2.59	0	2.59	0.00
2014	RDIL	0	1.31	2.62	0	0	3.92	0	0	0.50	2.62	0	0	3.12	0.00
2007/ 2012	RVR	22.00	0	21.07	0	0	43.07	0	12.66	0	21.07	0	0	33.73	0.00
2012	Thika Power	38.68	0	0	0	0	38.68	0	38.68	0	0	0	0	38.68	0.00
2000/ 2001	Tsavo Power	0	0.82	0	0	0	0.82	0	0	0.82	0	0	0	0.82	0.00
Total Portfolio		**538.61**	**54.70**	**96.73**	**55.67**	**1.00**	**746.71**	**29.46**	**423.55**	**34.38**	**93.16**	**45.83**	**0.84**	**597.76**	**19.50**

Kenya – IFC Commitments

Kenya							
	Committed - IFC($M)						
	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Kenya	192.9	164.9	177.7	282.5	478.9	702.5	756.9
	Committed - B Loan Participant ($M)						
	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Kenya	9.6	7.5	5.3	3.2	1.1	27.0	28.2
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

MIGA Guarantee Portfolio in Kenya

Gross Outstanding Exposure in of Inbound Investment

FY	Project name	Sector	Gross Exposure ($)	Guarantee Holder
2013	83 Megawatt Kitengela Power Plant – Triumph	Power	102,542,584	The Standard Bank of South Africa Limited
2013	83 Megawatt Kitengela Power Plant - Triumph	Power	11,059,261	Cfc Stanbic Bank Limited
2012	OrPower 4, Inc.	Power	79,000,000	Ormat Holding Corp.
2012	Thika Power Ltd	Power	53,936,225	Absa Capital
2012	Thika Power Ltd	Power	6,487,180	Absa Capital
2011	Resolution Health East Africa	Financial	2,047,500	ADC Financial Services & Corporate Development
2006	Kibos Sugar Project - Kenya	Manufacturing	17,234	Raghbir Sineh Chatthe
Total	**5 Projects**		**255,089,984**	

Annex 6: Trust Funds

Trust Fund Name	Approved ($,000)	Available ($,000)	Program Source	Signing Date	Closing Date
Bank Executed TF's					
National Reg Reform (Kenya SNICP)	15.00	0.56	IFC	1/24/2013	12/31/2015
Sub-National Reg Reform (Kenya SNICP)	1,219.99	430.09	IFC	1/24/2013	12/31/2015
Kenya - Water and Sanitation Impact Evaluation	353.66	303.23	SIEF	2/1/2013	12/31/2015
Menengai Geothermal Community Engagement	30.00	1.94	JSDF	2/1/2013	12/31/2013
BENIN: Water Business Advisory Project	155.50	6.15	PPIAF	2/17/2013	3/31/2014
DFSP MC Sweden - Mathias Kruger	582.92	374.90	DFSP	4/7/2013	4/7/2015
Capital Market Development Support for Kenyan Sub-Nationals	500.00	140.80	PPIAF	4/8/2013	12/31/2014
Finance Mobilization for Loss Reduction and Efficiency Investments for KPLC	125.00	1.21	PPIAF	4/28/2013	3/31/2014
Kenya Urban Commercial Financing for Water & Sanitation	600.00	306.95	WSP	5/6/2013	6/30/2015
PEAACHIS Client Contributions	68.60	14.96	IFCTFI	6/3/2013	2/28/2015
Utility Efficiency Program in Africa Client Contributions	350.00	215.22	IFCTFI	6/18/2013	1/31/2015
Support to Developing and Strengthening the Kenya Social Protection System	415.25	415.25	RSR	8/1/2013	5/31/2015
Equity Bank Limited Client Contributions	250.00	0.00	IFCTFI	7/30/2013	5/30/2014
Kenya Health Sector Support Project Preparation	250.00	2.16	HRBF	8/28/2013	6/30/2014
Support for the Finalization and Appraisal of the Kenya National Education Sector Support	250.00	7.25	EFASE	8/22/2013	3/31/2014
Clean Cooking - Gender	190.00	175.34	IFC	10/10/2013	6/30/2014
AFR-Water, poverty, shared prosperity, and climate resilience in the coastal region of Kenya: exploring the linkages a nd pathways	200.00	85.00	WPP	12/9/2013	6/30/2015
AMSME GAB Kenya	260.00	260.00	IFC	1/27/2014	11/30/2018
Africa Leasing Facility II	1,800.00	1,800.00	IFC	1/22/2014	2/28/2015
Kenya IC Tax	100.00	100.00	IFC	2/11/2014	12/31/2015
AMSME DTB - KENYA	874.14	4.00	IFC	7/1/2008	2/28/2015
Support to Community Based Farm Forestry Enterprises in Semi-Arid Areas in Kenya	56.50	28.25	JSDF	1/31/2009	3/31/2015
CT-OVC Program Enhanced Supervision	743.24	221.13	AFRHD	7/9/2010	12/31/2016
CT-OVC Program Program Management	199.07	139.00	AFRHD	7/9/2010	12/31/2016
CT-OVC Program Trust Fund Administration	64.61	64.61	AFRHD	7/9/2010	12/31/2016
UAP/SYNGENTA	6,296.83	3,863.18	IFC	7/18/2010	9/17/2016
EC - Kenya Investment Climate	2,000.00	32.81	IFC	10/1/2010	11/30/2013
AMSMETA - BoA Kenya	850.00	-15.83	IFC	12/3/2010	2/28/2015
W1-The Empirics of Governance	820.00	1.85	GPF	12/1/2010	4/30/2014
Readiness mechanisms for climate smart agriculture	970.00	67.53	ILWAC	1/17/2011	6/30/2014
GPOBA (W3 Prep): Kenya Electricity Expansion	183.77	138.49	GPOBA	2/23/2011	5/30/2014

Trust Fund Name	Approved ($,000)	Available ($,000)	Program Source	Signing Date	Closing Date
Bank Executed TF's					
Kenya: #10160 Strengthening Accounting & Auditing Legal Framework	106.25	46.30	FIRST	6/28/2011	6/30/2014
Kenya Climate Innovation Center	1,187.90	0.26	INFOD	9/22/2011	8/1/2016
StAR - Kenya Country Engagement	200.00	85.09	STAR	10/17/2011	6/30/2014
CleanCooking	50.00	0.50	IFC	11/7/2011	6/30/2015
BNPP-GROWTH AND EQUITY: Welfare and Services Monitoring Across Sub-Saharan Africa via Mobile Phone Surveys	675.00	39.31	BNPPRF	11/28/2011	5/31/2014
UEFA Program	50.00	0.08	IFC	1/9/2012	6/30/2015
Lighting Africa Client contribution	100.00	110.03	IFCTFI	1/7/2012	2/28/2015
ECOM FTC Kenya	133.72	0.00	IFC	4/20/2012	6/30/2015
SSAWA	122.47	0.00	IFC	4/20/2012	6/30/2015
KENYA: Enhancing Municipal Revenue in Nairobi	74.85	2.29	PPIAF	7/18/2012	12/31/2013
Kenya - HRITF Program Assessment	45.00	0.00	HRBF	8/20/2012	12/31/2013
Kenya: Supervision of Oil and Gas Framework	50.00	0.01	ETAF	8/23/2012	7/31/2014
Clean Cooking	21.94	7.31	IFC	9/4/2012	6/30/2015
JSDF ROUND 33 - Accelerating Rural Women's Access To Agricultural Markets & Trade	141.50	93.42	JSDF	5/30/2012	5/30/2016
Kenya - Service Delivery Indicators (SDI) Survey	705.35	113.33	SDI	9/13/2012	2/28/2018
KE Oil and Gas Legal and Contractual Framework	600.00	1.50	ETAF	9/1/2012	7/31/2014
Kenya: Menengai Geothermal (Phase A)	175.00	93.60	CSCFIA	10/1/2012	12/21/2019
Kenya Skills Measurement Study	150.00	16.12	JOBCRT	9/19/2012	2/24/2014
Kenya water and sanitation OBA fund for low income urban areas- Project Preparation	98.85	39.38	GPOBA	9/10/2012	6/30/2014
W1 Kenya - Supporting Selected Public Financial Management and Public Sector Capacity Building	712.93	84.74	GPF	11/7/2012	2/28/2015
W1 Kenya - Citizen Engagement in Devolved Service Delivery	1,521.68	542.28	GPF	11/19/2012	2/28/2015
W1 Kenya - Fiscal Decentralization Knowledge	1,694.80	431.06	GPF	11/7/2012	2/28/2015
Kenya’s power sector	150.00	34.95	ESMAP	11/5/2012	4/30/2014
Kenya DPSP Support to Innovation in Scaling Up Access to WSS for the Urban Poor (P132015)	150.00	30.74	WSP	12/7/2012	3/31/2015
ECOM FTC Kenya	610.00	5.31	IFC	5/2/2011	6/30/2014
CIPA Kenya	33.97	0.00	IFC	1/2/2013	6/30/2015
Competition Policy (Kenya SNICP)	446.00	240.23	IFC	1/24/2013	12/31/2015

Trust Fund Name	Approved ($,000)	Available ($,000)	Program Source	Signing Date	Closing Date
Recipient Executed TF's					
Kenya Electricity Expansion Project	5,150.00	5,072.10	GPOBA	2/20/2012	6/30/2014
Kenya: Reviewing and Updating the National Implementation Plan under the Stockholm Convention	172.67	69.07	GEFSIA	5/17/2012	2/28/2014
Kenya Climate Innovation Center (RE)	4,500.00	2,520.86	INFOD	5/15/2012	5/15/2016
ROUND 33 - Kenya - Accelerating Rural Women's Access to Agricultural Markets and Trade	2,858.50	2,283.10	JSDF	5/30/2012	5/30/2016
Kenya IDF Strengthening the Use of Country Safeguards Systems	487.88	487.88	IDF	5/13/2013	5/13/2016
Strengthening the Accounting Profession in Kenya	698.00	698.00	IDF	1/27/2014	1/27/2017
Kenya Green Belt Movement	0.00	0.00	CARBON	11/15/2006	12/31/2018
Kenya Olkaria II Geothermal Expansion Project	4,518.45	21.99	CARBON	11/14/2006	12/31/2018
Optimization of Kiambere Power Station Project	130.15	0.26	CARBON	7/30/2007	12/31/2018
Kenya Kengen Re-development of Tana Power Station Project	873.93	0.00	CARBON	8/20/2007	12/31/2018
GEF FSP-Kenya:Agricultural Productivity and Sustainable Land Management Project	10,000.00	5,554.11	GEFIA	11/17/2010	12/31/2015
Support to Community Based Farm Forestry Enterprises in Semi-Arid Areas in Kenya	1,936.38	0.00	JSDF	9/7/2009	3/31/2015
Kenya Adaptation To Climate Change In Arid And Semi-Arid Lands (KACCAL)	5,500.00	4,696.43	SCCFIA	8/21/2012	10/31/2016
Kenya Agricultural Carbon Project	600.00	8.28	CARBON	11/15/2010	12/31/2017
Cash Transfer for Orphans and Vulnerable Children	46,284.45	15,063.33	AFRHD	7/20/2010	12/31/2016
Kenya Coastal Development Project	5,000.00	3,718.91	GEFIA	11/17/2010	10/29/2016
Regional Mobile Applications Lab in East Africa	725.00	0.00	INFOD	10/5/2010	6/30/2013
IDF Grant for Building Capacity of Diaspora Affairs Directorate in the Ministry of Foreign Affairs (MoFA)	500.00	210.44	IDF	3/15/2011	3/15/2014
Mobile Apps thru Social Networking in Africa - Kenya	55.00	1.54	INFOD	4/26/2011	6/30/2013

Annex 7: Poverty, Shared Prosperity and Progress toward MDGs

Poverty and shared prosperity

1. **At a time of major social and economic transitions, the conditions for attaining better living standards are increasingly within reach for a majority of Kenyans.** In the past twenty years, Kenya's economy has gone from one that was shrinking to an economy growing at nearly 5 percent per year; jobs, once primarily in farming, are now predominantly in non-farm self-employment and wage work; families are smaller and more likely to settle in towns and cities; and people have more education and skills than ever before. Behind each of these transitions are each individual Kenyan's quest for opportunity and a desire for a better life for themselves and their children. Despite these major social shifts, we know little about how poverty has changed. Efforts to measure poverty and welfare in Kenya have been sporadic and inconsistent. In the 30 years spanning 1980 to 2010, Kenya conducted four surveys that provided a basis to measure poverty—an average of one survey every 8 years.

2. **The latest poverty measures are almost a decade old.** The 2005/06 Kenya Integrated Household Budget Survey (KIHBS) was the last nationally representative survey conducted by the Government of Kenya to measure poverty. In the absence of more frequent surveys, there has been a missed opportunity to understand whether the economic gains that have been achieved in the past decade, have widely generated opportunities for Kenyans as a whole and in particular, pathways out of poverty for the poor. Survey data from 2005/06 indicates that the scale of consumption poverty in Kenya is staggering, and is concentrated in rural areas. Based on Kenya's national poverty line, close to half of the population (close to 17 million Kenyans) was poor in 2005/06 and the vast majority of the poor lived in rural areas. Poor households are also more likely to depend on income and consumption from crops and livestock, as a source of livelihood. And poverty is strongly associated with low levels of education and large households. Primary and secondary school completion rates are the lowest amongst the poorest individuals. In 2009, the average size of households among the poorest 20 percent of households was 5.2 compared to a national average of 4.3 and an average of 3.5 among the wealthiest households.

3. **Poverty rates are highest in the arid and semiarid regions in the north and north east, but Kenya's poorest places are not the same places where most of the poor live.** Areas with very little annual rainfall, and thus, low agricultural potential have acute poverty. These regions have also been historically neglected, reflecting Kenya's unbalanced geographical development. In 2005, poverty rates in arid regions (78 percent) were nearly double the poverty rates in medium and high potential agricultural areas (with poverty rates averaging 41 percent). Kenya's lagging areas are sparsely populated and more isolated from its urban economic engines—Nairobi, Mombasa and Kisumu. Kenya's development—as elsewhere—has been unbalanced geographically, and characterized by the growth of economic and population density in towns and cities. The majority of Kenya's poor live in the denser and higher potential agricultural zones, in the vicinity of large urban centers. Due to patterns of population density, the largest numbers of poor are concentrated in areas where land is most fertile. Medium to high potential agricultural areas only make up 20 percent of all land, yet are home to 80 percent of the population. As a result, the largest number of poor are found around the shores of Lake Victoria in the west, the central highlands around Nairobi and east of Mt. Kenya and the coast near Mombasa. With rapid and concentrated population growth in these areas, the pressure over productive land resources will continue to grow.

4. **Between 1989 and 2009, Kenya has also experienced positive developments in several non-income dimensions of poverty, but not all of them.** On average, Kenyans are increasingly healthy and more educated, enjoying better living conditions, and an expanded set of consumption opportunities. At the same time, a large fraction of the population continues to live with sub-standard access to water, sanitation and energy. Inequality of opportunity is quite high. Indeed, for many, the sheer luck of where in the country one is born, one‘s ethnicity and one’s family wealth play an outsize role in determining access to basic opportunities.

Poverty Estimates and Projections

5. **Kenya continues to grapple with high poverty rates despite a decade of sustained moderate economic growth**. The last national household budget survey to measure consumption was undertaken in 2005/06, according to which 47 percent of Kenya’s population (or 16.6 million people) lived in extreme poverty. By 2012/13, the poverty rate is estimated to have declined to 39 percent if growth in consumption per capita of all households in all sectors of the economy kept pace with observed growth in GDP per capita. Under a scenario whereby inequality as measured by the Gini coefficient is simulated to increase by one percentage point annually, the estimated poverty rate 2012/13 would only have fallen to 41 percent. Under this scenario of worsening inequality, per capita consumption of the bottom 40 (the poor) in Kenya is estimated to have grown by less than 3 percent compared to almost 14 percent for the top 60 (the non-poor). It is pertinent for Kenya to undertake a new household budget survey in order to better understand distributional dynamics and trends in poverty rates since 2005, both nationally as well as subnationally and for different population groups.

Table 1. Projected poverty rates for different growth & inequality scenarios

		2018			**2030**		
		Inequality Scenario (% growth in Gini coefficient per year)					
		-1%	**0**	**+1%**	**-1%**	**0**	**+1 %**
GDP scenario (% growth per year)	**+4**	27.6	35.4	41.6	11.1	27.4	41.1
	+6	19.8	28.5	36.3	1.9	13.1	29.3
	+8	14.2	22.9	30.8	0.19	5.9	21.4
	+10	9.4	17.9	26.6	0.017	2.8	16.1

Note: These estimates are computed using the observed 2005/06 distribution of per capita consumption and observed GDP per worker growth rates up to 2012, and projected overall GDP scenarios thereafter (not factoring sectoral dynamics) based on baseline fertility rates.

6. **The poverty rate must be cut by 2 percentage points each year from now to 2030 if extreme poverty is to be ended in that timeframe, and our simulations show that both the pace and extent to which economic growth is inclusive will have a major influence on the outlook**. The prospects for eliminating poverty by 2030 in Kenya are beset by two formidable challenges: the rate of economic growth would need to double and inequality, measured by the Gini coefficient, would need to halve. If growth remains at historic levels of around 4 percent per year and inequality remains unchanged, poverty rate will fall to 35 percent by 2018 and to 27 percent by 2030, as shown in Table 1 below. The progress in poverty reduction depends strongly on what happens to inequality in the country. If inequality falls each year by one percentage point, with a GDP growth rate of 4 percent, the poverty rate would fall to 28 percent by 2018 and to 11 percent by 2030. Under this inequality reduction scenario, the goal of eliminating extreme poverty is attainable if annual GDP growth rates increase to 6 percent. However, if inequality

increases each year by 1 percentage point, the poverty rate would remain at about 41 percent in 2018 and 2030.

Progress toward MDGs

1. **Kenya's progress in meeting the MDGs has so far been mixed.** Advances have been made on a few MDGs, in particular on access to education, but on others, improvements have been marginal at best. In areas such as health (tuberculosis prevalence), poverty, and environment, indicators mark deterioration.

2. **The Millennium Development Goals Status Report for Kenya 2011 underscores that the county governments will bear the greatest responsibility in the provision of key services to citizens, most of which are essential for the attainment of the MDG targets.** As the new constitution provides for the transfer of 15 per cent of budgetary resources to the 47 Counties that are the new levels of devolvement, the county governments will be expected to adequately address MDGs through the formulation and implementation of their development plans and also give priority to the off-targets MDGs in the respective counties,' reads a section of the report.

3. **Kenya has already made considerable progress in the realisation of a number of MDGs** including the achievement of universal primary education (Goal 2), promoting gender equality and empowering women (Goal 3), reducing child mortality (Goal 4), combating HIV/AIDS, Malaria and other diseases (Goal 6) and ensuring environmental sustainability (Goal 7).

4. **However, the country's performance in the eradication of extreme poverty and hunger (Goal 1) remains dismal with more than 10 million people suffering from chronic food insecurity and poor nutrition, while between one and two million people require emergency food throughout the year (according to The Millennium Development Goals Status Report for Kenya 2011).** The report cites the number of challenges hampering Kenya's efforts toward eradicating extreme poverty and hunger including; poor crop production practices, adverse climate changes, high food and fuel prices, population pressure, increasing frequency of social conflicts and insecure land tenure systems, among others.

5. **Another area in which the country still registers poor performance, is MDG 5 on the improvement of maternal health - despite the Government's efforts in reducing maternal mortality ratio.** The number of lives lost in every 100,000 births previously stood at 414, the figure subsequently increased to 488 as revealed by the report but have currently shot to 495 based on the latest statistics not captured in the report.

6. **Addressing maternal mortality requires concerted efforts of the government and other stakeholders including development partners.** The government directive to waive maternity fees alongside other strategies such as more investments in the health sector would have a decisive impact on Kenya's efforts toward attainment of this goal.

Table 2. Projections on MDGs progress

MDGs Monitoring Indicator	First observation	First Year	Latest observation	Last Year	MDG target	Progress	Progress that should be achieved	SSA progress	Classification	Period when MDG would be met
MDG 1: Eradicate Extreme Poverty and Hunger by 2015										
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	36.2	1990	39.9	2010	18.1	0%	80%	28%	Seriously off target	>2030
Malnutrition prevalence, weight for age (% of children under 5)	20.1	1993	16.4	2009	10.1	37%	78%	53%	Moderately off target	2020-2030
Prevalence of undernourishment (% of population)	35.6	1991	30.4	2011	17.8	29%	84%	146%	Seriously off target	>2030
MDG 2: Achieve universal primary education										
Primary completion rate, total (% of relevant age group)	2000	80.3	92.7	2009			80%	36%	On target	2015
MDG 3: Promote Gender Equality and Empower Women										
Ratio of girls to boys gross enrollment in primary and secondary education (%)	96.7	1999	95.4	2009	100	0%	78%	46%	Moderately off target	2020-2030
MDG 4: Reduce child mortality										
Mortality rate, under-5 (per 1,000 live births)	97.8	1990	72.8	2011	32.6	38%	84%	58%	Moderately off target	2020-2030
Mortality rate, infant (per 1,000 live births)	63.5	1990	48.3	2011	15.9	32%	84%	52%	Seriously off target	>2030
MDG 5: Improve maternal health										
Maternal mortality ratio (modeled estimate, per 100,000 live births)	400	1990	360	2010	100	13%	80%	55%	Seriously off target	>2030
MDG 6: Combat HIV/AIDS, malaria and other diseases										
Prevalence of HIV, total (% of population ages 15-49)	2.5	1990	6.2	2011					Met	
MDG 7: Ensure environmental sustainability										
Improved water source (% of population without access)	56	1990	41.0	2010	28.0	54%	80%	53%	Seriously off target	>2030
Improved sanitation facilities (% of population without access)	75	1990	68.0	2010	37.5	19%	80%	39%	Seriously off target	>2030

Annex 8: Bank Group Collaboration

1. **Collaboration between the key arms of the World Bank Group—IFC, MIGA, and the Bank (IDA)— increased over the most recent CPS period and included some path-breaking examples, leading the way in Africa in bringing all three institutions together in specific deals.** Opportunities were grasped especially in activities to help in "unleashing Kenya's growth potential" (Pillar 1) and "reducing inequality and strengthening resilience". The new CPS (FY14-18) has been prepared as a fully joint product, and specific avenues are identified to expand collaboration and make it even more effective in the coming year.

A. Examples of World Bank Group collaboration during FY10-13

2. **Investment climate and corporate finance:** IFC and the Bank jointly scoped, developed and are now implementing the five-year Kenya Investment Climate Program 2 with funding from DFID and the Dutch Government. IFC leads on regulatory reform (county and national), competition policy, trade logistics, agribusiness and renewable energy while the Bank leads on PPPs, special economic zones, innovation, exports and investment climate diagnostics.

3. **IFC and the Bank have also collaborated through the jointly implemented Efficient Securities Market Institutional Development (ESMID) program.** ESMID has supported a number of initiatives including the preparation of bond transactions, bond market development in relation to public-private partnership (PPP) projects, and improving corporate governance in the Capital Markets Authority. There has been good coordination between ESMID and the Bank's Financial and Legal Sector Technical Assistance Project (FLSTAP); IFC has contributed to the ICR for the latter.

4. **Other complementary activity in this area includes the Bank Group's work to support micro, small and medium-sized enterprises, and the annual Doing Business survey which helped track the country's overall progress in improving business regulation.**

5. **Infrastructure:** IFC and the Bank complemented each other effectively in the aviation sector with the Bank strengthening institutional capacity in the airport and civil aviation sector while IFC financed an upgrade of Kenya Airways's fleet and network expansion plan. In railways IFC financed rolling stock and infrastructure improvements associated with the Kenya-Uganda railway, and helped restructure the project, while the Bank managed the program to resettle 70,000 displaced persons.

6. **Energy:** IFC, WB and MIGA collaborated in the financing of two independent power producers – Thika Power and Gulf Power, in which IFC provided financing to the two private sector power generating companies, MIGA provided political risk insurance cover and IDA a partial credit guarantee. IFC and WB have also co-financed the majority state owned energy distribution company KPLC. IFC and the World Bank also jointly implemented Lighting Africa, a regional program to mobilize the private sector to build sustainable markets that provide affordable, modern off-grid lighting to communities in Africa, including in Kenya, that lack electricity.

7. **Water and sanitation:** the Bank's Water and Sanitation Program (WSP) and IFC's Sustainable Business Advisory (SBA) and infrastructure department collaborated on a $30 million water utility financing facility. The WSP led on project identification and development and support for legal/regulatory dialogue on commercial financing. IFC led on deal sourcing and

structuring and strengthening of utility financial management, asset management and IT systems. Both the Bank and IFC provided advisory support to local banks to improve understanding of water project financing.

8. **Agriculture:** IFC participated in the Mid-Term Review mission of the Bank's Kenya Agricultural Productivity and Agribusiness Program (KAPAP) to review the Agribusiness Component.

9. **Health:** the Bank and IFC Our co-designed the Health in Africa project. A number of activities have resulted including support to the National Health Insurance Fund (NHIF). IFC and WB are now jointly supporting a number of reforms including the development, design and roll out of a health insurance subsidy program for the poor (HISP) by NHIF.

B. Opportunities for further World Bank Group collaboration during FY14-18

10. **As shown by the examples above, collaboration between members of the World Bank Group during FY10-FY13 was strong.** Reflecting on this positive experience, a joint IFC/World Bank workshop in July 2013 in Nairobi identified a number of principles that will help shape collaboration going forward. These include the following: (a) joint working will be a daily reality; (b) Group staff members will regularly ask 'where can we each make a difference? (c) Group collaboration will be based on an appreciation of the distinctive skills and differences in the nature of risks faced by members; (d) effective joint working will improve with practice—now that Bank Group staff members are co-located in a new building in Nairobi, advantage will be taken of that proximity to ensure we know each other's work with much greater familiarity.

11. **Taking into account the focus of the FY14-FY18 program there are a number of clear potential opportunities to deepen and broaden Bank Group collaboration in Kenya albeit subject to further careful confirmation that the right conditions for Bank Group involvement are in place.** These include, but are not limited to:

12. **Energy:** IDA is well-placed to support the Government's efforts to continue modernizing and expanding selected transmission and distribution networks. There is also scope for IFC and MIGA to continue helping to leverage private resources into independent power production including geothermal and renewable energy. The oil and gas sector also offers potential for new IDA involvement supporting the development of the regulatory and supervisory framework with IFC and MIGA engagement to leverage private investment.

13. **Transport:** Restoring Jomo Kenyatta International Airport to full functionality is an immediate priority that will require continued public funding with scope for further IDA support. In parallel, there are likely to be further opportunities to leverage private financing into operational aspects of air transport and the provision of related services. Improving the functionality of Mombasa port is a long term endeavor which in principle could also benefit from a mix of IFC and IDA resources, if client ownership and the political economy are right.

14. **Water and sanitation (WS):** There is still significant need to build institutional capacity in the WS sector, particularly at county level. IDA's global WS experts are well-placed to support this work and enable IFC and MIGA, in due course, to engage at local levels and help leverage private finance into this sector, including in coastal sectors.

15. **Agriculture:** There is a pressing need to revisit the policy framework particularly with respect to food crops including maize. Reforming the National Cereals and Produce Board (NCPB), improving grain storage and establishing a commodity exchange are all areas where the Bank Group could potentially help support Government efforts and encourage greater private sector involvement.

16. **Other:** Investment in improving access to finance, health and analytical work in the education, governance and corporate governance sectors all offer further potential for Bank Group collaboration.

Annex 9: Governance and Political Economy

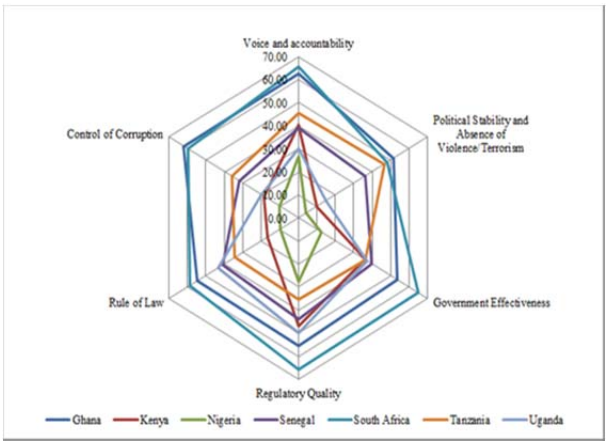
A. The Governance challenge and its context

1. **Kenya has been characterized by a number of governance challenges and perceptions of poor governance seem to persist.** Governance has been a major constraint to unleashing Kenya's full potential and weaknesses included inadequate legal provision and mandate for Public Financial Management (PFM) ; weak oversight and control institutions (e.g. audit, accounting and reporting, procurement) especially at subnational levels; weak and untrusted judiciary and law enforcement; elite capture at both national and decentralized levels of government and weak public participation, transparency and accountability in public matters. These gave rise to a number of governance pathologies, including corruption, institutional failures and exposure to fiduciary risks.

2. **Until recently, Kenya had been a highly centralized state with a strong executive president and a weak legislature and judiciary**. Oversight and checks on executive and administrative powers and authority were thus weak. Politics center on ethnicity and with a winner take all system, access to political power provides a source of patronage for wining elites. Consequently, elections are fiercely contested and often violent. This dynamic reached its worst state in the post 2007 election violence.

3. **Given its history, Kenya's governance performance has been mixed**. It does very well on the Bank's CPIA with one of the highest scores in the Africa region (3.9 in 2012), though the scores for the governance cluster are much lower. As figure 1 (Annex) shows, Kenya's performance on the control of corruption, political stability and absence of violence and rule of law has been relatively poor compared to other countries, except for Nigeria. It does relatively better on voice and transparency and has one of the most vibrant media in the region.

Figure 1: WGI: Kenya in Comparative Perspective



4. **With the exception of 2013, since the introduction of multiparty elections in 1991, growth rates in Kenya have historically dipped in election years,** largely due to political violence rooted in Kenya's particular political economy, where patronage and ethnicity combine to dominate electoral competition, thus undermining democracy as an exercise of voice and development-oriented policy making.

B. Changing Political Economy Landscape

5. **Kenya's Vision 2030 emphasizes improving the rule of law, transparency and accountability in the conduct of public affairs, security, peace and conflict management, and public sector reforms, so as to strengthen Kenya's foundation for development.** Anti-corruption initiatives will be intensified alongside improved investigation and prosecution. All

these have been binding governance constraints in Kenya and held back the country from realizing its full potential.

6. **The 2010 constitution resets the rules of the power game in Kenya and offers significant potentials for improved governance for development effectiveness.** Since 2002 the governance landscape in Kenya has been changing positively, with the election of NARC government and President Kibaki, though progress was punctuated by the post 2007 elections violence. The 2010 constitution has been a significant game changer with the introduction of new institutions and revamping of existing ones.

7. **Devolution is a major institutional change and the king pin of the 2010 constitution.** Kenya's devolution is one of the most ambitious reforms and it aims to address old problems of marginalization and inequality between regions which has fueled ethnic tensions in the past. The constitution and the PFM Act 2012 also clarify roles and responsibilities and have strengthened the authority of institutions for public financial management. For example, the Auditor General confirms whether or not public money has been applied lawfully and in an effective way, while the new office of the Controller of Budget authorizes withdrawals from public funds and oversees implementation and reports to Parliament every four months.

8. **Checks and balances have been strengthened. However, the newly created institutions are yet to be stabilized and embedded into a national framework**. There is now stronger legislative oversight and greater independence for the judiciary to check the executive than before. The Judiciary is reforming and has been strengthened with a Supreme Court, a Chief Justice and significant independence in appointments and financing. There are also constitutional and legal requirements for improved citizens' participation in public issues, including planning and budgeting processes; independent commissions and offices including the Salary and Remuneration Commission, the Commission for Revenue Allocation and the Controller of Budget.

C. Current Risks and Challenges

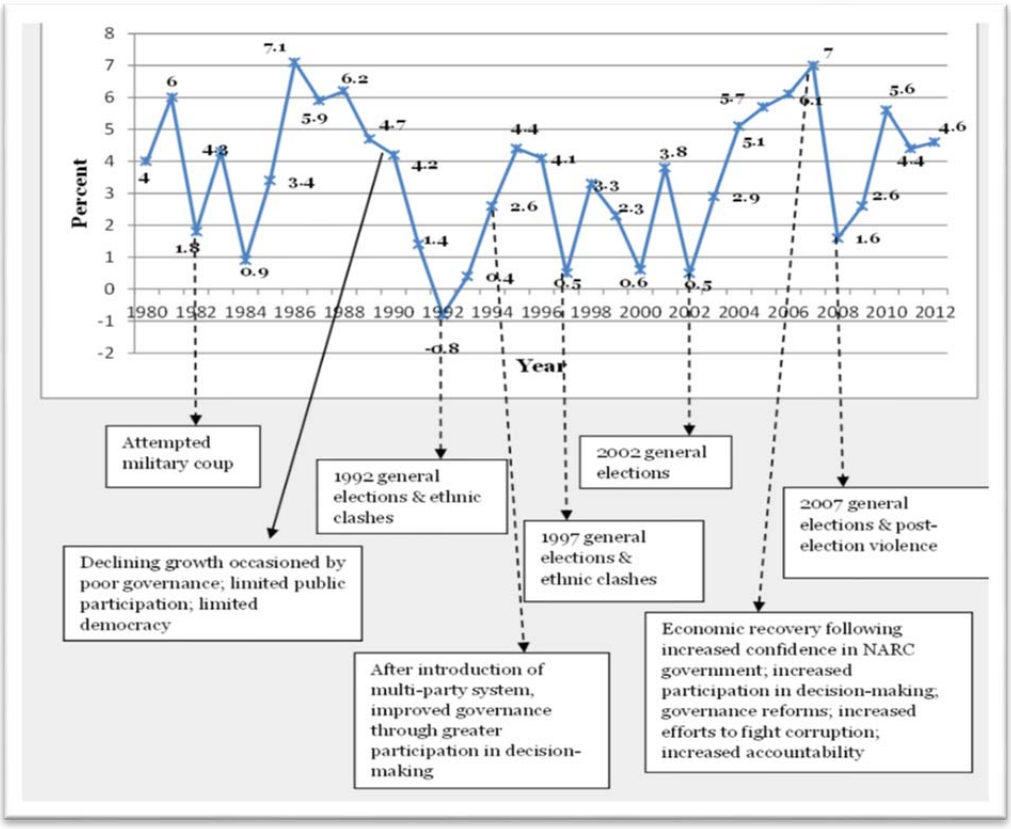
9. **Despite the new constitution and associated reforms there are significant risks and challenges to improving governance.** The 2010 constitution and devolution are still contested governance processes with a section of stakeholders calling for referendum to amend the constitution to give more resources to counties and more authority to the senate which represent the interests of counties. Implementing devolution is fraught with risks, including fiscal and service failures and capacity of counties to manage their devolved functions and resources, which may possibly lead to attempt to claw back some functions and powers from devolved units.

10. **Corruption and weak accountability with impunity remain challenges, despite the constitution**. Although there is progress in the reform of the judiciary, other justice sector institutions such as the police and prosecution are lagging behind in reforms to complete the circle of justice to citizens. Thus, there are institutional dynamics and uncertainties as well as recalibrations of alliances and partnerships in the current political economy of Kenya. The underlying risks of path dependency and reversal of reforms introduced by the 2010 constitution is real and cannot be ignored in the efforts to improve development effectiveness in Kenya.

D. Conclusion

11. **Going forward, the CPS acknowledges that politics and institutions matter for achieving development results in Kenya.** Governance will frame the context for the design and implementation of the CPS. The CPS will therefore support sectors in addressing governance and political issues in priority sectors such as health, agriculture, education and infrastructure, support the strengthening of institutions that matter most for critical functions and service delivery and strengthening institutions and processes for participation and accountability.

Figure 2: Relationship between elections and growth in Kenya



Annex 10: Devolution: Challenges and Opportunities

A. Main ways in which devolution can help end poverty and promote shared prosperity through (a) driving growth; (b) reducing inequality; (c) improving institutions and governance.

1. Amidst many other reforms, devolution is arguably the most far-reaching reform under Kenya's 2010 Constitution. It is also one of the most ambitious devolutions underway in the world, involving large-scale political, fiscal, and administrative decentralization. As per the Constitution, Kenya's devolution puts in place a whole new subnational layer of government, including 47 counties each with an elected governor and assembly, responsible for a significant portion of service delivery.

2. Devolution seeks to address multiple objectives such as: tackle long-term, deeply entrenched disparities between regions; increase the responsiveness of government to citizen needs; allow greater degrees of autonomy to different regions and groups; strengthen governance and accountability to citizens.

B. Results, prospects, promises to date

3. Since 2010, Kenya has successfully put in place the legal framework for devolution, and a set of Constitutional bodies (the Transition Authority, the Commission on Revenue Allocation, Constitutional Implementation Commission, Senate, etc.), largely in line with the Constitution.

4. The 2013 elections, which proceeded peacefully without widespread violence or disruptions to growth, kicked off the implementation period for devolution. The first six months of devolution have been characterized by coordination challenges that have been exacerbated by an even faster transition than was envisioned under the Constitution. Whereas the Constitution envisaged that functions would be transferred gradually over a three-year period, most county functions have already been transferred (along with approximately 30 percent of government revenues, versus a Constitutional minimum of 15 percent, leaving some national government functions potentially under-funded). Kenya has also adopted a highly progressive formula for sharing these revenues across the 47 new counties, such that historically privileged counties (which include the largest urban centers) are receiving much smaller resource transfers, on a per capita basis, while historically marginalized areas (largely arid and semi-arid counties) receive much larger per capita shares. Over time, this has the potential to address development disparities.

C. Opportunities, binding constraints, key challenges, highest priorities

5. Devolution reforms seek to tackle long-term, deeply entrenched disparities and to strengthen governance.

6. Yet given the speed and scope of Kenya's devolution, there are risks for service delivery disruption, including in devolved functions in key sectors like urban management, water, health, agriculture, and local roads.

7. The first six months of devolution have been characterized by coordination challenges that have been exacerbated by an even faster transition than was envisioned under the Constitution. Whereas the Constitution envisaged that functions would be transferred gradually

over a three-year period, most county functions have already been transferred (along with approximately 30 percent of government revenues, versus a Constitutional minimum of 15 percent, leaving some national government functions potentially under-funded).

8. Kenya has also adopted a highly progressive formula for sharing these revenues across the 47 new counties, such that historically privileged counties (which include the largest urban centers) are receiving smaller resource transfers, on a per capita basis, while historically marginalized areas (largely arid and semi-arid counties) receive larger per capita shares. Over time, this has the potential to address development disparities.

9. But in the short- and medium-term, Kenya's ambitious and rapid devolution poses significant risks. These include:

- Major capacity challenges to get core county planning, PFM, and HR systems in place, transfer staff, clarify county versus national functions, and build interfaces with citizens. In particular, it will be important to put in place a basic data-driven performance monitoring system, focused initially on core county systems (rather than on outputs or outcomes), to identify key needs and inform capacity building efforts.
- Addressing the unique risks of urban areas. Although they are the key drivers of growth, large urban counties like Nairobi and Mombasa have inherited significant payroll and debt obligations, at the same time as reduced central transfers. Smaller urban areas lack dedicated urban management units, and there are risks that urban services will not be adequately funded by county assemblies elected predominantly from rural areas.
- Addressing the unique challenges of historically marginalized areas. Larger transfers to counties in arid and semi-arid regions provide an opportunity to address long-standing infrastructure and service delivery gaps. But these counties typically face major capacity gaps and will require support to strengthen capacity to design and implement productive investments.
- Supporting the sectors that are being devolved to counties the fastest, including health, agriculture, and local infrastructure service delivery. These sectors, and associated WB-financed programs, face major transition challenges.
- Operationalizing Constitutional provisions to improve transparency and citizen participation in county planning, budgeting, and performance management systems.

D. How we can be selective – priorities

10. **Support county capacity to carry out core planning and public financial management functions** (building on ongoing support for county planning, PFM capacity, and the continued roll-out of the integrated financial management information system (IFMIS).

11. **Support the design, testing and roll-out of a performance assessment tool/system** for county governments. A basic data-driven performance monitoring system, focused initially on core county systems, will be needed to identify key needs and inform capacity building efforts.

12. **Analyze fiscal impacts of devolution** with particular attention to vertical and horizontal imbalances. However, although significant risks are emerging, little systematic analysis has been done to understand the fiscal impacts of vertical and horizontal revenue sharing.

13. **Address the different risks faced by urban and marginalized rural areas**. Not surprisingly, revenue sharing under Kenya's rapid devolution has created significant imbalances.

On one hand, although they are the key drivers of growth, large urban counties like Nairobi and Mombasa have inherited significant payroll and debt obligations, at the same time they face reduced central government transfers. By contrast, counties in arid and semi-arid regions have new resources that provide opportunity to address long-standing infrastructure and service delivery disparities. But these counties typically face major capacity gaps.

14. **Support roll-out of basic transparency and citizen participation mechanisms** in county planning, budgeting, and performance management, as per the Constitution and legal framework and drawing on growing global experience linking social accountability with enhanced development outcomes.

E. High potential for World Bank Group

15. Analysis and TA on devolution that brings global experience to bear on key Kenya devolution challenges.

16. Data and statistics. Significant experience on strengthening data and statistical capacity in Kenya, including support for county data and the ongoing Kenya open data initiative.

17. Extensive ongoing portfolio and program in key devolved sectors (health, agriculture, local service delivery – water, urban services, energy, and CDD) and with local service delivery providers.

18. Expertise and experience on Kenya public financial management, including support to IFMIS, public expenditure reviews, participation in Kenya's PFM donor group.

19. Expertise on mainstreaming citizen engagement and social accountability tools into county systems.

F. Instruments and cross-sectoral linkages

20. Ongoing analysis and TA on devolution under the Kenya Accountable Devolution program.

21. Ongoing IDA portfolio – provide support for enhancing the functioning of devolved service delivery through the Bank's portfolio and providing on-demand TA to teams in sectors that are being devolved to counties (e.g., health, agriculture, and local infrastructure service delivery).

22. Ongoing support to strengthening PFM systems, including analytical work, roll-out of IFMIS.

23. Technical assistance on strengthening open data (under KTCIP) and social accountability in specific projects.

24. New operations focused on strengthening core county systems, through performance-based grants that enhance core county capacities.

Annex 11: Statistics for Results

A. Overview

1. **Kenya has seen significant improvement in data collection, compilation and analysis of statistical information** since the Kenya National Bureau of Statistics (KNBS) was created in 2006 as a semi-autonomous government agency. Yet there are significant gaps, most notably in poverty data which remain woefully out of date given the vintage of the last household survey. The Bank-supported project to build statistical capacity helped somewhat, but was not satisfactory, and we need greater Government commitment to help push a new engagement which we could offer.

2. **Integrated Household Budget Survey (IHBS): The last integrated household survey was undertaken in 2005/06**. Although such IHBS were targeted for every 5 years, KNBS has been unable to undertake further surveys due to lack of adequate funding. As a result, we do not know precisely how recent economic gains and government policy have generated pathways out of poverty. The last survey indicated a poverty rate of 46 percent (2006). Without updated survey numbers, it has been hard for policy makers and development partners to update poverty estimates, and inform poverty reduction strategies—our best estimate is that poverty now stands around 38 percent.

3. **Core statistics:** The overall quality, timeliness and coverage of macroeconomic statistics (national accounts and CPI) have improved over the last CPS period. CPI data is published at the end of each month while national accounts are produced quarterly. The KNBS also produces, monthly, the *leading economic indicators* of high frequency data (trade and monetary statistics) in hard copies and through their website. Fiscal data is produced quarterly by the National Treasury through the ministry's *Quarterly Economic and Budget Reviews* and uploaded on website. KNBS is in the process of rebasing its GDP figure (replacing the present price and quantity structure of the base year used to compile real measures of GDP with a new or more recent price structure). The last time this was done was in 2003/04. Despite improvements in overall quality and timeliness in some macro statistics further improvements in the methodology in compiling real, fiscal and external sectors is needed. For example, there are concerns that FDI data are under-reported.

4. **Data Access:** Even though KNBS has an open data policy, it has proved very hard in practice for researchers and development partners (including the World Bank) to get data (such as simple census information) from them. The open policy needs to be properly put into practice.

B. Sectoral and Institutional Context

5. **Statistics is a crucial element for informed, evidence-based decision making, and monitoring of progress and implementation of government's medium term plans.** The Kenya National Bureau of Statistics (KNBS) is the coordinator of the National Statistics System (NSS) and is responsible for producing a wide range of key social and economic statistics, including demographics, poverty, labor, price, trade, production, and national accounts data. Kenya has a well-established system for collection of regular production of social and economic data and has embraced the Open Data Initiative, which opens up new ways to generate and disseminate statistics in a more efficient and timely manner. The Kenya National Bureau of

Statistics (KNBS) is the main institution responsible for collecting and disseminating official statistics. The transformation of the KNBS from a Department in the Ministry of Planning to an independent national statistics office governed by a Board of Directors was supported by a World Bank STATCAP Project (P085414) and financed by a 5-year IDA-credit. The support from the World Bank and other partners enabled KNBS to make several improvements including the enactment of a new statistics law that facilitated greater and better coordination of the national statistics system, human resource development, upgrade of physical and statistical infrastructure, and the development of new and better data products.

6. **Statistical capacity and constraints.** Despite the progress made in recent years, Kenya's statistical system faces several challenges. Collecting data in Kenya is a time, labor and resource intensive endeavor, particularly in the semi-arid areas where populations are scarcely distributed. Given the modest allocation for statistics in the national budget, much of the institutional budget is allocated for salaries, wages and field operations, leaving little discretionary resources for innovation, reform and capacity development. As a consequence, KNBS has not produced regular data that could be used by policy makers to monitor trends in the labor market and household living conditions and poverty. A Labor Force Survey was last undertaken in the 1990s and the last Household Budget Survey was completed in 2005/6. Data dissemination has also been below user expectations. The three national databases are neither comprehensive nor updated regularly. The upload of data in KenInfo is not systematic so while some indicators are up-to-date, many are several years out of date. Second, important datasets, such as detailed information relating to the 2009 Population and Housing Census, have not yet been uploaded on KNBS' website despite being publicly launched in 2010. Although the National Data Archive (NADA) is designed as a database for micro data, no data sets are currently available online. Lastly, publications, such as the Economic Survey or the Statistical Abstract, are not available online, and out of the thirteen STATCAP funded surveys, only three are available online for public use. Improving the online availability of its products is a major challenge for KNBS in order to regain the confidence of its users as the main provider of statistics, which is a public good.

7. **There is a growing demand in government for statistics for use in planning and budgeting, targeting of policies and programs, as well as outcome monitoring and evaluation.** Relevant and accurate statistics, that are made available in a timely manner to policy makers and the general public alike, are essential ingredients for formulating informed policies and for monitoring and evaluating their development impacts. The Government's second Medium Term Plan 2013-2017 articulates its development strategy whose objectives includes implementing devolution, accelerating growth, reducing poverty, transforming the structure of the economy and creating more quality jobs as the country prepares to achieve middle income status by 2030. Underpinned in this strategy is the government commitment to strengthen the national statistical system to support planning, monitoring and evaluation of government policies and programmes. The momentum for major reform in KNBS is now stronger than ever, based on external demands both within the government and from the public. For example, in the second MTP, the government directed that five major surveys and censuses be carried out within four years to improve the quality of data. This includes: Kenya Integrated Household Budget Survey (KIHBS) II; census of agriculture; labour force survey; census of business establishments; and generation of county statistical profiles.

8. **With the creation of 47 counties under the new constitution, in which statistics is a shared function, KNBS will have to restructure to build and increase its ability to compile county and sector statistics to meet the demand for relevant, accurate, timely, and disaggregated data.** The KNBS has mainly been a centralized agency without substantive presence in all districts. However, when county governments as administrative units came into effect in March 2013, the system has become highly decentralized, which has created a high demand for more geographically disaggregated data. With the new constitution there is pressure for the establishment of statistics offices in all the 47 counties, which will supervise and coordinate statistical programmes at the county level and ensure that international standards are applied in the production and dissemination of county statistics, and that there will be harmony between national data and aggregated county data.

C. Relationship to CPS

9. **Support to Statistics will contribute to the Kenya Country Partnership Strategy and the governments Medium-Term Priorities (PRSP) to support evidence-based decision-making through, amongst other initiatives, strengthened national statistics.** Kenya has already benefitted from the World Bank STACAP project, which was rated moderately unsatisfactory as a result of unresolved financial management and procurement issues as well as lack of progress in data dissemination. Support to strengthening the national statistical system is consistent with the results based focus and is consistent with IDA's leadership role in the global partnership for statistical capacity building. In addition, as part of IDA 15 and IDA 16 Results Measurement System, results based Country Assistance or Partnership Strategies are expected to include a review of the national statistical systems and an indication of what is needed to strengthen the capacity both to generate and to use statistical data. The program will contribute to this agenda by improving the quantity and quality of statistics and ensuring that they are analyzed and disseminated widely.

10. **Support to Statistics is also consistent with Africa's region and the Bank Group's twin goals of eradicating extreme poverty and boosting shared prosperity, as well as growing interest by foreign investors in the quality of national accounts.** The goal of the Africa Region's effort is to help these countries generate more and better-quality data; develop a model for collaborating with the Fund, which has the lead role on National Accounts; and, more broadly, build capacity to promote greater use of statistics.

D. Lessons learnt and Client perspectives

11. **The STATCAP ICR recommended continued Bank support to statistics in Kenya.** Our AAA/NLTA includes working with KNBS counterparts in areas of poverty maps and consumer price index. On investments, the Bank supported STATCAP project helped institutional reform but overall did not achieve its other developmental objectives and was rated unsatisfactory. Lessons have been learnt on both sides. The KNBS leadership has indicated to bank staff of a need for both non leading technical assistance and any other instrument to enable them build its capacity and improve collection, compilation and analysis of statistical information, publication and dissemination of statistical information for public use and coordinating, monitoring and supervising the national statistical system. A World Bank team has met KNBS management team in September 2013 to discuss potential areas for collaboration in the short to medium run. The KNBS management team requested a combination of technical and financial support and this is something to be considered within the CPS deliberations.

Annex 12: Gender

A. Position of Women in Kenya

1. **Gender equality and women's empowerment are development goals with intrinsic value. They are also central to economic development and the current development context in Kenya – devolution, the constitution, and other policy reforms - offer compelling opportunities to advance these values.** However, if Kenya wants to achieve 10% economic growth rate per annum as stipulated in the Vision 2030, it has to continue to increase economic opportunities for women.

1. Health

2. **Maternal mortality in Kenya has remained unacceptably high at 488 maternal deaths (per 100,000 live births) in 2008/9, an increase from 414 in 2003.** The situation is not helped by stagnating maternal care indicators: over the last ten years the proportion of deliveries performed by skilled attendants has remained at around 44 percent. Skilled birth attendance is vital to protecting the health of newborns as the majority of perinatal deaths occur during labor and delivery or within the first 48 hours after delivery (UNFPA, 2007).

3. **Violence against women and girls remains endemic across the country and is supported by the cultural context.** Almost half (45%) of women aged 15-49 years report experiencing either physical or sexual violence[1]. According to the first ever national-level study on violence against children published by PUNOs in 2012, 31.9% of females and 17.5% of males experience at least one incident of sexual violence before the age of 18[2]. The socio-cultural environment in Kenya is conducive to gender-based violence, with 5 out of 10 women and 6 out of 10 men aged 18-24 years believing that it is acceptable for a husband to beat his wife. Despite a recent increase in reporting, data suggest that 45% of women who have experienced GBV did not seek help or tell anyone.[3]

4. **Partly thanks to sustained public awareness campaigns, Kenya has witnessed impressive progress in the decline in incidents of Female Genital Mutilation/Cutting (FGM/C).** However, there are striking regional differences - in North Eastern province, nearly all women aged 15-49 years have experienced FGM/C, while in Western province, only 0.8% of women have undergone the practice.[4]

5. **One out of every eight adults in rural Kenya and almost one out of every five adults in urban areas are infected with HIV, with women being particularly vulnerable.** The infection rate in girls and young women is exponentially higher than in their male counterparts. Women's greater vulnerability is connected to their lower social status. For example, there is a ritual cleansing practice which requires widows to have sex with a man of low social standing to "cleanse" them of their dead husband's "evil spirits."

2. Education

[1] Kenya Demographic and Health Survey 2008
[2] UNICEF, KNBS, CDC&Together for Girls, 2012 "Violence against Children in Kenya; Findings from a 2010 National Survey", p.94
[3] Kenya Demographic and Health Survey 2008.
[4] Kenya Demographic and Health Survey 2008.

6. **Primary education has recorded remarkable gains in enrolment since the implementation of free primary education: gender parity has almost been achieved, although there are still sharp regional and income disparities**. The ratio of female to male primary enrollment is estimated at around 98 percent. However, girls in arid and semi-arid regions have significantly lower enrollment rates, while primary-age girls from the poorest 60 per cent of households are three times more likely to be out of school as those from the wealthiest households (the same disparities apply even more at secondary level).

7. **While the ratio of female to male enrollment is lower at the secondary level (90 percent), it is still better than in many other countries in the region and there have been continued efforts from the government to improve the situation.** The government has continued with the implementation of the free secondary tuition which started in 2008, and has provided infrastructural support through the Quick Wins Initiative, which has given desks and sanitation facilities to selected schools. This has led to a rise in the primary to secondary school transition rate from 64.1 per cent in 2008 to 66.9 per cent in 2012. The relatively larger gender gap in enrollment at the secondary level is due to numerous reasons, including early marriages, pregnancy, the lower social status of girls, and girls' greater domestic responsibilities[5].

8. **Partly due to their weaker progress to secondary level education, more women are not able to gain a university education and thus rely more heavily on technical and vocational education.** The female share enrolment in public Technical, Industrial, Vocational and Entrepreneurship Training is around 49%, while data for 2009/10 suggests that the same figure for university enrollments is only 37.9 percent.

3. Governance

9. **Even though women account for 51% of the Kenyan population, they remain underrepresented in key governance positions.** In 2012, women accounted for just15% of the key leadership positions in the public sector and less than 10% of parliamentarians (compared to the sub-Saharan average of 20.4%)[6]. Only 38% of the Kenyan population agrees that they can vote for a female president, reflecting the cultural bias against women's suitability for public office. Additionally, there is still disagreement about the implementation of the 'not more than two-thirds' gender principle outlined in the constitution: the Supreme Court has declared that the Constitution called for its progressive realization in enforcing the rule but not immediate implementation in the upcoming 2013 General Elections. It is expected that women's numerical representation at the county level will meet the not more than two-thirds principle through nomination to meet any gaps following the election for county assembly seats. By 2012, most political parties also met the gender requirement of not more than two-thirds principle.

4. Economic empowerment

10. **Kenyan women are making a significant yet often ignored contribution to the country's economy.** While women perform the vast majority of household chores such as cooking, collecting firewood, fetching water and caring for family members, these are not included in the country's National Accounts and so are less visible in the policy-making context.

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[5] African Development Bank. 2007. *"Country Gender Profile"*, AfDB, Tunis.
[6] Inter-parliamentary Union.

11. **While women are well represented as entrepreneurs, they are more concentrated amongst the smallest businesses and have less access to finance.** According to a 2010 IFC study, women–owned businesses account for 48% of MSMEs, contributing 20% to Kenya's GDP[7]. Despite women's extensive representation in the SME sector, they access less than 10% of available credit and less than 1% of agricultural credit. Women's lower access to land (which is often required as collateral) and the tendency for banks to require the permission of husbands in order to grant credit to married women are some of the factors impeding women's access to finance. Furthermore, as access to finance for women entrepreneurs is guaranteed mainly through microfinance, there is a "missing middle" as the women who wish to grow their businesses beyond the micro-level have only limited options. In addition to problems accessing finance, the locating of the business registration process in Nairobi presents a challenge to time-poor women, who are less able to travel long distances. The decentralization reform process therefore has great potential for supporting women's entrepreneurship.

12. **Gender gaps in the agriculture sector are particularly significant as this sector provides support to the poorest people.** Kenyan women are the major force in agriculture and provide over 70% of the labor force – yet they own only a fraction of land titles[8]. Research suggests that weaker land rights reduce incentives to invest in land and may contribute to lower productivity. Women are also disadvantaged in their access to various other agricultural inputs and a recent World Bank survey revealed that a significantly larger proportion of male (54 percent) than female (41 percent) primary farmers had received extension services over the previous year[9], with the African Development Bank estimating that women only 7 percent of agricultural extension information[10]. The consequences of these gender disparities are serious, with some research suggesting that allocating land, labor, capital, and fertilizer more equally would increase agricultural yields in Kenya by more than 20 percent[11].

13. **While the female to male labor force participation ratio is not too low (86 percent), women are less likely to work in formal sector wage jobs.** Only 29 percent of those earning a formal wage are women, leaving a huge percentage of women to work in the informal sector without any government support. Women's vulnerability in terms of employment is also highlighted by the fact that 79 percent of women aged 30-64 are estimated to work as own account or unpaid family workers, compared to 54 percent of men[12] - the effect is severe as nearly 40 percent of households are run solely by women. Female youth appear to perform particularly poorly in the labor market: unlike in many African countries, young women have a higher unemployment rate than young men, and the ratio of female youth to adult unemployment is 2.18[13]. However, there are some positive trends: women appear to have been successfully shifting from agricultural employment. The 2008-9 DHS suggests that the proportion of women doing professional, technical, and managerial jobs has been growing and is higher than the proportion of men (31 percent versus 20 percent)[14].

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[7] IFC, 2010. *"Voices of Women Entrepreneurs in Kenya"*.
[8] African Development Bank. 2007. "Country Gender Profile", AfDB, Tunis.
[9] World Bank. 2013. *"Tapping the Potential of Farming in Kenya"*, Gender Policy Note, World Bank, Washington DC.
[10] African Development Bank. 2007. *"Country Gender Profile"*, AfDB, Tunis.
[11] World Bank. 2009. "Gender in Agriculture Sourcebook", World Bank, Washington DC.
[12] World Bank. 2008. "Kenya Poverty and Inequality Assessment", Volume 1, World Bank, Washington DC.
[13] World Bank. 2008. "Kenya Poverty and Inequality Assessment", Volume 1, World Bank, Washington DC.
[14] Kenya Demographic and Health Survey 2008.

B. The Institutional Climate for Gender

1. The overall policy and legal context

14. **The Government of Kenya (GoK) has institutionalized gender mainstreaming as a key strategy for achieving equitable national development.** The Ministry of Gender, Children and Social Development is mandated to facilitate the process of mainstreaming gender by building the capacities of all government ministries and State Corporations. In the process of mainstreaming gender within the government structure, the GoK has encountered some key challenges such as inadequate financing for gender activities, a lack of gender- sensitive budgeting processes, and inadequate staff capacity.

15. **The government has also lent its support to gender issues through various policies and initiatives.** In 2012, the GoK finalized and validated the National Affirmative Action Policy to guide the implementation of the gender equality principles as enshrined in the Constitution. Other significant policies include: the abolition of user fees in all public maternity hospitals and clinics; Article 7 (2) of the Political Parties Act (2011), which stipulates that not more than two-thirds of a political party's governing body can be of the same gender; the Children's Act 2001 and government declaration in 2003 that ushered in free primary education; and the development of a National Gender-Based Violence Policy (though enforcement of the laws relating to GBV remains an issue). Some significant initiatives from the government include: the Youth Enterprise Fund, established in 2006, which aims to tackle youth unemployment, with a focus on gender; and the Women Enterprise Fund (WEF), which was set up by the GoK in 2007 to provide accessible and affordable credit to support women to start or expand businesses.

2. The Constitution

16. **The adoption of a new Constitution by Kenya in 2010 was a major step forward on women's rights.** Women and men now formally have the right to equal treatment and opportunities in political, economic, cultural and social spheres without discrimination.

17. **The Constitution provides that not more than two-thirds of the members of elective public bodies shall be of the same sex (including at the county level), and calls on political parties to respect gender equity.** The fact that the two-thirds rule applies to the county level is particularly relevant in the current context of decentralization. As a result of advocacy and sensitization campaigns related to the two-thirds rule, there has been an increase in the participation of women as voters and candidates. More women have been elected or nominated into the National Assembly, Senate and County Assemblies.

18. **The constitution also provides for numerous other rights for women, including those related to citizenship, marriage/divorce, land, and public service opportunities. However, there is still much progress to be made in ensuring that women are able to realize these rights in practice.** Kenyan women are now able to pass on citizenship to their children regardless of whether or not they are married to Kenyans. Both parties to a marriage are now entitled to equal rights at the time of marriage, during the marriage and at the dissolution of the marriage. Parental responsibility for children—as it is laid out in the constitution--is now shared between both parents regardless of marital status. The constitution also prohibits sex discrimination in law, customs and practices related to land and property in land, and provides

for the protection of matrimonial property with special interest on the matrimonial home during and upon the termination of marriage. Finally, the constitution provides for equal opportunities for the appointment, training and advancement for men and women at all levels of public service.

C. What the World Bank is Doing on Gender

19. **The World Bank is committed to increasing the focus on gender issues in its work and is measuring this through gender-related indicators and targets in IDA16, for which gender equality is a Special Theme.** This includes a target of 60 percent of country portfolio activities to be gender-informed, and a target of 100 percent of CPSs to draw on the findings of a gender assessment (a requirement already established in OP4.20). Integrating gender into the CPS, particularly into the Results Framework, will allow the Bank to: (1) ensure clarity of purpose in the overall gender-related objectives of the country portfolio; (2) ensure alignment with the priorities of the Government of Kenya; (3) highlight progress; and (4) ensure effective accountability of the CMU for achieving such progress.

20. **In order to assist with the effective integration of gender into the CPS, a gender portfolio review was undertaken by the CMU, with support from the Africa Region Gender Practice. This review** provides an assessment of the coverage of gender work in the current portfolio, with a focus on the integration of gender in project analysis, actions, and M&E, as outlined in project preparation documents.

21. **The main focus of the gender portfolio review is the portfolio of 25 active and pipeline IDA projects – the review finds that 19 out of these 25 projects (76 percent) are gender-informed.** The current portfolio is supporting a wide range of gender-related outcomes, including: women's decision-making capacity at community and project levels; women's access to financial resources; rural women's income generation and agricultural productivity; female youth employment opportunities; women's access to land and sustainable land management capacity; access to basic infrastructure of importance to key gender issues (water, sanitation, health); women's vulnerability to HIV/AIDS; maternal health; and women's access to justice.

22. **The World Bank's Kenya portfolio includes some gender-informed work that provides good opportunities for leveraging the current development and political context of the country.** The focus on female youth in the Youth Empowerment Project could enable the country to leverage the skills of women and take advantage of the demographic dividend, with over 40 percent of Kenya's population estimated to be under 15 years of age. The Bank's portfolio also presents opportunities for ensuring that the current process of devolution is gender informed: several projects include measures to involve women in project and community level decision-making, and the Accountable Devolution project will allow the team to track changes in men's and women's perceptions of governance, as the devolution process unfolds.

23. **The Bank's coverage of gender in ESW work is low, with some missed opportunities that should be addressed in the body of work being planned for the coming period.** The team should ensure that it generates sufficient gender knowledge to prioritize the most suitable investments in gender given the situation on the ground—and to find ways to mainstream gender in the most suitable way in pipeline interventions. There are some good examples of gender-informed knowledge work being undertaken through other products: the Youth Empowerment Project plans to conduct a gender-sensitive impact evaluation, which will provide valuable

knowledge on the effectiveness of interventions to improve young women's entry into the labor market; and the Gender Policy Note, 'Tapping the Potential of Farming in Kenya' (2013), contributes to the knowledge base on gender differences in agriculture and access to inputs. In addition, there are some good examples of knowledge being generated within projects. For example, the Kenya Agricultural Productivity and Agribusiness Project will contribute to a sector gender policy, and the Petroleum Technical Assistance Project (P145234) plans a sector gender analysis, which would be highly appropriate given the burgeoning oil sector.

24. **The team may want to consider producing a new Kenya Country Gender Assessment or to include gender as part of a joint Poverty and Gender Assessment.** The current CPS is informed by numerous gender diagnostics and an extensive assessment of recent literature and statistics on gender that was carried out as an additional component of the gender portfolio review. However, the most recent examples of country gender diagnostics are fairly old and predate the new constitution: e.g. from 2003 (World Bank Country Gender Assessment), 2007 (AfDB Country Gender Profile), and 2008 (World Bank Poverty and Inequality Assessment)[15]. For the team to ensure compliance with OP 4.20, the CPS needs to integrate the findings of one of the existing gender diagnostics into the CPS—it can be produced by the Bank or another agency, as long as it is explicitly referenced as feeding into the CPS. If an assessment cannot be undertaken by the Bank or another institution within this CPS preparation period, this should be mentioned in the CPS along with a timeline for when a gender assessment will be undertaken. Senior Management is now reviewing all CPSs, preventing any from going to the Board of Executive Directors unless it is in compliance with OP4.20. Finally, the team could use impact evaluations to generate knowledge on the effectiveness of specific interventions, allowing the team to adjust its approach to certain gender issues as it moves forward. In this regard, the team may want to consult with the Gender Innovation Lab of the Africa Region Gender Practice, which specializes in designing rigorous impact evaluations focused on key gender policy questions.

25. **There are a few sectors in which the team may consider expanding their focus, with particular attention to gender.** Despite continuing gender gaps, the team does not have any operations in the education sector. However, increasing the attention to gender in the integrated education database EFO could serve as a good analytical starting point to inform any future gender-informed re-engagement in the education sector. Given the increasing importance of the oil industry to the Kenyan economy, the team could also consider using the sector gender analysis planned for the Petroleum Technical Assistance Project as an opportunity to develop a gender-informed oil operation. Given the relative competitiveness of Kenya's ICT sector, the country team could also consider increasing attention to gender in the KTCIP. Not only could the sector contribute to female employment, but internet connectivity and e-government applications could have particular implications for women, given their generally lower geographical mobility (due to personal safety, culture, access to private transport) and greater time-poverty (due to unequal domestic responsibilities). In the context of the new constitution, the team could carry out analytical work to examine the obstacles preventing women from realizing their rights in practice.

D. Moving Forward: A Strategy for the World Bank

[15] Since reviewing the recommendations of the gender portfolio review, the team has decided to undertake a Joint Poverty and Gender Assessment in FY14, which will provide more up-to-date analytical underpinnings for upcoming gender activities.

26. **With the exception of the lack of a recent country gender assessment and the low levels of gender-informed ESW, the country portfolio is looking strong on gender, with projects having met and exceeded the gender targets related to IDA16 (e.g. 60% or projects rated gender-informed and 100 percent of the CPSs).** This CPS process is a good opportunity to put the program ahead of the curve on coming gender commitments associated with the IDA17 replenishment.

27. **Gender will be made a special theme again for IDA17 when replenishment negotiations conclude in December 2013, leading to additional targets and monitoring on gender in the IDA portfolio.** In particular, while design-stage integration of gender in the portfolio is now good in most IDA countries, we are performing poorly in follow-up: supervision reports and completion reports more often than not fail to report on any gender-relevant outcomes. While the precise targets are yet to be finalized, Senior Management has stressed the importance of moving beyond a focus on gender analysis and project design, to establish and pursue ambitious and time-bound targets, effectively tracking results and outcomes. There will also be a stronger emphasis on gender in supervision and completion. IDA CPSs are likely to be required to be gender-informed in all three of the dimensions tracked: drawing on previous analysis (a country gender assessment), in the proposed actions (in the results matrix), and in the monitoring indicators and evaluation efforts.

Box 1. IFC's support to mainstreaming gender issues

The IFC portfolio includes the following gender-focused activities:

- An agribusiness and value chain diagnostic and gender tool kit will be used to mainstream gender in all IFC agribusiness activities aimed at improving the productivity of smallholder tea producers.
- The SME Banking Advisory program incorporates a gender component that aims to improve financial services provided to women by training bank staff and female customers and supporting the development of specific products aimed at women.
- Numerous gender-relevant activities in the health sector:
- The Health in Africa Initiative (HiA) recently completed a gender assessment of the private health sector in 6 countries to document the disparities that prevent the equitable participation of men, women and youth in the sector. HiA has also supported the development of the health bill, which seeks to ensure a level playing field for men and women health practitioners.
- Under the African Health Markets for Equity program, the IFC is seeking to reform National Hospital Insurance Fund regulation that does not allow nurse-owned/run clinics to be part of its accredited facilities (the majority of nurses in Kenya are female).
- The IFC is currently rolling out a health insurance subsidy program targeting the poorest people who cannot afford to pay insurance premiums.
- The Lighting Africa program includes a focus on inclusive business models that will integrate women's groups into the supply chain of off-grid lighting products in the rural market. The program is also engaging these groups to adopt modern off-grid technologies that will help women to undertake more income generating activities that are today restricted to the day time.
- Activities supporting clean cooking (planed for Q3 &4 FY14) will provide women with entrepreneurship training, consumer education, and the integration of women into supply chains.

Annex 13: Client and Stakeholder Views

1. **In formulating the FY14-FY18 CPS, the Bank Group has drawn from relevant sources. Extensive consultations involved stakeholders in government, the private sector, development partners, NGOs, women's groups, the Association of County Governors, and 24 out of 47 new counties in Kenya.** Key insights are summarized in the boxes below.

2. **A wider group of the Bank's stakeholders were also invited to provide their feedback and insights through the latest client survey undertaken in 2012.** Their responses raised a number of important questions and issues. These include the following issues and challenges (together with page references from the Client Survey) for the country team:

3. **WBG efficiency:** According to stakeholders, the Bank's greatest value lies in its financial resources. 53% of all respondents took this position in the 2012 survey (and 61% in the 2005 survey). Yet stakeholders rate its ability to disburse promptly very low. Given the fundamental importance of the Bank's financial resources to its clients, and the relatively low level of satisfaction among respondents with respect to speed of disbursement, the challenge for the Bank is to continue to search for ways of increasing the efficiency of disbursement.

4. **Sectors:** Agriculture, education, and job creation are the top three sectors for poverty reduction and growth according to stakeholders; yet in some respects, for reasons discussed above in this CPSCR (see Annex 2), the Bank has struggled to have an impact in these sectors during FY10-13. In agriculture, the challenges lie particularly in the overall policy and regulatory framework, transport, access, and storage. In education, the Bank's experience has been traumatic with the suspension of its flagship education project as a result of financial irregularities. Job creation was also a theme that was emphasized in the July 2013 Nairobi CPS workshop by external speakers. Nearly 80% of Kenya's population is 35 years old or less while young people aged between 18 and 34 comprise a third of the population. Population growth has outpaced economic growth and the unemployment rate among young people is 12.7% or twice the national average. Yet this is the sector where stakeholders rate the Bank second lowest.

5. **Cross-cutting issues:** External speakers at the July CPS workshop in Nairobi emphasized the importance of addressing the position of women. Respondents were asked the question 'which three areas of development would contribute most to reducing poverty in Kenya'? Just 2% of respondents cited gender, 3% environmental sustainability and 4% natural resource management.

6. **Financial resources:** According to stakeholders the Bank should be playing a very significant role in Kenya's development by providing financial resources, or the Bank's most important asset.

7. **Stimulating debate:** The technical quality of the Bank's knowledge products is very high according to stakeholders. However, the Bank's role in stimulating public debate and dialogue, according to the same stakeholders, is very low.

8. **Outreach:** 70% of respondents receive most of their information on economic and social development from local newspapers. This has raised questions about whether the Bank's presence in the papers should be increased. The Bank's public information services are rated very highly by those that use them, but more should be done to build on this.

National Government

- Scale up public and PPP investments in infrastructure especially in transport, energy and water & sanitation to support competitiveness.
- Support private sector development through policies to build a competitive manufacturing sector, strengthen Kenya's export base and diversify the economy.
- Balance project expectations and Bank safeguards to remove constraints to effective project implementation.
- Support opportunities for youth empowerment through education, entrepreneurship training, agribusiness and rural development to increase job opportunities and reduce inequalities.
- Build capacity at the County level on budgeting, governance and accountability in use of resources.
- Assist Counties in spatial planning, urban development and housing to build livable cities and reduce informal settlements.
- Be more selective and focused; increase support for high priority project and be more focused on being a solutions Bank.

County Governments

- Finance key infrastructure including feeder roads, rural electricity and water & sanitation to make counties more competitive.
- Help the counties in spatial planning to facilitate development of well-planned regional urban centers for growth and job creation.
- Enhance water security by investing in water resources and protection of catchment areas.
- Support counties in revival and rehabilitation of drivers of growth including agriculture, cottage and sugar industries to increase rural incomes, reduce poverty, increase jobs for the youth and reduce inequalities.
- Improve tertiary education institutions, health, and jobs creation for youth.
- Increase access to affordable credit to youth and women.
- For arid and semi-arid areas, invest in food security, irrigation and livestock development programs and markets to reduce poverty and vulnerability, and improve livelihoods.
- Support capacity building of county authorities in financial management and procurement.

Civil Society Organizations, including Women Groups

- Invest in domestic and industrial water and sanitation infrastructure. Invest in ICT infrastructure in rural areas to increase youth employment opportunities and reduce rural-urban migration.
- Invest more in irrigation and agriculture to improve food security, especially in arid and semi-arid areas. Educate farmers on value chains and marketing, and empower rural communities to create jobs through innovation.
- Help the poor and vulnerable through social protection and security programs.
- Empower women in informal settlements through health, access to water and sanitation.
- Support establishment of detailed gender based information database for planning, development and policy implementation.
- Develop partnerships with SMEs to support and empower women at the bottom of the pyramid.
- Support maternal health programs in arid and semi-arid areas to help reduce maternal and child mortality.
- Engage youth in training and programs for entrepreneurship skills.
- Help rural and urban health centers integrate health provision services e.g. vaccination, HIV/AIDs and ante-natal care.
- Assist Kenya Revenue Authority to close tax loopholes and minimize tax evasion.
- Work with anti-corruption agencies to fight graft, which is destroying the economic growth potential and social fabric.

Private Sector

- Continue and expand investments in critical economic infrastructure including transport, energy and water & sanitation to enhance Kenya's national and regional competitiveness.
- Pursue a business-friendly tax regime and avoid new or distortionary taxes on firms that stifle profitability and growth
- Facilitate financial sector to become more liquid to increase affordable credit to the private sector, especially SMEs.
- Ensure Doing Business gains achieved by national government, such as single business permit, are not disrupted by devolution.
- Place greater emphasis on innovation, skills enhancement, and productivity.
- Support youth and micro and small enterprise development through vocational training programs.
- Attract private investors especially in science, technology and operations research and support PPPs between universities and industry to develop marketable skills for unemployed youth.
- Improve value chains in agriculture and manufacturing to enhance food security and increase exports.
- Help shape implementation of devolved governance through dialogue and capacity building especially in procurement and financial management.

Development Partners

- The strategy is consistent and complementary to what other development partners members are doing
- Work with partners to ensure selectivity and avoid duplication
- Work with other DPs to coordinate support in energy
- Coordinate with DPs to support the roads sector
- Work with the government to improve the ease of doing business to support the private sector
- Poverty and inequality remains a challenge. Ensure that the new CPS addresses them adequately
- Assist the government to ensure that devolution work
- Governance is remains a concern both to Development partners and Kenyans

Annex 14: Donor Harmonization Matrix

Donor Partner	Agriculture, Rural and Urban Development	General Economics and Commercial Affairs	Energy, Infrastructure and ICT	Environmental Protection, Water and Natural Resources	Health	Education	Governance, Justice, Law and Order	Public Administration and International Relations	Social Protection, Culture, and Recreation	National Security
Abhu Dhabi (ADF)			x							
African Development Bank (AfDB)	x		x	x		x		x		
Arab Bank for Economic Development in Africa (BADEA)	x		x	x	x					
Belgium (BTC)			x			x				
China			x			x		x		
Denmark				x	x		x	x		
European Development Fund (EDF)	x	x	x	x			x	x		
European Investment Bank			x							
Finland (FINDA)				x				x		
Food and Agricultural Organization (FAO)	x									
France (AFD)	x		x	x				x		
Germany (GIZ)	x			x			x	x		
Germany (KFW)	x			x	x			x		

External Partner	Agriculture, Rural and Urban Development	General Economics and Commercial Affairs	Energy, Infrastructure and ICT	Environmental Protection, Water and Natural Resources	Health	Education	Governance, Justice, Law and Order	Public Administration and International Relations	Social Protection, Culture, and Recreation	National Security
GEF	x			x						
Global Fund					x			x		
India			x							
International Fund for Agricultural Development (IFAD)	x							x		
Italy				x				x		
Japan (JICA)	x		x	x						
Kuwait (KFAD)	x		x		x	x				
Netherlands						x				
Organization of Petroleum Exporting Countries (OPEC)	x		x	x	x					
Saudi Arabia (SFD)			x		x					
South Korea (KICA)									x	
Spain (AECID)			x							
Sweden (SIDA)	x						x	x		
United Kingdom (DfID)		x	x					x		
United Nations (UNDP)	x	x		x			x	x		
United Nations (UNEP)				x						
United Nations (UNFPA)					x			x		
United Nations (UNICEF)			x	x	x	x		x	x	
United Nations (UNIDO)		x		x						

External Partner	Agriculture, Rural and Urban Development	General Economics and Commercial Affairs	Energy, Infrastructure and ICT	Environmental Protection, Water and Natural Resources	Health	Education	Governance, Justice, Law and Order	Public Administration and International Relations	Social Protection, Culture, and Recreation	National Security
United States (USAID)	x				x	x		x	x	
World Bank (IDA)	x		x	x	x		x	x	x	
World Food Programme (WFP)						x		x		

Annex 15: Dynamic selectivity at the strategic and programmatic levels

Our CPS is selective since it is critical we deploy the Bank Group's limited resources in the most effective way possible. How is this selectivity conveyed and implemented? It will be done at two levels.

At the primary level, our domains of engagement quite deliberately focus on some clusters of activity while downplaying or excluding others. Let us illustrate by taking the first domain—competitiveness and sustainability. Given that the diagnostic review has identified that key infrastructure gaps—notably in power, water, and transport—are constraining growth, then these themes are clearly candidates for continuing engagement. Yet even here we will exercise selectivity in resource use as between the arms of the Bank Group. As a guide, when IFC and MIGA can be arranged to leverage private sector finance (e.g. in power) then IDA resources will be used to a lesser extent, and conversely where the conditions are currently less conducive to private finance (e.g. in the water sector) relatively more IDA resources will be allocated when economically justified.

Our analysis also shows that some sub-sectors of the economy are more likely than others to drive rapid growth. For example low-level manufacturing and other domestically focused industries are not priorities in the CPS. In contrast IFC aims to continue and perhaps expand its investments in agribusiness and the financial sector (both of which are regionally significant and improve Kenya's trade position); and both the Bank and IFC expect to provide some support to the nascent oil and gas industry which has immense prospects to support medium term growth. We are also not prioritizing tourism for our investment—since private capital has a long and relatively successful track record here.

This all makes sense but some may ask why are the domains of engagement broad? Are they sharp enough to instil true selectivity? One has to recognize that given Kenya's stage of development—where the needs are huge and there are a great many binding constraints, many or indeed most of which cannot be systematically ranked—it is not sensible to pretend we know only three or so actions are needed to deliver on the fight against poverty. Further, while the Bank Group resources are limited, we should not box ourselves in so tightly that we then fail to capitalize on the depth of expertise we have through our different tools—for example IFC finance where IDA is not a priority; analytical work where money is not the problem; making connections with other partners (including South-South). Hence it is appropriate to have the domains of engagement we have selected, while recognizing that they provide only one stage of selectivity.

Pillar	Kenya Medium Term Plan 2013-2017
Foundations for National Transformation	Infrastructure
	Energy
	Information, Communication and Technology
	Science, Technology, and Innovation
	Land Reforms
	Public Sector Reforms
	Human Resource Development, Labor, and Employment
	Security, Peace Building and Conflict Resolution
	National values and Ethics
	Disaster Risk Reduction and Ending Drought Emergencies
Social	Education and Training
	Health
	Environment, Water and Sanitation
	Population, Urbanization and Housing
	Gender, Youth, and Vulnerable Groups
Economic	Tourism
	Agriculture and Rural Development
	Trade
	Manufacturing
	Business Process Outsourcing and IT enabled services
	Financial Services
	Oil and other mineral resources
P olitical	Devolution
	Governance and the Rule of Law

WBG Domains of Engagement	Kenya Medium Term Plan 2013-2017
Competitiveness and Sustainability	Infrastructure
	Agriculture and Rural Development
Protection and Potential	Human Resource Development, Labor, and Employment
	Disaster Risk Reduction and Ending Drought Emergencies
	Health
	Environment, Water and Sanitation
	Population, Urbanization, and Housing
	Gender, youth and vulnerable groups
Building Consistency and Equity	Devolution
Garnering Good Governance	Governance and the Rule of Law

Hence at the next level, to be more incisive in our choices and to do that in an adaptable way over time (what some have termed "dynamic selectivity"), our new approach we will forge any new activity—especially investment operations—against a four-pronged benchmark, to ensure it is genuinely where we should deploy our scare resources and where there are reasonable prospects of success.

This is not a mechanistic exercise and will call for professional judgment but the process can be made disciplined with a simple checklist that teams can utilize as project concept and preparation is undertaken. The template is being developed and is shaped as follows. The "4C" test is specifically:

C1: Confirming a credible line of sight

- Does the investment directly target the poor (which in Kenya's case cover the bottom 40 percent) and can this be measured?
- If not, is there a plausible causal chain, even if long term, and what sensible intermediate indicators can be deployed?
- Is there evidence to show the expected economic benefit is acceptable, and ideally higher than other comparable interventions?
- Will this activity directly create jobs (especially relevant for some IFC deals) and/or help poor beneficiaries including women (for whom the alleviation of specific constraints would be identified)?

C2: Critically reviewing our capability and comparative advantage

- How many donors or other financiers are involved in this sector and what added value does the Bank bring?
- Does the Bank Group (globally) have an established track record in this area (and how is that demonstrated in IEG and other evidence)?
- Do we have an experienced team and TTL that will be deployed, and have the requisite expertise that might be needed not just in the specialist discipline but also in fiduciary and safeguards?

C3: Cementing client ownership

- Is there a forceful, meaningful and formal Government request from the relevant line Ministry(s)—with evidence of support from the Minister and the PS?
- Is there the same from the Treasury—CS and PS?
- Is the project explicitly identified in key Government planning documents—MTP2?
- Is there a review (including political economy assessment) of any resistance to the proposal?

C4: Calibrating client capacity

- Is there a track record of adequate client capacity in the line Ministry?
- Are there credible procurement and financial management resources and expertise?
- Are there integrity and corruption concerns and how will they be managed?
- Where there are gaps in the above, how tenable is it that they can be addressed, including being built and deployed through the project itself?

Not every proposal will have a "perfect score" against these four benchmarks but by testing in a rigorous way, management can more credibly make the difficult trade-offs.

✓ AGRICULTURE AND RURAL DEVELOPMENT

Critically reviewing our capability and comparative advantage

- How many donors or other financiers are involved in this sector and what added value does the Bank bring?
- ✓ Does the Bank Group (globally) have an established track record in this area (and how is that demonstrated in IEG and other evidence)?
- ✓ Do we have an experienced team and TTL that will be deployed, and have the requisite expertise that might be needed not just in the specialist discipline but also in fiduciary and safeguards?

Confirming a credible line of sight

- ✓ Does the investment directly target the poor (which in Kenya's case cover the bottom 40 percent) and can this be measured?
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Calibrating client capacity

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- ☐ Are there credible procurement and financial management resources and expertise?
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- ✓ Where there are gaps in the above, how tenable is it that they can be addressed, including being built and deployed through the project itself?

Cementing client ownership

- ✓ Is there a forceful, meaningful and formal Government request from the relevant line Ministry(s)—with evidence of support from the Minister and the PS?
- ☐ Is there the same from the Treasury—CS and PS?
- ✓ Is the project explicitly identified in key Government planning documents—MTP2?
- ☐ Is there a review (including political economy assessment) of any resistance to the proposal?

NATURAL RESOURCE MANAGEMENT

Critically reviewing our capability and comparative advantage

- ✓ How many donors or other financiers are involved in this sector and what added value does the Bank bring?
- Does the Bank Group (globally) have an established track record in this area (and how is that demonstrated in IEG and other evidence)?
- Do we have an experienced team and TTL that will be deployed, and have the requisite expertise that might be needed not just in the specialist discipline but also in fiduciary and safeguards?

Confirming a credible line of sight

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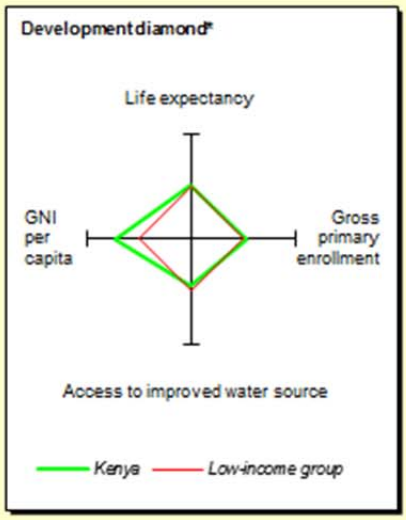
Annex 16: Kenya at a glance

Kenya at a glance

3/15/14

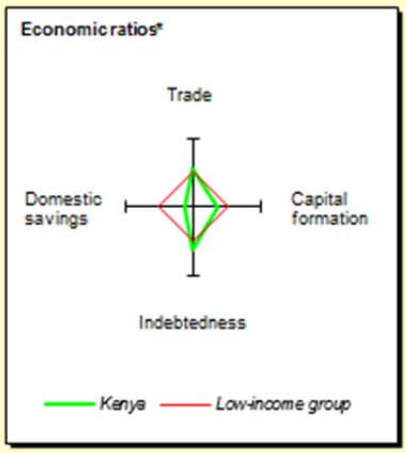
POVERTY and SOCIAL	Kenya	Sub-Saharan Africa	Low-income
2012			
Population, mid-year *(millions)*	43.2	911	846
GNI per capita *(Atlas method, US$)*	860	1,350	590
GNI *(Atlas method, US$ billions)*	37.2	1,230	499
Average annual growth, 2006-12			
Population *(%)*	2.7	2.7	2.2
Labor force *(%)*	3.2	2.9	2.6
Most recent estimate (latest year available, 2006-12)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	24	37	28
Life expectancy at birth *(years)*	61	56	62
Infant mortality *(per 1,000 live births)*	49	64	56
Child malnutrition *(% of children under 5)*	16	21	22
Access to an improved water source *(% of population)*	62	64	69
Literacy *(% of population age 15+)*	72	60	61
Gross primary enrollment *(% of school-age population)*	112	100	108
Male	113	104	111
Female	111	96	106



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

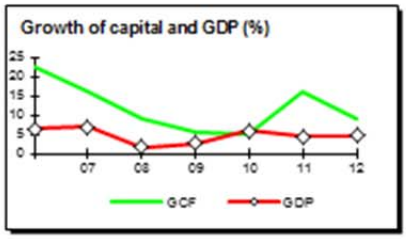
	1992	2002	2011	2012
GDP *(US$ billions)*	8.2	13.1	33.6	40.7
Gross capital formation/GDP	16.9	15.1	21.2	20.1
Exports of goods and services/GDP	26.3	24.9	29.1	27.3
Gross domestic savings/GDP	16.5	9.8	4.3	2.9
Gross national savings/GDP	15.6	13.2	13.5	8.6
Current account balance/GDP	-1.3	-1.9	..	..
Interest payments/GDP	3.2	0.9	0.4	0.5
Total debt/GDP	84.0	47.0	30.6	28.4
Total debt service/exports	30.9	16.1	4.3	5.2
Present value of debt/GDP	..	..	..	19.2
Present value of debt/exports	..	..	..	71.7

	1992-02	2002-12	2011	2012	2012-16
(average annual growth)					
GDP	2.4	4.7	4.4	4.6	5.9
GDP per capita	-0.3	1.9	1.6	1.8	3.1
Exports of goods and services	0.5	5.9	6.7	4.4	9.7

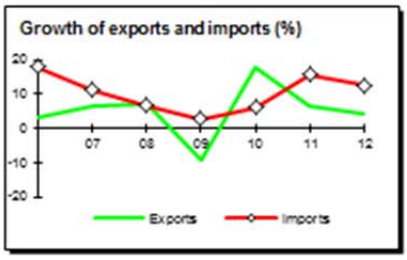


STRUCTURE of the ECONOMY

	1992	2002	2011	2012
(% of GDP)				
Agriculture	28.7	29.1	28.5	29.9
Industry	18.4	17.4	17.6	17.4
Manufacturing	10.8	11.1	11.0	10.4
Services	52.9	53.5	53.9	52.7
Household final consumption expenditure	67.8	73.2	77.7	79.9
General gov't final consumption expenditure	15.7	17.1	18.0	17.2
Imports of goods and services	26.7	30.3	46.0	44.5



	1992-02	2002-12	2011	2012
(average annual growth)				
Agriculture	3.4	1.9	1.6	3.8
Industry	1.2	4.7	2.8	4.5
Manufacturing	0.6	4.3	3.3	3.2
Services	2.7	5.2	5.1	4.7
Household final consumption expenditure	4.1	5.2	4.7	8.5
General gov't final consumption expenditure	4.0	3.7	10.6	1.3
Gross capital formation	7.4	11.6	16.1	9.0
Imports of goods and services	7.8	10.0	15.6	12.5

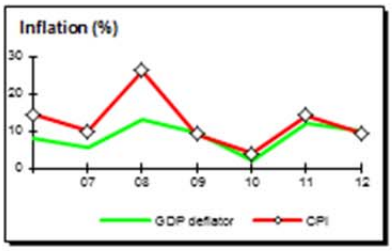


Note: This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

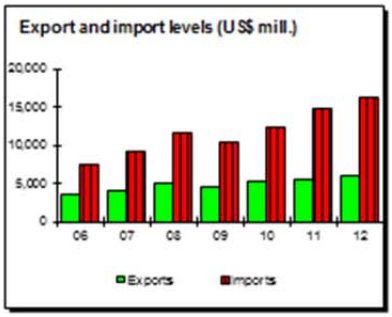
PRICES and GOVERNMENT FINANCE

	1992	2002	2011	2012
Domestic prices				
(% change)				
Consumer prices	27.3	2.0	14.0	9.4
Implicit GDP deflator	18.9	0.9	12.1	10.1
Government finance				
(% of GDP, includes current grants)				
Current revenue	27.9	21.2	23.9	24.0
Current budget balance	2.4	-5.0	2.5	3.4
Overall surplus/deficit	-1.3	6.8	-3.7	-2.8



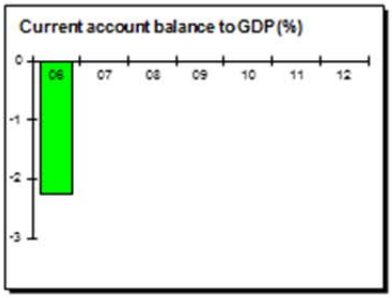
TRADE

	1992	2002	2011	2012
(US$ millions)				
Total exports (fob)	1,013	2,162	5,478	5,899
Petroleum	69	54	113	132
Coffee	128	84	266	294
Manufactures	220	194	715	793
Total imports (cif)	1,866	3,319	14,665	16,100
Food	57	146	655	707
Fuel and energy	412	764	2,857	3,086
Capital goods	411	754	5,361	6,019
Export price index *(2000=100)*	39	106	209	217
Import price index *(2000=100)*	42	115	201	205
Terms of trade *(2000=100)*	95	92	104	106



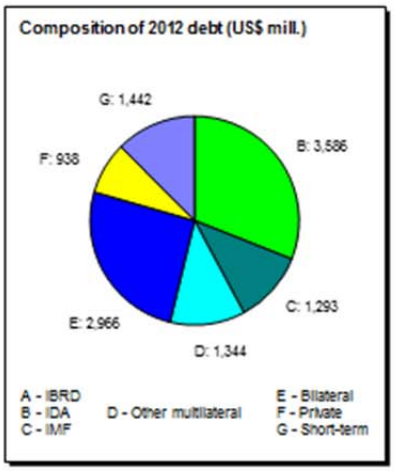
BALANCE of PAYMENTS

	1992	2002	2011	2012
(US$ millions)				
Exports of goods and services	2,159	3,274	9,907	10,795
Imports of goods and services	2,193	3,981	16,347	17,688
Resource balance	-34	-707	-6,440	-6,893
Net income	-355	-122	..	..
Net current transfers	282	577	3,102	2,504
Current account balance	-106	-252	..	..
Financing items (net)	187	273	..	..
Changes in net reserves	-81	-22	-246	-1,454
Memo:				
Reserves including gold *(US$ millions)*	80	1,068	4,265	5,712
Conversion rate *(DEC, local/US$)*	32.2	78.7	88.8	84.5



EXTERNAL DEBT and RESOURCE FLOWS

	1992	2002	2011	2012
(US$ millions)				
Total debt outstanding and disbursed	6,898	6,177	10,287	11,569
IBRD	656	13	0	0
IDA	1,411	2,447	3,388	3,586
Total debt service	670	531	437	569
IBRD	159	13	0	0
IDA	16	60	129	133
Composition of net resource flows				
Official grants	378	239	1,597	1,871
Official creditors	154	56	560	675
Private creditors	19	-67	17	668
Foreign direct investment (net inflows)	6	28	335	259
Portfolio equity (net inflows)	0	3	20	26
World Bank program				
Commitments	176	1	485	1,612
Disbursements	92	66	268	300
Principal repayments	104	54	103	107
Net flows	-12	12	165	193
Interest payments	71	19	26	25
Net transfers	-83	-7	139	167



Note: This table was produced from the Development Economics LDB database. 3/15/14

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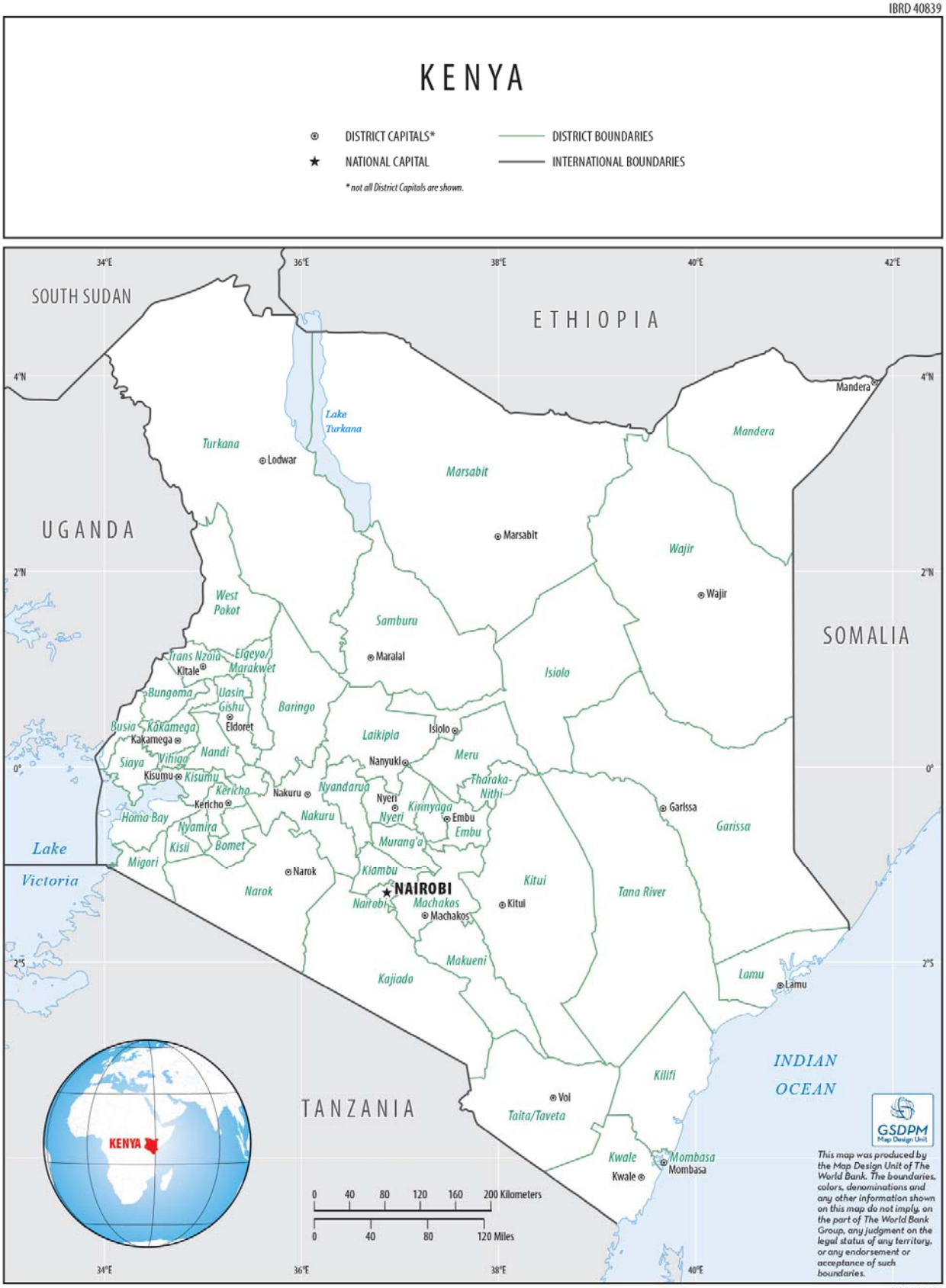

MARCH 2014