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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 29-Jan-2026 | Report No: PIDIA01593

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BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Kenya	EASTERN AND SOUTHERN AFRICA	P513352	Kenya Housing Finance, Land Administration & Sustainable Investments
Financing Instrument	**Estimated Appraisal Date**	**Estimated Approval Date**	**Practice Area (Lead)**
Investment Project Financing (IPF)	19-Jan-2026	19-Mar-2026	Finance, Competitiveness and Innovation
Borrower(s)	**Implementing Agency**		
The National Treasury	Kenya Mortgage Refinance Company, State Department for Lands and Physical Planning, The National Treasury		

Proposed Development Objective(s)

The objective of the project is to expand access to affordable housing finance to underserved beneficiaries and support Kenya's commitments on environment and energy access, effectively contributing to job creation.

Components

Support to KMRC: Line of Credit for Mortgage Refinancing
Land Administration Reforms to Accelerate Affordable Housing
Sustainable Financing Instruments
Technical Assistance and Project Management

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	No

SUMMARY

Total Operation Cost	**910.32**
Total Financing	**910.32**

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of which IBRD/IDA	**475.00**
Financing Gap	**0.00**

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	125.00
International Development Association (IDA)	350.00
IDA Credit	168.00
IDA Shorter Maturity Loan (SML)	182.00

Non-World Bank Group Financing

Other Sources	75.00
OPEC FUND	75.00
Commercial Financing	360.00
Unguaranteed Commercial Financing	360.00
Counterpart Funding	0.32
Borrower/Recipient	0.32

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Environmental And Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Kenya faces an acute and widening affordable housing shortage shaped by rapid demographic change and uneven economic gains**. The population reached 56.4 million in 2024, and urbanization is growing at 4.3–4.4 percent

annually, with urban residents projected to exceed 20 million by 20301. Household formation is expanding at 3.1 percent per year, expected to reach 15.9 million households by 2030. Economic activity remains resilient, with GDP growing 4.9 percent in Q1 2025. However, poverty reduction has slowed, and urbanization has intensified.

2. **This growing demand for affordable housing is compounded by structural weaknesses in the housing market and constrained fiscal space, limiting investment and delivery.** Kenya's fiscal position is tight— with public debt at 68.8 percent of GDP in FY2024/25 and debt service absorbing over 70 percent of revenues, reducing room for development spending[2.] Interest payments rose from 2.7 percent of GDP in FY2014/15 to 5.6 percent in FY2024/25. The fiscal deficit reached 5.8 percent of GDP in FY2024/25, above target, and is projected at 4.8 percent in FY2025/26. Domestic borrowing pressures have tightened liquidity and constrained private sector credit, while pending bills totaling KShs 183 billion at national and county levels continue to strain construction value chains[3]. At the same time, inflation moderated to 4.5 percent in August 2025, foreign exchange reserves strengthened to US$10.9 billion (4.8 months of import cover), and remittances grew by 12.1 percent, contributing to gradual macro-financial stabilization[4].

3. **Amid these constraints, Kenya's housing sector remains a critical driver of jobs and economic transformation, with strong backward and forward linkages across the economy.** Construction and housing are priorities under the Kenyan government's Bottom-Up Economic Transformation Agenda (BETA) due to high jobs multipliers in the sector. Beyond immediate job creation, scaling affordable housing also supports MSME growth in construction materials and services, enhances urban productivity, and improves inclusion by expanding access to formal housing finance—all key objectives at the core of Kenya's jobs agenda.

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Sectoral and Institutional Context

4. The housing deficit, now over 2 million units, continues to widen, with demand growing by about 250,000 households annually. New supply has averaged fewer than 50,000 units per year, fueling the growth of informal settlements, where 62 percent of urban residents now reside. Affordability is the primary constraint — the typical cost of a formal unit in Nairobi is around US$28,000, well above what median households can afford. About 75 percent of formal workers earn below KES 50,000 per month, putting conventional mortgages out of reach at prevailing rates and terms. The mortgage market remains small relative to demand. In 2024, outstanding mortgages totaled KES 279.3 billion, up from KES 232.7 billion in 2020 but spread across only 30,016 accounts—implying a mortgage-to-GDP ratio of 1.7 percent[5]. Average interest rates remain close to 14 percent, and tenors are modest, despite some improvements to housing loan maturities. Non-performing loans are rising, highlighting underlying credit risks, while private credit contracted in 2024 as liquidity tightened. These conditions reinforce the exclusion of most households, particularly those in informal or vulnerable employment, from formal housing finance.

5. However, institutional reforms supported by World Bank under the Kenya Affordable Housing Finance Project (closed on June 30, 2025) are strengthening market infrastructure and expanding access to housing finance. The Kenya

1 World Bank Group. (2025). Kenya economic update #31. Washington, DC: World Bank Group and
Kenya National Bureau of Statistics. (2024). 2023/24 Kenya Housing Survey: Basic Report [Internal report]. Nairobi, Kenya.
[2] World Bank Macro Poverty Outlook, 2025
[3] National Treasury (2025). Budget Review and Outlook Paper.
[4] Central Bank of Kenya (2025). Monthly Economic Indicators
[5] https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/167301042_2024%20Annual%20Report.pdf

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Mortgage Refinance Company (KMRC) expanded refinancing and improved affordability while advancing gender inclusion and strengthening the role of non-bank lenders in affordable housing finance. Structured as a public–private partnership with a diversified shareholder base, Government of Kenya (via National Treasury) holds 25 percent alongside eight commercial banks, one microfinance bank, eleven SACCOs, and two Development Finance Institutions (DFIs) (IFC and Shelter Afrique); IFC also provided a US$2 million equity investment to support capitalization and market confidence. To anchor sustainable market funding, KMRC launched a KES 10.5 billion Medium-Term Note (MTN) program and issued a debut KES 1.4 billion tranche in March 2022 that was heavily oversubscribed and listed on the Nairobi Securities Exchange, sending a strong signal of credibility to domestic institutional investors. Subsequent tranches, including a prospective green bond, were planned but were deferred due to the high-interest rate environment and regulatory guidance on ratings.

6. **Central to this eco-system of reforms, is the Affordable Housing Program (AHP), launched in 2017 by the Government of Kenya (GoK) which delivered about 13,529 affordable units in its initial phase**. Building on this, the Affordable Housing Act of 2024 introduced a 1.5 percent levy on gross salaries and incomes, matched by employers, to fund an Affordable Housing Fund. Regulations issued in 2025 set eligibility criteria, allocation rules, and tenant-purchase terms, with an announced target of one million units over five years. While the levy provides predictable sector financing, challenges remain around governance, targeting and fiscal equity, as there are still questions around accessibility of units to the poorest households.

7. **Transparent land administration and secure property rights also remain fundamental to scaling affordable housing delivery.** Land directly affects both the cost and location of housing supply. Access to well-located, serviced, and tenure-secure land enables the development of housing that is connected to jobs, infrastructure, and services, thereby enhancing livability and economic inclusion. In many urban contexts, constraints related to land availability, affordability, and administrative processes pose significant barriers to scaling affordable housing programs. The GoK has undertaken significant reforms to improve land administration and management. Despite progress, critical gaps persist in Kenya's land administration system that continue to impede affordable housing delivery.

8. **Innovative financing instruments offer Kenya an opportunity to mobilize resources for development and climate goals.** As part of the Medium-Term Debt Strategy and 2025/26 Annual Borrowing Plan, Kenya has committed to issuing sustainability-linked instruments aligned with its commitments to development outcomes. To pursue such instruments, GoK has developed a Sustainability-Linked Financing Framework that would govern future issuances of sustainability-linked loans and bonds. GoK is advancing plans to launch a sovereign sustainability-linked loan (SLL), aiming to strengthen fiscal resilience while fulfilling its development commitments, addressing deforestation and enhancing the quality of life in rural communities. This initiative is expected to catalyze the growth of local sustainable finance markets, inspiring private sector players—such as banks and mortgage companies—to issue their own green or sustainability-linked instruments.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

9. Expanding access to affordable housing finance to underserved beneficiaries and supporting Kenya's commitments on environment and energy access, effectively contributing to job creation.

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Key Results

10. The achievement of the PDO level results will be measured by the five indicators below:

- Number of affordable mortgage/ housing loans refinanced by KMRC
- Percentage of property sales transactions processed within the agreed service standard[6]
- People provided with access to electricity through new connections in rural areas (Number)
- Level of Carbon Dioxide Abatement (Metric tons/year)
- Number of direct and indirect jobs created via the project

D. Project Description

11. The Project will continue strengthening Kenya's housing market by directly addressing key demand and supply gaps. It will consist of four main components, leveraging performance-based conditions in component 2 to drive reforms and results:

12. **Component 1: Support to KMRC: Line of Credit for Mortgage Refinancing (US$210 million)**: This component will maintain a dedicated line of credit for mortgage refinancing while delivering additionality by expanding beyond traditional mortgage products. The project will explore innovative solutions to reach underserved market segments, including micro-loans, incremental mortgages, and green mortgages. In the immediate term, this credit line remains critical to bridging the current funding gap and supporting a gradual, sustainable transition toward market-based refinancing.

13. **Component 2: Support to land administration reforms to accelerate affordable housing (US$125 million)**: This component will support the State Department of Lands and Physical Planning (SDLPP) to accelerate reforms that make property registration faster, more affordable, and reliable—a critical prerequisite for mortgage market development. Building on KAHFP1, the component is structured into three subcomponents: *Subcomponent 2.1: Legal and Regulatory Reforms* will review, harmonize, and enact legislation to enable end-to-end digital land transactions, promote consistency across land statutes, and support stakeholder awareness, with Performance-Based Conditions incentivizing amendments to core laws such as the Land Registration Act, Survey Act, Land Control Act, and Sectional Titles Act. *Subcomponent 2.2: Digitization of Land Records* will digitize spatial and alpha-numeric land records in Nairobi metro area high-demand corridor whose digitization would support affordable housing. The focus is to integrate planning data layers, and upgrade the Kenya Geodetic Reference System, including modernizing the KENREF network and establishing Continuously Operating Reference Stations (CORs) and a control center. *Subcomponent 2.3: Enhancements to Ardhisasa (*will support process reengineering to simplify processes, automatic data checks, e-signature and other functionality. It will begin with an assessment of Ardhisasa from the security, technical and business perspectives and will propose additional functionality and other improvements

14. **Component 3: Sustainable Financing Instruments (US$135 million)**: will deploy two instruments to mobilize long-term capital. *Subcomponent 3.1 Sovereign Sustainability-linked loan (US$125m)* will support the development and

[6] Sales transactions (also called transfers) refers to any sales transfer of a property. This includes private sales as well as sales of affordable housing units from developers and from the Affordable Housing Board. Ensuring that these transfers are dealt with within the agreed service standard is critical for an efficient and effective property market.

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issuance of a sovereign sustainability linked loan (SLL) program, mobilizing capital in international debt markets. The innovative instrument ties the cost of borrowing to national sustainability targets, aligning Kenya's financing needs with measurable environmental and development outcomes. It diversifies Kenya's financing sources, reduces borrowing costs, and demonstrates how sovereign debt can be structured to drive impact. *Subcomponent 3.2 Sustainability Bond Issuance (US$10m)* will support KMRC to issue a sustainability bond, building on its established market making role to deepen capital market participation in affordable housing finance.

15. **Component 4: Technical Assistance and Project Management (US$5 million)** will cover the development of new product offerings, assess market readiness as well as technical assistance for the operationalization of KMGT and preparations for future bond issuances. This component will also finance project management, including related capacity building.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

The project aims to provide mortgage financing and implement land administration reforms to accelerate affordable housing. The appraisal-stage Environmental and Social (E&S) risk rating for the project is assessed as "Moderate". Key social risks identified include the potential exclusion of target beneficiaries, groups that meet the ESS 7 criteria (minority VMGs) particularly where land administration platform Ardhisasa is concerned as well as access to housing units, risks of gender-based violence (GBV), sexual exploitation and abuse/sexual harassment (SEA/SH), and inadequate public participation/engagement. While modernization of Ardhisasa aims to secure land administration and increase transparency, there is the risk that, without inclusive design, VMGs and especially minorities, older generations, women, persons with disabilities (PWDs), may encounter barriers to accessing or using the platform. KMRC has an existing Environmental and Social Management System (ESMS) developed under the Kenya Affordable Housing Finance Project (P165034), which closed on June 30, 2025. The ESMS is already board-approved and publicly disclosed. Furthermore, KMRC's external communication strategy has been expanded to function as the overarching stakeholder engagement strategy (SES) for the entire project and aligns with ESS 10 provisions.

KMRC and the World Bank have agreed on an Environmental and Social Commitment Plan (ESCP), which will outlines the material measures and actions the project will implement to address anticipated E&S risks and impacts. The ESCP includes the commitments of the implementing agencies regarding timing, resources, and responsibilities required for implementing specified E&S management instruments. Drafts of the ESCP and Stakeholder Engagement Plan (SEP) have been disclosed in-country. Labor Management Procedures (LMP) and a GBV-SEA/SH Prevention and Response Action Plan will be prepared, disclosed, and implemented within 90 days of project *effectiveness.* The final SES, following stakeholder consultations, will be disclosed before project effectiveness.

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E. Implementation

Institutional and Implementation Arrangements

16. **The project will be implemented through a multi-tiered coordination framework that ensures strategic oversight while delivering operational efficiencies.** An Interagency Coordination Committee, chaired by the National Treasury (NT), will provide strategic guidance and alignment with housing sector priorities. Members will include the State Department for Housing and Urban Development, the Affordable Housing Board, SDLPP, KMRC, and the National Housing Corporation.

17. **The implementing agencies will be NT, SDLPP and KMRC.** A PIU established at NT will have primary accountability role to coordinate M&E and operational workflow between the implementing agencies and will be designated as the lead implementing agency. The PIU will maintain arrangements similar to Phase 1. At the technical level, a federated coordination model will be adopted. Each implementing agency will retain its internal coordination mechanism but follow shared protocols for alignment. Agencies will nominate technical focal points to interface with counterparts, consolidate inputs, and escalate cross-cutting issues. For the sovereign SLL, a coordination mechanism has already been established- two task forces will operate throughout the transaction. One focused on financing and structuring—led by the Public Debt Management Office (PDMO), NT—to oversee the SLL issuance; and another focused on implementation and sectoral coordination—comprising the PDMO, NT, CBK, and relevant ministries to manage sectoral inputs, targets, and reporting.

18. **To facilitate project implementation, the existing KAHFP Project Operations Manual will be updated** to reflect these arrangements.

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APPROVAL

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