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Report No: ICR00005801

IMPLEMENTATION COMPLETION AND RESULTS REPORT

CREDIT NUMBER 64190-KE AND CREDIT NUMBER 66350-KE

ON A

DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF  
US\$750 MILLION AND US\$750 MILLION EQUIVALENT

AND

LOAN NUMBER 9106-KE

ON A

DEVELOPMENT POLICY LOAN

IN THE AMOUNT OF  
US\$250 MILLION EQUIVALENT

TO THE

REPUBLIC OF KENYA

FOR THE

KENYA INCLUSIVE GROWTH AND FISCAL MANAGEMENT DEVELOPMENT POLICY  
OPERATION

SEPTEMBER 20, 2022

Macroeconomics, Trade And Investment Global Practice  
Eastern and Southern Africa Region



## CURRENCY EQUIVALENTS

Exchange Rate Effective September 20, 2022

Currency Unit = KES (Kenyan shilling)

KES 120.55 = US\$1

US\$1.30 = SDR 1

FISCAL YEAR

July 1 - June 30

Regional Vice President: Victoria Kwakwa

Country Director: Keith Hansen

Regional Director: Asad Alam

Practice Manager: Vivek Suri

Task Team Leader(s): Allen Curtis K. Dennis, Alexis Sienaert, Peter Chacha Wankuru

ICR Main Contributor: Allen Curtis K. Dennis, Alexis Sienaert, Paul Holden



## ABBREVIATIONS AND ACRONYMS

|          |   |
|----------|---|
| AHP      | Affordable Housing Program                            |
| CBK      | Central Bank of Kenya                                 |
| CIT      | Corporate Income Tax                                  |
| COVID-19 | Coronavirus Disease 2019                              |
| CPF      | Country Partnership Framework                         |
| CPS      | Country Partnership Strategy                          |
| DPF      | Development Policy Financing                          |
| DPO      | Development Policy Operation                          |
| DSA      | Debt Sustainability Analysis                          |
| GDP      | Gross Domestic Product                                |
| GoK      | Government of Kenya                                   |
| IBRD     | International Bank for Reconstruction and Development |
| IDA      | International Development Association                 |
| IMF      | International Monetary Fund                           |
| ICR      | Implementation Completion and Results Report          |
| ICT      | Information and communications technologies           |
| IFC      | International Finance Corporation                     |
| IMF      | International Monetary Fund                           |
| IPF      | Investment project financing                          |
| KMRC     | Kenya Mortgage Refinance Company                      |
| LMIC     | Lower middle-income country                           |
| MDA      | Ministries, Departments and Agencies                  |
| MSME     | Micro, Small and Medium Enterprise                    |
| PA       | Prior Action  |
| PDO      | Program Development Objective                         |
| PforR    | Program for results                                   |
| RI       | Results Indicator                                     |
| SSA      | Sub-Saharan Africa                                    |
| VAT      | Value-added Tax                                       |
| WRS      | Warehouse Receipt System                              |
| WRSC     | Warehouse Receipt System Council                      |



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**DATA SHEET**

**BASIC INFORMATION**

**Program Series**

| Project ID | Short Name                      | Full Name   |
|------------|---------------------------------|---|
| P168204    | Inclusive Growth and Fiscal DPO | Inclusive Growth and Fiscal Management Development Policy Financing |
| P172321    | Kenya Growth and Fiscal DPO2    | Kenya Inclusive Growth and Fiscal Management DPO 2                  |

**Series Details (USD)**

| Project ID   | Approved Amount         | Disbursed Amount        |
|--------------|-------------------------|-------------------------|
| P168204      | 750,000,000.00          | 751,130,459.68          |
| P172321      | 1,000,000,000.00        | 1,000,000,000.00        |
| <b>Total</b> | <b>1,750,000,000.00</b> | <b>1,751,130,459.68</b> |

|                                  | P168204     | P172321              |
|----------------------------------|-------------|----------------------|
| Policy-Based Guarantees          | No          | No                   |
| Ln/Cr/TF                         | IDA-64190   | IBRD-91060,IDA-66350 |
| Concept Review                   | 06-Mar-2019 | 31-Dec-2019          |
| Decision Review                  | 21-Mar-2019 | 03-Apr-2020          |
| Approval                         | 28-May-2019 | 19-May-2020          |
| Effectiveness                    | 26-Jun-2019 | 22-May-2020          |
| Original Closing                 | 30-Jun-2020 | 30-Jun-2021          |
| Actual Closing                   | 30-Jun-2020 | 30-Jun-2021          |
| Crisis or Post-Conflict          | No          | No                   |
| Regular Deferred Drawdown Option | No          | No                   |



|                                      |    |    |
|--------------------------------------|----|----|
| Catastrophe Deferred Drawdown Option | No | No |
| Sub-National Lending                 | No | No |
| Special Development Policy Lending   | No | No |

**Organizations**

| Series Project | Borrower          | Implementing Agency            |
|----------------|-------------------|--------------------------------|
| P168204        | Republic of Kenya | National Treasury and Planning |
| P172321        | REPUBLIC OF KENYA | The National Treasury          |

**Program Development Objective (PDO)**

Program Development Objective (PDO) (From last operation in the series)

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

**PROGRAM FINANCING DATA (USD)**

**World Bank Administered Financing**

|                | Approved Amount      | Actual Disbursed     |
|----------------|----------------------|----------------------|
| <b>P168204</b> |                      |                      |
| IDA-64190      | 750,000,000          | 751,130,460          |
| <b>P172321</b> |                      |                      |
| IBRD-91060     | 250,000,000          | 250,000,000          |
| IDA-66350      | 750,000,000          | 750,000,000          |
| <b>Total</b>   | <b>1,750,000,000</b> | <b>1,751,130,460</b> |

**RATINGS SUMMARY**

Program Performance



| Overall Outcome                           | Relevance of Prior Actions                                    | Achievement of Objectives (Efficacy) |
|---|---|--------------------------------------|
| Satisfactory                              | Satisfactory  | Satisfactory                         |
| <b>Bank Performance</b>                   |   |                                      |
| Satisfactory                              |   |                                      |
| <b>ACCOUNTABILITY AND DECISION MAKING</b> |   |                                      |
| <b>At ICR:</b>                            |   |                                      |
| <b>Regional Vice President</b>            | <b>Country Director</b>                                       | <b>Director</b>                      |
| Victoria Kwakwa                           | Keith E. Hansen   | Asad Alam                            |
| <b>Practice Manager</b>                   | <b>Task Team Leader(s)</b>                                    |                                      |
| Vivek Suri                                | Allen Curtis K. Dennis, Alexis Sienaert                       |                                      |
| <b>At Approval:</b>                       |   |                                      |
| <b>P168204</b>                            |   |                                      |
| <b>Regional Vice President</b>            | <b>Country Director</b>                                       | <b>Director</b>                      |
| Hafez M. H. Ghanem                        | Carlos Felipe Jaramillo                                       | Asad Alam                            |
| <b>Practice Manager</b>                   | <b>Task Team Leader(s)</b>                                    |                                      |
| Abebe Adugna Dadi                         | Allen Curtis K. Dennis, Sarah Oludamilola Sanya               |                                      |
| <b>P172321</b>                            |   |                                      |
| <b>Regional Vice President</b>            | <b>Country Director</b>                                       | <b>Director</b>                      |
| Hafez M. H. Ghanem                        | Carlos Felipe Jaramillo                                       | Asad Alam                            |
| <b>Practice Manager</b>                   | <b>Task Team Leader(s)</b>                                    |                                      |
| Abebe Adugna Dadi                         | Allen Curtis K. Dennis, Peter Chacha Wankuru, Alexis Sienaert |                                      |







## I. PROGRAM CONTEXT AND DEVELOPMENT OBJECTIVES

1. **This Implementation Completion and Results Report (ICR) reviews the performance and results of the Kenya Inclusive Growth and Fiscal Management programmatic series of development policy operations (DPOs).** The programmatic series consisted of two single tranche operations of US\$750 million each in International Development Association (IDA) financing. The second operation also included US\$250 million in International Bank for Reconstruction and Development (IBRD) financing, for a total of US\$1.75 billion. The operations were approved by the Board of Executive Directors in April 2019 and May 2020 respectively.

### A. Context at Appraisal

2. **Growth in Kenya has been robust over the past decade, though dented by the impacts of Coronavirus Disease 2019 (COVID-19).** Kenya is the largest economy in east Africa and since 2004, it has been one of the fastest growing economies in Sub-Saharan Africa (SSA), with an average annual real gross domestic product (GDP) growth rate of close to 5 percent. However, for the first time in nearly 30 years, the economy contracted in 2020, as a result of the COVID-19 pandemic. Growth rebounded sharply in 2021, to 7.5 percent in real terms. Kenya is a lower middle-income country (LMIC), with a per capita gross national income of US\$1,879 in 2020. Kenya's human development indicators are the highest in the East Africa Community, with indicators related to health and education showing steady improvement. However, some 33 percent of the population remained below the national poverty line in 2019.

3. **Though the macroeconomic environment remains stable, rising debt is an area of vulnerability.** Headline inflation has averaged 5.6 percent over the past five years, within the central bank's target inflation band of 2.5 percentage points above and below 5 percent. The exchange rate has also remained relatively stable, with months of import cover consistently above the statutory minimum of four (4.8 months in May 2022). Though higher than most SSA countries, the ratio of private sector credit to GDP at 32 percent (2020) is below the LMIC average of 47 percent. Over the past decade, the fiscal balance has registered substantial deficits, with rising public sector debt. The debt-to-GDP ratio rose from 39 percent of GDP in 2013 to 68 percent of GDP in the 2020/21 fiscal year – this increase resulted mainly from increased public investment in infrastructure. In May 2020, the joint International Monetary Fund (IMF)/World Bank low-income country Debt Sustainability Analysis (DSA) determined that Kenya's risk of debt distress had increased from moderate to high.

4. **The Kenyan economy is dominated by services and agriculture, with the former constituting over 50 percent of GDP followed by agriculture (23 percent of GDP).** The services sector has been the main driver of growth in the economy, with Information and communications technologies (ICT), wholesale and retail trade, and financial services being the most rapidly growing components of the sector. Low productivity has been a continuing feature of the economy and the investment ratio is less than 25 percent of GDP. Foreign direct investment constituted 1.2 percent of GDP in 2019. Kenya's growth has resulted primarily from increases in the labor force and capital deepening. A feature of the Kenyan economy is the large informal sector, which employs four out of every five workers. Informal activity is generally characterized by low productivity, which further contributes to Kenya's productivity deficit. The public sector is the largest formal employer in the country.



5. **The World Bank Kenya Country Partnership Strategy (CPS) FY14-FY18<sup>1</sup>** was based on three pillars or domains of engagement. They were increasing competitiveness and sustainability, protecting the vulnerable and assisting them to develop their potential, and building consistency and equity, which was designed to assist the government with its devolution agenda. The Performance Learning Review proposed to extend the CPS period by two years. Due to the need to address the challenges arising from COVID-19 the period of implementation of the CPS was extended to 2021. A new Country Partnership Framework (CPF) for FY23-28 is currently being finalized.

**Table 1: Selected Economic Indicators**

|  | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022      | 2023 |
|--|------|------|------|------|------|------|-----------|------|
|  |      |      |      |      |      |      | Projected |      |
| <b>Real GDP</b>                                  |      |      |      |      |      |      |           |      |
| <b>(annual percent change)</b>                   |      |      |      |      |      |      |           |      |
| GDP  | 4.2  | 3.8  | 5.6  | 5.0  | -0.3 | 6.7  | 5.0       | 5.2  |
| Agriculture                                      | 1.4  | -1.3 | 5.7  | 2.6  | 4.8  | -1.5 | 3.6       | 3.8  |
| Industry   | 2.5  | 2.8  | 3.8  | 3.4  | 4.0  | 6.6  | 3.5       | 4.0  |
| Services   | 5.9  | 5.1  | 6.0  | 6.7  | -2.2 | 9.6  | 5.9       | 6.0  |
| Private Consumption                              | 4.5  | 4.9  | 4.7  | 4.9  | -2.7 | 7.3  | 5.5       | 5.6  |
| Government Consumption                           | 5.3  | 6.2  | 7.0  | 7.0  | 4.3  | 4.2  | 4.9       | 3.6  |
| Gross Fixed Capital Formation                    | -3.8 | 8.0  | -0.4 | 3.8  | 3.4  | 6.4  | 4.1       | 6.7  |
| CPI Year on Year percent change                  | 6.3  | 8.0  | 4.7  | 5.2  | 5.3  | 6.4  | 6.0       | 5.5  |
| <b>Fiscal accounts of the Central Government</b> |      |      |      |      |      |      |           |      |
| <b>(percent of GDP)</b>                          |      |      |      |      |      |      |           |      |
| Revenues   | 17.7 | 18.0 | 17.4 | 17.1 | 16.3 | 16.4 | 17.3      | 18.1 |
| of which tax revenue                             | 15.1 | 14.9 | 14.9 | 14.5 | 13.8 | 13.8 | 14.3      | 15.0 |
| Expenditure                                      | 25.1 | 25.7 | 24.6 | 24.5 | 24.2 | 24.6 | 24.9      | 23.6 |
| Fiscal balance                                   | -7.4 | -7.7 | -7.1 | -7.4 | -7.9 | -8.2 | -7.5      | -5.5 |
| Central Government Debt outstanding              | 50.4 | 53.0 | 57.9 | 59.5 | 65.8 | 68.2 | 68.0      | 66.8 |
| <b>Balance of Payments</b>                       |      |      |      |      |      |      |           |      |
| <b>(percent of GDP)</b>                          |      |      |      |      |      |      |           |      |
| Current Account Balance                          | -5.4 | -6.9 | -5.4 | -5.3 | -4.6 | -5.5 | -6.0      | -5.5 |
| Exports of Goods and Services                    | 13.3 | 12.7 | 12.5 | 11.4 | 9.7  | 10.3 | 11.8      | 12.5 |
| Imports of Goods and Services                    | 21.6 | 23.3 | 21.9 | 20.3 | 17.7 | 19.7 | 22.2      | 23.0 |
| Net FDI  | 0.7  | 1.2  | 1.6  | 0.9  | 0.5  | 0.2  | 0.6       | 0.8  |
| <b>Fiscal accounts of the Central Government</b> |      |      |      |      |      |      |           |      |
| <b>(percent of GDP)</b>                          |      |      |      |      |      |      |           |      |
| Revenues   | 17.8 | 18.2 | 17.4 | 17.7 | 16.5 | 16.1 | 16.8      | 17.7 |
| of which tax revenue                             | 14.8 | 15.1 | 14.1 | 14.4 | 13.0 | 12.6 | 13.3      | 14.4 |
| Expenditure                                      | 25.0 | 26.1 | 24.1 | 25.0 | 24.2 | 24.3 | 25.0      | 23.7 |
| Fiscal balance                                   | -6.6 | -8.2 | -7.0 | -7.3 | -7.5 | -8.2 | -8.2      | -6.0 |
| Central Government Debt outstanding              | 50.0 | 54.5 | 56.5 | 59.6 | 63.0 | 68.2 | 68.1      | 67.5 |

Source: Kenya National Bureau of Statistics, Central Bank of Kenya, The National Treasury, and World Bank

<sup>1</sup> International Development Association, International Finance Corporation, Multilateral Investment Guarantee Agency. 2014. *Country Partnership Strategy. The Republic of Kenya for the Period FY2014-2018.*



6. **In 2017, following elections, the new government announced a medium-term reform program that focused on key policy areas, dubbed the Big Four.** The program delineated four primary areas on which policy reforms would focus. They were food security, affordable housing, universal health care, and manufacturing. The World Bank initiated dialogue in response to these priorities that led to the DPO series. The program development objectives were based on in-depth consultations between the Bank and the Government of Kenya. The challenges that the DPO series aimed to address related closely to the Big Four priorities of the government's development agenda.<sup>2</sup>

7. **Furthermore, the priorities embodied in the DPO series was based on extensive analytical work by the Bank Global Practices and Research Group as well as technical assistance.**<sup>3</sup> This provided the foundation for the two operations of the series.

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<sup>2</sup> The consultations followed earlier discussions in 2016 towards a DPO which did not proceed.

<sup>3</sup> For a comprehensive list of analytical work underpinning the operations and how it related to the prior actions, see Table 4 in *Kenya - Inclusive Growth and Fiscal Management Development Policy Financing Project (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/212131559354546962/Kenya-Inclusive-Growth-and-Fiscal-Management-Development-Policy-Financing-Project> and Table 5 in *Kenya - Second Inclusive Growth and Fiscal Management Development Policy Financing Program (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/318971590199287636/Kenya-Second-Inclusive-Growth-and-Fiscal-Management-Development-Policy-Financing-Program> in International Development Association. (2019) Kenya Inclusive Growth and Fiscal Management Development Policy Financing Report No: PGd82.



**Original Program Development Objective(s) (PDO) (as approved)**

**8. The PDOs and Pillars for both operations were:**

- i) **PDO 1/Pillar I:** To crowd in private investment and financing for affordable housing;
- ii) **PDO 2/Pillar II:** Enhance farmer incomes and food security;
- iii) **PDO 3/Pillar III:** Create fiscal space to allow the government to invest in key development programs; and
- iv) **PDO 4/Pillar IV:** Crowd in private investment and leverage digitization to support the governments inclusive growth agenda.

9. **The program documents for both operations linked the objectives (pillars) directly to the government's Big Four development agenda.** Pillars One and Two closely reflected two of the Big Four development agenda priorities, namely affordable housing and farmer incomes. Pillar Three of the PDO reflected the need to create fiscal space in the budget to mobilize revenue, and improve the efficiency of spending and debt management, all of which would contribute to the macroeconomic stability needed to underpin Kenya's development goals. The Fourth pillar, advancing digitization and strengthening investment policy would further promote the crowding in of private investment, while increasing the government's capacity to provide services that would contribute to the inclusive growth agenda.

10. **Additionally, while improved governance and transparency were not specific pillars in the DPO, nor were they part of the Big Four, they were both supported by prior actions of the series.** They were included because during the preparation of the operations the government was intensifying its efforts to address weak governance and corruption. Specifically, reforms related to agricultural subsidies, procurement, fiscal resource management and the judiciary reduced the opportunities for rent seeking and supported the good governance component of the CPS.

11. **There were no significant changes to the policy areas, nor to the pillars supported by the program during implementation and no changes to the development objectives.**



Table 2: Prior Actions and Results<sup>4</sup>

| PDO1/Pillar 1. Crowd in Private Investment and Financing for the Delivery of Affordable Housing   |  |   |   |
|---|--|---|---|
| Prior Actions for DPO1  | Prior Actions for DPO2   | Indicator, Baseline, Target and Results   | Additional Information  |
| <p><b>Prior Action (PA) 1:</b> The Recipient has (i) approved, through its Cabinet, amendments to the Sectional Properties Act to allow for individual titling of units in multi-story buildings; and (ii) enacted, through its Parliament, the Building Surveyors Act with the objective to improve building standards, including in low-income housing units.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p>   | <p><b>Prior Action 1.</b> The Recipient has (i) enacted through its Parliament the Physical and Land Use Planning Act, which, inter alia, allows for changes to restrictive zoning laws that hold back the construction of multi-story buildings in high density areas(ii) through the president, assented to the, Business Laws Amendment Bill, which amends the National Construction Authority Act which, inter alia, makes provision for an up to date building code, allowing the use of a wider range of construction materials and technology, hence enabling the delivery of less expensive code-compliant housing units..</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p> | <p><b>Result Indicator (RI) 1:</b> The number of affordable housing units constructed with private investment under the government supported affordable housing program.<br/>Baseline (2017): 0<br/>Target (2021): 20,000<br/>Actual (April 2022): 5,106 government funded units completed; 15,300 private sector funded affordable housing units completed.</p> <p><b>RI2:</b> Proportion of affordable housing units constructed with private investment under the government supported affordable homes program owned by women (including individual or joint ownership agreements) helping to close the gender gap since currently a lower proportion of houses are solely or jointly owned by women.<br/>Baseline (2017): 0<br/>Target (2021): 50%<br/>Actual: 46% were solely owned by women (2021)</p> | <p><b>RI1: Fully Achieved</b></p> <p><b>RI 2: Substantially Achieved</b></p>  |
| <p><b>Prior Action 2.</b> The Recipient has (i) enacted, through its Parliament, an amendment to the Central Bank of Kenya (CBK) Act to empower the CBK to license and supervise mortgage re-financing businesses; and (ii) submitted, through the CBK, the draft Mortgage Refinance Companies Regulations, dated 2019, to the Attorney General, which provides a framework to operationalize the business of mortgage refinancing.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p> |  | <p><b>RI3:</b> Number of private sector shareholders in KMRC.<br/>Baseline (2017): 0<br/>Target (2021): 15<br/>Actual (2021): 20</p> <p>This indicator does not measure access to mortgage finance but the success of the bond issue indicates that more liquidity will be available for mortgage financing.</p>  | <p><b>RI3: Fully Achieved</b><br/>A major development under this PA was the KMRC bond issue that took place in late 2021 that was oversubscribed five times, and which will provide substantial liquidity to the mortgage market that will enable poor and middle-income Kenyans to obtain mortgages.</p> |

<sup>4</sup> Results assessed according to following ratings: i)-Not Achieved, if progress is below 50 percent of initial target, ii)-Partly Achieved if there is progress of about 50-75 percent of the target, iii)-Substantially Achieved, if more than 75 percent of the target is achieved, iv)-Fully Achieved if the target is met or exceeded.



| PDO2/Pillar 2. Enhance Farmers Income and Food Security  |  |   |  |
|--|--|---|--|
| Prior Actions for DPO1   | Prior Actions for DPO2   | Indicator, Baseline, Target and Results   | Comments   |
| <p><b>Prior Action 3:</b> The Recipient has (i) through its Ministry of Agriculture, Livestock, Fisheries and Cooperatives (MoALFI), piloted the e-voucher fertilizer subsidy program in four (4) counties with a coverage of at least 20,000 farmers with the aim of restructuring the fertilizer subsidy program from a manual to an e-voucher program; and</p> <p>(ii) approved, through its Senate, and submitted to its National Assembly, the proposed Irrigation Bill, which supports better use and harnessing of water resources for irrigation through the integration of irrigation in water harvesting, flood control and storage.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p> | <p><b>Prior Action 2:</b> The Recipient has through its Cabinet approved the policy for the roll out of the e-voucher subsidy program consistent with the Agricultural Sector Growth and Transformation Strategy issued by the Ministry of Agriculture, Livestock Fisheries and Co-operatives.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p>                               | <p><b>RI4:</b> Number of farmers benefitting from e-vouchers.<br/>Baseline (2017): 0<br/>Target (2021): 150,000<br/>Current status (2021): 167,000</p> <p><b>RI5:</b> Proportion of farmers benefitting from e-vouchers who are female, helping to close gender gap since in 2017 a higher proportion of male farmers used fertilizer.<br/>Baseline (2017): 0<br/>Target (2021): 50%<br/>Actual (2021): 58%</p> <p>There was no indicator for the impact of submission to the National Assembly of the Irrigation Bill.</p> | <p><b>RI4: Fully Achieved</b></p> <p><b>RI5: Fully Achieved</b></p>  |
| <p><b>Prior Action 4:</b> The Recipient has approved, through its Cabinet the structure for the establishment of a Commodities Exchange.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p>   | <p><b>Prior Action 3:</b> The Recipient has through its Cabinet approved a policy to commit purchases for the strategic grain reserve function of the NCPB through the WRS consistent with the Agricultural Sector Growth and Transformation Strategy issued by the Ministry of Agriculture, Livestock, Fisheries and Cooperatives.</p> <p><b>Links to the achievement of PDO/Pillar</b></p> | <p>No Results Indicator</p>   |  |
| <p><b>Prior Action 5:</b> The Recipient has approved, through its Senate, and submitted to its National Assembly, the proposed Warehouse Receipts System (WRS) Bill providing the legal framework for the establishment of a warehouse receipt system.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p>   | <p><b>Prior Action 4:</b> The Recipient through the Cabinet Secretary for finance, has approved the Capital Markets (Commodity Markets) Regulations that provides a framework for the commodities exchange market.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p>   | <p><b>RI6:</b> Number of licensed warehouses under the WRS participating in the Commodities Exchange that have been leased from the National Produce and Cereal Board to the private sector<br/>Baseline (2017): 0<br/>Target (2021): 16<br/>Actual (2022): 12 Warehouses Licensed)</p>   | <p><b>RI6: Partially Achieved.</b><br/>This indicator was impacted by COVID-19. Despite this setback, however, progress is being made and an additional 7 warehouses are expected to be licensed by end- 2022 (for a total of 12 licensed warehouses, meriting a partially achieved rating).</p> |



| PDO3/Pillar 3. Create Fiscal Space and Crowd in the Private Sector to Advance the Government's Inclusive Growth Agenda  |   |   |   |
|---|---|---|---|
| Prior Actions for DPO1  | Prior Actions for DPO2  | Indicator, Baseline, Target and Results   | Comments  |
| <p><b>Prior Action 7:</b> The Recipient has (i) enacted, through its Parliament, the Finance Act 2018 which contains a provision for the removal of VAT exemptions on petroleum products; and (ii) through the Cabinet Secretary of the National Treasury and Planning, adopted a governance framework through which tax exemptions are granted to avoid the creep in tax exemptions and arrest the decline in tax revenues.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p>  | <p><b>Prior Action 5.</b> The Recipient has through its Cabinet approved for submission to Parliament, the Income Tax Bill 2019, which streamlines tax exemptions by reducing the number of exemptions offered.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p>   | <p><b>RI7:</b> VAT and income tax revenues as a share of GDP.<br/>Baseline (FY2017): 11.2%<br/>Target (FY2021): 12.1%<br/>Actual (2022): 11.0% reflecting strong recovery after COVID-19 reduced it to 9.9% in 2021.</p> <p><b>Trends in Total Revenue to GDP ratios</b><br/>FY19 (pre-covid) – 17.5%<br/>FY20 (covid impacted) – 16.9%<br/>FY21 (covid impacted) – 16%<br/>FY22 (partial covid impacted) – 17.5%</p> | <p><b>RI7: Partially achieved</b> factoring impact from COVID-19 and ongoing momentum in the increase in domestic revenues. The 1.1 percentage points increase in VAT and Income tax helped tax to GDP ratios reach 17.5 percent of GDP, the highest level in over three years. PA7(i) yielded 0.2% of GDP in additional revenue and PA 7(ii) resulted in a 2.2% of GDP reduction in tax expenditures/exemptions. Overall revenue is set to reach 18.2% of GDP in FY23, with the bulk of the increase coming from VAT and Income tax.</p> |
| <p><b>Prior Action 8:</b> The Recipient has (i) signed a memorandum of understanding (MoU) between the Competition Authority of Kenya (CAK) and the Public Procurement Regulatory Authority (PPRA) that allows for information sharing to help carry out effective investigations on collusive behavior in public procurement; and (ii) through its National Treasury and Planning, verified and reconciled its external debt records to improve upon the accuracy of its electronic debt registry.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p> | <p><b>Prior Action 6.</b> The Recipient has (i) published in a publicly available online portal details of contracts and tenders; including tender documents; details on companies that were awarded the tender; and the names of the directors of the company; (ii) through its Cabinet approved the Public Procurement and Asset Disposal Regulations which will allow for revision of standard bidding documents to provide greater details on bidders to enhance transparency; and (iii) through its Parliament enacted the Competition Amendment Act that include specific penalties on collusive behavior in public procurement</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p> | <p><b>RI8:</b> Cumulative value of government procurement contracts published on online procurement portal (Ksh billions).<br/>Baseline (2017): 0<br/>Target (2021): 600 billion<br/>Actual (2021): 480 billion</p> <p><b>RI9:</b> Number of investigations related to bid rigging undertaken jointly by CAK and PPRA.<br/>Baseline (2017): 0<br/>Target (2021): 5<br/>Actual (2021): 7</p>                           | <p><b>RI8: Substantially Achieved</b></p> <p><b>RI9: Fully Achieved</b></p>   |
|   | <p><b>Prior Action 7.</b> The Recipient has (i) through its Cabinet approved the Debt and Borrowing Policy; and (ii) through its Central Bank launched the Treasury Mobile Direct System which allows</p>   | <p><b>RI10</b> Debt service ratio (percent of GDP).<br/>Baseline (2017): 4.3<br/>Target (2021): 3.9<br/>Actual (June 2021): 5.9%</p>  | <p><b>RI10: Partially Achieved.</b><br/>This indicator was strongly affected by the budget being impacted by the COVID-19 pandemic. With the recovery of the economy and the pivot to more</p>  |



|  |   |  |  |
|--|---|--|--|
|  | <p>institutional and retail investors to participate through an electronic platform in the issuance of government securities to enhance transparency and efficiency.</p> <p><b>The PA is weakly linked to the achievement of PDO/Pillar</b></p>   | <p><b>RI11:</b> Share of government securities transacted on electronic platform, allowing for the participation of institutional and retail investors.<br/>Baseline (2017): 0<br/>Target (2021): 70%<br/>Actual (2021): 80.7%</p>   | <p>concessional financing, the debt service ratio is projected by the IMF to decline.</p> <p><b>RI11: Fully Achieved</b></p> |
| <b>PDO4/Pillar 4. Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda</b>  |   |  |  |
| <b>Prior Actions for DPO1</b>  | <b>Prior Actions for DPO2</b>   | <b>Indicator, Baseline, Target and Results</b>   | <b>Comments</b>  |
| <p><b>Prior Action 9:</b> The Recipient has through (i) the Cabinet Secretary of ICT, approved the Broadband Strategy, which commits to crowd-in private investment to expand broadband access; and (ii) enacted, through its Parliament, amendments to the Registration of Persons Act to establish a National Integrated Identity Management System, with the mandate to assign a unique national (digital) identification number to all registered persons.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p> | <p><b>Prior Action 8.</b> The Recipient has through its Parliament repealed section 33B of the Banking Act, removing the cap on interest rates on bank lending.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p>   | <p><b>RI12:</b> Average credit growth to the private sector.<br/>Baseline: 2017: 2.8 percent<br/>Target: 2021: 14 percent<br/>Actual: 2021: 8.6 percent (and 11.5% by April 2022).</p>   | <p><b>RI12: Substantially Achieved:</b></p> <p>This indicator was impacted by the effect of COVID-19 on the economy.</p>     |
|  | <p><b>Prior Action 9.</b> The Recipient (i) has through its Cabinet approved the Kenya Investment Policy, which simplifies the process of investor entry and retention; (ii) has through the Ministry of Industrialization, Trade and Enterprise Development approved the Special Economic Zones (Amendment) Regulations, implementing the Special Economic Zones Act; (iii) has enacted through its Parliament amendments to the Companies Act, requiring companies to keep a register of beneficial owners.</p> <p><b>The PA links to the achievement of PDO/Pillar</b></p> | <p><b>RI13:</b> Number of investment projects registered by Kenya Investment Authority.<br/>Baseline (2017): 37<br/>Target (2021): 55<br/>Actual (2021): 195</p> <p><b>RI14:</b> Value of capital Investments registered by Kenya investment Authority (Ksh billion).<br/>Baseline (2017): 13.5 billion<br/>Target (2021): 20 billion<br/>Actual (2021): 56.32 billion</p> | <p><b>RI13: Fully Achieved</b></p> <p><b>RI14: Fully Achieved</b></p>  |





## A. Relevance of Prior Actions

Rating: Satisfactory

12. **Criteria for the selection of prior actions.** The prior actions were selected in order to link the reforms under the two DPOs to the Government of Kenya's Big Four priorities. This particularly applied to the first two pillars of the operations, with the other two pillars focusing on addressing underlying issues critical to achieving the "Big Four" and inclusive growth agenda. The choice of the direct focus pillars and translating them into prior actions (PA) was based on:

- Would the PA help reduce poverty?
- The availability of analytical work to support the design of the reforms.
- The degree of World Bank engagement in these areas and the complementarity with other World Bank projects.

13. The prior actions embodied in the third and fourth pillars were described as critical for achieving all of the components of the priority areas of the government in order to achieve inclusive growth. The prior actions in the program were demand-driven, based on intensive consultations between the government and the World Bank. Most prior actions were linked to the PDOs, although a number could be described as first steps that would support the reforms (requiring developing strategies and policies).

### **PDO1/Pillar 1: Crowd in Private Investment and Financing for the Delivery of Affordable Housing.**

DPO1: PA1, PA2: and DPO2: PA1

14. Under DPO1, PA1 related to the enactment of legislation that would allow for titling of units in multi-story buildings, improving building standards, particularly for low-cost housing units. PA2 provided for an amendment to the Central Bank of Kenya (CBK) Act that empowered the CBK to license mortgage re-financing businesses and provide a framework for operationalizing the business of mortgage refinancing.

15. PA2 focused on a key issue regarding the lack of affordable housing financing that was to be addressed by establishing the Kenya Mortgage Refinancing Company (KMRC) that would issue bonds in the local capital market. This would allow the mobilization of private investment through KMRC, providing long term loans to financial institutions secured against their portfolios of housing loans that would enable them to lengthen the maturity of their mortgage financing.

16. Under DPO2, PA1 related to reducing restrictive zoning laws that held back the construction of multi-story buildings, and updating laws related to the modernization of building codes that allowed for the use of a wider range of materials and technologies that would enable the delivery of less costly code compliant housing units.

17. The results indicators for these prior actions were:

- RI1: That the supply of privately funded affordable housing units under the government program would be 20,000 by 2021;
- RI2: That the proportion of affordable housing units constructed with private investment under the affordable housing program that were owned by women would increase to 50 percent by 2021.
- RI3: That there would be at least 15 private sector shareholders in KMRC.

18. The causal chain between the PAs and the results of increasing the availability of affordable housing was through this operation's support to the removal of key legislative obstacles both on the demand and supply side, helping to further incentivize greater private sector supply of affordable housing. The reforms



were also expected to lead to significantly increased ownership by women of affordable housing units. Specifically for private sector developers, addressing restrictive zoning requirements, and modernizing the building code to allow for technologically appropriate yet less costly materials, complemented with government fiscal incentives, were to incentivize investments. From the buyers' side, the availability of cheaper and longer tenor mortgages, plus the ability to have sectional titles allowing them to access credit, was to reduce the financial costs of owning a home (see Annex 1 figure 1).

19. The first two indicators were clearly relevant to increasing the number of affordable housing units supplied by the private sector. The relevance of the third indicator similarly would measure the willingness of private financial institutions to expand their housing financing programs, which constituted a major constraint to purchasing of housing by lower- and middle-income purchasers.

### **PDO2/Pillar 2: Enhance Farmers' Incomes and Food Security**

DPO1: PA3, PA4, PA5. DPO2: PA2, PA3 & PA4.

20. Under DPO1, PA3 related to the piloting of an electronic voucher (e-voucher) fertilizer subsidy program that trialed the distribution of fertilizer using e-vouchers. It also included a submission to the National Assembly of an irrigation bill supporting improved use of water resources. The use of e-vouchers was scaled up under DPO2, PA2, in terms of which the Cabinet would approve the policy for rolling out the e-voucher subsidy program.

21. Under DPO1, PA4 the Cabinet would approve the structure for the establishment of a commodities exchange. Under DPO2, this prior action would be reinforced through PA4, in terms of which the Cabinet Secretary for Finance would approve regulations that provided a framework for a commodities exchange market.

22. Under DPO1, PA5 a proposed warehouse receipt system (WRS) bill would be submitted to the National Assembly that would provide a legal framework for the use of warehouse receipts to finance farmers. Under DPO2, PA3, the Cabinet would approve a policy that committed to purchases of grain for the strategic grain reserve under the WRS consistent with the Agricultural Sector Growth and Transformation Strategy. This would be stored in the warehouses of the WRS.

23. The results indicators for these prior actions were:

- RI4: That the number of farmers benefiting from e-vouchers would be at least 150,000 by 2021;
- RI5: That the proportion of farmers benefiting from e-vouchers who were female would be at least 50 percent by 2021;
- RI6: That the number of licensed warehouses under the WRS that were participating in the Commodities Exchange would be at least 16 by 2021.

24. There were no results indicators for the irrigation bill under DPO1, PA3 nor for DPO1 PA4, the legal framework for the commodities exchange market.

25. The causal links under these prior actions were as follows:

- The PAs related to the e-voucher program, would enhance farmer incomes and food security through expanding the number of farmers benefiting from subsidized inputs (seeds, fertilizers, training and so on). These subsidized inputs would in turn lead to increased yields and output, ensuring increased farmer food security and marketable surplus to enhance incomes and reduce poverty. These efforts were to be complemented over the medium to longer term with efforts to access to irrigation and access to markets for all farmers through support to the new Irrigation Bill and establishment of a Warehouse Receipt System and Commodities Exchange (see Annex 1 figure 2).



### **PDO3/Pillar 3: Create Fiscal Space and Crowd in the Private Sector to Advance the Government's Inclusive Growth Agenda**

DPO1: PA7 & PA8. DPO2: PA5, PA6, & PA7

26. Under DPO1 PA7, value added tax (VAT) exemptions were rationalized through the passage by Parliament of the Finance Act 2018, which contained a provision for the removal of VAT exemptions on petroleum products and through the adoption of a governance framework that limited the number of tax exemptions that were granted to arrest the decline in VAT tax revenues. Under DPO2, PA5 an additional measure to reverse the decline in tax revenues was promoted by the Cabinet approving for submission to Parliament the Income tax bill 2019 that also limited the number of tax income exemptions.

27. DPO1 PA8 addressed corruption issues by establishing procedures for the investigation of collusive behavior in public procurement bids. It also provided for the verification and reconciliation of external debt records in order to improve the accuracy of Kenya's electronic debt registry. DPO2 PA6 increased the transparency of public procurement through publishing online, details of contracts and tenders, including tender documents. It also would publish details of companies that had been awarded tenders as well as the names of the directors of the companies. The Cabinet also approved under this PA new regulations that allowed for standard bidding documents to be revised in order to provide greater details on bidders. Parliament also enacted the Competition Amendment Act that included penalties for collusive behavior with respect to public procurement. DPO2 PA7 contained a provision for Cabinet approval of the Debt and Borrowing Policy that allowed for the Central Bank to launch the Treasury Mobile Direct System which provided for institutional and retail investors to participate through an electronic online platform in the issuance of government securities that would enhance the transparency and efficiency of this market.

28. The results indicators were:

- RI7: That VAT and income tax revenues as a share of GDP would increase from 11.4 percent in FY2017 to 12.1 percent in FY2021.
- RI8: That the cumulative value of government procurement contracts published through the online procurement portal would amount to Ksh 600 billion.
- RI9: That the number of investigations related to bid rigging would be at least five by 2021.
- RI10: That the debt service ratio as a percent of GDP would decline to 3.9 percent by 2021.
- RI11: That the share of government securities transacted through the electronic platform would be at least 70 percent by 2021.

29. The causal links between the prior actions and the results indicators was as follows:

- The transparency of procurement processes would be enhanced through publishing procurement contracts online. The causal link for this PA is plausible. The more transparency regarding procurement, the less the opportunity for corruption, particularly since the names of winning bidders would be published.
- Bid rigging and corruption would be reduced by investigating potential rigging of bids. Such investigations, particularly if published, provides a disincentive for collusion among procurement bidders. The link is plausible.
- Fiscal space was to improve through increased revenue mobilization and improvements in the efficiency of expenditures. Domestic revenue mobilization was supported through rationalization of tax expenditures and the introduction of VAT on petroleum products. Expenditure management was to be supported through containing the rise in the cost of debt servicing through an improved policy framework as well as enhancing efficiency in the procurement of domestic debt through the



development of a platform that allowed both non-bank institutional and retail investors in the domestic debt market to place bids in the primary auction market electronically. Expenditure management was also further supported through procurement reforms that both increased transparency and deterred malpractices in government procurement.

30. Under this pillar, the causal chain relating PAs to the achievement of the PDO is clear, since increased revenue, better debt management, and a reduction in collusive bidding could all increase fiscal space. Further, improving of the fiscal space is expected to enable the government to be in a better position to address its inclusive growth agenda (see Annex 1 figure 3). Further, increased fiscal space would reduce the government's financing needs and thus ability to crowd out the private sector, thereby complementing reform efforts in pillar 4.

#### **PDO4/Pillar 4. Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda**

##### **DPO1: PA9. DPO2: PA8 & PA9**

31. Under DPO1 PA8 was approval by the Cabinet Secretary of ICT of a Broadband Strategy that would crowd in private investment through expanding broadband access and improve on public service delivery through support to the establishment of a National Integrated Identity Management System.

32. Under DPO2, PA8 consisted of Parliament repealing section 33B of the Banking Act, thereby removing the interest rate cap on bank lending. Under DPO2 PA9, the Cabinet would approve the Kenya Investment Policy that simplified investor entry and retention. In addition, PA9 included the Ministry of Industrialization, Trade and Enterprise Development approving Special Economic Zones Regulations that allowed for the implementation of the Special Economic Zones Act. Further action under PA9 consisted of amendments to the Companies Act that required companies to keep a registry of beneficial owners.

33. The results indicators for pillar 4 were:

- RI12: That credit to the private sector would increase by 14 percent in 2021 compared with a baseline of an increase of 2.8 percent during 2017.
- RI13: That the number of investment projects registered by Kenya Investment Authority would increase from a baseline of 37 in 2017 to a target of 55 by 2021.
- RI14: That the value of capital investments registered by the Kenya Investment Authority would increase from KES 13.5 billion in 2017 to a target of KES 20 billion by 2021.

34. Regarding DPO1, PA9: There was no results indicator that measured the effect of digitization through assigning digital identifiers to all persons in Kenya.

35. **The causal chain between DPO2 PA8 and RI12** reflects the inability of the banks to price on a risk adjusted basis prior to this DPO due in part to the cap on interest rates. Many factors influence both the supply and demand for credit, and while lifting the interest rate cap would increase credit supply, the actual increase in private sector credit is also a function of several other factors on the demand side, including the strength of economic activity. Nonetheless, the interest rate cap was a major constraint for the supply of credit during the period of the cap. The increased availability of credit to the private sector would then help augment the available pool of investable funds thus contributing to the overall objective of crowding in private investment.

36. **Beyond crowding in private investment through improvements to credit to the private sector, the intervention logic was also to improve the business and regulatory environment that would stimulate private investment.** Measures to improve the business and regulatory environment included a new Broad Band Strategy (DPO1 PA8), approval of the Kenya Investment Policy, Special Economic Zones regulations and



amendments to the Company Act in support of greater transparency (DPO2 PA9).

37. **RI13, the results indicator for DPO2 PA9 was that the value of capital investment projects registered by the Kenya Investment Authority would increase from KES 13.5 billion in 2017 to KES 20 billion in 2021.** The causal chain connecting the prior action and the results indicator was that the legal clarity being brought through the regulations on the Special Economic Zones would promote additional investment.

38. **The satisfactory rating is based on almost all prior actions having a direct link to the achievement of the PDOs** (see Annex 1 figure 4). The PAs addressed many of the constraints that were identified in analytical work and in the DPO documents.

39. **The DPO Series and the IMF Extended Fund Facility and Extended Credit Facility.** The prior actions under the DPO series aligned with many of the priorities of the IMF lending facilities.<sup>5</sup> The IMF program (approved in April 2021) focused on addressing debt vulnerabilities, providing support for the response to the COVID-19 pandemic and enhancing governance. The program centered on increasing tax revenue (aligning with DPO1 PA7 and DPO2 PA5); combatting corruption (DPO1 PA8 and DPO2 PA6), promoting digitization (DPO1 PA9) and eliminating the interest rate cap (DPO2 PA 8).

**B. Achievement of Objectives (Efficacy)**

Rating: Satisfactory

40. **Efficacy is rated satisfactory on the grounds that the PDOs were achieved with minor shortcomings. From the outset, the program was designed to be broad, covering a wide range of issues and sectors.** Interviews with World Bank staff and Kenya government officials indicated that all aspects of the program reflected both the country’s needs and government ownership. The program brought together several government ministries to support aspects of the government’s Big Four agenda, under the umbrellas of the World Bank DPO series. It should be noted that COVID-19 impacted some aspects of the program’s implementation.

| <b>Table 3: Achievement of Results Indicators</b>   |                                    |
|---|------------------------------------|
| <b>Result Indicator</b>   | <b>Status</b>                      |
| <b>PDO1/Pillar 1: Crowd in Private Investment and Financing for the Delivery of Affordable Housing</b>  | <b>This objective was achieved</b> |
| <b>RI1:</b> The number of affordable housing units constructed with private investment  | Fully Achieved                     |
| <b>RI2:</b> Proportion of affordable housing units constructed with private investment under the government supported affordable homes program owned by women | Substantially achieved             |
| <b>RI3:</b> Number of private sector shareholders in KMRC.  | Fully Achieved                     |
| <b>PDO2/Pillar 2: Enhance Farmers Income and Food Security</b>  | <b>This objective was achieved</b> |
| <b>RI4:</b> Number of farmers benefitting from e-vouchers   | Fully Achieved                     |
| <b>RI5:</b> Proportion of farmers benefitting from e-vouchers who are female  | Fully Achieved                     |
| <b>RI6:</b> Number of licensed warehouses under the WRS participating in the  | Partially achieved                 |

<sup>5</sup> In April 2021, the IMF Executive Board approved 38-month arrangements under the Extended Credit Facility and the Extended Fund Facility, amounting to a total of US\$2.34 billion equivalent. IMF. 2021. *Article IV Consultation; Second Review Under the Extended Fund Facility and Under the Arrangement Under the Extended Credit Facility; And Requests for Modifications of Performance Criteria and Structural Conditionality*. Washington. DC.



|   |  |
|---|--|
| Commodities Exchange  |  |
| <b>PDO3/Pillar 3: Create Fiscal Space and Crowd in the Private Sector to Advance the Government’s Inclusive Growth Agenda</b>   | <b>This objective was achieved, when taking into account COVID-19 induced challenges on economic activity.</b> |
| <b>RI7:</b> VAT and income tax revenues as a share of GDP.  | Partially Achieved   |
| <b>RI8:</b> Cumulative value of government procurement contracts published on online procurement portal                         | Substantially Achieved   |
| <b>RI9:</b> Number of investigations related to bid rigging undertaken jointly by CAK and PPRA                                  | Fully Achieved   |
| <b>RI10:</b> Debt service ratio (percent of GDP)  | Partially achieved (COVID-19-affected)   |
| <b>RI11:</b> Share of government securities transacted on electronic platform   | Fully Achieved   |
| <b>PDO4/Pillar 4: Crowd in Private Investment and Leverage Digitization to Support the Government’s Inclusive Growth Agenda</b> | <b>This objective was achieved</b>   |
| <b>RI12:</b> Average credit growth to the private sector  | Substantially Achieved   |
| <b>RI13:</b> Number of investment projects registered by Kenya Investment Authority   | Fully Achieved   |
| <b>RI14:</b> Value of capital Investments registered by Kenya investment Authority  | Fully Achieved   |

41. **Table 3 summarizes the results indicators and their outcomes.** Of the 14 results indicators,<sup>6</sup> eight were fully achieved, three were substantially achieved, and three were partially achieved. On the basis that all objectives were achieved with minor shortcomings, efficacy is rated as satisfactory.

**PDO1/Pillar 1. Crowding in Private Investment for the Delivery of Affordable Housing.**

**Measured by RI1 (Fully achieved), RI2 (Substantially achieved) and RI3 (Fully Achieved).**

42. **DPO1 PA1 and DPO2 PA2 were directed at amending legislation and regulations to make it easier to construct multi-dwelling housing units.** The indicator was that by 2021 20,000 affordable housing units would be constructed with private investment under the government affordable housing program. Data from programs supported under the State Department of Housing and Urban Development and those registered with the National Construction Authority show that at least 20,300 were completed with several more under various stages of completion.

43. Completed construction monitored by both the State Department for Housing and Urban Development (5,106) and the National Construction Authority (15,300) amounted to over 20,000 affordable houses constructed by the private sector. Notwithstanding the dampening effect of COVID-19 on the overall construction activities, progress continues. Besides the completed construction units, some 41,000 affordable housing units are under construction by the private sector that are benefitting from various government incentives (for example, tax breaks), of which 85 percent (35,097) are scheduled to be completed by December 2022. Further, there are about 136,742 units in the pipeline and consistent with the objective of crowding in private investment for the delivery of affordable housing, the affordable housing project has received US\$2.9 billion in offer letters from seven local banks. Against this backdrop, this results indicator

<sup>6</sup> See Table 2 for a complete description of PAs and RIs.





**(RI1)** is rated as fully achieved. Available information from the government's affordable housing program (AHP) shows a strong uptake by women; 46 percent of those registered to benefit from the AHP program are women (this excludes couples jointly contributing). Consistent with the randomized balloting allocation system adopted for allocation of completed units to registrants on the waiting list, the share of completed AHP units allocated to individual women was 46 percent, rendering the results indicator for gender parity **(RI2)** substantially achieved.

44. **DPO1 PA2 related to the financing of housing construction by empowering the Central Bank of Kenya to exercise regulatory authority over entities that increased the liquidity of the mortgage market through refinancing mortgages.** A major constraint hindering the provision of housing, particularly affordable housing for poorer and middle-class citizens, was the lack of mortgage lending which was funded almost completely by financial institutions' short-term deposits. The result was short-term mortgages and high interest rates which were generally only accessible by higher income groups. The prior action provided the legal and regulatory framework for the establishment of the KMRC, and it was expected, initially, that there would be at least six institutional investors in the KMRC. Under DPO2, the target for the number of institutional investors was increased to 15. This was exceeded and by 2021 there were 20 institutional investors. The success of this results indicator **(RI3)** also reflects the complementarity between the DPO series and the ongoing World Bank project,<sup>7</sup> which supported the establishment of the KMRC. KMRC has since its establishment, successfully issued a bond for the amount of US\$13 million that was five times oversubscribed. This will provide initial liquidity, with the prospects for substantially more, further promoting private sector involvement in affordable housing.

#### **PDO2/Pillar 2: Enhance Farmers' Incomes and Food Security**

**Measured by RI4 (Fully Achieved), RI5 (Fully Achieved) and RI6 (Partially achieved).**

45. **DPO1 PA3 and DPO2 PA2 were aimed at improving access and distribution of fertilizer through the e-voucher program.** Directly and indirectly, agriculture constitutes over 50 percent of Kenya's GDP as well as about 60 percent of employment (including subsistence employment) and 65 percent of Kenya's exports. Improving productivity in the sector represents one of the most effective channels to alleviate poverty. It is also a key to improving the country's food security. Two of the PAs under this pillar introduced a new mechanism for distributing subsidized fertilizer. Analysis of the untargeted fertilizer subsidy program indicated that not only was it inefficient in terms of cost, it also primarily benefitted medium and large-scale farmers. Furthermore, procurement of fertilizer was largely undertaken by the government that led to a number of problems including delayed distribution, inappropriate types of fertilizer, and rent seeking. The e-fertilizer system involved the electronic distribution of vouchers to targeted groups of farmers, primarily those with small scale operations and women farmers, that allowed them to purchase fertilizer from suppliers of their choice. PA3 under DPO1 piloted this program in four counties involving 20,000 farmers, while PA2 under DPO2 rolled out the program to a much larger group across the entire country, with a target of reaching 150,000 farmers **(RI4)**. This target was exceeded by over 10 percent by 2021. Furthermore, the target of ensuring that at least 50 percent of the beneficiaries of the e-voucher program were female was also exceeded, with 58 percent of recipients being female by 2021 **(RI5)**. Beyond the specific results indicators, other positive impacts of the e-voucher which support the improvement in food security to the beneficiaries include that farmers reporting productivity increases of 25 percent, thereby enabling them to sell surplus output to enhance their incomes and sustain them in between harvests.

46. **DPO1 PA4 and DPO2 PA4 related to the establishment of a commodities exchange that was**

<sup>7</sup> The Kenya Affordable Housing Finance Project (P165034)



designed to “help address inefficiencies in the supply chain resulting from limited storage capacity, lack of post-harvest services and poor access to input markets.” (Program Document for DPO2, para. 4.32) as well as connecting producers and buyers.<sup>8</sup> The setting up of the Commodities Exchange would require that to be licensed, warehouses would be upgraded to approved standards. DPO2 PA4 required the issuing of legislation that would provide for the licensing of the commodity exchange. There was no results indicator for this prior action and interviews with Kenya counterparts indicated that the exchange had yet to become fully operational.

47. **Under DPO1, PA5 involved the introduction to the National Assembly of a bill to establish a Warehouse Receipts System (WRS) that would allow for the financing of agricultural products through using deposits in the WRS as collateral for financing farmers’ activities in the sector.** Since the prior action of submission of the WRS Bill supported under this operation several milestones have been recorded. Parliament enacted the WRS Bill and followed that up by passing the implementing regulations. The passing of the implementing regulations provided the formal basis for the establishment of the WRS Council (WRSC).

48. **The WRSC has since been operationalized with a Board and Secretariat and commenced the process of supporting the licensing of warehouses.** Since its recent establishment it has inspected 112 warehouses, and of that number it has licensed five warehouses with an extra seven expected to be licensed by end-2022, from a baseline of zero licensed warehouses. Nonetheless, this remains below the results indicator target of 16 licensed warehouse. A number of factors account for the underachievement of the set targets. First, the ambition level was perhaps high, given that the WRSC institution did not exist and first needed a legal foundation to be finalized before it was set-up. Secondly, WRSC needed to be adequately resourced to carry out its functions. While the government provided resources to operationalize WRSC, more resources (from government or donors) could have helped to further strengthen this new institution. Third, since the licensing of the warehouses was dependent on interest from the private sector to the extent the private sector was hesitant to refurbish warehouses to the standard that would allow them to be licensed this impacted on the overall number of licenses issued. Reasons for hesitancy from the private sector included not only the dampening impact of COVID-19 on overall business investments, but also the fact that the Commodities exchange had not yet been operationalized. Against this backdrop and the expected achievement of 12 licensed warehouses, this results achievement is rated as partially achieved. Beyond the licensing of warehouses results indicator, the WRSC has been working with communities to bring in smaller warehouses that are unable to qualify under the strict licensing requirements to act as aggregation centers for licensed warehouses. This will serve to further strengthen the linkages between smaller farmers and licensed warehouses.

**PDO3/Pillar 3: Create Fiscal Space and Crowd in the Private Sector to Advance the Government’s Inclusive Growth Agenda:**

**Measured by RI7 (Partially Achieved), RI8 (Substantially Achieved), RI9 (Fully Achieved), RI10 (Substantially Achieved) and RI11 (Fully Achieved):**

49. **DPO1 PA7 and DPO2 PA5 were directed at increasing the amount of taxation raised by VAT and the income tax by reducing the number of exemptions and strengthening the governance framework in terms of which tax exemptions are granted.** Overall, income tax and VAT form the largest component of government revenue amounting to between 60-70 percent. Measures supported under this operation were expected to lead to an increase in tax from VAT and CIT by an additional 0.8 percentage points of GDP.

<sup>8</sup> Technical Assistance provided by the IFC to the State Department of Trade was to assist with the establishment of the Commodities Exchange.





50. **Notwithstanding COVID-19, substantial progress has been made in domestic revenue mobilization.** This reflects the adverse impact of COVID-19 on economic activity and revenue collections, as well as fiscal stimulus through temporary tax relief to companies and households. However, tax revenues are on the rise again, due to the subsequent rebound in economic activity and the tax measures (rationalization of the removal of tax exemptions) supported under this operation. Whilst the aggregate indicator of tax -to-GDP was impacted by the downturn in the overall economy and revenues due to COVID-19, estimates from the National Treasury point to specific positive results from the tax measures supported under this operation. Specifically, the VAT on petroleum products alone (newly enabled under the legislation) is yielding 0.2 percent of GDP in additional revenue and the rationalization of tax expenditures [PA 7(ii)] has resulted in a 2.2 percent of GDP reduction in tax expenditures (exemptions granted on corporate income tax and VAT). The latest numbers from National Treasury show that overall revenue performance in FY21/22 reached 17.5 percent of GDP, exceeding the target of 16.8 percent of GDP and the FY20/21 and FY19/20 levels of 16 and 16.9 percent of GDP respectively. Of the total increase of 1.4 percent of GDP in revenues between FY20/21 and FY21/22, 1.1 percent of GDP increase in revenues was from VAT and income tax revenue brackets (both of which were supported by the tax measures under the operation). Going forward, estimates from the fiscal program agreed with the IMF program that tax revenues are expected to reach 18.2 percent of GDP by FY23, with the bulk of that increase coming from VAT and corporate income tax (CIT). Against this backdrop and factoring the impact of COVID-19 and the current ongoing momentum of higher revenues this results indicator **(RI7)** is rated as partially achieved. The progress made in improving domestic revenue mobilization has helped mitigate some of the fiscal pressures Kenya faced post-COVID-19 including the drought affecting the Horn of Africa as well as from the higher commodity prices (fuel, fertilizers, wheat) triggered by the ongoing Russia-Ukraine war.
51. **DPO1 PA8 and DPO2 PA6 comprised measures to reduce collusive bidding on government contracts, to provide details through an online portal that publishes tender documents, as well as providing for penalties for collusive behavior.** RI8 and RI9 measured the value of government procurement contracts published through the portal and the number of bid rigging investigations. From a base of zero the actual cumulative 2021 value of contracts published amounted to KES 480 billion, less than the target but still a substantial achievement **(RI8)**. Consultations indicated that implementation challenges still being addressed include inadequate space on National Treasury servers, an ongoing need for further dissemination to procuring entities that will improve the uptake and usage of the portal, and a need for more detailed status reports on government entities complying with the requirement to publish procurement contracts.
52. **DPO1 PA8 comprised measures to reduce collusive bidding on government contracts. In this regard,** the number of investigations related to bid rigging rose to seven (from a baseline of zero), thereby exceeding the target of five **(RI9)**. These investigations provide a substantial disincentive to collusive behavior.
53. **With regard to the debt and borrowing policy (PA7), efforts to reduce debt service were overtaken by the pandemic's negative fiscal and growth impacts.** The fiscal consolidation efforts that had begun prior to the onset of COVID-19 (see Kenya Economic Update, April 2020) were paused given the necessity of counter-cyclical fiscal policy, resulting in higher deficits on account of increased health expenditures and cushioning impact on households, as well as from a significant initial decline in revenues. Consequently, debt servicing charges, which had been expected to decline, continued their upward trend due to the increase in the primary deficit. However, with the abatement in the effects of COVID-19, the government is returning to a fiscal consolidation pathway. The FY23 Budget aims to reduce the fiscal deficit to 6.0 percent, from 7.8 of GDP (preliminary) in the prior fiscal year. In the medium-term, this will narrow further under the IMF-supported medium-term budget strategy, to 4.3 percent of GDP by FY2023/24 through a balanced mix of expenditure restraint and revenue enhancement.



54. **The DPO prior action (approval of the Debt and Borrowing Policy) has helped to lay the foundations in supporting fiscal consolidation as well as improving debt dynamics over the medium term.** An important principle in the policy is the prioritization of concessional financing over the more costly commercial sources. Since the approval of the Debt and Borrowing Policy and the strengthening of the Public Debt Management Office (with support from the World Bank) the share of debt owed to commercial sources resources has declined from a peak share of 35.6 percent in 2019 to 28.8 percent in 2021, whereas the share from multilateral concessional sources has increased from 31.8 percent to 43.2 percent, consequently debt service costs have declined. Indeed, between June 2020 to June 2021 the weighted average interest rate of the debt stock (domestic and external) was lowered from 9.1 percent to 6.9 percent, mostly on account of the increase in share of external borrowing from concessional sources. The lower interest costs translate to a saving of some US\$1.5 billion in debt servicing every year, thereby enhancing fiscal space. Nonetheless, due to the high and rising stock of debt due to ongoing elevated primary deficits (since COVID-19 interrupted the fiscal consolidation plan) overall debt service rose to 4.6 percent of GDP in 2021, but is however projected to decline post-COVID-19 to 4.3 percent by 2026. This is being further supported through the Government of Kenya (GoK) program with the IMF. Overall, considering how the pandemic interrupted the fiscal consolidation efforts that were underway, the recent resumption in fiscal tightening, coupled with the medium-term impact of the pivot to borrowing from more concessional sources, this PA is rated as partially achieved.

55. **Further measures under this PA related to the Central Bank of Kenya launching its Treasury Mobile Direct System allowing for institutional and retail investors participating through an electronic platform in the issuance of government securities.** From a baseline of zero in 2017 by 2021, 80.7 percent of government security transactions took place through the electronic platform. This had the effect of making the financial market in government securities more efficient for retail purchasers in the primary market.

#### **PDO4/Pillar 4. Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda**

**Measured by RI12 (Substantially Achieved), RI13 (Fully Achieved) and RI14 (Fully Achieved)**

56. **DPO2 PA8 involved the repeal of the interest rate cap, an important reform to reduce distortions in the credit market.** Interest rate caps can result in severe financial repression, discourage investment, and damage financial market development. They particularly impact smaller businesses and more risky investment projects negatively, because the cap does not allow for an incorporation of risk premiums into the interest rates charged. This reform was measured by RI12. Evidence of the positive effects of the repeal of the cap on interest rate was the upward trend in the growth of credit to the private sector. Compared to an average credit growth of 2.6 percent (baseline), the removal of the cap has led to a rise in private sector credit growth, notwithstanding the dampening effect of COVID-19. By end 2021, private sector credit growth had reached 8 percent and has continued rising since, reaching 11.5 percent by April 2022. This translates into a monthly injection of US\$2.64 billion to the private sector from the commercial banks compared to an injection of less than US\$550 million during the period of the interest rate cap. Though still below the results indicator target of 14 percent this in part due to the drag from the impact COVID-19 had on business sentiment and risk aversion from banks. However, the rise in private sector credit growth is expected to continue in its rebounding pathway with the ongoing recovery in economic activity, hence the rating of substantially achieved.

57. **RI13 and RI14 measured the number of investment projects registered by the Kenya investment authority and the value of capital investments registered by the Kenya investment authority.** These results indicators measured the impact of DPO2 PA 9, which consisted of Cabinet approval of the Kenya Investment Policy, which aimed at simplifying investor entry and retention; the establishment of Special Economic Zones



in terms of the Special Economic Zones Act; and the enactment of amendments to the Companies Act that require companies to keep a register of beneficial owners. Both RI13 and RI14 were achieved. The number of investment projects increased from a baseline of 37 in 2017 to an actual number of 195 in 2021 compared with a target of 55. The value of capital investments registered increased from a baseline of KES 13.5 billion in 2017 to KES 56.32 billion in 2021 against a target of KES 20 billion. In March 2022, the pharmaceutical company Moderna announced a KES 55 billion (US\$500 million) facility to be setup in one of the Special Economic Zones.

### C. Overall Outcome Rating and Justification

#### Rating: Satisfactory

58. **The overall outcome rating of this DPO series is derived through a combination of the rating of the relevance of prior actions, rated satisfactory, and the rating of efficacy in achieving the development objectives, rated satisfactory.**

59. **This series was the first Development Policy Financing (DPF) Operation in Kenya for more than a decade.<sup>9</sup> The appetite for reform in Kenya increased when a new government came to office in 2017.** It developed its Big Four agenda that became the focal point of the dialogue with the World Bank Group. The dialogue between the World Bank and the government enabled the pent-up demand for policy reform to be translated into policy actions that spanned a broad range of objectives.

60. The success of the program rested on:

- The commitment of the government to the Big Four agenda as reflected in its strong appetite for reform.
- The leadership role of the National Treasury in playing an excellent coordinating role within government to ensure reforms were completed on time.
- Productive dialogue between the World Bank task team leaders and respective line ministries and State Departments and Agencies.
- Strong extensive analytical work on several of the prior actions.
- The existence of complementary investment performance financing (IPF) and program for results (PforR) operations.

61. An additional strength of the program lay in the breadth of reforms that it encompassed. This reflected reform ambition over several sectors to address shortcomings in the existing policy framework, as well as bottlenecks and distortions in the economy. Prior actions involved housing, agriculture, tax issues, financial sector issues, procurement, debt management, information and communication technology, investment policy and special economic zones. The range of prior actions in the program addressed many of the constraints in the economy and were generally well designed and innovative in a number of areas. Given the significant number of government agencies, and the design and implementation complexities, that were involved, the development under the program of strong coordination mechanisms was critical to its success.

62. The results indicators were in many cases adequate measures of how the prior actions moved the results chain towards achieving the development objectives. However, in other cases they were less than adequate, particularly when indicators involved variables that were impacted by factors outside of the program scope. This applied especially to indicators consisting of ratios that involved aggregate variables such as GDP. More focused design of indicators could have eliminated this issue.

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<sup>9</sup> Efforts to undertake a prior DPO in 2016 failed because of a lack of commitment on the part of the Government of Kenya.



## II. OTHER OUTCOMES AND IMPACTS

### A. Poverty, Gender and Social Impacts

63. Pillar one focused on providing affordable housing to low- and middle-income recipients. It simplified the significant number of regulations associated with the construction of multi-story buildings both through allowing for individual titling of units as well as changing restrictive zoning laws in high-density areas. The focus of the prior actions was to increase the number of affordable housing units as well as increasing the number of affordable dwellings owned by women. It achieved this by supporting the increase in affordable housing units to households by some 20,000 units of which almost half of them benefitted women.

64. Pillar two also had substantial components for reducing poverty and achieving equitable gender outcomes. Over 165,000 farmers benefitted from the e-voucher scheme. Studies carried out by the Ministry of Agriculture show that on average productivity increased by some 25 percent for beneficiaries under the e-voucher. This has enhanced food security to beneficiaries as many smallholder farmers achieved food self-sufficiency at the household level, freeing them from the need to buy maize and other cereals, and having the ability to sell surplus product to the market thus enabling them to also increase their incomes (see Box below). On gender, the majority of the e-voucher beneficiaries (58 percent) were women.

#### Box: Case Studies on e-Voucher Reform Impacts

Victoria Muteti, a 44-year old farmer living in Kenya’s Makueni County, has many reasons to be satisfied. In January 2020, she was able to harvest more than 2,500 kilograms (kg) of sorghum from her 2.5-acre farm – far more than the 1,000 kg she harvested in 2019. Her production of green grams rose too, from 316 kg in 2019 to 360 kg this January. In the previous year, she’d harvested only 90 kg of each. Most recently, she was able to sell part of her harvest, earning about US\$800. ...Victoria owes these successes to her participation in an e-voucher initiative.

Ms. Felister Nyaga Wangari is a small scale farmer who is a youth. She comes from Embu County, she used to farm sorghum using the local recycled variety without use of improved inputs resulting in low yields hence low income for her household. With the introduction of the Programme in her area and being a beneficiary of the programme she has adopted use of improved agricultural technologies resulting in the increase of her yield from less than three bags per acre. She is now able to harvest over eight bags which she has been able to sell at an improved price of KES 33 per kilogram from the earlier price of KES 24.

Sources: <https://www.ifad.org/en/web/latest/-/story/before-and-during-covid-19-an-e-voucher-initiative-makes-a-difference-for-kenyan-farmers>.

<https://ruralsolutionsportal.org/documents/39567405/0/Success+Stories+from+the+Counties.pdf/362faa23-47eb-4578-a288-d328e2d5eac8?t=1510234423000>

### B. Environmental, Forests, and Natural Resource Aspects

65. The program had no environmental impacts on forests and natural resources.



### C. Institutional Change/Strengthening

66. **Strengthening institutions was an important focus of this DPO series.** Governance in the agricultural sector was strengthened through the e-voucher system. The institutional and legal foundation was created for the warehouse receipts system. The institutional framework for improved procurement has been established through the electronic procurement portal and an improved system to support the distribution of assistance has been created.

### D. Other Unintended Outcomes and Impacts

67. There were no unintended outcomes or impacts.

## III. BANK PERFORMANCE

### Rating: Satisfactory

#### Preparation:

68. **The design of the series was well grounded in analytical work.** The two operations benefitted from a substantial number of economic and advisory services, both through the World Bank and the International Finance Corporation (IFC). There was extensive consultation with the government, development partners, the private sector, and with civil society. A noteworthy feature of World Bank performance was that it responded to the government's strong appetite for reform following the development of its medium-term reform program, otherwise known as the "Big Four" agenda that aimed to raise the economic growth rate and to make the economy more inclusive. The goals of the DPO series were designed to be aligned to the government's priorities.

69. **The program also demonstrated that the World Bank team was willing to be ambitious and embrace risk, leveraging the strong reform appetite on the part of the government.** The extensive breadth of the program involved both challenges and opportunities to push boundaries at both the design and implementation phases.

70. **In general, the design of the program was sound, although the causal chain between a few PAs and the results indicators could have been strengthened.** This was perhaps inevitable given the breadth of the program. The operation complemented five other World Bank investment operations that also supported the Big Four agenda.<sup>10</sup>

#### Implementation

71. **The implementation of the operation, which was supported by advisory services and technical assistance, contributed towards the program meeting its goals.** The series showed a high degree of adaptability in response to the onset of COVID-19. However, the pandemic delayed achievement of a number of results indicators. The supervision of the operation was supported strongly by World Bank staff in the field and Global Practices.

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<sup>10</sup> These were: the Kenya Affordable Housing Finance Project (P165034), the Kenya Climate Smart Agriculture Project (P153349), the National Agriculture and Inclusive Growth Project (P153349), the Marine Fisheries and Socio-economic Development Project (P163980), and the Governance for Improved Service Delivery Project (P161387).



#### IV. RISK TO SUSTAINABILITY OF DEVELOPMENT OUTCOMES

72. **The risk rating in the program documents changed between the first and second operations of the series.** The first operation rated the overall program risk as moderate based on the strong commitment of the government of Kenya to pursuing reform activities as part of its "Big Four" agenda. Nonetheless, key risks identified included:

- **The interest rate ceiling that resulted in the rationing of lending and the fact that interest rates could not reflect lending risk.** As discussed above, following the removal of the interest rate caps as a prior action of the second operation, and as the pandemic recovery has continued, credit pricing has been able to adjust and credit growth has increased.
- **The first operation also rated political and government risk as substantial due to governance and political economy concerns potentially opposition to some of the reforms and thereby undermining its intended benefits.** In the event, the government continued to display an appetite for policy reforms and implementation, as demonstrated by the results achieved in the program so far and the additional reforms which were undertaken, supported by the subsequent DPO series. This continuing reform momentum is positive for the likely sustainability of outcomes.
- **The second operation increased the rating of program risk to substantial based on the economy-wide effects of the COVID-19 pandemic. This constituted the most significant risk that had the potential to undermine the attainment of the program's objectives because of its negative impact on economic growth.** Looking back, the pandemic did have severe, adverse impacts on lives and livelihoods in Kenya, as elsewhere, and some of its likely long-term consequences are not yet known (for example, from the disruption to education). However, at the time of this ICR assessment, the economy as a whole has staged a strong recovery, helping to buttress the likely sustainability of the program outcomes.

#### V. LESSONS AND NEXT PHASE

##### A. Lessons Learned

73. Until the commencement of the Kenya Inclusive Growth and Fiscal Management DPO series, the first of which was approved in June 2019, the last successful GoK budget support operation approved by the World Bank was in 2001, indicating a hiatus of some 18 years for which the World Bank had not engaged with the GoK using the DPF instrument. Against this backdrop, the lessons learnt captured in this ICR include those from the process of successfully re-engaging with the GoK using the DPF instrument as well as from the design and implementation of this specific DPF series.

##### **Lessons Learned from the Process of Re-engaging with the GoK using the DPF instrument**

74. **The need to ensure a triumvirate of support among key stakeholders including strong buy-in from higher level decision makers in government, strong senior management support at the World Bank, and support from Development Partners.** Any Development Financing Operation in Kenya missing one of these elements is unlikely to succeed. Indeed, three development policy financing operations were attempted between 2001 and 2016, however each of these operations was discontinued due to lack of strong support from at least one key stakeholder.

75. **The success of the process for the Kenya Inclusive Growth and Fiscal Management DPO, reflects a confluence of aligned interest and strong stakeholder engagement. The process of aligned interest is discussed in detail below:**





- First, by-end 2017, after the conclusion of the elections, the new administration articulated a very clear and ambitious inclusive growth agenda – the Big Four – seeking to prioritize food security and nutrition, provide universal health coverage, increase the share of manufacturing and accelerate ownership of affordable housing. The articulation of this vision coupled with the observed strong government appetite for reform served to galvanize the interests of various counterparts, including: development partners (including the World Bank), private sector actors, non-governmental organizations, and the broader civil society to identify how they could partner with the GoK to realize these goals.
- Second, notwithstanding the ambition and vision of the new administration, the fiscal space to pursue an inclusive growth agenda had narrowed, revenues were perennially underperforming, while expenditures were elevated (including from structurally rigid sources such as debt servicing due to earlier contracting of expensive commercial debt).
- From the World Bank’s side, while it had been successfully engaging with the GoK in several of these areas through IPF’s, PFor’s and analytical work, there were limits in the ability of these instruments to move the needle on systemic policy, legislative, and institutional reforms, hence the renewed interest in using a DPF to support the GoK.
- Further, right from conception of the DPO, the World Bank pro-actively consulted with Development Partners in Kenya using established platforms such as the Development Partners Group – Heads of Co-operation as well as the Development Partners Group – Heads of Missions. Furthermore, GoK Cabinet Ministers (and on some occasions the President), took the initiative to periodically engage with Development Partners where their interests in the use of the DPO instrument was regularly discussed. This triumvirate of engagement ensured all stakeholders were on the same page and enabled an alignment of interests.
- The success of the DPF has been followed by other Development Partners carrying out their own budget support operations (for example, African Development Bank and the European Union) with the GoK.

### **Lessons Learned from the Design and Implementation of the Kenya Inclusive Growth and Fiscal Management DPO**

76. **The importance of identifying the confluence between government priorities and those of the World Bank.** This DPO series centered on areas of mutual overlap of priorities between the government agenda (the Big Four agenda and fiscal management) and World Bank priorities. Indeed, while the Big Four agenda was much broader, the World Bank DPF selected aspects of these priorities as well as on fiscal management where analytical underpinnings and competencies were available. The fact that the focus of the operation was centered on the priorities of the government ensured that there was strong buy-in from the government from the beginning which carried through in ensuring that each of the prior actions were completed.

77. **The importance of strong government co-ordination role, spear-headed by the National Treasury.** The prior actions supported under this operation represented a complex reform agenda given the breadth and depth of the reforms that were being implemented by at least 10 Ministries, State Departments and Agencies (MDAs). Hence, the success of this reform agenda hinged on creating a strong co-ordination mechanism. Given the strong GoK ownership of the program, the National Treasury was charged with coordinating the implementation framework, which they undertook by holding implementation progress meetings on a weekly or biweekly interval, chaired by the Principal Secretary of the National Treasury with all MDAs as well as the World Bank. This implementation framework on the prior actions worked very effectively



for the DPF and could be a model for other countries considering an ambitious and broad DPF reform agenda. In the case of Kenya, it helped lay the foundation for future reforms in subsequent DPF series. Further, the platform inspired other reforms not included in the DPF policy matrix.

78. **An important factor in the successful execution of the reform program was the strong technical capacity and reform appetite that exists among the policy making civil servant cadre in the MDAs.** Kenya has a well-educated and professional civil service with several competent policy experts. And where there was any lacking expertise, the World Bank was able to supplement that with analytical work and technical assistance (including from IFC). Coupled with clear appetite for reform from the administration providing direction to civil servants, this helped laid a strong foundation for the success of the DPF series.

79. **The program illustrates the advantages of a strong analytical foundation for the choice of prior actions and the benefits of complementary support from World Bank operations (ASA, IPFs and PForRs).** Several of the reform areas supported by the DPF complemented existing IPFs and PForRs that required specific legislative or institutional reforms that would help magnify or advance aspects of these operations. These included the Mortgage Refinance Companies regulation which allowed the creation of KMRC, thereby complementing World Bank and IFC investments in the Affordable Housing sector through the Kenya Affordable Housing Project. Similarly, the Cabinet approval of the policy for the roll out of the e-voucher complemented existing operations supporting agricultural value chains. Further, advisory work, including from the IFC (for example, Warehouse receipts, commodities exchange, special economic zones) also helped with IFC's engagement in deepening agricultural commodity markets in Kenya.

80. If a DPO series is well designed and achieves results, it provides a foundation for further World Bank assistance to consolidate reforms that are part of an ongoing process of reform and budget-support through DPOs. Indeed, upon the completion of this series, there have been two further operations as part of the follow-up DPF series – “Accelerating Reforms for an Inclusive and Resilient Recovery”. Some of the reform agenda builds on aspects of this series, whilst also adapting to the reality of COVID-19 and helping the country navigate the challenges of the pandemic as well as put in place the structural reforms to build back better.

81. Nonetheless, the effectiveness of achieving results in some of the reform areas was compromised by ongoing fiscal pressures which led to an insufficient allocation of exchequer funds to support implementation. Indeed, in some areas, due to fiscal constraints, the absence of complementary IPF's impeded progress since budget allocations were lower than needed, thus affecting progress towards achieving the results indicators. For instance, the effectiveness of the functioning of the Warehouse Receipt System was affected by non-operationalization of a commodities exchange that had been envisaged, but whose progress was impeded by insufficient budgetary resources as well as from COVID-19. Going forward it will be important to work with the government and other development partners in areas of reform where World Bank funds will not be able to support downstream implementation activities with a financial bearing beyond the passage of policy, legislative and institutional reforms.

## B. Next Phase

82. Supporting selected aspects of the Government of Kenya's Big Four agenda, the Kenya Inclusive Growth and Fiscal Management DPF series helped build a strong platform for policy and institutional reforms between the Government of Kenya and the World Bank. Following the approval of this DPF series, the advent of COVID-19 significantly impacted the economic landscape, thereby necessitating renewed vigor in carrying out policy and institutional reforms that required Kenya to both respond to the COVID-19 crisis but also to build back better.





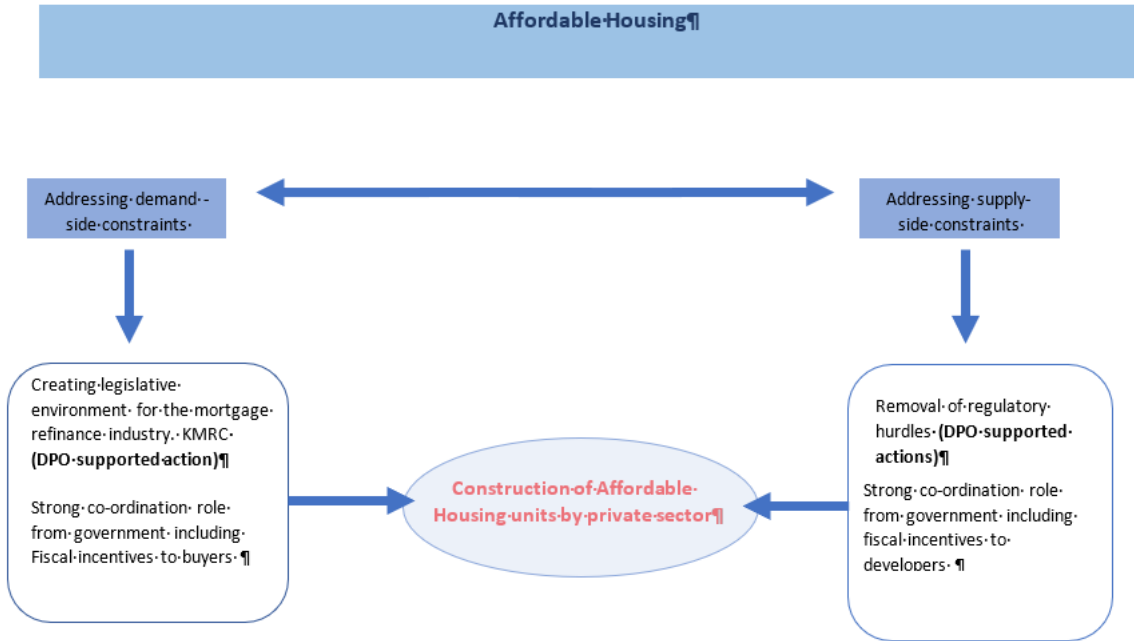
83. Hence seizing on the solid reform platform and momentum between the World Bank and the GoK, a second DPF series is under implementation. The two operations in the series are supporting critical policy and institutional reforms made urgent by the crisis (for example, in hard-hit sectors such as healthcare), whilst maintaining a line of sight to the government's medium-term development agenda. The new DPF series extends the strong medium-term reform momentum which has been maintained despite the pandemic shock and prioritizes those measures which are critical to the recovery, and to green, resilient and inclusive development (GRID). The program clusters the reforms into three pillars: (i) Fiscal and debt reforms to make spending more transparent and efficient, and enhance domestic debt market performance; (ii) Electricity sector and public private partnership (PPP) reforms to strengthen the cornerstone utility (Kenya Power and Lighting Company, KPLC), place Kenya on an efficient, green energy path, and boost private infrastructure investment; (iii) Strengthen environmental and natural resource governance, combat climate change, and improve healthcare including pandemic response. The first operation in the series was approved by the World Bank Board in June 2021 and the second in March 2022.

84. Finally, the FY23-28 CPF envisages building on the strong platform of engagement between the World Bank and the GoK, to continue to advance policy and institutional reform agenda to achieve the CPF objectives.

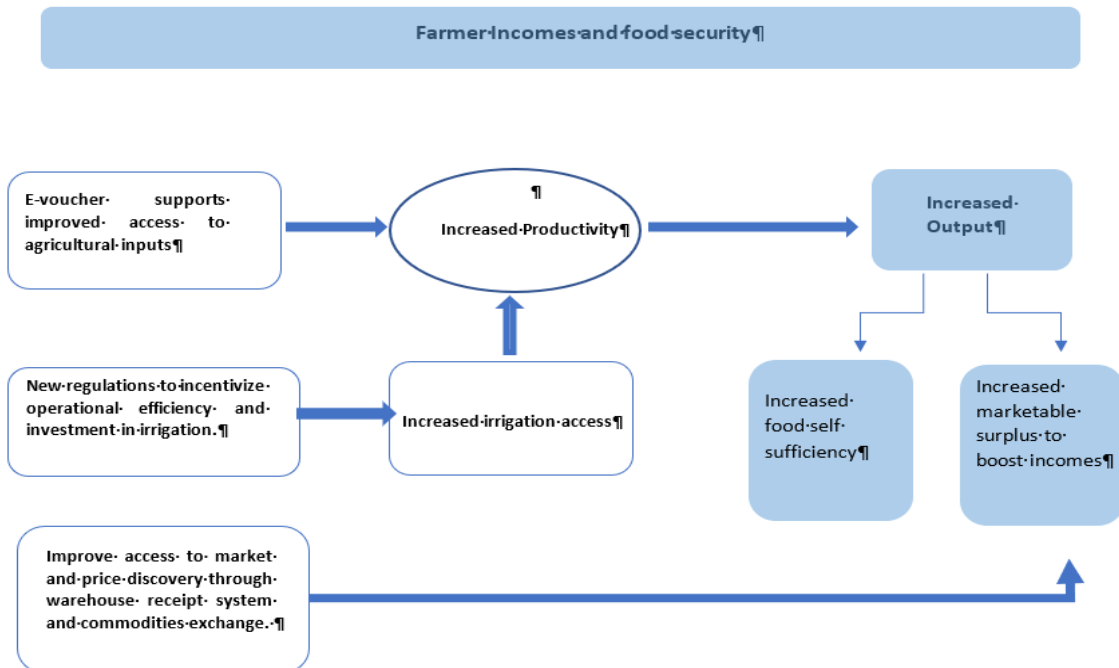


### ANNEX 1. THEORY OF CHANGE

#### PDO1/Pillar 1. Crowd in Private Investment and Financing for the Delivery of Affordable Housing



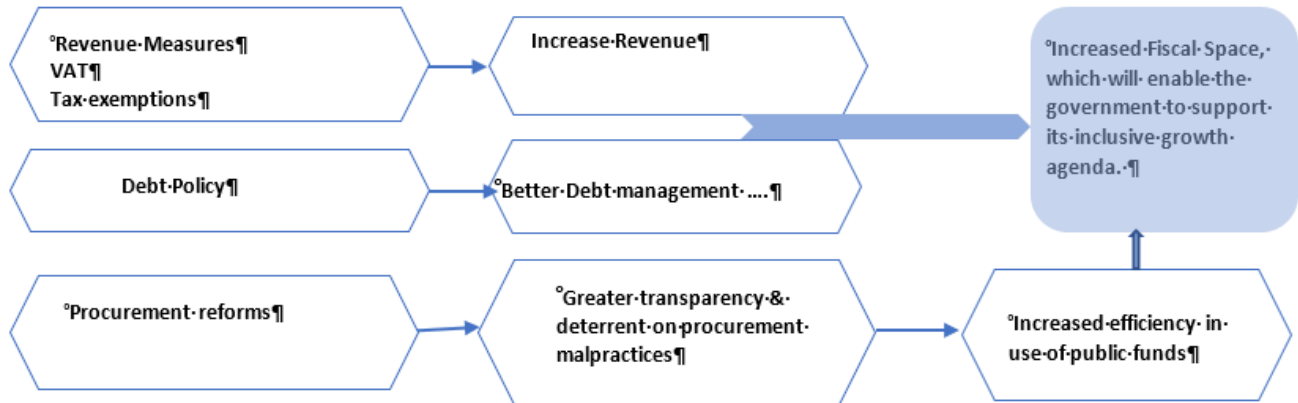
#### PDO2/Pillar 2. Enhance Farmers Income and Food Security





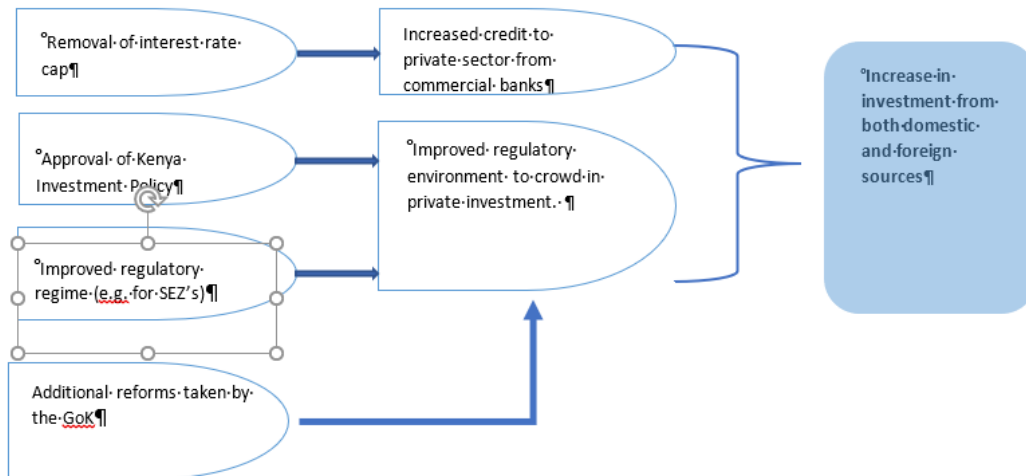
**PDO3/Pillar 3. Create Fiscal Space and Crowd in the Private Sector to Advance the Government's Inclusive Growth Agenda**

**Fiscal Space**



**PDO4/ Pillar 4: Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda**

**Crowding in Private Investment**





Results Indicators

A. RESULTS INDICATORS

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

| Indicator Name   | Unit of Measure | Baseline    | Target      | Actual Achieved at Completion |
|--|-----------------|-------------|-------------|-------------------------------|
| The number of affordable housing units constructed with private investment under the government supported affordable housing program | Number          | 0.00        | 20,000.00   | 20,406.00                     |
|  |                 | 31-Dec-2017 | 31-Dec-2021 | 30-Apr-2022                   |

Comments (achievements against targets):

Fully achieved 5,106 government funded units completed; 15,300 private sector funded affordable housing units completed.

| Indicator Name   | Unit of Measure | Baseline    | Target      | Actual Achieved at Completion |
|--|-----------------|-------------|-------------|-------------------------------|
| Proportion of affordable housing units constructed with private investment under the government supported affordable homes program owned by women (including individual or joint ownership agreements) | Percentage      | 0.00        | 50.00       | 46.00                         |
|  |                 | 31-Dec-2017 | 31-Dec-2021 | 31-Dec-2021                   |



Comments (achievements against targets):  
Substantially achieved.

| Indicator Name                                | Unit of Measure | Baseline    | Target      | Actual Achieved at Completion |
|---|-----------------|-------------|-------------|-------------------------------|
| Number of private sector shareholders in KMRC | Number          | 0.00        | 15.00       | 20.00                         |
|   |                 | 01-Jan-2017 | 31-Dec-2021 | 31-Dec-2021                   |

Comments (achievements against targets):  
Fully achieved.

**Pillar: Pillar 2. Enhance Farmers Income and Food Security**

| Indicator Name                                | Unit of Measure | Baseline    | Target      | Actual Achieved at Completion |
|---|-----------------|-------------|-------------|-------------------------------|
| Number of farmers benefitting from e-vouchers | Number          | 0.00        | 150,000.00  | 167,000.00                    |
|   |                 | 31-Dec-2017 | 31-Dec-2021 | 31-Dec-2021                   |

Comments (achievements against targets):  
Fully achieved.

| Indicator Name | Unit of Measure | Baseline | Target | Actual Achieved at Completion |
|----------------|-----------------|----------|--------|-------------------------------|
|----------------|-----------------|----------|--------|-------------------------------|



|  |            |                     |                      |                      |
|--|------------|---------------------|----------------------|----------------------|
| Proportion of farmers benefitting from e-vouchers who are female   | Percentage | 0.00<br>31-Dec-2017 | 50.00<br>31-Dec-2021 | 58.00<br>31-Dec-2021 |
| <b>Comments (achievements against targets):</b><br>Fully achieved. |            |                     |                      |                      |

| Indicator Name   | Unit of Measure | Baseline            | Target               | Actual Achieved at Completion |
|--|-----------------|---------------------|----------------------|-------------------------------|
| Number of licensed warehouses under the WRS participating in the Commodities Exchange that have been leased from the National Produce and Cereal Board to the private sector   | Number          | 0.00<br>31-Dec-2017 | 16.00<br>31-Dec-2021 | 12.00<br>31-Dec-2021          |
| <b>Comments (achievements against targets):</b><br>Partially achieved. This indicator was impacted by COVID-19. Despite this setback, however, progress is being made and an additional 7 warehouses are expected to be licensed by end- 2022 (for a total of 12 licensed warehouses, meriting a partially achieved rating). |                 |                     |                      |                               |

**Pillar: Pillar 3. Create Fiscal Space and Crowd in the Private Sector**

| Indicator Name              | Unit of Measure | Baseline             | Target               | Actual Achieved at Completion |
|-----------------------------|-----------------|----------------------|----------------------|-------------------------------|
| VAT and income tax revenues | Percentage      | 11.20<br>30-Jun-2017 | 12.10<br>30-Jun-2021 | 11.00<br>30-Jun-2021          |



**Comments (achievements against targets):**

Partially achieved, factoring in the impact from COVID-19 as the 11.0% achieved in FY21 reflected a strong recovery from the pandemic-induced slump in revenues to 9.9% in 2020.

| Indicator Name  | Unit of Measure | Baseline            | Target                | Actual Achieved at Completion |
|---|-----------------|---------------------|-----------------------|-------------------------------|
| Cumulative value of government procurement contracts published on online procurement portal | Number          | 0.00<br>31-Dec-2017 | 600.00<br>31-Dec-2021 | 480.00<br>31-Dec-2021         |

**Comments (achievements against targets):**

Values refer to billions of Kenyan shillings (KES). Fully achieved.

| Indicator Name   | Unit of Measure | Baseline            | Target              | Actual Achieved at Completion |
|--|-----------------|---------------------|---------------------|-------------------------------|
| Number of investigations related to bid rigging undertaken jointly by CAK and PPRA | Number          | 0.00<br>31-Dec-2017 | 5.00<br>31-Dec-2021 | 7.00<br>31-Dec-2021           |

**Comments (achievements against targets):**

Fully achieved.

| Indicator Name | Unit of Measure | Baseline | Target | Actual Achieved at Completion |
|----------------|-----------------|----------|--------|-------------------------------|
|----------------|-----------------|----------|--------|-------------------------------|



|                    |            |                     |                     |                     |
|--------------------|------------|---------------------|---------------------|---------------------|
| Debt service ratio | Percentage | 4.30<br>31-Dec-2017 | 3.90<br>31-Dec-2021 | 5.90<br>31-Dec-2021 |
|--------------------|------------|---------------------|---------------------|---------------------|

**Comments (achievements against targets):**

Partially achieved. This indicator was strongly affected by the budget being impacted by the COVID-19 pandemic. With the recovery of the economy and the pivot to more concessional financing, the debt service ratio is projected to decline.

| Indicator Name   | Unit of Measure | Baseline            | Target               | Actual Achieved at Completion |
|--|-----------------|---------------------|----------------------|-------------------------------|
| Share of government securities transacted on electronic platform | Percentage      | 0.00<br>31-Dec-2017 | 70.00<br>31-Dec-2021 | 80.70<br>31-Dec-2021          |

**Comments (achievements against targets):**

Fully achieved.

**Pillar: Pillar 4. Crowd in Private Investment and Leverage Digitization**

| Indicator Name                              | Unit of Measure | Baseline            | Target               | Actual Achieved at Completion |
|---|-----------------|---------------------|----------------------|-------------------------------|
| Average credit growth to the private sector | Percentage      | 2.80<br>31-Dec-2017 | 14.00<br>31-Dec-2021 | 8.60<br>31-Dec-2021           |





**Comments (achievements against targets):**

Substantially achieved. This indicator was impacted by the effect of COVID-19 on the economy.

| Indicator Name   | Unit of Measure | Baseline             | Target               | Actual Achieved at Completion |
|--|-----------------|----------------------|----------------------|-------------------------------|
| Number of investment projects registered by Kenya Investment Authority | Number          | 37.00<br>31-Dec-2017 | 55.00<br>31-Dec-2021 | 195.00<br>31-Dec-2021         |

**Comments (achievements against targets):**

Fully achieved.

| Indicator Name  | Unit of Measure | Baseline             | Target               | Actual Achieved at Completion |
|---|-----------------|----------------------|----------------------|-------------------------------|
| Value of capital Investments registered by Kenya investment Authority | Number          | 13.50<br>31-Dec-2017 | 20.00<br>31-Dec-2021 | 56.30<br>31-Dec-2021          |

**Comments (achievements against targets):**

Value is billions of Kenyan shillings (KES). Fully achieved.

Please see Table 2 in main text.



**ANNEX 2. BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION PROCESSES**

**A. TASK TEAM MEMBERS**

**P168204**

Allen Curtis K. Dennis (Task Team Leader), Sarah Oludamilola Sanya (Task Team Leader), Frederick Yankey (Financial Management Specialist), Philip M. Schuler (Team Member), Ladisy Komba Chengula (Team Member), Timothy Stephen Williamson (Team Member), Tania Priscilla Begazo Gomez (Team Member), Caroline Marie Cecile Cerruti Hailey (Team Member), Sarah Ruth Ochieng (Team Member), Jane Chuma (Team Member), Sheila W. Kamunyori (Team Member), Peter Chacha Wankuru (Team Member), Moses Misach Kajubi (Team Member), Augustine Sangson Langyintuo (Team Member), Christine Achieng Awiti (Team Member), Hadija Rahama Diba Kamayo (Team Member)

**P172321**

Allen Curtis K. Dennis (Task Team Leader), Alexis Sienaert (Task Team Leader), Peter Chacha Wankuru (Task Team Leader), Frederick Yankey (Financial Management Specialist), Ndiga Akech Odindo (Team Member), Asasira Hilari Kamushaga (Team Member), Diana Mwikali Nzioki (Team Member), Christine Anyango Owuor (Team Member), Sheila W. Kamunyori (Team Member), Hope Turyasingura Nanshemeza (Team Member), Vinay Kumar Vutukuru (Team Member), Sarah Ruth Ochieng (Team Member), Joel Buku Munyori (Team Member), Nagaraju Duthaluri (Team Member), Gabi George Afram (Team Member), Tania Priscilla Begazo Gomez (Team Member), Evarist F. Baimu (Team Member), Timothy Stephen Williamson (Team Member), Anne Khatimba (Team Member)

**B. STAFF TIME AND COST**

**P168204**

| Stage of Project Cycle | Staff Time and Cost |  |
|------------------------|---------------------|--|
|                        | No. of staff weeks  | US\$ (including travel and consultant costs) |
| <b>Preparation</b>     |                     |  |
| FY19                   | 65.481              | 387,356.23                                   |
| FY20                   | 0                   | 172.16                                       |
| <b>Total</b>           | <b>65.48</b>        | <b>387,528.39</b>                            |
| <b>Supervision/ICR</b> |                     |  |
| FY20                   | 0                   | - 0.19                                       |
| <b>Total</b>           | <b>0.00</b>         | <b>- 0.19</b>                                |



**P172321**

| Stage of Project Cycle | Staff Time and Cost |  |
|------------------------|---------------------|--|
|                        | No. of staff weeks  | US\$ (including travel and consultant costs) |
| <b>Preparation</b>     |                     |  |
| FY19                   | 65.481              | 387,356.23                                   |
| FY20                   | 47.942              | 378,838.71                                   |
| FY21                   | .225                | 685.89                                       |
| FY22                   | .715                | 5,870.43                                     |
| <b>Total</b>           | <b>114.36</b>       | <b>772,751.26</b>                            |
| <b>Supervision/ICR</b> |                     |  |
| FY20                   | 0                   | - 0.19                                       |
| <b>Total</b>           | <b>0.00</b>         | <b>- 0.19</b>                                |



### **ANNEX 3. BORROWER, CO-FINANCIERS, AND OTHER DEVELOPMENT PARTNERS'/STAKEHOLDERS' COMMENTS**

The preparation of the ICR benefitted from interviews held with policy makers and authorities involved in the implementation of the DPF's reform agenda. Authorities expressed their strong appreciation for the focus areas of the reform agenda of the DPF as it was well aligned with their ambitious development agenda. They also acknowledge that the DPF series have been critical in supporting their fiscal and debt management as overall debt servicing costs given the pivot to more concessional resources. Results of the ICR were also presented to Development Partners Groups – Heads of Co-operation and was well received.



## ANNEX 4. SECTORS AND THEMES

| SECTORS AND THEMES  |           |                            |                            |
|---|-----------|----------------------------|----------------------------|
| P168204   |           |                            |                            |
| Sectors   |           |                            |                            |
| Major Sector/Sector                                       | (%)       | Mitigation Co-benefits (%) | Adaptation Co-benefits (%) |
| <b>Agriculture, Fishing and Forestry</b>                  | <b>22</b> | <b>0.00</b>                | <b>5.50</b>                |
| Fisheries   | 11        | 0                          | 0                          |
| Irrigation and Drainage                                   | 11        | 0                          | 50                         |
| <b>Public Administration</b>                              | <b>33</b> | <b>5.61</b>                | <b>0.00</b>                |
| Central Government (Central Agencies)                     | 33        | 17                         | 0                          |
| <b>Industry, Trade and Services</b>                       | <b>45</b> | <b>1.61</b>                | <b>1.61</b>                |
| Agricultural markets, commercialization and agri-business | 22        | 0                          | 0                          |
| Housing Construction                                      | 23        | 7                          | 7                          |
| Themes  |           |                            |                            |
| Major Theme/ Theme (Level 2)/ Theme (Level 3)             | (%)       |                            |                            |
| <b>Economic Policy</b>                                    | <b>11</b> |                            |                            |
| Fiscal Policy   | 11        |                            |                            |
| Tax policy  | 11        |                            |                            |
| <b>Finance</b>  | <b>44</b> |                            |                            |
| Finance for Development                                   | 44        |                            |                            |
| Agriculture Finance                                       | 22        |                            |                            |
| Housing Finance   | 22        |                            |                            |
| <b>Public Sector Management</b>                           | <b>11</b> |                            |                            |
| Public Finance Management                                 | 11        |                            |                            |
| Public Expenditure Management                             | 11        |                            |                            |



|  |           |
|--|-----------|
| Public Administration                              | 11        |
| Civil Registration and Identification              | 11        |
| <b>Urban and Rural Development</b>                 | <b>33</b> |
| Rural Development                                  | 33        |
| Rural Markets                                      | 33        |
| <b>Environment and Natural Resource Management</b> | <b>14</b> |
| Climate change                                     | 14        |
| Mitigation   | 7         |
| Adaptation   | 7         |
| Renewable Natural Resources Asset Management       | 11        |
| Fisheries Policies and institutions                | 11        |

**P172321**

**Sectors**

| Major Sector/Sector                                       | (%)       | Mitigation Co-benefits (%) | Adaptation Co-benefits (%) |
|---|-----------|----------------------------|----------------------------|
| <b>Public Administration</b>                              | <b>56</b> | <b>6.16</b>                | <b>0.56</b>                |
| Central Government (Central Agencies)                     | 56        | 11                         | 1                          |
| <b>Industry, Trade and Services</b>                       | <b>44</b> | <b>4.40</b>                | <b>8.69</b>                |
| Agricultural markets, commercialization and agri-business | 33        | 7                          | 20                         |
| Housing Construction                                      | 11        | 19                         | 19                         |

**Themes**

| Major Theme/ Theme (Level 2)/ Theme (Level 3) | (%)       |
|---|-----------|
| <b>Economic Policy</b>                        | <b>22</b> |
| Fiscal Policy                                 | 22        |
| Debt Policy                                   | 11        |
| Tax policy                                    | 11        |
| <b>Private Sector Development</b>             | <b>11</b> |



|  |            |
|--|------------|
| Business Enabling Environment                      | 11         |
| Investment and Business Climate                    | 11         |
| Jobs   | 11         |
| Job Creation                                       | 11         |
| Enterprise Development                             | 11         |
| MSME Development                                   | 11         |
| <b>Finance</b>                                     | <b>22</b>  |
| Finance for Development                            | 22         |
| Agriculture Finance                                | 11         |
| Housing Finance                                    | 11         |
| <b>Public Sector Management</b>                    | <b>22</b>  |
| Public Finance Management                          | 11         |
| Public Expenditure Management                      | 11         |
| Public Administration                              | 22         |
| Transparency, Accountability and Good Governance   | 22         |
| <b>Human Development and Gender</b>                | <b>100</b> |
| Disease Control                                    | 100        |
| Pandemic Response                                  | 100        |
| <b>Urban and Rural Development</b>                 | <b>33</b>  |
| Urban Development                                  | 11         |
| Services and Housing for the Poor                  | 11         |
| Rural Development                                  | 33         |
| Rural Markets                                      | 33         |
| <b>Environment and Natural Resource Management</b> | <b>20</b>  |
| Climate change                                     | 20         |
| Mitigation   | 10         |
| Adaptation   | 9          |

