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Report No: PD000049

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR

A PROPOSED LOAN
IN THE AMOUNT OF US$850 MILLION

AND

A PROPOSED CREDIT
IN THE AMOUNT OF EUR 278.2 MILLION
(US$300 MILLION EQUIVALENT)

AND

A PROPOSED IDA GRANT
IN THE AMOUNT OF SDR 37.8 MILLION (US$50 MILLION EQUIVALENT)
FROM THE
WINDOW FOR HOST COMMUNITIES AND REFUGEES

TO THE REPUBLIC OF KENYA

FOR THE

FIRST KENYA FISCAL SUSTAINABILITY AND RESILIENT GROWTH
DEVELOPMENT POLICY OPERATION

May 2, 2024

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

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Republic of Kenya

GOVERNMENT FISCAL YEAR

July, 1 – June, 30

CURRENCY EQUIVALENTS

Exchange Rate Effective as of 28 March 2024

KSh131.50

US$1.00

ABBREVIATIONS AND ACRONYMS

AFCTA	African Continental Free Trade Area Agreement	KEPSA	Kenya Private Sector Alliance
AM	Accountability Mechanism	LDP	Letter of Development Policy
BETA	Bottom-Up Economic Transformation Agenda	MDA	Ministries, Departments, and Agencies
CCDR	Country Climate and Development Report	MDB	Multilateral Development Bank
CAD	Current Account Deficit	MFD	Maximizing Finance for Development
CDP	*Cassa Depositi e Prestiti* (Deposits and Loans Fund)	MOF	Ministry of Finance
COI	Conflict of Interest	MTEF	Medium-Term Expenditure Framework
CPF	Country Partnership Framework	MTP	Medium-Term Plan
DFI	Development Finance Institution	NEET	Not in Education Employment or Training
DPO	Development Policy Operation	NSNP	National Safety Net Program
DRS	Department of Refugee Services	OAG	Office of Auditor General
EACC	Ethics and Anti-Corruption Commission	PA	Prior Action
ECF	Extended Credit Facility	PBA	Performance-Based Allocations
EFF	Extended Fund Facility	PCE	Private Capital Enabling
ESR	Enhanced Single Registry	PER	Public Expenditure Review
FDI	Foreign Direct Investment	PES	Payment for Ecosystem Services
GDP	Gross Domestic Product	PFM	Public Financial Management
GoK	Government of Kenya	RSF	Resilience and Sustainability Facility
GRS	Grievance Redress Service	SCD	Systematic Country Diagnostic
IBRD	International Bank for Reconstruction and Development	SDR	Special Drawing Rights
IDA	International Development Association	SLB	Sustainability-Linked Bond
IFC	International Finance Corporation	SSA	Sub-Saharan Africa
IFMIS	Integrated Financial Management Information System	TSA	Treasury Single Account
IMF	International Monetary Fund	TVET	Technical and Vocational Education and Training
IT	Indicative Trigger	UNHCR	United Nations High Commission of Refugees
JCAP	Joint Capital Markets Program		
JICA	Japan International Cooperation Agency	WBG	World Bank Group
KCHS	Kenya Continuous Household Survey	WHR	Window for Host Communities and Refugees

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REPUBLIC OF KENYA

First Kenya Fiscal Sustainability and Resilient Growth Development Policy Operation

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P500912	Yes	1st in a series of 3

Proposed Development Objective(s)

To (i) promote efficiency, transparency, and equity of public finance; (ii) foster more competitive and inclusive product and labor markets; and (iii) strengthen climate action

Organizations

Borrower:	The Republic of Kenya
Implementing Agency:	National Treasury

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	**1,200.00**

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	850.00
International Development Association (IDA)	350.00
IDA Credit	300.00

IDA Grant	50.00

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
Window for Host Communities and Refugees (WHR)	0.00	50.00	0.00	0.00	50.00
National Performance-Based Allocations (PBA)	300.00	0.00	0.00	0.00	300.00
Total	**300.00**	**50.00**	**0.00**	**0.00**	**350.00**

PRACTICE AREA(S)

Practice Area (Lead)

Macroeconomics, Trade and Investment

Contributing Practice Areas

Finance, Competitiveness and Innovation; Governance; Environment, Natural Resources & the Blue Economy; Education

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

OVERALL RISK RATING

Overall Risk	Substantial

RESULTS		
Indicator Name	**Baseline**	**Target**
Percentage of MDAs’ public procurement annual budget processed through the e-Government Procurement system	0% (2023)	100% (2027)
Wage bill as a percentage of total revenue	47% (2023)	35% (2027)
Proportion of declarations of personal interests of public officials reviewed and verified by the EACC	0 (2023)	85% (2027)
Proportion of NSNP and other complementary social protection programs’ beneficiaries that represent the poorest 40 percent of the overall population.	59% (2023)	80% (2027)
Difference between the poverty headcount rates of male-headed NSNP beneficiary households and female-headed NSNP beneficiary households	4% (2023)	0% (2027)
Percentage increase of inter-county trade as a share of total VAT	46% (2023)	49% (2027)
Increase in revenue generated from E-Commerce (US$ million).	3,600 (2023)	5,700 (2027)
Number of enterprises benefitting from competition reforms and enforcement in digital markets, that invested in Kenya’s ICT sector	0 (2023)	5 (2027)
Number of students supported (enrolled in) tertiary education, including TVET and universities	362,834 (2023)	500,226 (2027)
Number of displaced people provided with services (integrated into national/county systems) and livelihoods	0 (2023)	400,000 (2027)
Net GHG emissions per year in the transport sector (MtCO2)	13.6 (2022)	15.5 (2027)
Hectares of terrestrial areas under enhanced conservation and management (thousand hectares)	0 (2023)	250 (2027)
Climate finance revenue associated with GHG reductions (US$M)	0 (2023)	750 (2027)

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Operation (DPO) is the first of a series of three operations that support Kenya's policy and institutional reforms to (i) promote efficiency, transparency, and equity of public finance; (ii) foster more competitive and inclusive product and labor markets; and (iii) strengthen climate action**. This DPO of US$1.2 billion, financed by IBRD and IDA (including the Window for Refugees and Host Communities), supports the ambitious reform agenda of the Government of Kenya (GoK) to drive transformational change in the country. It is tailored to Kenya's challenging macroeconomic context, framed by tight global and domestic credit conditions, fiscal pressures, shocks from climate change, and persistent poverty and inequality. The DPO is designed to address the country's short-term challenges by strengthening fiscal, economic, and environmental institutions that will simultaneously lay the foundations for a more prosperous, green, and inclusive future.

2. **Past development successes have propelled Kenya to lower middle income level.** Kenya's GDP per capita of US$2,187 in 2023 is relatively high in Sub-Saharan Africa (SSA). Its economy is quite diversified, making Kenya an important source for industrialized goods, especially in the East African Community. Services, from tourism to information and communications technology (ICT), have become an increasing source of exports. The country boasts Africa's highest human capital index score. Kenya is SSA's third most democratic country according to the Polity IV score, having strengthened and decentralized its democracy through its 2010 Constitution. Real GDP per capita growth averaged 2.4 percent between 2009 and 2019, supporting a reduction in both poverty and inequality. In 2014, Kenya accessed global capital markets for the first time, issuing a US$2 billion Eurobond. The current government, which took power in September 2022, has helped make Kenya a leading African voice on climate change, namely through its leadership on the Nairobi Declaration on Climate Change in 2023.

3. **Yet Kenya is facing headwinds that threaten its sustained successes.** Low interest rates following the global financial crisis spurred investment growth, driving up public and private debt levels**.** Such vulnerabilities were aggravated by successive shocks, from COVID-19 in 2020 to historic droughts in 2021 and 2022, floods in the country's arid regions in 2023, surging food and energy prices in the wake of global supply bottlenecks, and capital outflows prompted by monetary tightening in advanced economies. These shocks laid bare some of Kenya's underlying structural and fiscal constraints, including a growth model based on the accumulation of capital and labor with little advances in productivity. Productivity has been declining for at least two decades, failing to offset slowing investment growth and undermining potential growth; fiscal buffers were already limited. Poverty reduction has slowed. Large fiscal and current account deficits (CADs) increase the economy's exposure to market volatility. Exports and foreign direct investment (FDI) inflows are low compared to peer economies, and access to international credit markets remains costly in a tight global and local credit environment. Reforms are required.

4. **The challenge of achieving inclusive and resilient growth is further amplified by Kenya's elevated vulnerability to climate change.** According to the Notre Dame Adaptation Initiative (ND-GAIN) ranking, Kenya is the world's 39th most vulnerable country, and has an overall high vulnerability score that considers the gaps in readiness. Annual mean temperatures have risen and are projected to continue rising by 1.7 degree Celsius by 2050, posing habitability challenges, straining energy systems, and increasing food security and health risks. Though overall precipitation will increase, it is expected to remain highly variable and uncertain, leading to excessive rain, droughts and floods, and heatwaves. This already causes crop and livestock loss, forest fires, damage to fisheries, and reduced hydropower generation and industrial production in Kenya. Kenya has a well-developed policy and institutional framework for climate action and adopted a National Adaptation Plan 2015-2030, but there are gaps in readiness that the GoK is addressing through an ambitious climate agenda, including through reforms supported by this DPO.

5. **This DPO supports GoK's ambitious transformation agenda** with a set of interconnected reforms (Annex 6) that jointly rebalance the economy to address short- and long- term challenges. These reforms (i) solidify the macroeconomic policy framework by reducing Kenya's twin deficits and strengthening fiscal and external debt sustainability; (ii) seize opportunities from fiscal consolidation to raise the efficiency and transparency of the budget, while augmenting support to the poor; (iii) help consolidate Kenya's devolution process by reducing fragmentation and inefficiencies in the fiscal system and subnational business environment; (iv) accelerate compliance with key Kenyan legislation on the size of the wage bill and public debt level, per the Public Finance Management (PFM) Act, Cap 412A of Laws of Kenya, and on minimum national forest cover, as per the Constitution; (v) revive Kenya's productivity agenda, enhancing competitiveness; (vi) generate synergies between the growth and climate agendas by promoting green urban transport and unlocking natural capital through climate finance—while generating foreign exchange for Kenya's balance of payments; and (vii) make the Kenyan economy more resilient to climate shocks by uplifting vulnerable populations through accelerated structural transformation, restoring ecosystems, and strengthening climate-smart social protection for Kenyans as well as refugees in the country.

6. **This DPO also supports Kenya in a difficult economic climate as it hosts a significant population of refugees and asylum seekers while undertaking a process of refugee policy reforms.** There are over 550,000 refugees and almost 200,000 asylum seekers in the country (320,572 refugees and asylum seekers in Dadaab Camp and 271,995 in Kakuma Camp and Kalobeyei Settlement). The camps and settlement are managed by the GoK's Department of Refugee Services (DRS), with support from the United Nations High Commissioner for Refugees (UNHCR) and other humanitarian partners. The inflow of refugees has significantly changed the spatial and social dynamics of host counties. The GoK has demonstrated its commitment to the Global Compact on Refugees by enacting the Refugees Act of 2021, Cap 173 of Laws of Kenya, which grants refugees more rights and protections, and by drafting the Shirika Plan in 2024, which seeks to create more integrated settlements where refugees can live, access social services, and work alongside Kenyans.

7. **The DPO builds on the World Bank's comparative advantages and is coordinated with other development partners.** It is anchored in the priorities laid out in the GoK's Bottom-up Economic Transformation Agenda (BETA) and the World Bank's FY23–28 Kenya Country Partnership Framework (CPF), and it complements the broader World Bank portfolio in Kenya. The Pillars were designed to create a synergetic policy mix promoting fiscally and environmentally sustainable inclusive growth focused on fiscal efficiency, productivity and inclusion, and climate action. On the fiscal side, the DPO complements the IMF's revenue-focused actions under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) with an expenditure focus. On climate, the DPO is coordinated with the IMF's Resilience and Sustainability Facility (RSF). The reforms are also financed by the Italian *Cassa Depositi e Prestiti* (CDP), and the German government is examining further steps for a financing by the Federal Ministry of Economic Development and Cooperation implemented through KfW Development Bank.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

8. **Despite several external and domestic challenges, the Kenyan economy grew by an estimated 5.1 percent in 2023, building on 4.8 percent growth in 2022 (Table 1).** With a strong cyclical rebound from drought, economic momentum remained robust despite ongoing fiscal tightening, an inflationary global environment, tight global and financial conditions, capital outflows, and global geopolitical uncertainties. Growth in the first three quarters of 2023 was driven by a recovery in agriculture following two years of drought. Strong El Niño-related rains caused flooding in Kenya's arid northern regions but supported production in the country's agricultural heartlands, especially for producers of tea and coffee. Agriculture's significant multipliers supported growth

throughout the economy and fueled a consumption rebound. The services sector strengthened, notably in financial and insurance services, accommodation and food services, and information and communication technology. Industry, however, continues to underperform due to low investment, weak productivity dynamics, and low investor confidence.

9. **The CAD has narrowed, but pressures on foreign exchange reserves remain significant.** Imports of goods and services contracted by 13.2 percent y/y in September 2023, owing to lower imports of infrastructure equipment, manufactured goods, oils, and chemicals and a steep depreciation of the shilling in 2023. Exports also declined, with the combined impact resulting in a narrower total trade deficit. The CAD is estimated to have narrowed to 4.0 percent of GDP in 2023 from 5.2 percent in 2022, driven by improvements in the net merchandise account, improved tourism receipts, and remittances. Investor concerns over Kenya's liquidity situation, with a US$2 billion Eurobond maturing in June 2024, combined with tight global credit conditions to limit capital inflows, put pressure on reserves. The GoK addressed the immediate liquidity crunch by buying back US$1.5 billion of the June 2024 Eurobond through issuance of a new Eurobond on February 12, 2024, calming markets; yields for outstanding Eurobonds eased and the exchange rate appreciated again.

10. **Inflationary pressures moderated,** but monetary policy remains tight to guard against second-round effects from currency depreciation and current account vulnerabilities. Since July 2023, headline inflation has been within the Central Bank of Kenya's (CBK) target range of 5±2.5 percent, facilitated by a deceleration in food prices and monetary tightening. However, it lingers close to the upper limit, indicating the persistence of underlying inflationary pressures stemming mainly from earlier depreciation of the shilling, higher energy costs due to a rise in electricity tariffs, international oil prices, and the 16.0 percent VAT on petroleum products. Overall inflation fell to 6.6 percent in December 2023 compared to 9.1 percent in December 2022. Food inflation subsided to 7.7 percent y/y in December 2023 while core inflation slowed to 3.3 percent in November 2023 (although above the average for 2022). The CBK further raised the policy rate by 200bps in December 2023 and by 50bps in February 2024 to contain inflationary pressures and strengthen FX liquidity in interbank markets. Decisive monetary policy action by the CBK, coupled with expected looser monetary policy in advanced markets and the Eurobond buyback, took pressure off the shilling.

11. **The banking sector has continued to demonstrate stability and resilience overall,** though there are vulnerabilities in smaller banks and capital markets remain underdeveloped. As of September 2023, the banking sector's capital adequacy and liquidity ratios stood at 18.6 percent and 49.3 percent, respectively, both exceeding statutory thresholds. Credit to the private sector remained strong in 2023. The increased availability of credit to the private sector reflects a reduction in the growth of GoK borrowing. While the overall banking sector remains profitable, however, the ratio of non-performing loans has been increasing with smaller banks, indicating that these banks are experiencing more challenges than larger banks. To better identify potential vulnerabilities in the financial sector, a Financial Sector Stability Review (FSSR) is under discussion with the IMF and is expected to be followed by a Financial Sector Assessment Program (FSAP) in 2026.

12. **Public debt rose amidst a depreciating exchange rate and revenue shortfalls**. Public debt rose to 73.5 percent of GDP in FY2022/23 from 68.0 percent in FY2021/22. On average over the last five years, Kenya's public debt has been driven mainly by increases in the primary deficit and rising real interest rates. Kenya's risk of external debt distress has been rated high since May 2020, due to exposure to export and interest rate shocks, currency depreciation, global capital market volatility, and rollover risks. As of end-2022, the debt stock stood at US$73.6 billion. Nominal PPG external debt accounted for 50.8 percent of the total (34.5 percent of GDP), most of which remains on concessional terms (Table 3). Domestic public debt mostly consists of domestic bonds (49.2 percent of total debt stock). The GoK implemented a strategy to extend the maturity profile of domestic debt, which resulted in a significant decline in the share of treasury bills in the domestic debt stock and an increase in

the average time to maturity of government domestic bonds. Total debt service is expected to increase as a percent of GDP in 2024 to 10.6 percent, falling thereafter (projected 7.8 percent of GDP in 2025).

Table 1. Selected Economic and Financial Indicators

	2021	2022	2023e	2024p	2025p	2026p	2027p
	Annual percentage change, unless otherwise indicated						
National accounts							
GDP at constant prices	7.6	4.8	5.1	5.0	5.3	5.3	5.3
Private consumption	6.2	3.1	4.7	4.9	5.4	5.2	5.2
Government consumption	6.0	7.4	3.4	2.6	2.3	2.1	1.8
Gross fixed investment	10.8	-1.1	7.7	9.1	9.5	8.9	8.8
Exports of goods and services	15.3	10.7	8.1	7.8	7.6	6.9	6.4
Imports of goods and services	22.2	4.5	5.2	7.3	8.1	6.3	6.5
Sectoral contribution to growth							
Agriculture (ppts)	-0.1	-0.3	1.0	0.7	0.7	0.8	0.8
Industry (ppts)	1.4	0.7	0.4	0.6	0.6	0.7	0.8
Services (ppts)	5.5	3.9	3.5	3.4	3.7	3.6	3.3
Inflation							
GDP deflator	4.3	6.0	8.2	7.1	5.3	5.4	5.3
Consumer prices (average)	6.1	7.6	7.7	7.0	5.2	5.4	5.0
Selected monetary accounts							
Banks credit to private sector	8.6	12.5	8.5	11.1	12.8	12.5	12.5
Broad money (M3)	6.1	7.1	13.8	12.4	10.8	11.0	10.6
	Percent of GDP, unless otherwise indicated						
External sector							
Current account balance (including grants)	-5.2	-5.2	-4.0	-4.0	-4.0	-4.2	-4.2
Exports (goods and services)	10.8	12.2	12.3	14.9	15.1	15.2	15.4
Imports (goods and services)	19.9	21.5	20.0	22.9	22.7	23.0	23.2
Foreign direct investment (net inflow)	0.0	-0.3	-0.3	-0.7	-1.0	-1.0	-1.1
Terms of trade (goods) (pct change)	-2.2	2.8	5.5	1.5	0.2	0.1	0.2
	Percent of GDP, unless otherwise indicated						
Debt							
Public debt	68.2	67.9	73.2	73.3	70.3	67.8	65.4
External	34.7	34.5	40.5	42.4	40.4	38.8	36.7
Domestic	33.5	33.5	32.7	30.9	29.9	29.0	28.7
Fiscal accounts							
Total revenue and grants	16.1	17.6	16.7	19.0	19.1	19.5	19.4
Total expenditure and net lending	24.4	23.8	22.6	23.8	22.7	22.6	22.6
Overall fiscal balance	-8.3	-6.3	-5.6	-4.7	-3.5	-3.1	-3.2
Memorandum items							
GDP per capita (pct change)	5.5	2.9	3.1	2.9	3.2	3.3	3.2
Gross reserves (US$ billions)	9.5	8.0	7.3	8.7	8.9	10.0	10.5
In months of next year's imports	4.7	4.4	3.9	4.3	4.1	4.2	4.2
Nominal GDP (KSh billions)	12,028	13,368	15,206	17,085	18,936	21,013	23,245

Source: World Bank based on Central Bank of Kenya, National Treasury and Economic Planning, Kenya National Bureau of Statistics, and IMF. *Note*: e=estimate; p=projection. Fiscal accounts are on a fiscal year basis. Fiscal year starts on 1 July and ends on 30 June. Current account estimates include grants. Reserves have been updated to reflect changes after February 2024 Eurobond issuance. The macroeconomic framework remains unchanged.

13. **The GoK remains committed to fiscal consolidation.** It reduced the primary deficit from 1.6 percent to 0.8 percent of GDP between FY2021/22 and FY2022/23, while the overall deficit decreased from 6.2 percent to 5.6 percent of GDP during the same period. This is the lowest overall deficit since FY2014/15. As consolidation continues, the primary balance swung into surplus for the first time in October 2023 and the GoK expects a primary surplus of 0.7 percent of GDP in FY2023/24 (Table 2).

Table 2. Key Fiscal Indicators (percent of GDP)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Actual	Prel.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	16.1	17.6	16.7	19.0	19.1	19.5	19.4
Revenue	15.8	17.3	16.5	18.7	18.9	19.2	19.2
Tax revenue	12.7	13.9	13.2	15.1	15.2	15.6	15.6
Income tax	6.2	6.9	6.6	7.4	7.3	7.4	7.4
Import duty	1.0	0.9	0.9	1.1	1.1	1.1	1.1
Excise duty	1.9	2.0	1.9	2.2	2.2	2.2	2.2
Value-added tax	3.6	4.1	3.9	4.4	4.3	4.3	4.3
Unidentified tax policy measures	0.0	0.0	0.0	0.0	0.3	0.7	0.7
Nontax revenue	3.1	3.4	3.3	3.7	3.7	3.6	3.5
Grants	0.3	0.2	0.2	0.3	0.3	0.3	0.2
Expenditure and net lending	24.4	23.8	22.6	23.8	22.7	22.6	22.6
Recurrent expenditure	19.5	19.6	19.1	19.2	17.3	16.9	17.0
Transfer to counties	3.3	2.8	2.8	2.6	2.5	2.4	2.4
Interest payments	4.4	4.5	4.8	5.4	5.2	4.8	4.8
Wages and benefits	4.4	4.1	3.8	3.6	3.6	3.5	3.5
Other	7.5	8.2	7.7	7.5	6.0	6.2	6.3
Development and net lending	4.9	4.3	3.5	4.6	5.4	5.6	5.6
Overall balance including grants (cash basis)	-8.3	-6.3	-5.6	-4.7	-3.5	-3.1	-3.2
Primary balance	-3.9	-1.7	-0.8	0.7	1.7	1.7	1.6
Financing	8.4	5.6	5.4	4.7	3.5	3.1	3.2
Net foreign financing	2.9	0.8	1.9	1.7	1.8	1.2	1.3
Net domestic financing	5.6	4.8	3.5	3.0	1.8	1.9	1.9

Source: World Bank, IMF, and Kenyan authorities.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

14. **Economic activity is expected to remain solid over the medium term.** Medium-term GDP growth is projected at 5.3 percent—however, fiscal consolidation and tight monetary policy are expected to contain strong economic momentum in the short-run, resulting in an estimated 5.0 percent growth rate for 2024. Factors supportive of medium-term GDP growth include a stronger macroeconomic framework, including a smaller fiscal deficit and stronger private capital inflows, which will limit domestic government borrowing and the crowding out of private credit. A more stable currency, moderating global and local inflation pressures, and looser monetary policy in advanced economies will raise real incomes and stimulate credit growth through more accommodative monetary policy in Kenya in the medium-term. Economic growth is also expected to be supported by FDI, which

is projected to increase as business confidence improves and in response to GoK reforms removing foreign ownership restrictions in the ICT sector (supported by this DPO). Exports are expected to rebound as Kenya reaps the benefits of structural reforms (supported by this DPO) and trade agreements, including the African Continental Free Trade Area (AfCFTA) and the Economic Partnership Agreement that Kenya signed with the European Union (EU) in December 2023.

Table 3. Public and Publicly Guaranteed Debt Stock and Debt Service, 2022-25

	Debt stock (end of period)			Debt service					
	2022			2023	2024	2025	2023	2024	2025
	(US$ million)	(% total debt)	(% of GDP)	(US$ million)			(% of GDP)		
Total	**73,625**	**100**	**67.9**	**10,804**	**10,449**	**8,318**	**10.0**	**10.6**	**7.8**
External	**37,370**	50.8	**34.5**	**3,392**	**5,149**	**3,723**	**3.1**	**5.2**	**3.5**
Multilateral creditors	17,474	23.7	15.4	642	638	786	0.6	0.6	0.7
Bilateral creditors	10,497	14.3	9.2	1447	1376	1330	1.3	1.4	1.3
Paris Club	3,793	5.2	3.3	430	398	383	0.4	0.4	0.4
Non-Paris Club	6,705	9.1	5.9	1017	978	946	0.9	1.0	0.9
Bonds	7,100	9.6	6.2	515	2444	667	0.5	2.5	0.6
Commercial creditors	1,881	2.6	1.7	680	537	698	0.6	0.5	0.7
Other international creditors	418	0.6	0.4	73	61	50	0.1	0.1	0.0
Domestic	**36,254**	**49.2**	**33.5**	**7,412**	**5,301**	**4,596**	**6.8**	**5.4**	**4.3**
T-Bills	5,587	**7.6**	4.9	-	-	-	-	-	-
Bonds	30,076	40.9	26.5	-	-	-	-	-	-
Loans	591	0.8	0.5	-	-	-	-	-	-
Memo items									
Collateralized debt	-	-	-	-	-	-	-	-	-
Contingent liabilities	1,417	1.9	1.2	-	-	-	-	-	-
o/w public guarantees	1,417	1.9	1.2	-	-	-	-	-	-

Source: World Bank and IMF.

15. **The CAD is projected to decline to 4.1 percent of GDP in the medium term and can be sustainably financed**. Kenyan policy measures and an improved global economic outlook for Kenyan exports and diaspora markets are expected to increase merchandise exports, tourism receipts, and remittances. Although the shilling has reversed some of its rapid depreciation after the February 2024 Eurobond issuance, it is expected to remain at a level that will contain strong import growth. This will keep the CAD lower than the historical average, reducing external financing pressures.

16. **Monetary policy is expected to turn more accommodative in the medium term.** As inflation dynamics continue to decelerate, advanced economies loosen monetary policy, and the shilling stabilizes, hence the CBK is expected to lower interest rates in the projection period. This will reduce pressure on the banking sector and further strengthen its resilience.

17. **The GoK expects the fiscal deficit to decrease substantially in 2024 and beyond. The overall deficit is projected** to decline to 4.7 percent of GDP in FY2023/24 and to 3.5 percent of GDP in FY2024/25, targeting a

primary surplus of 0.7 and 1.7 percent of GDP, respectively. To meet its revenue targets, the GoK will continue implementing its Medium-Term Revenue Strategy, including new tax administration and policy measures, such as increased tax on employment income above KSh6 million, VAT on petroleum products, and withholding tax on digital content that are together expected to generate 1.6 percent of GDP. To advance expenditure consolidation, the GoK is focusing on efficiency gains (supported by this DPO) from improved PFM and procurement to consolidation of the wage bill. The GoK aims to comply with the upper limit of 35 percent of public wages to revenue under Kenya's PFM Act, 2012 Cap 412A of Laws of Kenya. Subsidies in the budget are limited to an e-voucher system to support technology adoption and boost production through supply of fertilizer (approximately US$ 88million), that was supported by past DPOs.

18. **Public debt is projected to start declining in 2025.** A primary surplus, economic growth, and more benign exchange rate dynamics are projected to reduce public debt to 70.3 percent in 2025 and declining further thereafter. By 2029, public debt is projected at 55 percent of GDP in net present value terms, consistent with the debt anchor in Public Finance Management (PFM) Act, Cap 412A of Laws of Kenya (supported by the previous DPO). Under the December 2023 World Bank-IMF Debt Sustainability Analysis, updated following the issuance of the February 2024 Eurobond,[1] Kenya is assessed to have medium debt carrying capacity but remains at high risk of debt distress (all indicators breach the threshold in Figure 3). Although the 2024 Eurobond de-risked the June redemption of US$2 billion, it was relatively expensive and short-term, slightly worsening the indicators in Figure 1 in the medium-term. However, debt remains sustainable.

19. **Continued fiscal consolidation, structural reforms, and enhancing debt-carrying capacity and liability management are critical**. For Kenya to revert to moderate risk of debt distress in the medium term, the GoK will need to: i) maintain the fiscal consolidation path in the framework agreed under this DPO and the IMF program (this DPO focuses on expenditure consolidation—see Annex 1—while the IMF supports revenue mobilization); ii) promote export growth (supported by this DPO) to raise GDP and mitigate the weak debt service-to-exports vulnerabilities; iii) strengthen institutions and undertake reforms that improve Kenya's debt carrying capacity; and iv) undertake proactive liability management by focusing on concessional financing to lower average interest costs and reduce medium-term amortization pressures, especially between 2028 and 2031 to avoid future liquidity crunches. To this end, the GoK is considering another Eurobond buyback in 2024, bringing the total 2024 buyback to approximately US$2.5 billion (Table 4), smoothing the amortization profile as was done for the recent issuance which was smoothed over three years. In addition, the GoK is considering liability management by leveraging sustainability instruments like debt swaps and sustainability-linked bonds (SLBs).

20. **Macroeconomic risks are substantial.** Downside risks include shocks from the global economy, including an intensification of geopolitical tensions or delays in monetary loosening in advanced economies. In February 2024 Kenya was gray listed by the Financial Action Task Force (FATF) and the impacts remain uncertain.[2] Macro-financial risks remain substantial but are expected to moderate in the second half of the year as inflation has been declining, the exchange rate reversed its depreciating trend following the Eurobond issuance that eased liquidity pressures and interest rates are expected to decline as CBK implements a more accommodative monetary policy. Rising political and social opposition to the GoK's strong adjustment measures are a risk to the fiscal consolidation path. There are some contingent risks emanating from state-owned enterprise (SOEs), but these risks have been declining as the financial health of the most fiscally risky SOEs (Kenya Petroleum and Lighting Company and Kenya

[1] The analysis maintains the macro-framework of the December 2023 DSA and only updates the debt and debt service data.

[2] The reputational impact of being included in the FATF's gray list may lead to decreased investor confidence while Kenya's international financial transactions may suffer from increased scrutiny by foreign banks, and impact correspondent banking relationships. The World Bank is exploring TA to address the weaknesses identified by the FATF.

Airways) has improved, with no extraordinary public capitalization advanced in the year to November 2023.[3] There are also upside risks, which include a faster loosening of global credit conditions. Domestically, economic momentum may be stronger than expected, constituting another upside risk - GDP growth of 5.9 percent in the third quarter of 2023, for example, surprised on the upside.

21. **The macroeconomic policy framework is considered adequate for the DPO**. Kenya's economy has continued to record strong economic growth, while the GoK has put in place ambitious and credible measures to strengthen the macroeconomic framework. This framework is further supported by a comprehensive reform program aimed at promoting sustained, resilient, and inclusive economic growth (supported by this DPO). Although Kenya's risk of debt distress is 'high' it remains sustainable, and there is a realistic path to reduce it to 'moderate' over the next four years. At the same time, the current account is projected to remain sustainable, financed by realistic projections for capital inflows.

Table 4. External Financing Needs and Sources (millions of US$)

	2021	2022	2023e	2024p	2025p	2026p	2027p
I. Total requirement	**8,456**	**6,288**	**5,832**	**9,674**	**7,946**	**8,260**	**8,040**
Current account deficit (excl. grants)	5,844	6,016	4,523	4,123	4,466	5,039	5,333
Debt amortization due	1,453	1,800	1,981	1,920	2,338	1,779	1,888
Sovereign bonds amortization	0	0	0	2,500	300	300	300
Gross reserves accumulation	1,159	-1,528	-672	1,131	841	1,141	519
II. Total sources	**6,137**	**4,760**	**4,253**	**5,864**	**7,773**	**8,534**	**8,411**
Foreign direct investment, net	53	339	275	726	1,033	1,124	1,308
Public grants	100	135	135	135	135	135	135
Public sector borrowing	2898	1,607	2,161	3,055	3,753	4,210	3,153
Private capital flows, net	2,619	3,576	1,682	1,948	2,851	3,065	3,816
Net errors and omission	468	-897	0	0	0	0	0
III. Financing need (I–II)	**2,319**	**1,528**	**1,579**	**3,811**	**173**	**-274**	**-371**
IV. Expected sources of financing	**2,319**	**1,528**	**1,579**	**3,811**	**173**	**-274**	**-371**
Budget support	968	913	1199	1662	0	0	0
World Bank	750	750	1000	1200	0	0	0
Co-financiers	0	0	0	162	0	0	0
Other	0	163	199	300	0	0	0
IMF net financing (including repurchases and repayments)	1,351	615	380	2,149	173	-274	-371

Sources: World Bank, IMF, and Kenyan authorities.
Note: IMF net financing includes BoP support, budget support, RSF, exceptional financing, and repurchases and repayments. Table updated from IMF (2024) to reflect change after the February 2024 Eurobond issuance. The amounts of future IMF and World Bank disbursements are yet to be determined. Co-financing amounts are subject to confirmation.

[3] In addition to establishing a fiscal risk committee to identify, quantify, and manage fiscal risks from SOEs, the government has been strengthening compliance on debt reporting by SOEs—supported by the Sustainable Development Finance Policy (SDFP) and Performance Actions (PPAs)—to enhance monitoring and improve debt transparency.

Figure 1a: PV of debt-to-GDP ratio

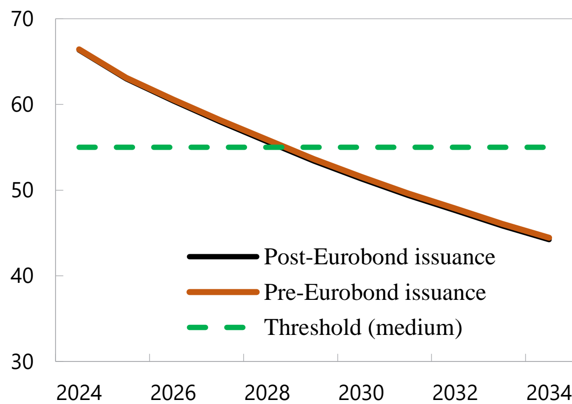


Figure 1b: PV of external PPG debt/GDP

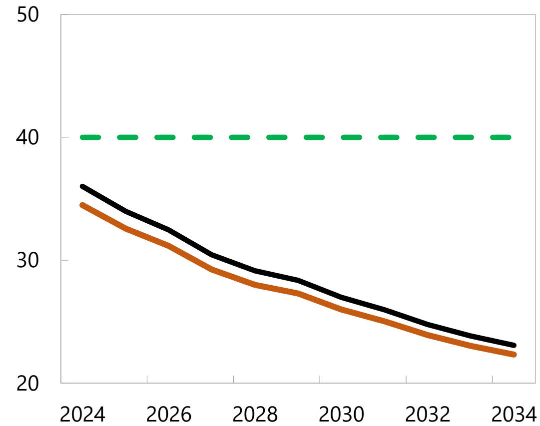


Figure 1c: Debt service-to-exports ratio

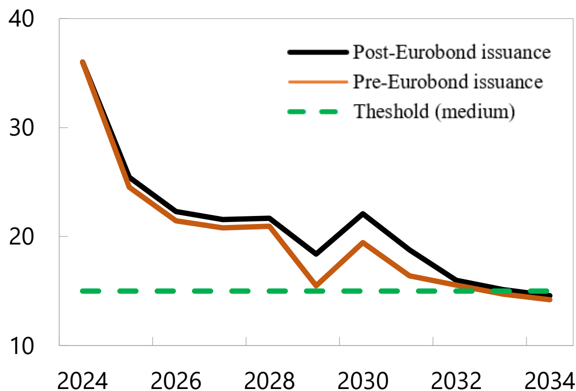
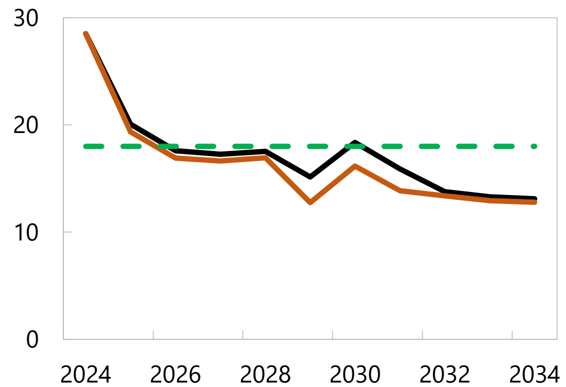


Figure 1d: Debt service-to-revenue ratio



Source: IMF (2024) and World Bank.
Note: Figures 1a-d updated (IMF, 2024) to reflect change after the February 2024 Eurobond issuance

2.3. IMF RELATIONS

22. **On January 17, 2024, the IMF Board completed Kenya's 2023 Article IV Consultation,** the Sixth Review of its economic program supported by IMF's EFF/ECF Arrangement and the first review under the Resilience and Sustainability Facility (RSF). Augmentation of access under the EFF/ECF totaled 130.3 percent of quota, bringing the total commitment under these arrangements over the duration of the program to SDR 2.93 billion (about US$3.9 billion) over 2021-25. In addition, the RSF has access to 75 percent of quota (about US$541.9 million) that will run parallel to the EFF/ECF arrangements until April 2025. As of January 2024, Kenya implemented six structural benchmarks with delay and achieved the first of ten RSF reform measures. The conclusion of the sixth EFF/ECF review and first RSF review enabled the GoK to receive a disbursement of approximately US$682.0 million; in 2024, up to US$2.1 billion of total financing (synonymous with net positive inflows to Kenya) across three reviews can be expected. The program supports reforms on strengthening fiscal space to allow for much-needed social spending and high-yield public investment as well as efforts to enhance the monetary policy framework, improve financial sector supervision, and advance structural reforms. World Bank and IMF jointly support the GoK's fiscal consolidation process, with the World Bank's efforts more strongly focused on expenditure management. Actions supported by this DPO complement but do not overlap with the EFF/ECF and RSF programs.

3. GOVERNMENT PROGRAM

23. **Kenya's policy is guided by the Bottom-Up Economic Transformation Agenda (BETA)**, **which is embedded in the country's Vision 2030.** BETA consists of five Pillars and twelve enablers (DPO-supported ones are underlined). The five *Pillars* are: agricultural transformation; Micro, Small and Medium Enterprises (MSMEs); healthcare; housing and settlement; and digital superhighway and creative industry. The *enablers* are: Blue Economy; education and training; environment and climate change; foreign policy and regional integration; governance; infrastructure; manufacturing; service economy; women agenda; social protection; sports, culture, and arts; and youth empowerment and development. BETA will be implemented through the fourth Medium-Term Plan (MTP IV) 2023 – 2027, launched on March 21, 2024, which is aligned to the priorities of Vision 2030. The GoK hosted the Africa Climate Summit in September 2023 in Nairobi and as the chief architect of the *Nairobi Declaration on Climate Change,* has established itself as a leading voice on climate change in Africa.

24. **The GoK is pursuing an ambitious structural reform program.** The actions supported by this DPO are only a subset of a much broader program which the World Bank supports through the broader policy dialogue around the DPO and other operations. These reforms include: the publication of a list of eleven SOEs targeted for privatization (enabled by the Privatization Act, 2023 Cap 485B of Laws of Kenya, which was supported by the previous DPO (P180339)); updated regulations to Kenya's public private partnership framework; amendments to the warehouse receipt system; and progress toward a commodities exchange as well as and updates to e-voucher schemes for technology adoption in agriculture (supported by previous DPOs). Kenya is also strengthening its anti-money laundering and counterterrorism financing (AML/CFT) systems.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

25. **This DPO fosters transformative changes in Kenya's economy by promoting efficiency, transparency, and equity of public finance, fostering more competitive and inclusive product and labor markets, and strengthening climate action**, in close alignment with GoK strategy, including its goals around fiscal consolidation and improving governance, increasing the productivity and competitiveness of the Kenyan economy, and strengthening climate resilience to bolster green growth, while also reflecting its focus on inclusion, integrity, and bottom-up transformation. Under Pillar 1, actions on PFM, procurement, and wage bill management will generate fiscal savings while investments in corruption control and social protection will improve the transparency, efficiency, and equity of the budget. Under Pillar 2, structural reforms to strengthen the business climate, trade, competition, ICT, skills, and the integration of refugees will make product and labor markets more competitive and inclusive, addressing some of the economy's structural constraints to growth, exports, and poverty reduction. Under Pillar 3, climate action is promoted with a focus on public transport, land use change, and climate finance. These three interlinked Pillars reflect a whole-of-economy approach that supports complementary shifts in the GoK's approach to public finance, product and labor markets, and climate action (Annex 6).

26. The **DPO is consistent with Kenya's climate commitments,** including those made by Kenya in its updated 2020 NDC, National Adaptation Plan (2017), National Climate Change Action Plan (2018–22), and National Climate Change Act, 2016 Cap 387A of Laws of Kenya, and it considers the World Bank's climate analysis (including the 2023 Country Climate and Development Report (CCDR)). Thus, the operation is consistent with Kenya's commitment to abate GHG emissions by 32 percent by 2030 relative to the business-as-usual scenario, adapt to climate change, and enhance its response to it. Second, all prior actions (PAs) are aligned with the mitigation goals of the Paris Agreement. No PAs are likely to cause a significant increase in GHG emissions or impede Kenya's planned low-carbon development path (Annex 5). Reforms that aim to improve efficiency, transparency, and

equity of the budget (Pillar 1) are universally aligned. Reforms to improve competitiveness and the business environment, support skills development in Kenya's workforce, and increase social service delivery to refugees (Pillar 2) are unlikely to significantly increase GHG emissions. PAs under Pillar 3 are aimed at strengthening the institutional framework for climate action and will therefore have a net reduction on GHG emissions. Third, all PAs align with the adaptation and resilience goals of the Paris Agreement. Reforms are not associated with any specific assets or activities that would be vulnerable to climate change.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Promote efficiency, transparency, and equity of public finance.

27. **Pillar 1 seeks to address deep-seated structural constraints in Kenya's public finances, alleviating fiscal pressures and promoting a more efficient and sustainable budget.**

Policy area #1: Promoting efficiency of public finance.

28. **Rationale. Despite many achievements in improving Kenya's PFM systems, expenditure wastage and corruption persists, exacerbating fiscal pressures that crowd out critical investments and social spending while damaging the investment climate.** GoK's ability to manage cash is constrained due to the delayed transition to the TSA, resulting in excessive borrowing, compromised commitments control, and delayed transfers to service delivery units. Kenya's public procurement constitutes an unusually high percentage of public expenditures and GDP, amplifying the expenditure wastage that occurs due to slow, inefficient, or non-transparent procurement systems and practices at various levels of government. The public sector wage bill, including allowances, is subject to complex rules and regulations at the central government and county levels, many of which are not enforced, leading to repeated breach of payroll ceiling.

PA 1: To enhance the efficiency and transparency of public spending, the recipient has: (a) through its Cabinet, approved the Treasury Single Account (TSA), (b) through its Cabinet Secretary of the National Treasury and Economic Planning, (CS NT), issued a circular mandating electronic procurement across the national government and counties that also enables the tracking of environmental criteria and compliance with green procurement policy, and (c) through the Salaries and Remuneration Commission, issued a circular abolishing at least two allowances to improve efficiencies of the wage bill.

Trigger 1.1: To enhance the efficiency and transparency of public spending, the recipient has: (i) through the National Treasury and Economic Planning, submitted, to Parliament, an amendment to the Public Finance Management (National Government) Regulations, 2015 and Public Finance Management (County Government) Regulations, 2015 for the adoption and/or operationalization of the TSA, and an automated system for public procurement management across the national government and counties; (ii) through its Cabinet, approved a Payroll Management Policy for the Public Sector to improve public sector payroll controls; and (iii) through its Cabinet, submitted to the Parliament an amendment to the PFM Act , 2012 Cap 412A of Laws of Kenya to reduce the number of layers for funds flow from the exchequer to the development accounts and to enable supplementary budgets for county governments throughout the year.

Trigger 1.2: To enhance the efficiency and transparency of public spending, the recipient has, through its Cabinet, submitted to the Parliament an amendment to the PFM Act , 2012 Cap 412A of Laws of Kenya to: (i) introduce sanctions for MDCAs, including state corporations for non-compliance with streamlined allowances for all state and public officers; (ii) consolidated HR and Payroll data for the entire public sector; (iii) assign unified payroll numbers to all public officers and eliminate manual payrolls; and (iv) ensure consistency across payroll data, authorized establishment, and HR records.

29. **Policy content. The reforms enhance the efficiency of public finance.** The adoption and rollout of the TSA across the ministries, departments, and agencies (MDAs) and counties has been pending for years in Kenya, while the technical building blocks have been supported by various development partner interventions. The PA represents the final policy-level step requiring the full rollout of the TSA and represents an ambitious reform. The transition to e-Procurement is expected to reduce costs by 10 to 15 percent, saving the GoK KSh90 billion yearly in public procurement expenditure. Aside from improving efficiency, transparency, and accountability of public procurement, it is expected to make a positive contribution to Kenya's climate change mitigation goals by reducing emissions from the number of trips required by vendors as part of the current procurement process, as well as by enabling the tracking of environmental criteria and mandating the publication of information related to the compliance of MDAs with the green procurement policy.[4] Finally, the GoK is embarking on a difficult yet necessary reform of rationalizing public spending by streamlining allowances for all state and public officers to remove potential overlaps and redundancies, and for better management and administration of benefits. Achieving compliance with the 35 percent wage-to-total revenue target will support fiscal consolidation and enhance public acceptability reflecting the contribution of the public sector adjustment toward it. The outer-year reforms continue to enhance the efficiency of public spending, by operationalizing the TSA, introducing an automated system for public procurement management across the national government and counties; approving Payroll Management Policy, and reducing the number of layers for funds flow from the exchequer to the county governments (Trigger 1.1); and rationalize allowances across for employees of state corporations, eliminate manual payrolls and "ghost workers" across the public sector (Trigger 1.2). Together, these reforms will allow for better budgeting and cash management. The government's commitment to migrate to TSA will significantly enhance its ability to manage cash, commitment control, spending predictability, fiscal consolidation, and transfers to service delivery MDAs.

30. **Expected results. Greater efficiency and transparency in public spending** will be supported by the rollout of the TSA, which will facilitate the effectiveness of procurement and wage bill reform through smoother and more efficient cash management, underpinned by better budgeting and funds flow enabled by PFM Act , 2012 Cap 412A of Laws of Kenya amendments. Kenya's wage bill to revenue ratio (excluding any revenues from extractive natural resources) is expected to decrease from a baseline of 47 percent in 2023 to 35 percent in 2027 and the rollout of the e-procurement platform is expected to cover 100 percent of MDAs (excluding SOEs) by 2027, from a baseline of 0 percent in 2023, leading to significant efficiency gains.

Policy area 2: Promoting transparency of public finance.

31. **Rationale. Reducing fiscal leakage due to corruption is critical for reducing the impact of fiscal consolidation on the provision of public services and raising the social acceptance of the ongoing reform efforts.** Anticorruption efforts to date have adopted a two-pronged approach: addressing fiduciary and accountability loopholes in the public sector while building an overarching legal, regulatory, and institutional coordination framework to steer anticorruption efforts. Government officials with large private sector interests continue to influence and benefit from public procurement in Kenya. These challenges manifest in inflated costs of goods and services, substandard quality of government-funded projects, or payments made for non-existent goods and

[4] The current electronic procurement system in Kenya only provides procurement information on tender announcements and contract awards. Bidders would still need to travel to submit their bids and for pre-bid meetings, bid openings, and contract signature. The adoption of end-to-end electronic procurement as a government policy should cut down on travel time associated with these processes. Kenya is also developing a green procurement policy, which will include provisions to ensure that government purchases of goods and services promote energy efficiency and do not harm the environment. The e-procurement system will facilitate the piloting, implementation, and audit of sustainable procurement guidelines including circular economy principles, which is eligible for climate co-benefits under 12.7: Policy support and technical assistance for energy or resource-use efficiency of the revised Joint MDB List of Eligible Mitigation Activities.

services; all of which contribute to significant exchequer losses. While various approaches have attempted to confront these issues, they've had limited impact. The Conflict of Interest (COI) Bill, submitted to Parliament in 2023, provides an overarching legal framework to comprehensively address all aspects of conflict of interest. The COI Bill enhances mechanisms for collaboration, transparency, and disclosure, while expanding the scope of public officers and decision-making processes under the purview of the law to provide a coherent institutional framework for managing conflict of interest.

Trigger 2.1: To safeguard against the misuse of public office for private gain, the Recipient though its Parliament, has issued regulations to the Conflict-of-Interest Act, 2024.

Trigger 2.2: The recipient, through its Cabinet, submitted to the Parliament an amendment to the Anti-Corruption and Economic Crimes Act to: (i) criminalize unjust enrichment and introduced additional anti-corruption measures; (ii) provide that convicted state officers should be disqualified from holding state or public office unless the conviction is overturned on appeal; and (iii) introduced additional anti-corruption measures.

32. **Policy content. The regulations to the COI Act will operationalize the Act's key changes to Kenya's legal framework,** including: (i) expanding the scope of public officers and decision making processes under the purview of the law, including politically exposed persons; (ii) expanding the definition of private interests to include interests that benefit other persons, family, relatives, or associates of a public officer; (iii) providing more comprehensive definitions of conflict of interest; and (iv) providing a coherent institutional framework for the management of conflict of interest that specifies the roles, responsibilities and reporting obligations between the Ethics and Anti-Corruption Commission (EACC) and other agencies. The amendment to the Anti-corruption and Economics Crimes Act Cap 65 of Laws of Kenya, will enshrine in law the criminal responsibility of public officers for misusing public office for private gain. The amendment will grant the EACC powers to request information from public officers regarding unexplained wealth to help create an evidence base for criminal prosecution for illicit enrichment. In addition, the trigger proposes a legislative amendment barring state officials convicted of corrupt acts from holding office in the future. It also addresses a gap in the legislation that allows state officers to continue holding public office if they have filed an appeal in court against their conviction. GoK also continues to implement reforms to tackle other types of corruption, such as bribery and graft through traffic fines and policing, which will have direct impacts on how citizens experience their interactions with the state and may be included as a future trigger.

33. **Expected results. The proposed legislative reforms will bar state officials convicted of corrupt acts from holding office in future.** These reforms will also prevent state officers from continuing to hold public office by virtue of only filing an appeal against their conviction of corrupt acts. This will help break the vicious cycle contributing to negative public perception of GoK being soft on corruption.

Policy area #3: Promoting equity in public finance.

34. **Rationale. A strong social protection system is a key building block of pro-poor fiscal policy.** It is also the most efficient and effective way to protect poor and vulnerable households against food and fuel price inflation, provide timely social assistance in response to climate shocks such as droughts and floods,[5] and reduce the need for fiscally expensive responses such as subsidies. This PA addresses two key constraints in Kenya's social protection system. First, the lack of a specific and robust legal framework to govern social protection undermines the state's ability to provide social security to persons who are unable to support themselves, as provided for in

[5] Noting that increasing climate shocks are one of the key drivers for continued reform of the SP systems, as droughts and floods in particular continue to impact the poorest and drive others into poverty, and this trend is only projected to intensify.

the Kenyan constitution. Second, the country's largest social assistance program, the National Safety Net Program (NSNP), suffers from low coverage, inadequate targeting efficiency, and low value of cash transfer benefits. Only 59 percent of the program's current beneficiaries come from the country's poorest two wealth quintiles, and benefit levels have not been increased since 2012 to account for inflation. As a result, the real value of the transfers has declined by an estimated 34 percent, thereby undermining the program's contributions to poverty reduction.

PA 2: To strengthen social protection, the recipient has, through its Cabinet, approved the Social Protection Bill for submission to Parliament.

Trigger 3.1: To improve efficiency in the delivery of social protection benefits and services, the recipient has (i)through the CS for Labor and Social Protection, approved a regulation which mandates the GoK and counties to establish eligibility criteria using ESR for delivery of poverty-targeted cash transfers and other pro-poor social sector interventions, and (ii) commenced the use of ESR for selection and/or retargeting and/or recertification of NSNP cash transfer beneficiaries and complementary programs.

Trigger 3.2: To enhance the effectiveness of social assistance, the recipient has, through its Parliament: (i) approved a regulation for the regular indexation of benefit values for NSNP cash transfers and other complementary programs in line with inflation and other changing economic trends, and (ii) effective from FY 25/26, applied the first revision in the benefit values of NSNP cash transfers and other complementary programs.

35. **Policy content. The draft Social Protection Bill includes provisions for** obligating the national and county governments to use the Enhanced Single Registry (ESR) as the national targeting system; and indexation of NSNP cash transfer values with inflation. Systematic use of the ESR across poverty-targeted programs at the national and county levels will significantly improve their targeting efficiency. As the ESR already covers 100 percent of the population in the climate-vulnerable arid and semi-arid regions of the country, its mandated usage will better enable targeting of climate-vulnerable households, which also tend to be the poorest households. Since the ESR will include functionality to be overlaid with geographic locations most vulnerable to climate shocks, it will help in operationalization of an early warning system[6] to protect the poor as well as guiding the scale up of social protection programs to cover impacted households. The NSNP includes a sub-component to scale up emergency cash transfers to households affected by drought and other shocks. The mandate to use ESR in targeting would also apply to this sub-component. The income support would help families to become more resilient and reduce reliance on excessive use of natural resources during such emergencies. Periodic indexing and revising of NSNP cash transfer values and complementary programs with economic conditions will improve the adequacy of benefit levels and eventually increase their real value. Increasing the value of regular and emergency transfers also supports affected populations to cope with the economic impacts of climate change and adopting climate-smart livelihood practices. Once the enactment of the Social Protection Act, the GoK will develop and secure parliamentary approval of supplementary regulations to guide the implementation of the Act, guiding the GoK and counties on the use of the ESR as the national targeting system for cash transfer and other pro-poor programs, and defining how the NSNP benefit values and complementary cash transfers would be adjusted.

36. **Expected results. The reform will increase the share of NSNP beneficiary households in the bottom 40 percent of the national income distribution from 59 percent (2023) to 80 percent (2027).** In addition, from

[6] The ESR has been explicitly designed to be interoperable with other key systems and datasets, including climate vulnerability/climate hazard maps from the Kenyan Meteorological Department. This will support better targeting of climate-vulnerable poor households and enable linkages to drought early warning systems.

gender equity perspective, though not explicitly gender-targeted, it will contribute to narrowing the gender gap in monetary welfare.[7] The indicator for this, is the gap in poverty rates between male and female headed NSNP beneficiary households, with the goal of reducing this gap from 4 (2023) to 0 percentage points (2027).

Pillar 2: Foster more competitive and inclusive product and labor markets

37. **The Pillar seeks to address deep-seated structural constraints in Kenya's economy** by improving the business environment and competition and fostering inclusive markets.

Policy area #4: Improving the business environment and strengthening trade.

38. **Rationale. In recent years, Kenya has been losing ground in measures of competitiveness, dampening exports, and growth.** A predictable and conducive business environment is a prerequisite for the private sector to start, operate, grow, and diversify business operations, and thus be the foundation for efforts to bolster investments, productivity and trade. In addition to the triggers under this PA, complementary external trade and investment reforms are essential to better harness available opportunities; in particular, expanding FDI inflows and leveraging digital trade.

PA 3: To improve Kenya's business environment, the recipient has submitted to the National Assembly the County Licensing (Uniform Procedures) Bill.

Trigger 4.1: To improve the business environment and strengthen trade, the recipient has (i) through the CS of the Ministry of Industry, Trade, Investments (MITI), issued the regulations to the County Licensing (Uniform Procedures) law, (ii) through the Cabinet, adopted the Kenya National e-commerce policy, and (iii) through its Parliament, enacted the Investment Promotion and Facilitation Bill.

Trigger 4.2: To improve the business environment and strengthen trade, the recipient has: (i) through its Parliament, enacted the national e-commerce law implementing the e-commerce policy, and (ii) through its CS Ministry of Roads and Transport, approved regulations to the Investment Promotion and Facilitation Law.

39. **Policy content. The current business regulatory environment with multiple licenses and cascading costs is generating major distortion while undermining both national and global value chain integration.** The objective of the County Licensing Bill is to improve Kenya's investment climate by reducing duplication of licenses and harmonizing business processes across counties thereby enhancing the predictability and transparency of business regulations. It enables a more seamless, and increasingly integrated approach that will minimize transactions or multiple licenses and make provisions for deemed approvals.[8] The regulations to the County Licensing (Uniform Procedures) Law will give effect to the obligations of both National and County Government, expound on a streamlined licensing procedure and related administrative processes. To further advance the trade and investment agenda, enhancing Foreign Direct Investment (FDI) and tapping into the digital trade will be key. Areas targeted under e-commerce reform include enhanced anchor management and control of e-commerce risks, expanded use of e-commerce, etc. FDI reforms relate to streamlining economy wide investment- promotion, coordination, and facilitation efforts. These FDI and digital trade related reforms provide a framework for

[7] Poverty rates in Kenya are higher for female-headed (40 percent) than male-headed households (34 percent), and female-headed households are also overrepresented in the bottom 40 percent of the welfare distribution. As a reflection of this, female-headed households are overrepresented among NSNP beneficiaries, accounting for 55 percent of beneficiary households compared to 32 percent in the general population. The indexation of benefit values will predominantly support the welfare of poor female-headed households.

[8] This policy action is complementary to the World Bank's Kenya Jobs and Economic Transformation IPF (P179381)

maximizing gains made through recent trade agreements that Kenya has entered, the Economic Partnership Agreement with the European Union (EU) as well as the AfCFTA.

40. **Expected results. The reforms are expected to increase trade across counties and trade with the rest of the world.** This is measured using percentage increase of intercounty trade as a share of total (using tax data)[9] and increase in revenue generated from E-Commerce.[10]

Policy area #5: Fostering competition in the digital economy.

41. **Rationale. Fostering competition is critical to reverse Kenya's productivity decline. Despite advances in enhancing the legal framework to boost competition, restrictive product market regulations persist in Kenya.** Key constraints include rules that limit entry, weak regulation of economically important market players, and limited integration of competition policy principles in the regulation of key enabling sectors such as ICT, transportation, and professional services. Business practices and government interventions that restrain competition can act as a barrier to investments in these sectors, in turn hampering the productivity and competitiveness of firms in downstream industries and reducing the potential for further growth.

PA 4: To strengthen competition in the digital economy, the recipient, through the CS for Information, Communications and the Digital Economy has, eliminated restrictions related to a requirement of 30 percent local equity participation for ICT providers by revising the National ICT Policy Guidelines 2020.

Trigger 5.1: To strengthen competition in the digital economy, the recipient has, through its Parliament, enacted amendments to the Competition Act Cap 504 of Laws of Kenya.

Trigger 5.2: To strengthen competition in the digital economy and beyond, the recipient has (i) through its Parliament, enacted the ICT Bill, and (ii) through the National Treasury and Economic Planning, amended the Competition Rules.

42. **Policy content. The reforms facilitate increased private sector participation in Kenya's ICT sector, a key enabling sector for the economy, by eliminating a barrier to entry that dampens competition and investment in ICT.** Specifically, it eliminates the minimum Kenyan equity participation in the sector, which was previously set at 30 percent and prevented market entry and investment by foreign firms. The first trigger will strengthen Kenya's competition law to address issues that prevent entry, investment, and growth of digital businesses by clarifying instruments related to abuse of dominance, economic dependence, and other restrictions to competition. The updated competition law will also set a framework for collaboration among market regulators for more coordinated and strategic actions to promote competition. In addition, the Competition Rules will be updated to address issues of effectiveness of anti-cartel policy to facilitate the use of leniency and other tools to detect and stop economic cartels, the implementation of provisions related to abuse of dominance and abuse of superior bargaining position (especially in digital markets), and merger control to prevent transactions that can harm competition (including to account for the challenges posed by digital markets, such as scarcity of spectrum and digital ecosystems, and the needs of privatization processes), while also specifying mechanisms for inter-institutional coordination to address regulatory restrictions on competition and devise enablers for competition.

[9] Data will be derived from the Kenya Revenue Authority, as in Wiedemann, V.; Kirui, B. K.; Khandelwal, V.; and P. W. Chacha (2023). "Spatial Inequality and Informality in Kenya's Firm Network." Mimeo.
[10] United Nations publication issued by the United Nations Conference on Trade and Development; Kenya eTrade Readiness Assessment; 2022 projections and GoK estimates of annual growth rate of 9.6%.

43. **Expected results. Addressing barriers to competition and enhancing the enforcement of competition law in digital markets is expected to increase private sector participation in Kenya's ICT sector.** At least five companies will benefit from competition reforms and enforcement enabling investment in ICT in the short-medium term. ICT companies with domestic shareholdings below 30 percent are expected to be investing in Kenya by the end of the DPO window, and decisions on competition law infringements and completed market enquiries addressing issues in digital markets are expected to enable further investments.

Policy area #6: strengthening the tertiary education training system.

44. **Rationale. Kenya is a regional leader in basic education, boosting the largest Learning Adjusted Years of Schooling in continental Africa, but the low access to tertiary education**. First, enrollment in tertiary education needs to increase, since Kenya's gross enrollment rate of 11 percent is lower than the low-income countries average. Second, enrollment growth should be in programs that provide students with the right competencies for the labor market. Currently, only 23 percent of institutions offer climate-forward programs, and significant skills shortages in fast-growing green sectors. The GoK is putting in place three key reforms to build a competency based tertiary education systemin tertiary education. First the policy on Recognition of Prior Learning, will facilitate access to tertiary education to encourage upskilling. Second, the national qualifications framework will provide the avenue for flexible pathways across different levels and programs in tertiary education. Third, the TVET and University laws will consolidate these ambitious reforms to promote competency -based education and training, mobility of labor and portability of qualifications, including to address demand for green skills.

Trigger 6.1: To strengthen the tertiary education training system, the recipient has amended the Regulations and the Kenya National Qualifications Framework Act (No. 22 of 2014).

Trigger 6.2: To improve access and relevance of the tertiary education system, the recipient through its parliament has approved updated regulations for the amended TVET Act and the Universities Act (2013).

45. **Policy content. The reforms will strengthen tertiary education in Kenya.** The amendment to the TVET and University Acts will institutionalize the competency-based approach in tertiary education, introduce performance-based financing and incentivize the participation of the private sector in the definition of competencies, including on green skills, and the revision of curricula, including regarding content on green skills. It will also facilitate pathways between TVET and University based on the amended National Qualifications Framework Cap 214 of Laws of Kenya.

46. **Expected results. The amendments to the TVET Act, Cap 210A of Laws of Kenya and University Act Cap 210 of Laws of Kenya are expected to increase enrollments in tertiary education**, including in courses and training to build green skills, and improve the relevance of TVET and University programs as well as transitions from TVET to University technical programs particularly for TVET's staff development.

Policy area #7: Including refugees in basic services and labor markets.

47. **Rationale. Refugees account for almost one percent of Kenya's population[11] but their potential contributions to the economy –from skills to higher labor market contestation—remain underutilized.** Kenya's

[11] The refugee population in Kenya have been displaced as a result of multiple factors, with climate as a compounding driver for a large percentage of this population. For instance, many displaced persons have fled neighboring countries, including Somalia and South Sudan, as a result of crippling drought in the Horn of Africa in the last few years and climate-exacerbated flooding. These populations have experienced severe food insecurity or even famine, and loss of livestock, livelihoods, and homes (in the case of flooding). Enabling access

Refugee Act of 2021 signaled a change in approach to refugee protection, rights, freedom of movement, access to services and pathways to employment, but implementation and regulatory issues have remained unclear. The Refugees (General) Regulations (2024) have been under development for the last two years. With its Shirika Plan, which will outline the socioeconomic transition from refugee encampment to a more settlement-based and development-focused refugee management model, Kenya is progressively moving towards new ways of integrating refugees in society and the economy, by offering access to economic opportunities and public services, including integrated WASH services.

PA 5: The recipient has, through the Cabinet Secretary for Interior and National Administration, issued (i) the Refugees (General) Regulations (2024) that provides for the treatment and welfare of refugees and the procedures of application of refugee status; and (ii) Legal Notice specifying Refugee Identification Documents, for the purposes of accessing services provided by the GoK.

Trigger 7.1: To include refugees in the labor market, the recipient has: (i) through its Cabinet, approved the Shirika Plan; (ii) through the Cabinet Secretary for Interior and National Administration, issued Guidelines for simplified procedures in the issuing of Class-M job permits; and (iii) through the Cabinet Secretary for Information, Communication, Technology, Innovation and Youth Affairs issued updated Kenya Information and Communications (Registration of Telecommunications Service Subscribers) Regulations recognizing relevant Refugee Identification Documents.

Trigger 7.2: To include refugees in the labor market, the recipient has: (i) through the Cabinet Secretary, National Treasury and Economic Planning issued updated Proceeds of Crime and Anti-Money Laundering Regulations recognizing relevant Refugee Identification Documents; and (ii) through the Governor of the Central Bank of Kenya, issued updated Central Bank of Kenya Prudential Guidelines for Institutions Licensed under the Banking Act Cap 88 of Laws of Kenya, recognizing relevant Refugee Identification Documents.

48. **Policy content. The reforms will enhance access to public services and jobs for refugees in Kenya.** The Refugees (General) Regulations are a key policy document to clarify implementation under the Refugee Act of 2021 and provide greater freedom of movement under 'designated areas'. Together the Regulations and Legal Notice outlines that refugee identification documents can be used to access government services at the national and county level. These incremental reforms will facilitate more development-focused investments for refugees and host communities within refugee hosting counties, [12] contributing to longer term human capital development and labor market participation rather than parallel humanitarian aid. Furthermore, these reforms will provide key legal steps for implementation of the Shirika Plan. [13] The Shirika Plan and guidance on job permits will provide a comprehensive plan for the integration of social services between refugees and host communities and outline a process for refugee access employment. Full implementation of the Refugee Act 2021 Cap 173 of Laws of Kenya, legal notice and Refugees (General) Regulations will require updates of other regulations and guidelines outlined under triggers 7.1 and 7.2. While the impact of these reforms on host communities is expected to be either neutral or mildly positive, any distributional effects will be offset by effective Shirika Plan implementation and investments

to government services via this reform will prove to be a key adaptive measure to address the losses experienced by this population as a result of these climate-exacerbated hazards and subsequent forced migration.

[12] Noting that the two refugee-hosting counties, Turkana and Garissa, are ASAL counties, meaning they are already prone to drought conditions, which are projected to worsen as a result of climate change.

[13] The Shirika Plan has sections dedicated to sustainable natural resource management, resilient agriculture, environmental management, climate change, and disaster risk reduction, all of which offer strategies to enhance resilience and mitigate the impact of climate change on refugees and host communities in Kenya.

through the IDA20 window for Host Communities and Refugees (WHR). The Shirika Plan will also provide an important national basis to support implementation and coordination of other WHR-financed operations.[14]

49. **Expected results. By implementing these reforms, refugees will have increased access to more efficiently delivered services that are integrated into national/county systems, and greater access to the labor market.** Enhanced access to WASH services as enabled by these policy reforms will improve health outcomes for refugees, and address climate change-exacerbated water scarcity.

Pillar 3: Strengthen climate action.

50. **This Pillar seeks to make Kenya's economy greener and more resilient,** supporting GoK's efforts to delivering on its ambitious climate goals.

Policy area #8: Promoting urban public transport and e-mobility.

51. **Rationale. Traffic congestion and air pollution are key challenges in Kenya's major cities, due to rapid motorization and the limited availability of adequate public transport services.** In addition to the rapid motorization rate, the low fuel efficiency of existing *matatus* (shared minibus taxis) and private cars are adversely affecting the urban environment. This PA seeks to establish the enabling policies to reduce urban congestion and support the use of electronic vehicles (e-mobility), implement a commuter masterplan for the Nairobi Metropolitan Area (NMA) (which was developed World Bank support), and enact the Railways Bill to promote commuter rail services.

PA 6: To promote urban public transport, the recipient has, through its Cabinet, approved the Railways Bill (2024), which strengthens the provision of commuter rail services.

Trigger 8.1: To promote urban public transport and e-mobility, the recipient has (i) through its parliament, enacted the Railways Bill, (ii) through its Cabinet, adopt-ed the urban transport policy, and (iii) through its Cabinet, adopted the e-mobility policy.

Trigger 8.2: To further promote urban public transport and e-mobility, the recipient has approved regulations for (i) the urban transport policy, and (ii) the e-mobility policy.

52. **Policy content. The reforms will enhance green transport in Kenya.** The amended Railways Bill aims to establish adequate commuter rail services as the backbone of the NMA's public transport system.[15] This involves the creation of a regulatory framework for Kenya's railway subsector, separating passenger services from freight services, and promoting institutional autonomy for the Kenya Railways Training Institute for specialized training in the subsector. Improving the efficiency of commuter rail services is expected to encourage a modal shift of public transport from road to rail, reduce low-capacity vehicles, and lower greenhouse gas emissions. The National Urban Transport Policy will intend to improve accessibility and mobility for commuters, guiding development of sustainable, efficient, accessible, safe, resilient and inclusive urban transport systems. The policy will also encourage and unlock private sector investment in high-quality urban transport systems. The e-mobility policy will boost a low-carbon and climate-resilient development, providing a strategic direction for adopting electric vehicles and developing necessary charging infrastructure in the country. Following the adoption of the urban

[14] Kenya Primary Education Equity in Learning Program (KPEELP - P176867); Kenya Urban Support Program 2 (KUSP2 - P177048); National Youth Opportunities Towards Advancement (NYOTA - P179414); and Kenya Water, Sanitation and Hygiene Program (K-WASH - P179012).
[15] The ongoing Horn of Africa Gateway Development Project (HOADGP, P161305) is supporting the development of commuter rail unit within Kenya Railways. The Kenya Urban Mobility Improvement Project (KUMIP, P176725), which is under preparation, will focus on investment in modernization of commuter rail. This includes support for operationalization of commuter rail unit.

transport policy and the e-mobility policy, these regulations will provide the necessary guidance and rules to implement both policies. For instance, the regulations for the e-mobility policy will specify vehicle charging infrastructure standards and an e-mobility electricity tariff, which would be included in the action plan.

53. **Expected results. Through the green actions supported by this DPO and the investments and behavioral changes they unlock, emissions in 2027 are expected to be 14 percent below this baseline at 15.5 MtCO2** (transport emissions were 13.6 MtCO2 in 2022, increasing to 18.0 MtCO2 by 2027 under the National Climate Change Action Plan's (NCCP's) baseline projections).

Policy area #9: Promoting more sustainable land use.

54. **Rationale. Kenya is losing 115km^2 of forest and tree cover per year – the equivalent of 6 to 6.7 million tons of CO2e per year (per the Kenya CCDR), accounting for 7 to 8 percent of Kenya's total emissions.**[16] The ecosystems suffering the largest areas of deforestation are the montane rain forests and mangrove and coastal forests. These forests provide critical ecosystem services, which buffer against the impacts of climate change, and sustain livelihoods for many Kenyans. Montane rain forests are critical land cover in Kenya's water towers, further degradation of which will make both cities and farms more vulnerable to climate change-exacerbated water scarcity, while also decreasing one of the country's major carbon sinks. Halting and reversing deforestation is essential for both reducing emissions and for restoring key ecosystem services that support climate adaptation. Kenya's existing forest policy dates from 1957 (before independence) and urgently needs updating to reflect foundational post-independence constitutional changes and current principles of sustainable forest management and climate action.

PA 7: To promote more sustainable land use, the recipient has, through its Cabinet, approved the National Forest Policy (2023).

Trigger 9.1: To promote more sustainable land use, the recipient, through its Parliament, has enacted the amendments to the Forest Conservation and Management Act of 2016, Cap 385 of Laws of Kenya.

Trigger 9.2: To promote more sustainable land use, the recipient, through its Cabinet, has approved regulations implementing elements of the amended Forest Conservation and Management Act, Cap 385 of Laws of Kenya, the recipient has approved regulations for charcoal, private forests, and sustainable forest management.

55. **Policy content. The reforms are promoting sustainable land use in Kenya.** The National Forest Policy will be the guiding statement of GoK's intent to respond to the 2010 Constitution, which introduced new governance structures and requirements for natural resource management, and to develop legislation that reflects modern principles of sustainable forest management. This includes assigning specific functions to the GoK and counties and addressing issues such as payments for ecosystem services (PES), green growth, rights of forest dependent communities, the need to entrench social protection for forest dependent communities and the need to encourage partnerships with communities and the private sector for commercial forestry and conservation. Trigger 9.1 addresses that the Forest Conversation and Management Act, Cap 385 of Laws of Kenya made progress in defining the roles of private sector and community involvement in the management of Kenya's forests, but a number of amendments are needed to strengthen the Act. Trigger 9.2 acknowledges that several sections of the 2015 Act required the development of regulations for detailed implementation. However, the process of formulating and enacting these regulations was slow, hindering the full operationalization of the Act. Following

[16] These calculations triangulate three sources of estimated current forest loss in Kenya: "National Forest Resources Assessment Report" (2021: 46); Government of Kenya (2023), "Draft National Landscape and Ecosystem Restoration Strategy, 2023-2032"; Global Forest Watch.

the amendment of the 2016 Act (above) regulations will need to be developed to support implementation of the amended Act.

56. **Expected Results. More sustainable land use practices are expected to help restore 250,000 Ha (net) of degraded forest cover** across water towers and rangelands, contributing to Kenya's constitutional forest cover target of 10 percent. [17]

Policy area #10: Improving Kenya's climate finance architecture.

57. **Rationale. Kenya has considerable potential to leverage climate finance for its green transition.** One instrument identified by the Kenya CCDR to address the climate financing gap is carbon (credit) markets, which could function as a source of non-debt, results-based financing. Kenya is already host to some of the largest nature-based carbon credit projects in Africa, and the GoK has a strong commitment to make carbon markets the "next big export." To ensure the scalability and integrity of carbon markets, Kenya needs a robust and consistent regulatory framework to clarify the rules and institutional processes for engaging in them. Beyond carbon markets, there are aims to leverage sovereign green bonds and SLBs to address the sovereign debt and climate challenge simultaneously. The World Bank is currently supporting the GoK in designing and issuing an SLB.

PA 8: To improve Kenya's climate finance architecture, the recipient has (i) through Parliament, enacted the Climate Change (Amendment) Bill (2023); and (ii) through its Cabinet, approved the Sovereign Green Bond Framework.

Trigger 10.1: To improve Kenya's climate finance architecture, the recipient has, through its Cabinet, approved (i) the Climate Change (Carbon Markets) Regulations 2024, and (ii) the sovereign SLB framework.

Trigger 10.2: To improve Kenya's carbon market architecture, the recipient, through its Cabinet, has issued directives to implement a national carbon registry and establish a reporting framework.

58. **Policy content. The reforms are strengthening Kenya's climate finance architecture.** The Climate Change Amendment Act, 2023 Cap 387A, provides the legal basis for carbon markets. It highlights key regulatory components, including the carbon registry, reporting mechanisms, benefit-sharing requirements with local communities, and the identification of entities in charge of endorsement/ authorization of credits for international transfer. The Sovereign Green Bond framework, which was developed with the support of the World Bank, aims to articulate governance arrangements for the funds raised from the green bond's issuance. Triggers support the Climate Change (Carbon Markets) Regulations 2024, which mark Kenya's first regulatory framework governing the development of carbon market projects. The draft regulation contains important provisions, including establishing the governance and institutional framework for carbon markets, as well as highlighting the requirements for environmental and social impact assessments, certification, validation, verification, and annual social contribution. This will be further supported by developing a national registry and reporting framework to ensure the transparency and integrity of carbon market transactions, collecting key information on carbon markets, including the ownership, transfer, and retirement of carbon credits to prevent double counting or fraud (this includes "corresponding adjustments". Triggers also cover the sovereign SLB framework, which is expected to be the first in East Africa. The framework, which will be developed with support from the World Bank, is the key document enabling the issuance of a sovereign SLB by outlining the governance and institutional arrangements.

[17] Enhanced conservation and management is a new World Bank corporate scorecard indicator "millions of hectares of terrestrial and aquatic areas under enhanced conservation and management."

59. **Expected results. The proposed reforms would enable Kenya to increase its access to climate financing** with expected financing of at least US$ 750 million by 2027.[18]

60. **The program is supported by a solid analytical foundation.** It is summarized in Table 5.

Table 5: DPO PAs and Analytical Underpinnings

Pillar 1: Promote efficiency, transparency, and equity of public finance	
PA1	World Bank (2020) Kenya Public Expenditure Review and Kenya Public Expenditure and Financial Accountability Report (2023) highlight the need to introduce the TSA and e-procurement, and potential wage bill efficiencies
PA2	Kenya National Bureau of Statistics and ICF (2022). *Kenya Demographic and Health Survey (2023)* and World Bank *Kenya - Social Protection and Jobs Public Expenditure Review* (2023) highlight the importance of systems integration, better targeting, and increasing social protection benefits.
Pillar 2: Foster more competitive and inclusive product and labor markets	
PA3	World Bank (2023). *Kenya Country Economic Memorandum* and Wiedemann et al. (2023). *Spatial Inequality and Informality in Kenya's Firm Network.* highlight the need to raise Kenya's competitive by removing distortions, strengthening trade integration and fostering services trade.
PA4	World Bank (2024). *Promoting Competition in the Digital Economy and* World Bank (2023). *Kenya Country Economic Memorandum* highlight opportunities for Kenya from higher competition.
PA5	World Bank (2023) *World Development Report 2023*; Von der Goltz et al. (2023). *The Labor Market Impact of Forced Displacement*, and 'Shirika Plan – Annex on Financial Costings" (work in progress) providing detailed costings supporting Kenya's pioneering role in integrating refugees into society.
Pillar 3: Strengthen climate action	
PA6	World Bank (2023) CCDR highlights the role of enhanced public transport system to meet Kenya's NDCs.
PA7	World Bank (2023) *CCDR* highlights the central role of forestry and land restoration in promoting adaptation and mitigation in Kenya.
PA8	World Bank (2024). *Carbon Market Guidebook for Kenyan Enterprises* and World Bank (2023) *CCDR* highlight the potential of climate finance, including carbon markets and sustainability-linked finance.

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

61. **This DPO is well embedded in the World Bank's CPF FY23-FY28 for Kenya (report no. 172255), discussed by the Board on November 22, 2022.** Pillars 1 and 2 contribute to the higher-level objective of "faster and more equitable labor productivity and income growth," while Pillar 3 contributes to "greater sustainability of Kenya's natural capital." The series also supports most CPF objectives. Pillar 1 supports "boosting fiscal and debt sustainability" and "strengthening the efficiency and transparency of public spending"; Pillar 2 supports "shrinking disparities in learning outcomes," while Pillar 3 supports "increasing household resilience to, and national preparedness for, shocks" and "reducing Kenya's extreme water insecurity in the face of climate change." The DPO is aligned with the World Bank's mission to end extreme poverty and boost shared prosperity on a livable planet, the World Bank's Evolution, including an emphasis on climate and refugees, and with the priorities of the World Bank's Eastern and Southern Africa Region, including the digital development.

[18] This financing can include green bonds, sustainability-linked bonds or revenue from authorized carbon credits, as per Kenya's Climate Change (Carbon Markets) Regulations 2024.

62. **Private Capital Facilitation.** This DPO follows the World Bank's Mobilizing Finance for Development (MFD) approach and supports private capital mobilization through multiple PAs. By improving Kenya's climate finance architecture through sovereign SLB framework, US$500 million is expected to be mobilized through sovereign green or sustainability linked bond issuances. Also, additional investments will be enabled by eliminating a key barrier to entry in the ICT sector under PA 4, where at least four companies will be able to invest in Kenya, whose potential investments are being projected.[19]

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

63. **The DPO was prepared in a consultative manner and is likely to be co-financed by several partners.** The series supports the GoK's BETA. The National Treasury and Economic Planning, demonstrated strong leadership, coordinating all relevant arms of government through a highly structured process and broad consultations are systematically embedded in Kenyan policymaking. The process was also well-coordinated with various development partners; CDP and KfW Development Bank are anticipated to co-finance. Additionally, civil society organizations were engaged on the actions supported by this program through the broader World Bank policy engagement in Kenya as well as through the related projects and knowledge work.

64. **The World Bank, following consultation with UNHCR, confirms that the protection framework for refugees continues to be adequate in Kenya for accessing financing from the WHR**.[20] Kenya's treatment of refugees is governed by the Refugees Act of 2021 Cap 173 of Laws of Kenya, and is largely in line with international and regional refugee protection standards and Kenya's commitments under the Global Compact on Refugees (GCR). It provides protection against refoulement and outlines asylum procedures, including registration, documentation, and refugee status determination. The Act recognizes the rights of refugees to participate in economic and social development and supports refugee inclusion in development planning. Positive progress on refugee protection noted by refugee stakeholders includes progress on the Shirika Plan, the Refugee (General) Regulations and the Legal notice all supported under this DPO. The refugee reforms supported under this operation will constitute the first substantive refugee policy reforms since Kenya achieved eligibility to the WHR in February 2022. Operational and resourcing issues continue to provide challenges in meeting refugee needs, including the backlog of more than 153,000 asylum applications pending decisions.

5. OTHER DESIGN AND APPRAISAL ISSUES

65. **The design of this operation builds on the lessons learned from previous DPOs in Kenya**. The Implementation Completion Report (ICR) for the Kenya Inclusive Growth and Management DPO (P172321) identifies the following key lessons: (i) importance of identifying the confluence between GoK priorities and those of the World Bank; (ii) strong GoK co-ordination role, spearheaded by the National Treasury and Economic Planning (NT); (iii) programmatic over stand-alone approaches, and (iv) close focus on implementation, including support through other World Bank-financed operations, as well as the work with the GoK and other development partners in areas of reform where World Bank funds are not available. The World Bank's sustained engagement and trust-building with the NT underpins ownership, which leads to successful implementation. Building on these lessons, this operation is centered around the GoK's priorities that the World Bank considers most critical, such as equitable fiscal consolidation, growth-enhancing reforms, and climate-smart actions. Linked to this is a built-in

[19] PA 10 supports a regulatory basis for carbon markets and green and sustainable bond issuance, which will also enable the private financing of US$500 million from carbon credits. Furthermore, reduced barriers to ICT investments under PA 5 and private sector participation in commercial forestry and conservation under the reform of the National Forest Policy may also lead to additional private capital investments, estimates of which are underway currently.

[20] Based on UNHCR (2023), "Kenya Refugee Protection Assessment Update No. 6, 1 July to 31 Dec 2023."

coordinating role for the NT, ensuring GoK buy-in and ownership as well as follow-through. Finally, the focus on implementation and achieving results is paramount in this operation. Most PAs are supported by ongoing operations, prior analytical work, and non-lending TA.

5.1. POVERTY AND SOCIAL IMPACT

66. **PAs 2, 3, 4, 5, 6 and 7 are likely to have significant direct and indirect poverty or social impacts, though the time horizon over which these impacts will materialize will differ**. In the short run, PA2 (Social Protection Act) will have positive poverty impacts by improving the coverage of social protection program for the poorest and increasing their benefit level. Also in the short run, PA5 (refugee regulations) will have positive social effects by increasing access to services and economic opportunities for refugees, a particularly vulnerable group.[21] There is a risk that the short term poverty impacts of PA7 (national forest policy) will be negative, as the poor are the most likely to be engaged in (often illegal) activities like the extraction of timber and charcoal, fuelwood collection, and the conversion of forestland to farmland. In the long term, more sustainable land use and forest management is expected to mitigate climate change effects and support climate resilience. An improved business environment, more competitive and inclusive product and labor markets (PAs 3 and 4) will likely have a positive impact on poverty reduction in the medium-term through increased employment opportunities and productivity. PA6 (Railways Bill) is expected to have positive social effects in the medium term by expanding job accessibility for people living on Nairobi's periphery, who tend to be lower income given high housing prices in Nairobi's core areas and who face constrained access to jobs given high commuting and job search costs.

67. **No significant poverty, social or distributional effects are envisaged for the rest of the PAs (1 and 8),** although more efficient public spending and an improved climate finance architecture might create fiscal space to increase social spending, benefiting the poor. On the revenue side, the fiscal consolidation focuses on broadening the tax base which is unlikely to have adverse distributional impacts.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

68. **Kenya's national environmental legal and institutional framework is broadly aligned with good international practices.** The framework is defined by the 2013 National Environment Policy and the 1999 Environmental Management and Coordination Act (EMCA), Cap 387 of Laws of Kenya, which established the National Environment Management Authority (NEMA), amended in 2015. The Ministry of Environment and Forestry is responsible for establishing policy guidelines on protection and conservation of environmental, forest, and other natural resources. NEMA coordinates environmental management activities undertaken by other lead agencies and promotes the integration of environmental considerations into the policy development programs and projects.

69. **Since 1999, NEMA has adopted the Environmental and Social Impact Assessment (ESIA) as a management tool to screen projects that may pose adverse impacts on the environment and other natural resources.** The second schedule of the EMCA requires that GoK, donors, and private sector proponents conduct and submit an ESIA report to NEMA for review prior to being issued a license. The EMCA provides for public participation as a mandatory component in the process of developing an ESIA study report. Project proponents must provide persons who may be affected by the project with information regarding the project, its anticipated effects, and its benefits. Further, the EMCA requires that all policies, plans, and programs that are to be

[21] Refugees have been documented to face limited employment opportunities, with their labor force participation particularly constrained by a lack of official work permits.

implemented by national, regional, county or other proponents, and are determined by NEMA as likely to have significant effects on the environment, be subjected to a Strategic Environmental and Social Assessment (SESA). Also, the EMCA provides for Environmental Audits (EA). These include routine self-audits, annual statutory audits (which are conducted on the initiative of the project's proponent within 12 months of the project's commencement or within 24 months of its completion and annually thereafter, and control audits that are conducted at NEMA's initiative whenever it deems it necessary to ensure project compliance with license conditions or to confirm the findings of a self-audit. NEMA may also be petitioned to conduct an audit by members of the public. ESIAs and EAs are required to be conducted by NEMA registered environmental experts.

70. **ESIA recommendations and license conditions are reasonably monitored and enforced by NEMA.** Several investment activities have been queried and stopped due to environmental concerns identified by NEMA. Interested parties can appeal to the National Environmental Tribunal (NET) on the adjudicate NEMA's decisions to issuance or denial of EIA licenses. On several occasions, NET has set aside NEMA's decisions to award or deny EIA licenses. Besides the NET, the public or concerned individuals may also lodge petitions with the Environment and Land Court. As such, the required ESIA process can manage all environmental and social risks and negative impacts for any future or existing project, and can reduce potential adverse impacts to acceptable levels. These efforts are complemented by the World Bank's Environmental and Social Framework, which is applicable on sector investment projects supported by the World Bank. Nonetheless, the integration and enforcement of environmental and social management systems in line with the provisions of EMCA are still nascent in various counties, given the recent devolution of certain environmental responsibilities to county offices.

71. **The PAs aimed at strengthening climate action are expected to result in overall positive environmental impacts.** PA6, which promotes urban public transport through use of urban passenger rail, will strengthen Kenya's commuter rail services, thus reducing emissions and improving air quality. Moreover, lower urban traffic congestion resulting from shifts toward other modes of transportation that have lower emissions (e.g., commuter trains) will also result in reduced emissions and improved air quality.

72. **The PAs in the forest sector (PA7) are expected to result in positive environmental impacts overall.** The reforms will introduce new governance structures and requirements for natural resource management to guide the development of legislation that reflects modern principles of sustainable forest management hinged on more sustainable land use practices, including but not limited to: PES, green growth, rights of forest-dependent communities and the need to entrench social protection for forest dependent communities. Partnerships with communities and the commercial forestry sector as well as conservation initiatives will also be enhanced, cumulatively resulting into increased carbon sequestration. Further, landscape restoration could generate benefits from reduced flooding and increased carbon stocks. A preliminary estimation carried out for the Kenya CCDR estimated that landscape and forest restoration could reverse a projected decrease of 26.38 MtCO2e in the country's carbon stock between 2020 and 2050 under business as usual to an increase of 322 MtCO2e over the same period. The National Forest Policy (PA7) will thus provide the framework and legal incentives to halt and reverse deforestation and land degradation leading to investments in afforestation and land restoration by the public sector, private sector, and communities. PA7 will also support climate adaptation through the generation of ecosystem goods (e.g., food, water, fuel, fodder, timber, and medicines) and services (e.g., biodiversity support, watershed service, natural water cleansing, soil rejuvenation, climate change and disaster mitigation, and recreational services). This will yield positive outcomes by improving ecosystem services in Kenya's five major forested water towers which supply 75 percent of the country's renewable surface water, and are vital for agriculture, industry, and domestic water consumption.

73. **Similarly, the proposed reforms strengthen Kenya's climate finance architecture through the proposed Climate Change Amendment Act, 2023, Cap 387A of Laws of Kenya, combined with the Sovereign Green Bond**

Framework (PA8) will result in positive environmental effects. The Climate Change Amendment 2023 establishes the legal framework for carbon markets, which in turn creates the enabling environment to mobilize substantial financing for climate mitigation and adaptation through carbon market projects in forests, sustainable land use, and other investment areas. In parallel the sovereign green bond framework outlines the need to tie the use of proceeds of the bond to eligible green projects that contribute to climate mitigation and adaptation objectives (e.g., electric vehicles to reduce GHG emissions, as well as sea wall construction and mangrove protection to improve resilience to coastal flooding and storm surges), thus scaling substantial sovereign financing for climate action.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

74. **The PFM system and public procurement framework, together with the GoK's commitment to improve their performance through various initiatives, provide reasonable assurance that the GoK can manage the country's budget resources appropriately**. The strengths of the PFM system include a transparent, accurate, and relatively strong budget system; use of Integrated Financial Management Information System (IFMIS) at all levels; well trained and qualified accountants and budget officers in NT National Treasury and Economic Planning, and MDAs; and a functioning Internal Audit Department and independent Supreme Audit Institution, the Office of the Auditor General (OAG). However, it requires further strengthening in cash management, procurement, public investment management, wage bill management and follow up of recommendations on audit reports. The GoK is working with development partners including the World Bank through the two recently approved PforRs at national and county levels to address most of these prominent gaps in the PFM system.[22] The policy interventions covered under this operation, including the TSA, E-procurement and wage bill management lay the necessary policy reinforcements for the reforms to carry on.

75. **GoK publishes the budget and maintains good standards of budget transparency**. Budget formulation is a consultative process which includes public participation through public forums organized by the National Treasury and Economic Planning, which publishes the budget on its website. The GoK publishes the Quarterly Budget and Economic Review (QBER), the annual budget execution reports and the budget policy statement, a document that outlines the GoK's budget plans and the main priorities on which it will spend its resources.

76. **The CBK continues to maintain effective operational controls and foreign exchange management.** The OAG's audits of the CBK for FY22 and FY23 were completed within the required timelines. The reports were unmodified for two years. Other matters raised in the reports relate to the failure to maintain the required number of non-executive directors and the lack of a second deputy governor as per the CBK Act Cap 491 of Laws of Kenya. The OAG audit reports did not flag any other material weaknesses in the CBK's internal audit function and internal controls. The IMF updated its safeguard assessment of CBK in September 2019; CBK has implemented most of the recommendations. CBK continues to maintain sound external and financial reporting practices and effective operational controls, and its board has active oversight operations.

77. **Loan and credit disbursement will follow the World Bank's procedures for development policy lending**. The DPO proceeds from the World Bank will be transferred to an account opened by the National Treasury and Economic Planning, in the CBK, which forms part of the foreign exchange reserves. The GoK, within 30 days after the withdrawal of the financing from the Financing Account, shall report to the Bank: (a) the exact sum received into the account referred above, (b) the details of the account to which the local currency equivalent of the financing proceeds will be credited, (c) the record that an equivalent amount has been accounted for in the Recipient's budget management systems, and (d) the statement of receipts and disbursement of the foreign

[22] GESDeK II ((P180287) and KDSP II (P180935)

reserve account. The borrower is required to comply with the standard negative list of excluded items that may not be financed with World Bank proceeds, as defined in the Financing Agreement.

78. **Auditing arrangements.** Since the overall fiduciary risk is assessed as moderate, there is no requirement for an audit.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

79. ***Grievance Redress.*** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

6. SUMMARY OF RISKS AND MITIGATION

80. ***The* overall residual risk rating for the operation is substantial** (Table 6), reflecting substantial risks related to political economy and governance, the macroeconomy, sector strategies and policies, and refugees.

81. ***Political* and governance risks: substantial.** The substantive and politically sensitive nature of the reforms supported by this operation, especially regarding expenditure consolidation, bears political economy implications. The level of political contestation in Kenya is high; powerful stakeholder groups who both support and oppose the reforms. These risks are mitigated by the strong ownership of the reform program by the whole GoK, the high-level political commitment to the reform program, and strong leadership by the National Treasury and Economic Planning, and Economic Planning.

82. ***Macroeconomic* risks: substantial.** Kenya is pursuing an ambitious fiscal consolidation program. The resolution of the June 2024 Eurobond has helped de-risk the macro framework. However, although debt is sustainable Kenya remains at a high risk of debt distress and very vulnerable to shocks. Risks are being mitigated through GoK's efforts at strong fiscal consolidation, reforms with DPO and the ongoing IMF program.

83. ***Sector* strategy and policy risks: substantial.** Some reforms are complex, affecting powerful interest groups and cutting across different levels of a still developing devolved institutional system. This affects a slew of reforms, including the rollout of the TSA, e-procurement, county licensing system, social protection, and others. These risks are mitigated by the portfolio-wide approach to this DPO, whereby the implementation of these reforms is supported by other World Bank-supported operations and analytics.

84. ***Refugee* protection poses a substantial risk** (captured in the "Other" category). While offering a range of benefits to refugee protection in Kenya, there are a range of resourcing, operational, policy and context specific challenges in the implementation of the Refugee Act 2021 Cap 173 of Laws of Kenya, that could be addressed to ensure full compliance with the relevant provisions of the 1951 Refugee Convention. There are protection risks regarding: delays and a backlog in the processing of refugee status determinations, the freedom of movement

and residence, as well as a lack of simplified access to work permits and documentation. Security challenges and social cohesion risks linked to equitably accessing social services present a substantial risk across refugees and host community members. These risks will be managed through policy dialogue with GoK led by the DRS, and joint engagement with relevant agencies such as UNHCR and other stakeholders supporting the development of the Shirika Plan and the development of the Refugee Regulations. In addition, the World Bank, in collaboration with the DRS and UNHCR, will undertake periodic reviews of Kenya's refugee protection, policy and institutional environment under its Refugee Policy Review Framework.

Table 6: Summary Risk Ratings

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

ANNEX 1: POLICY AND RESULTS MATRIX

DETAILED RESULTS FRAMEWORK

Prior actions and Indicative Triggers			Results		
Prior Actions under DPO 1	**Triggers for DPO 2**	**Triggers for DPO 3**	**Indicator Name**	**Baseline**	**Target**
Pillar 1--- Promote efficiency, transparency, and equity of public finance					
1. To enhance the efficiency and transparency of public spending, the recipient has: (i) through its Cabinet, approved the TSA, (ii) through the Cabinet Secretary of the National Treasury and Economic Planning, issued a circular mandating electronic procurement across the national government and counties that enables the tracking of green tags and compliance with green procurement policy, and (iii) through the Salaries and Remuneration Commission, issued a circular abolishing at least two allowances to improve efficiencies of the wage bill.	**1.1** To enhance the efficiency and transparency of public spending, the recipient has: (i) through the National Treasury and Economic Planning, submitted, to Parliament, an amendment to the Public Finance Management (National Government) Regulations, 2015 and Public Finance Management (County Government) Regulations, 2015 for the adoption and/or operationalization of the TSA, and an automated system for public procurement management across the national government and counties. (ii) through its Cabinet, approved a Payroll	**1.2** To enhance the efficiency and transparency of public spending, the recipient has, through its Cabinet, submitted to the Parliament an amendment to the PFM Act, 2012 Cap 412A of Laws of Kenya to: (i) introduce sanctions for Ministries, Counties, Departments, and Agencies and state corporations for non-compliance with streamlined allowances for all state and public officers; (iii) consolidate HR and Payroll data for the entire public sector; (iii) assign unified payroll	**a.** Percentage of MDAs' public procurement annual budget processed through the e-Government Procurement system **b.** Wage bill as a percentage of total revenue	0 (2023) 47 (2023)	100 (2027) 35 (2027)

Prior actions and Indicative Triggers			Results		
	Management Policy for the Public Sector to improve public sector payroll controls; and (iii) through its Cabinet, submitted to the Parliament an amendment to the PFM Act , 2012 Cap 412A of Laws of Kenya to reduce the number of layers for funds flow from the exchequer to the development accounts and to enable supplementary budgets for county governments throughout the year.	numbers to all public officers, and eliminate manual payrolls; and (iv) ensure consistency across payroll data, authorized establishment, and HR records.			
	2.1 To safeguard against the misuse of public office for private gain, the Recipient, though its Parliament, has issued regulations to the Conflict-of-Interest Bill (2024).	**2.2** The recipient, through its Cabinet, submitted to the Parliament an amendment to the Anti-Corruption and Economic Crimes Act Cap 65 of Laws of Kenya to: (i) criminalize unjust enrichment and introduced additional anti-corruption measures;	Proportion of declarations of personal interests of public officials reviewed and verified by the EACC	0 (2023)	85 (2027)

Prior actions and Indicative Triggers			Results		
		(ii) provide that convicted state officers should be disqualified from holding state or public office unless the conviction is overturned on appeal; and (iii) Recipient additionally introduced further anti-corruption measures.			
2. To strengthen social protection, the recipient has, through its Cabinet, approved the Social Protection Bill for submission to Parliament.	**3.1** To improve efficiency in the delivery of social protection benefits and services, the recipient has: (i) through the CS for Ministry of Labour and Social Protection, approved a regulation which mandates the GoK and counties to establish eligibility criteria using ESR for delivery of	**3.2** To enhance the effectiveness of social assistance, the recipient has, through its Parliament: (i) approved a regulation for the regular indexation of benefit values for NSNP cash transfers and other complementary programs in line with inflation and other	**a.** Proportion of NSNP and other complementary social protection programs' beneficiaries that represent the poorest 40 percent of the overall population. **b.** Difference between the poverty headcount rates of male-headed NSNP beneficiary households and female-headed NSNP beneficiary households	59% (2023) 4 % (2023)	80% (2027) 0 % (2027)

Prior actions and Indicative Triggers			Results		
	poverty-targeted cash transfers and other pro-poor social sector interventions, and (ii) commenced the use of ESR for selection and/or retargeting and/or recertification of NSNP cash transfer beneficiaries and complementary programs.	changing economic trends, and (ii) effective from FY 25/26, applied the first revision in the benefit values of NSNP cash transfers and other complementary programs.			
Pillar 2--- Promote more competitive and inclusive product and labor markets					
3. To improve Kenya's business environment, the recipient has submitted to the National Assembly the County Licensing (Uniform Procedures) Act, which establishes standard uniform procedures for licensing by county governments, reducing regulatory fragmentation across Kenya.	**4.1** To improve the business environment and strengthen trade, the recipient has: (i) through the CS Ministry of Roads and Transport, issued the regulations to the County Licensing (Uniform Procedures) Law that expounds on a streamlined	**4.2** To improve the business environment and strengthen trade, the recipient has: (i) through its Parliament, enacted the national e-commerce law implementing the e-commerce policy, and	**a.** Percentage increase of inter-county trade as a share of total VAT **b.** Increase in revenue generated from E-Commerce (US$ million).	46 (2023) 3,600 (2023)	49 (2027) 5,700 (2027)

Prior actions and Indicative Triggers			Results		
	licensing procedure and related administrative processes, (ii) through the Cabinet, adopted the Kenya National e-commerce policy to support expansion of use through addressing risks relating to management and control, and (iii) through its Parliament, enacted the Investment Promotion and Facilitation Bill to maximize gains made through Kenya's recent trade agreements.	(ii) through the CS Ministry of Roads and Transport, approved regulations to the Investment Promotion and Facilitation Law to enhance promotion, retention and aftercare of investments especially FDI.			
4. To strengthen competition in the digital economy, the recipient has, through the the Cabinet Secretary Information, Communications and Digital	**5.1** To strengthen competition in the digital economy, the recipient has, through its Parliament, enacted amendments to	**5.2** To strengthen competition in the digital economy and beyond, the recipient has:	Number of enterprises benefitting from competition reforms and enforcement in digital markets, that invested in	0 (2023)	5 (2027)

Prior actions and Indicative Triggers			Results		
Economy, eliminated restrictions related to a requirement of 30 percent local equity participation for ICT providers by revising the National ICT Policy Guidelines 2020.	the Competition Act Cap 504 of Laws of Kenya, that integrate tools to boost competition in digital markets, protect consumers, and facilitate inter-institutional collaboration to promote competition across sectors and policy areas.	(i) through its Parliament, enacted the ICT Bill, to boost the development of an open and competitive digital ecosystem, and (ii) through the National Treasury and Economic Planning,, amended the Competition Rules to enhance tools for anti-cartel enforcement, abuse of dominance, abuse of superior bargaining position, merger control, and inter-institutional collaboration.	Kenya's ICT sector		
	6.1 To strengthen the tertiary education training system, the recipient has amended the	6.2 To improve access and relevance of the tertiary education system, the	Number of students supported (enrolled in) tertiary education, including	362,834 (2023)	500,226 (2027)

Prior actions and Indicative Triggers			Results		
	Regulations and the Kenya National Qualifications Framework Act (No. 22 of 2014), Cap 214 of Laws of Kenya.	recipient through its parliament has approved updated regulations for the amended TVET Act Cap 210A of Laws of Kenya and the Universities Act 210 of Laws of Kenya.	TVET and universities		
5. The recipient has, through the Cabinet Secretary for Interior and National Administration, issued (i) the Refugees (General) Regulations (2024) that provides for the treatment and welfare of refugees and the procedures of application of refugee status; and (ii) Legal Notice specifying Refugee Identification Documents, for the purposes of accessing services provided by the GoK.	**5.1** To include refugees in the labor market, the recipient has: (i) through its Cabinet, approved the Shirika Plan; (ii) through the Cabinet Secretary for Interior and National Administration, issued Guidelines for simplified procedures in the issuing of Class-M job permits; and (iii) through the Cabinet Secretary for Information, Communication, Technology, Innovation and Youth Affairs issued updated Kenya	5.2 To include refugees in the labor market, the recipient has: (i) through the Cabinet Secretary, National Treasury and Economic Planning issued updated Proceeds of Crime and Anti-Money Laundering Regulations recognizing relevant Refugee Identification Documents; and (ii) through the Governor of the Central Bank of Kenya, issued updated Central	Number of displaced people provided with services (integrated into national/county systems) and livelihoods	0 (2023)	400,000 (2027)

Prior actions and Indicative Triggers			Results		
	Information and Communications (Registration of Telecommunications Service Subscribers) Regulations recognizing Refugee Identification Documents	Bank of Kenya Prudential Guidelines for Institutions Licensed under the Banking Act Cap 488 of Laws of Kenya, recognizing relevant Refugee Identification Documents.			
Pillar 3--- Strengthen climate action					
6. To promote urban public transport, the recipient has, through its Cabinet, approved the Railways Bill (2024), which strengthens the provision of commuter rail services.	**8.1** To promote urban public transport and e-mobility, the recipient has: (i) through its parliament, enacted the Railways Bill (ii) through its Cabinet, adopted the urban transport policy (iii) through its Cabinet, adopted the e-mobility policy	**8.2** To promote urban public transport and e-mobility, the recipient has approved regulations for: (i) the urban transport policy (ii) the e-mobility policy	Net GHG emissions per year in the transport sector (MtCO2)	13.6 (2022)	15.5 (2027)
7. To promote more sustainable land use, the recipient has, through its Cabinet, approved the National Forest Policy (2023).	**9.1** To promote more sustainable land use, the recipient, through its Parliament, has enacted the amendments to the Forest	**9.2** To promote more sustainable land use, the recipient, through its Cabinet, has approved regulations implementing	Hectares of terrestrial areas under enhanced conservation and management (thousand hectares)	0 (2023)	250 (2027)

Prior actions and Indicative Triggers			Results		
	Conservation and Management Act of 2016 Cap 385 of Laws of Kenya, to incorporate updates and changes in the National Forest Policy.	elements of the amended Forest Conservation and Management Act, Cap 385 of Laws of Kenya, the recipient has approved regulations for charcoal, private forests, and sustainable forest management.			
8. To improve Kenya's climate finance architecture, the recipient has: (i) through its Parliament, enacted the Climate Change (Amendment) Bill (2023), which provides the regulatory basis for carbon markets; and (ii) through its Cabinet, approved the Sovereign Green Bond Framework, which provides the basis for bond issuance, by providing details on the governance framework, use of proceeds, project selection and evaluation, and reporting requirements.	**10.1** To improve Kenya's climate finance architecture, the recipient has, through its Cabinet, approved: (i) the Climate Change (Carbon Markets) Regulations 2024, and (ii) the sovereign SLB framework, to enable the issuance of sovereign SLBs.	**10.2** To improve Kenya's carbon market architecture, the recipient, through its Cabinet, has issued directives to implement a national carbon registry and establish a reporting framework.	Climate finance revenue associated with GHG reductions (US$M)	0 (2023)	750 (2027)

RESULTS INDICATORS BY PILLAR

Baseline	Closing Period
Promote efficiency, transparency, and equity of public finance	
Percentage of MDAs' public procurement annual budget processed through the e-Government Procurement system (Percentage)	
Dec/2023	Dec/2027
0	100
Wage bill as a percentage of total revenue (Percentage)	
Dec/2023	Dec/2027
47	35
Proportion of declarations of personal interests of public officials reviewed and verified by the EACC (Percentage)	
Dec/2023	Dec/2027
0	85
Proportion of NSNP and other complementary social protection programs' beneficiaries that represent the poorest 40 percent of the overall population. (Percentage)	
Dec/2023	Dec/2027
59	80
Difference between the poverty headcount rates of male-headed NSNP beneficiary households and female-headed NSNP beneficiary households (Percentage)	
Dec/2023	Dec/2027
4	0
Promote more competitive and inclusive product and labor markets	
Percentage increase of inter-county trade as a share of total VAT (Percentage)	
Dec/2023	Dec/2027
46	49
Increase in revenue generated from E-Commerce (US$ million). (Amount(USD))	
Dec/2023	Dec/2027
3,600	5,700
Number of enterprises benefitting from competition reforms and enforcement in digital markets, that invested in Kenya's ICT sector (Number)	
Dec/2023	Dec/2027
0	5
Number of students supported (enrolled in) tertiary education, including TVET and universities (Number)	
Dec/2023	Dec/2027
362,834	500,226
Number of displaced people provided with services (integrated into national/county systems) and livelihoods (Number)	

Dec/2023	Dec/2027
0	400,000
Strengthen climate action	
Net GHG emissions per year in the transport sector (MtCO2) (Metric tons/year)	
Dec/2023	Dec/2027
13.6	15.5
Hectares of terrestrial areas under enhanced conservation and management (thousand hectares) (Hectare(Ha))	
May/2023	May/2025
0	250
Climate finance revenue associated with GHG reductions (US$M) (Amount(USD))	
Dec/2023	Dec/2027
0	750

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Concludes 2023 Article IV Consultation, Sixth Reviews of the Extended Arrangements Under the EFF and ECF Arrangements, and First Review Under the Resilience and Sustainability Facility Arrangement for Kenya

January 17, 2024

- Performance under the EFF/ECF arrangements is broadly aligned with the program's objectives, while the RSF arrangement is supporting the authorities' climate agenda.
- Steadfast implementation of the package of mutually reinforcing policies and reforms is the key to maintaining macroeconomic stability, strengthening debt sustainability, and building buffers against shocks.
- Near-term policy responses should complement measures needed to bolster Kenya's medium-term prospects toward a vibrant, inclusive, green, and market-driven economy.

Washington, DC : The Executive Board of the International Monetary Fund (IMF) concluded today the 2023 Article IV consultation [1] with Kenya together with the sixth reviews and augmentations of access (SDR707.27 million, about US$941.2 million) under the extended arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF), approved in April 2021 and extended by 10 months in July 2023 to April 2025, and the first review under the 20-month Resilience and Sustainability Facility (RSF) arrangement, approved in July 2023.

The Board's decision allows for the immediate disbursement of SDR469.25 million (about US$624.5 million) under the EFF/ECF arrangements - which includes an augmentation of access of SDR233.40 million (about US$310.6 million) - and brings total disbursements under the EFF/ECF arrangements to SDR1,978.23 million (about US$2.6 billion). The decision also allows for an immediate disbursement of SDR45.23 million (about US$60.2 million) under the RSF arrangement.

In completing the reviews, the Executive Board also approved modification of program conditionalities, waivers of nonobservance of the continuous performance criterion on no new accumulation of external arrears and the end-June 2023 and end-December 2023 tax revenue targets considering the corrective actions taken by the authorities, and waiver of applicability for all other end-December 2023 performance criteria.

The Kenyan economy remains resilient against a challenging global backdrop even as it recovers from the legacy of the COVID-19 pandemic and the worst multi-season drought over the past two years. The economy expanded by 5.6 percent y/y in the first nine months of 2023, driven by a strong recovery in agriculture which also helped lower both overall and food inflation. Non-agricultural growth, however, slowed amid tighter policies. Fiscal consolidation continued, delivering a stronger primary balance than originally envisaged in FY2022/23, while monetary policy was tightened by 375 basis points in 2023. The external current account balance has improved as real exchange rate depreciated and imports contracted. Exports and remittances remained resilient. While foreign exchange reserves remain adequate, they declined in the second half of 2023 amid debt service payments and limited external financing inflows.

The near-term outlook is one of continued resilience with growth projected at around 5 percent in 2024 amid ongoing adjustments in the fiscal policy and external accounts. Inflation is expected to inch up in the first half of 2024, driven primarily by global oil price volatility and exchange rate passthrough, but to remain contained due to the recent monetary policy tightening and as the authorities strive to deliver a stronger fiscal consolidation to stabilize the overall public debt/GDP in 2024. Notwithstanding the elevated downside risks in the near term, the authorities should be resolute in their actions to help keep confidence anchored.

Kenya's medium-term prospects are positive and could be buttressed by improving competitiveness, inclusivity, and enhancing governance and anti-corruption framework to support a vibrant and market-driven economy. Progress on the authorities' climate agenda, including RSF-supported reforms, will not only prepare the country well against future climate shocks, but also help attract climate finance to support these further efforts.

At the conclusion of the Executive Board's discussion, Ms. Antoinette Sayeh, Deputy Managing Direction and Acting Chair, issued the following statement:

"Kenya's growth remained resilient in the face of increasing external and domestic challenges. The EFF/ECF and RSF arrangements continue to support the authorities' efforts to sustain macroeconomic stability, strengthen policy frameworks, withstand external shocks, push forward key reforms, and promote more inclusive and green growth.

"Kenya's performance under the ECF/EFF arrangements have been mixed with adherence to quantitative targets being broadly satisfactory. The authorities have made welcome progress in some key areas, including governance and public financial management. Continued implementation of corrective measures to address missed targets and accelerated reforms will be important.

"The authorities' commitment to fiscal consolidation while protecting essential social and developmental spending should support efforts to bring down the debt burden toward the new debt anchor of 55 percent of GDP in present value terms by 2029. Implementation of the Medium-Term Revenue Strategy would be key to reverse the erosion in the tax base while promoting equity and fairness in the tax regime and create more space for spending to improve public services. Risks to planned fiscal consolidation should be monitored and contingency plans promptly activated as needed. Effective communication of fiscal policy objectives would support efforts at easing financing pressures.

"Monetary policy has demonstrated its ability to react to inflation shocks and anchor expectations. The Central Bank of Kenya should continue to act decisively to ensure that inflation converges firmly to the target. Strengthening of the monetary policy framework would support price stability and external sustainability. The exchange rate should be allowed to respond flexibly to market conditions. Recent measures at facilitating greater exchange rate flexibility should help ease FX market dysfunction and support a buildup of FX reserves. The banking system is generally sound, but emerging vulnerabilities need close monitoring.

"Unlocking Kenya's potential and realizing its positive medium-term prospects will require resolute efforts at sustaining structural reforms to support more job creation, poverty reduction, and making the economy greener and more resilient. To this end, boosting export competitiveness; addressing weaknesses in governance and the anti-corruption framework, including on AML/CFT; and improving resilience to climate shocks by further strengthening Kenya's track record in promoting climate risk considerations in fiscal planning and the investment framework, improving disaster risk management, and attracting more climate finance will be important."

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They positively noted the resilience of the Kenyan economy despite the ongoing fiscal and external adjustments in a challenging environment. While welcoming the authorities' commitment to program objectives and the corrective actions taken, Directors noted that program performance has been mixed and called for strengthened implementation going forward. Noting the significant program risks, repeated augmentation requests and difficult market conditions, they underscored that a steadfast implementation of mutually reinforcing prudent policies and reforms, supported by contingency planning, capacity development, and effective communication, remain crucial to build market confidence, reduce poverty and sustain growth. Collaboration with development partners is also paramount, including in Kenya's financing strategy. Directors generally noted that the assessment of the exceptional access criteria rests on strong program ownership given the highly uncertain environment.

Directors emphasized the importance of further front-loaded fiscal consolidation efforts to mitigate debt vulnerabilities and to achieve Kenya's new debt anchor by 2029. In this context, they stressed the need for continued fiscal prudence, supported by domestic revenue mobilization and expenditure rationalization. Strengthening social safety nets and improving efficiency of investment are also crucial. On tax collections, Directors expressed concerns over recent shortfalls and called for urgent implementation of corrective measures, including timely adoption of measures in the Medium-Term Revenue Strategy. They also reiterated the need for managing fiscal risks proactively including from pending bills and contingent liabilities. Directors encouraged further strengthening of debt management capacity.

Directors welcomed the recent monetary policy tightening to keep inflationary expectations anchored and safeguard external sustainability. They also positively noted efforts to enhance the effectiveness of the monetary policy framework and the efficient functioning of financial markets. Actions towards greater exchange rate flexibility are also important. In that context, Directors encouraged continued institutional and technical reforms targeted at improving the functioning, deepening, and transparency of the FX market. Acknowledging the generally sound condition of the banking system, they underscored the importance of closely monitoring and addressing any emerging financial sector vulnerabilities.

Directors called for fast-tracking structural reforms to enhance export competitiveness, strengthen public financial management and the state corporations, and address weaknesses in governance and the anti-corruption framework, including on AML/CFT.

Directors commended Kenya's progress in reforms supported by the RSF arrangement, encouraged efforts at garnering additional climate finance, and welcomed mainstreaming of gender in climate-change reforms for inclusive growth and supporting the green transition.

It is expected that the next Article IV consultation with Kenya will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Kenya: Selected Economic Indicators, 2021-2026						
	2021	2022	2023	2024	2025	2026

	Act.	Act.	Est./ Proj.	Proj.	Proj.	Proj.
Output						
Real GDP growth (percent)	7.6	4.8	5.1	5.0	5.3	5.3
Prices						
Inflation - average (percent)	6.1	7.6	7.7	7.0	5.2	5.4
Central government finances (fiscal year)[1]						
Total revenue (percent of GDP)	16.1	17.6	16.7	19.0	19.1	19.5
Expenditure and net lending (percent of GDP)	24.4	23.8	22.6	23.8	22.7	22.6
Overall fiscal balance (percent of GDP)	-8.3	-6.3	-5.6	-4.7	-3.5	-3.1
Public debt						
Gross nominal debt (percent of GDP)	68.2	67.9	73.2	73.3	70.3	67.8
Gross external debt (percent of GDP)	34.7	34.5	40.5	42.4	40.4	38.8
Money and Credit (end of period)						
Broad money (percent change)	6.1	7.1	13.8	12.4	10.8	11.0
Credit to private sector (percent change)	8.6	12.5	11.1	10.8	12.6	12.3
Policy rate, end-of-period (percent)	7.0	8.75	12.5	…	…	…
Balance of payments						
Current account balance (percent of GDP)	-5.2	-5.2	-4.0	-4.1	-4.2	-4.2
Gross international reserves (in months of imports)	4.7	4.4	4.0	4.0	4.1	4.2
Exchange rate						
REER (average percent change; positive = appreciation)	-2.6	2.2	…	…	…	…

Sources: Kenyan authorities; and IMF staff estimates and projections.

[1] Based on fiscal year (i.e., 2024 represents fiscal year 2023/24, covering July 2023-June 2024).

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm .

ANNEX 3: LETTER OF DEVELOPMENT POLICY

REPUBLIC OF KENYA
THE NATIONAL TREASURY AND ECONOMIC PLANNING

Telegraphic Address: 22921
Finance – Nairobi
FAX NO. 310833
Telephone: 2252299

THE NATIONAL TREASURY
P O BOX 30007-00100
NAIROBI
KENYA

When Replying Please Quote
NT/PDMO/07/02/01 'H2' (114)

3rd April 2024

Mr. Ajay Banga
President
World Bank Group
1818 H Street, N.W.
Washington D.C. 20433
UNITED STATES OF AMERICA

Dear Mr. President,

RE: LETTER OF DEVELOPMENT POLICY OPERATION

1. On behalf of the Government of the Republic of Kenya, I write to request for a three-year programmatic Development Policy Operation (DPO) from the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD) aimed at supporting policy and institutional reforms which are critical to the Government's Bottom-Up Economic Transformation Agenda (BETA). The reforms are geared towards economic turnaround and inclusive growth with special focus on interventions to: (i). Reduce the cost of living; (ii). Ensure efficient climate action; (iii). Reduce fiscal leakages; (iv). Strengthen public support for fiscal consolidation through efficient expenditure management; (v). Increase youth employment; (vi). Incentivize investment and production; (vii). Boost exports (viii). Enhance social security (x). Foster competitiveness, and (xi). Increase foreign exchange reserves.

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2. Critically, BETA prioritizes the available scarce resources on the most impactful sectors, by sequencing interventions and financing of the programmes within a fiscal consolidation framework to ensure that the Government reduces the fiscal deficit while raising efficiency in spending.

3. Revenue mobilization has been affected by cyclical slowdown in economic vibrancy but is projected to steadily pick up due to recovery of agriculture from a prolonged drought and increased exports. Persistence in tight market conditions has affected Government cash-flow and the ability to implement development programs in a timely manner. In spite of these circumstances, Kenya is strongly committed to reducing debt vulnerabilities through strengthening tax system, enhancing efficiency in public spending and supporting competitiveness. The Government of Kenya is committed to implement the debt anchor set at 55 per cent of GDP in Present Value (PV) terms within five (5) years.

4. On 13th February 2024, the Republic of Kenya successfully priced a new 9.75 per cent USD 1.5 billion notes due in 2031. In addition to the Eurobond and other commercial financing, the Government expects to receive concessional financing from its development partners. Having multiple sources of concessional and commercial financing is part of the Government's debt management strategy to ensure it is able to access financing from a wide variety of sources.

5. The **Africa Climate Summit** held in Nairobi from 4th to 6th September 2023, was a significant event that illuminated on several key issues, including building consensus on climate action priorities for Africa. **The Nairobi Declaration** which is one of the main outcomes of the Africa Climate Summit makes a strong case for **accelerated climate action and financing.** African leaders called for urgent action by developed countries on a new financing architecture to restructure Africa's heavy debt and unlock climate finance. The leaders expressed concern that many African countries face disproportionate burdens and risks from climate change-related events, which cause massive humanitarian crises with detrimental impacts on economies, health, education, peace and security. Hence, a multilateral finance reform is necessary to provide the scale of climate financing that the world needs to achieve 45 per cent emission reduction required to meet the Paris 2030 Agreement.

6. The three-year Development Policy Operation offers a strategic opportunity to provide direct and flexible support to Kenya's development agenda. By focusing on policy, legal reforms and institutional strengthening, the DPO will empower the Kenyan government to implement transformative measures that address structural bottlenecks, enhance governance, and promote equity and inclusive growth. Moreover, a three-year operation allows for a more tailored approach, enabling the alignment of support with Kenya's national priorities and development strategies.

7. This DPO series has been designed to align closely with Kenya's national development priorities by focusing on three main areas, notably; (i). Promote efficiency, transparency, and equity of public finance; (ii). Foster more competitive and inclusive product and labor markets; and (iii). Strengthen climate action. By focusing on areas such as fiscal management, public sector reforms, private sector development, social protection, green growth, climate finance, and sustainable infrastructure, we aim to enhance Kenya's competitiveness, improve service delivery, and create opportunities for all Kenyans to prosper as well as Macro-economic stability.

8. The Government is also implementing transformational reforms under an International Monetary Fund (IMF) program focusing on climate change, resource mobilization, fiscal consolidation and strengthening financial management. In this regard the Government is focused on addressing challenges/impact of climate change, resource mobilization among others. In this respect, the Kenya Government is committed to the reform agenda in order to turnaround economic growth, manage debt vulnerability, enhance investor confidence and address adverse effects of climate change. Given the multiplicity of all these factors, the Government has the capacity to implement the three-year DPO.

I. Macroeconomic Performance and Development

A. Recent Economic Developments

9. The growth of the Kenyan economy remains robust and resilient against a backdrop of an improved outlook for global growth, moderating international oil prices, and heightened geopolitical tensions particularly in the Middle East and Eastern Europe. Global growth for 2023 is estimated at 3.1 per cent and that of 2024 has been revised upwards from 2.9 per cent to 3.1 per cent, reflecting stronger-than-expected growth in the United States, continued strengthening of the Chinese economy, and strong

growth in several large emerging market and developing economies. However, the main risks to the global growth are mainly; the continued effects of tight monetary policy, the withdrawal of fiscal support in advanced economies, and increased uncertainties arising from the escalation of geopolitical tensions in Eastern Europe and the Israel-Palestinian conflict.

10. The Kenyan economy remained strong and resilient in the first three quarters of 2023 despite the challenging external environment and significant loses and damages due to frequent extreme weather events. The economic growth averaged 5.6 per cent (5.5 percent in Q1 and Q2 and 5.9 per cent Q3) primarily driven by a rebound in agriculture activities and a continued resilience of the service sector. Growth for 2024 is projected to remain strong at 5.5 per cent from the estimated 5.5 per cent in 2023 which is a further pick up from the 4.8 per cent growth in 2022, supported by the resilient services sector, the improved performance in agriculture, implementation of measures to boost economic activity in the priority sectors of the Government's BETA, and the improved global growth outlook which is expected to benefit exports.

11. Through BETA, we are implementing interventions and policies to reduce the cost of living and improving livelihoods, while at the same time fostering a sustainable inclusive economic transformation. This is intended to reverse the economic recession and ignite economic recovery. The agenda recognizes the importance of managing the cost of living through well-functioning markets to enhance productivity, availability and affordability of goods and services for all citizens.

12. **The coordination between monetary and fiscal policies continues to support macroeconomic stability.** We have tightened monetary policy over the course of the past one and half years with the overall objective of maintaining price stability consistent with our inflation target. We have gradually raised the Central Bank Rate (CBR) by 550 basis points from 7.5 per cent in May 2022 to 13.0 per cent in February 2024. This monetary policy action was complemented by Government interventions aimed at lowering the cost of production, easing of global food prices and favorable weather conditions that increased food supply. As a result, overall inflation rate declined to 6.9 per cent in January 2024 from a peak of 9.6 per cent in October 2022. Overall, inflation is expected to largely remain within the target band of 5±2.5 per cent in the medium term supported by muted demand pressures consistent with the tight monetary policy and easing of domestic and global food prices.

13. **The current account deficit** narrowed **to 3.9 per cent of GDP in 2023**, down from 5.0 per cent in 2022, and is projected at 4.0 per cent of GDP in 2024, reflecting the expected recovery in imports, resilient remittances, and expected rebound in agricultural exports. Goods exports declined by 2.2 per cent in 2023 compared to an increase of 9.3 per cent in 2022 mainly due to decline in the value of titanium ores and concentrates exports as well as a drop in the value of exports of apparel and clothing. This trend is expected to reverse as economic activities in these sectors continue to recover. Additionally, the increase in manufactured exports receipts during the period reflect strong regional demand. Imports declined by 10.6 per cent in 2023 compared to a growth of 7.3 percent in 2022, reflecting lower imports across all categories, except food and crude materials. Tourist arrivals improved by 30.7 per cent in 2023 compared to 2022, and were 19.3 per cent higher in December 2023 compared to December 2022. Remittances increased by 4.0 per cent to USD 4,190 million in 2023 from USD 4,028 million in 2022.

14. **The official foreign exchange reserves** held by the Central Bank stood at USD 7,340.8 million in December 2023 compared to USD 7,969.5 million in December 2022. This represented **3.9 months of import cover** and therefore provides adequate buffer against short term shocks in the foreign exchange market.

15. **The Kenya shilling exchange rate has strengthened against major international currencies** in February 2024. By end February 2024, the Kenya Shilling Strengthened by 10.1 per cent against the USD. 10.4 per cent against the Sterling Pound and 10.8 per cent against the Euro, compared to the previous month. The strengthening of the Kenyan shilling is attributed to forex inflows from the Government infrastructure bond which was oversubscribed by 412.4 per cent, and the impact of de-risking the 2024 Euro bond through issuance of a USD 1.5 billion from international investors for part buy-back of the June 2024 Eurobond.

B. Fiscal Policy and Reform Agenda

16. **Budget execution for the first half of FY 2023/24 has progressed smoothly but affected by challenges in raising resources.** By end December 2023, revenues collected for the period ending December 2023 grew by 10.7 per cent compared to a growth of 11.1 percent in the same period in FY 2022/23. Total revenue collection amounted to Kshs. 1,270.2 billion, remaining below target by 182.4 billion.

17. Total expenditure for the period ending December 2023 was Kshs. 1,464.3 billion and was below target by Kshs. 360.9 billion on account of below target disbursements towards both recurrent expenditure and development expenditures. The below target performance in expenditures is largely explained by the shortfalls in revenue performance and liquidity constraints in the domestic money market. Fiscal operations of the Government by end of December 2023 resulted in an overall deficit including grants of Kshs. 182.4 billion (1.1 per cent of GDP) against a target of Kshs. 363.7 billion (2.3 per cent of GDP).

18. **The fiscal policy over the medium terms aims at supporting the BETA, through a growth friendly fiscal consolidation plan designed towards slowing down public debt without compromising service delivery.** Our fiscal policy path recognizes the pressing need for debt trajectory to be firmly put on a downward path over the medium term to reduce debt vulnerabilities amid significant external and domestic challenges.

19. Our policies endeavor to strike an appropriate balance (i.e., addressing rising debt and social discontent) while recognizing the difficult tradeoffs exerted by Kenya's limited fiscal space and continued financing constraints. Accordingly, the focus of our fiscal policy remains on reducing the deficit from 5.6 per cent of GDP in FY 2022/23 to 4.9 per cent of GDP in FY2023/24 and further to 3.9 per cent of GDP in FY 2024/25.

20. **This will be achieved through broadening the revenue base and containing non-priority expenditures while enhancing social safety nets with the support of our Development Partners.** Consequently, total revenue is expected to rise from 16.5 per cent of GDP in FY 2022/23 to 19.0 per cent of GDP in FY 2023/24 and further to 19.1 percent of GDP in FY 2024/25. On the other hand, total expenditure is projected to rise from 22.6 per cent of GDP in FY 2022/23 to 24.2 per cent of GDP in FY 2023/24 before declining to 23.2 per cent of GDP in FY 2024/25.

21. **To realize these objectives,** we will focus on aggressive domestic resource mobilization. The First Medium-Term Revenue Strategy (MTRS) will be implemented within a three-year period beginning from FY 2024/25 to FY 2026/27. We began implementation of the MTRS in January 2024 and the policy proposals therein will be captured the Finance Bill for the financial year 2024/25. Tax policy reforms will be implemented through the Finance Acts and Regulations, while tax revenue administration reforms commenced in January 2024.

22. The objectives of the MTRS will be to: (i). Improve efficiency in revenue administration; (ii). Ensure equity and fairness in the tax regime; (iii). Enhance tax-payer compliance with tax obligations; (iv) Expand the tax base; (v) Create certainty in the tax regime to attract investment; and (vi) Promote investment across various sectors by removing market distortions.

23. The implementation of MTRS is expected to among others: (i) raise ordinary revenue to GDP ratio from 14.3 percent in FY 2022/23 to 20.0 per cent by end of the FY 2026/27; (ii) increase tax compliance rate from 70 per cent in FY 2022/23 to 90 percent by FY 2026/27; and (iii) increase investment to GDP ratio from 19.3 per cent in FY 2022/23 to 25.7 per cent in FY 2026/27. As part of the process, the Government submitted to the Parliament in December 2023 tax policy measures which are expected to yield about 0.4 per cent of GDP in revenues in FY 2023/2024.

24. **We will also focus on non-tax measures that Ministries, Departments and Agencies (MDAs) can raise through the services they offer to the public.** In November 2023, we commenced the process of introducing additional non-tax measures through delegated legislation and we expect these to become effective once the constitutionally mandated process of public consultation is concluded. Other non-tax measures were submitted to Parliament in December 2023 including related to increases in fees and charges related to immigration and citizen services and land ownership transactions, so as to ensure achievement of our primary balance targets in FY 2023/24 and beyond.

25. **We will further strengthen tax administration by Kenya Revenue Authority (KRA) through scaling up use of technology** to seal leakages; enhancements of iTax and Integrated Customs Management System (iCMS); and use of e-TIMS (Tax Invoice Management System).

26. **Regarding expenditures,** we have taken steps to carefully rationalize non-priority recurrent spending and non-priority capital projects; rationalize tax expenditures; and scale up the use of Public Private Partnerships financing for commercially viable projects, to improve efficiency in public spending and ensure value for money. Other measures on reduction of public expenditure include reforms at the State-Owned Enterprises and expenditure efficiency management reforms under DPO 6 mentioned in later paragraphs of this letter.

27. In addition, other efforts in expenditure rationalization include: **The clearance of pending bills and other Government arrears remains a priority.** In September 2023, the Cabinet established a Pending Bills Verification Committee, effective until September 2024, to scrutinize the existing National Government arrears accumulated between end-June 2005 and end-June 2022. The Committee will make recommendations on policy, legal framework and procedures it considers appropriate to curtail escalation of and avoidance of pending bills.

28. **We are working diligently to strengthen our public procurement system.** we are piloting the new e-GP system in twelve (12) MDAs. The roll out of the entire system to all MDAs will be from July 2024. This e-GP is an end-to-end system where all public procurement and assets disposal transactions are undertaken online and are fully compliant with the Public Procurement and Asset Disposal Act (PPADA) of 2015 and its attendant Regulations 2020. This system will promote savings of about 10-15 percent of the total Government procurement expenditure, enhance value for money, improve efficiency and transparency further enhancing good governance in our public procurement.

29. We will continue to improve Public Investment Management (PIM) in order to deliver value for money in public capital expenditure. To this end, we are: (i) rationalizing existing projects. Based on a Cabinet decision to thoroughly review 437 stalled or underperforming projects, MDAs conducted physical audits and have submitted their analysis to National Treasury for review and validation, expected to be finalized end-February 2024; (ii) operationalizing the recently developed Public Investment Management Information System (PIMIS) to all the Ministries, Departments and Agencies (MDAs) to automate public investment management process. The System is aimed at improving the management of development projects in the country; and (iii) requiring all PIM approved projects to factor environmental and climate related risks including carbon emission and disaster risk management as part of project appraisal.

II. Debt Sustainability

30. **Kenya's public debt remains sustainable but with a high risk of debt distress.** The Present Value of public debt-to-GDP ratio is projected to decline steadily in the medium term reflecting the impact of the implementation of fiscal consolidation plan. The debt ratios are projected to improve with the on-going implementation of a multi-

year growth-friendly fiscal consolidation program supported by Government measures to enhance revenue collection, rationalize spending and increase exports.

31. **As part of strengthening the legal framework for Public Finance Management, the National Treasury submitted amendments to the Public Finance Management Act, 2012 to harmonize the definition of public debt from the constitution and replaces the nominal debt limit with a debt anchor set at 55 per cent of GDP in Present Value (PV) terms.** The amendments, supported by the last DPO, were approved by Parliament and became effective in November 2023. The amendments allow the national government in exceptional circumstances to exceed the threshold set by not more than 5 per cent but not later than five years from the date of the coming into force of amendments. It also allows the Cabinet Secretary responsible for matters relating to Finance to provide measures taken to ensure that borrowing by the national government complies with the threshold. The Government is committed to meeting the 55 per cent threshold by 2029.

32. **The Government continues to optimize use of concessional financing as a complement to market access, lengthen the maturity profile of public debt through issuance of medium to long dated bonds.** The National Treasury together with Central Bank of Kenya continue to implement reforms in the domestic market with the aim of deepening and reducing the cost of public debt and borrowing. The newly rolled out Central Securities Depository system (DhowCSD) is expected to bolster implementation of market development initiatives by improving the process in government securities auction and settlement, broadening investor base, improving liquidity, and reducing segmentation in the interbank market.

33. **In enhancing debt transparency and reporting, the National Treasury has institutionalized the reporting of State-Owned Entities non-guaranteed debt annually as part of the Public Debt Management Report.** As a commitment to continuous effort in debt transparency reforms, the National Treasury will publish in its website a report of National guarantees issued by the National government. The report shall include the a) Names of the parties to the loan that is guaranteed; (b) Principal amount of that loan; and (c) Principal and interest payments that the Government would be obligated to pay if the guarantee is called.

III. Structural Reform Agenda

34. This reform program is anchored in the Medium-Term Plan IV of the National Development agenda and the BETA that aims to ensure that resources are allocated to

sectors that are targeted towards (i). Expansion of the tax base to increase revenue collection; (ii). Boosting inclusive growth; (iii). Promoting exports and improve foreign exchange reserves; (iv). Bringing down the cost of living; (v) Creating an average of 1.2 million jobs annually; and (vi). Eradicating hunger. It is envisioned that the reforms will enhance delivery of the BETA agenda and poverty reduction by ensuring inclusion of the poor in economic activities. In this respect, the Government appreciates the World Bank support in the implementation of the reform program.

35. **Provisions of the Public Finance Management Act, 2012 require the Government to emphasize on efficiency and effectiveness of public spending.** To this end the **Treasury Single Account (TSA) system for government banking was approved** by Cabinet for roll out at National and County Governments' levels. The TSA aims to consolidate national fiscal management by implementing more efficient, transparent, and accountable government cash management. As a result, the Government will have a consolidated view of the total available cash balances at any given time across all Ministries, State Organs, State Departments, State Agencies/Corporations, and other government entities. The policy shift also seeks to strengthen expenditure controls, forecasting, and budgeting in line with the Administration's commitment to an open Government that delivers utmost value-for-money to the public. The Government will implement reforms aimed at enhancing adherence of Public Finance Management Act in order to improve efficiency, transparency and accountability of public spending by submitting to parliament an amendment to Public Finance Management Regulations to enforce compliance with streamlined allowances for all state and Public officers by MDAs and State Corporations, to reduce number of layers for funds flow from exchequer to the development accounts and enable supplementary budgets for County governments throughout the year.

36. **In addition, also approved by Government on cash management is the implementation of the Electronic Government Procurement (e-GP) system from 1st July 2024.** The e-GP system is anticipated to improve public procurement procedures amongst Ministries, State Departments, County Governments and State Agencies translating to savings on public procurement spending.

37. **The Government is committed to aligning the wage bill at national, counties and State Owned Enterprises (SOE) to 35 per cent of the revenue by FY 2027/2028 through targeted reforms that include:** boosting domestic revenue mobilization; compliance with the revised 2023 Salaries Remuneration Commission circulars on streamlined allowances for all state and public officers; roll out of the an automated

system for unified payroll management across the public service in 2024 to eliminate manual payroll and consolidate Human Resource and Payroll data for the entire public sector; implementation of staff rationalization within the wider SOE reform agenda and; continued limiting of new employment to only priority areas. **A National Wage Bill Conference will be held in April 2024 as part of the Government's efforts to sustain policy dialogue on wage bill reduction.**

38. In FY 2024/2025 the Government will submit to Parliament amendments to the Public Finance Management Regulations to operationalize (a) the TSA; (b) the e-GP and (c) unified Payrolls Numbers for all staff (including temporary staff and casuals) issued through the Human Resource Information System (HRIS) and payroll data consolidation for MCDAs and SOEs.

39. Equity in social protection programming increases efficiency in public expenditure management by reducing leakages while broadly addressing major socio-economic risks and shocks that disproportionately affect the poor and the vulnerable in the society. **Therefore, to ensure equity in social protection programmes, the Social Protection Bil has been approved by the Cabinet and submitted to Parliament.** The Bill a). Obligates the national and county governments to use the Enhanced Single Registry's national targeting system; and b) Indexes the value of transfers a time series manner in line with inflation and other changing economic trends. Further, the government will issue regulations and guidelines to operationalize the Social Protection Act and use of Enhanced Single Registry for selection /retargeting and or recertification of the National Safety Net Programme (NSNP) cash transfer beneficiaries respectively under DPO 7.

40. With the passing of the Conflict-of-Interest Bill, the Government aims to reduce prevalence of corruption and unethical practices due or connected to conflict of interest by (i). Implementing measures that enable public officers avoid conflict of interest, particularly by not undermining public interest in favour of private interest; (ii). Effectively documenting and reporting incidences of conflict of interest; (ii) Enhancing public confidence in the delivery of public services; (iv) Providing a framework for the regulation and management of real, apparent or potential conflict between public interest and private interest; and (v) Providing an institutional framework for the management of conflict of interest.

41. In addition, the Ethics and Anti-Corruption Commission (EACC) Act 2011 mandates the Commission to collaborate with other state agencies and non-state actors in the promotion of ethics, integrity and anti-corruption initiatives. For good governance initiatives to succeed, **a multi-sectoral approach that brings together all relevant stakeholders is key. In this regard, the EACC Strategic Plan 2023-2028 outlines stakeholder collaboration as a key pillar in mainstreaming integrity and a value-driven Kenyan society.**

42. **In order to ease the cost of doing business and minimize compliance costs for the Micro, Small and Medium Enterprise (MSME),** the Competition Authority of Kenya has been mandated by the Government to i) exempt MSMEs sector from merger notifications thus, enabling start-ups, digital businesses, among others. Further, the Authority will monitor and conduct surveillance audits specifically in the manufacturing and agro-processing sectors, so as to protect MSMEs from incidences of abuse of buyer power; ii) Implement codes of practice to ensure that MSMEs in the retail and insurance sectors are protected from powerful buyers; iii) Screen and investigate infractions such as suspected cartels or abuse of dominance conducts such as excessive pricing, price discrimination, predatory pricing and margin squeeze to ensure a level playing field; and iv) Actualize the initiative earlier started with the National Assembly to address the issue of price fixing by professional services to make the fees competitive and improve quality of services.

43. **Further, to strengthen competition in the digital economy, the Government facilitated amendment of the National Information Communication & Technology Policy 2020 which aims to eliminate restrictions related to requirement of 30 per cent local equity participation for Information Communication & Technology providers.** To enhance competition in the digital economy the government will amend a) competition Act and rules to integrate tools to boost competition, protect consumers, facilitate inter-institutional collaboration, enhance tools for anti-cartel enforcement, abuse of dominance, merger control and also enact ICT Bill to boost development of an open and competitive digital ecosystem.

44. **To boost regional trade and exports, and improve the business environment,** the Government of Kenya is undertaking the following reforms (i). implementing the Economic Partnership Agreement signed with European Union covering provisions related to trade in goods, trade and sustainable development, climate change, decent

work and market access (ii). implementing an e-commerce policy that aligns with the aspirations of the Africa Continental Free Trade Area (AfCFTA) of establishing a single market for goods and services in Africa as it covers areas such as digital payments, competition, logistics, cybersecurity, interoperability, export promotion and environmental sustainability. (iii). **enactment of the County Licensing (Uniform Procedures) Bill, 2023, which establishes standard uniform procedures of licensing by county governments to enhance efficiency, transparency, cost effectiveness and simplification** and (iv). amendments to the Warehouse Receipt System (WRS) Act, 2019 which provide clarity on warehouse receipts, legal status of warehouse receipts, security and efficiency of the central registry for management of warehouse receipt transactions, roles and obligations of warehouse operators and financial institutions, structure the licensing process, minimize fees and cost of regulation as well as provide a clear dispute resolution process for the WRS value chain actors to utilize.

45. To operationalize the two Acts, Parliament will pass the attendant Regulations. Further to boost the business environment, Cabinet will under the DPO7 approve the Kenya National E-Commerce Policy while Parliament will enact the Investment Promotion and Facilitation Bill to maximize gains made through Kenya's recent trade agreements.

46. In keeping with the Administration's BETA, **the Policy on Recognition of Prior Learning in Kenya has been approved, which** ensures that a credible system is in place to recognize knowledge, skills, and competencies that have been acquired through practical work but which are not supported by corresponding academic or institutional qualifications. The aim of the policy is the bridge to facilitate transition from informality to formality as well as facilitating multi entry/exit between the education system and the labour market. This move is anticipated to open up a bountiful frontier of new opportunities for the millions of informal sector workers who are the lifeblood of the Kenyan economy.

47. The Government will amend the regulations and the Kenya National Qualification Framework Act, 2014 to facilitate implementation of credit accumulation and transfer System to promote mobility of labor and portability of qualifications. Further, the Government will improve access and relevance of the tertiary education system by issuing regulations to operationalize the Technical and Vocational Education and Training (TVET) Amendment Act and the Universities Act.

48. **To ensure productive inclusion of refugees, the Government of Kenya issued the Refugee Regulations to operationalize the Refugee Act (2021) and the Refugees**

Identification Documents regulations to enhance access to basic services by refugees. Further, the government is committed to provision of access to broader range of services and class M jobs to refugees through implementation of the Shirika Plan, issue Guidelines for simplified procedures in the issuing of Class-M job permits; and amend Kenya Information and Communication.

49. Given Kenya's vulnerability to adverse effects of climate change, it is imperative that we build a more climate resilient economy. For this reason, the Government has stepped up a range of climate adaptation and mitigation efforts including green energy, smart agriculture, decarbonized manufacturing, e-mobility and green building, all aimed at the attainment of zero carbon by 2050. These efforts include:

i. Promotion of private capital in infrastructure through the passage and implementation of the regulations to the Public Private Partnership Act of 2021. **Having realized the huge economic potential in the underutilized railway subsector the enactment of the Railway Bill, 2024** will initiate new ways of running the railway system by separating railway infrastructure development, ownership and management; and railway operations from railway economic and safety regulation by **establishing an independent Railway Regulatory Authority. Further the government will develop the Urban transport and e-mobility policy and regulations to operationalize the Act all aimed at reducing the negative effect of climate change.**

ii. **Approval and implementation of the National Forest Policy, 2023** which provides a framework for improved forest governance, resource allocation, monitoring and evaluation, and partnerships and collaborations between National and County Governments and the non-state actors. **The policy strengthens the participation and engagement of local communities in the management and conservation, and enhances the role of forestry in climate change response including for climate adaptation.** Further, the Government will endeavor to promote sustainable land use by amending the Forest Conservation and Management Act of 2016 to align it to the National Forest policy, issue regulations to operationalize the amended Forest Act as well as regulation for charcoal, private forest and sustainable forest management.

iii. As a demonstration of its commitment to improve the climate finance architecture the Government of Kenya enacted the **Climate Change**

Amendment Act, 2023, which provides the regulatory basis for carbon markets. In addition, to enhance climate financial flows into the country a **Sovereign Green Bond Framework, Green Fiscal Incentive Policy Framework, Ratification of Financing Locally Led Climate Action (FLLoCA) Program** and the request for Kenya to **Join Global Green Growth Institute (GGGI)** have been approved by the Cabinet. The Green Bond Framework provides a mechanism for accessing Green, Blue, Social, and Sustainability Bonds available to finance green economic growth. Further to this the government will develop the sovereign SLB framework to facilitate the issuance of sovereign SLBs, improve Kenya's carbon market through implementation of a national carbon registry and establish a reporting framework.

V. Conclusion

As evidenced above, the Government continues to implement a wide range of reforms by identifying laws, policies, regulations and institutional frameworks that have optimal impact. This being a three-year programmatic DPO, the Government has pre-selected reforms for consideration in the coming fiscal years. Against this background, the Government requests the World Bank's assistance of USD.1.2 billion to support the first operation of the series.

Yours Sincerely,

Njuguna Ndung'u, EGH
CABINET SECRETARY

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar 1: Efficiency, Transparency, and Equity of Public Finance		
Prior action 1: Expenditure efficiency	No	No
Prior action 2: Social protection	No	Yes/Positive
Pillar 2: Promote more Competitive and Inclusive Product and Labor Markets		
Prior action 3: National and global integration	Yes/Positive	Yes/Positive
Prior action 4: Competition	No	Yes/Positive
Prior action 5: Productive inclusion of refugees	No	Yes/Positive
Pillar 3: Strengthen climate action		
Prior action 6: Green public transport	Yes/Positive	Yes/Positive
Prior action 7: Forests	Yes/Positive	Yes/Likely negative
Prior action 8: Climate finance	Yes/Positive	No

1. **The DPF supports reforms that aim to make Kenya's economy stronger, greener, and more inclusive and equitable**. Accordingly, most of the reforms are expected to have positive distributional impacts that will materialize over different time horizons. The poor are expected to benefit from better poverty targeted social transfers as well as regular indexation of benefit values (PA2), and from increased employment opportunities and productivity associated with more competitive and inclusive product and labor markets (PAs 3, 4, and 5). In addition, improved commuter rail services (PA6) are expected to enhance job accessibility, generating benefits for the poor in the medium term. In the long term, more sustainable land use and forest management accompanied by the implementation of the National Forest Policy (PA7) is expected to mitigate climate change effects and support climate resilience. However, in the short term, the reform poses a risk for negative poverty impacts because the poor are most likely to be engaged in (often illegal) extraction of timber and charcoal, fuelwood collection, conversion of forestland to farmland, and other poverty-driven human pressures. No significant poverty, social or distributional effects are envisaged for the other PAs (1 and 8), although more

efficient public spending and an improved climate finance architecture might create additional fiscal space to expand targeted support to the poor.

2. **Better targeting of the poor and vulnerable as well as improved benefit adequacy (PA#2) is expected to have significant positive impacts on poverty reduction.** Kenya's NSNP currently has limited impact due to fragmentation which undermines targeting accuracy and contributes to low coverage rates and low benefits. The use of the ESR and the periodic indexation of cash transfer values aims to address some of these challenges. The ESR provides a unified data set of poor and vulnerable households across the country, and as such, will reduce inclusion and exclusion errors. Periodic indexation of benefit values in line with inflation will safeguard the level of benefits paid to beneficiaries. Simulations suggest that these two actions – the use of the ESR coupled with the increased benefit level (assuming an initial increase from KSh 2,000 per household per month to KSh 3,000 per household per month), will have a positive though limited impact on the national poverty headcount rate, with a simulated decline of around 0.5 percentage points (Figure 4.1). Larger impacts are estimated for rural and arid households, with a 3.6 percentage point simulated decline in the poverty headcount rate in arid areas. The average poverty rate in Kenya's arid counties – the only counties eligible for the Hunger Safety Net Program is twice the national rate, and these counties are also the most vulnerable to climate shocks. As such, using the ESR and increasing the benefit adequacy are expected to have the largest effects among arid households. Given that female-headed households are overrepresented in both the bottom 40 percent of the national income distribution and among NSNP beneficiaries, PA 2 will also contribute to narrowing the gender welfare gap (Figure 4.2). Overall, this PA will not only help strengthen households' resilience but also deepen the fiscal system's poverty reduction and redistributive impacts.

Figure 4.1: Simulated impact of the use of the ESR and increasing benefit level on the poverty headcount rate and the poverty gap

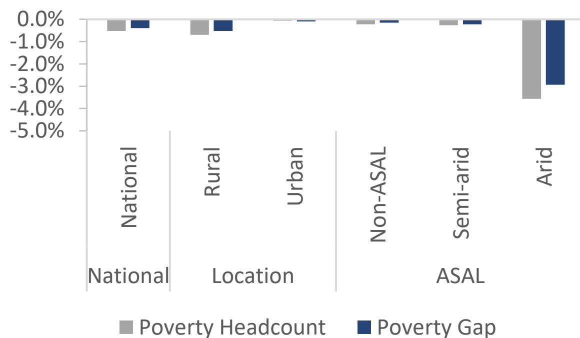
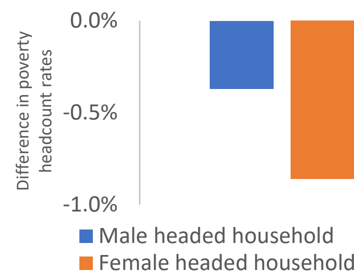


Figure 4.2: Simulated impact of the use of the ESR and increasing benefit level on the poverty headcount rate and the poverty gap, male vs. female headed households



Source: World Bank staff calculations based on 2015/16 Kenya Integrated Household Budget Survey

3. **An improved business environment and more competitive and inclusive product, and labor markets (PAs 3 and 4) will likely have a positive impact on poverty reduction in the medium term through increased employment opportunities and productivity.** The national integration measures aim to enhance cross-county harmonization of business procedures (PA3), which is expected to improve productivity and demand for labor by supporting the establishment of new firms and avoiding nuisance and implicit taxes . By increasing competition within the ICT sector, PA4 has the potential to improve welfare indirectly by attracting foreign investment in the sector, driving down prices, and increasing employment.

4. **By ensuring that refugees identification documents are accepted for Government services, PA6 can improve access to the labor market, greater freedom of movement and narrow the gap between refugees and host communities.** Allowing acceptance of refugee identification documents will improve access to services and

economic opportunities for refugees, a particularly vulnerable group in Kenya**.** Refugees in camps have significantly lower labor market participation compared to households in neighboring host communities. In Turkana, Kenya's poorest county, refugees in the Kakuma and Kalobeyei camps report a significantly higher share of households with no employment compared to the Turkana host community (Figure 4.3). The same trend is observed for the Dadaab camp and refugees based in Nairobi, albeit to a lesser extent. Allowing refugees to use their identification documents to access Government services will help alleviate one of the main obstacles to building human capital, particularly in Nairobi, a county with greater labor market opportunities. This will likely result in increased refugee employment in the medium term (Figure 4.4). The PA can also reduce the gender gaps in access to education and support pathways to greater labor force participation (Figure 4.5).

Figure 4.3: Proportion of households with no employment

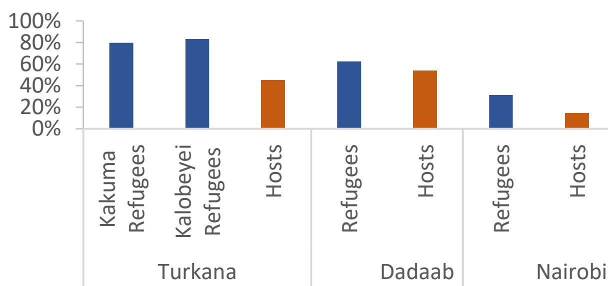


Figure 4.4: Lack of identification documents listed as the main obstacle in finding employment

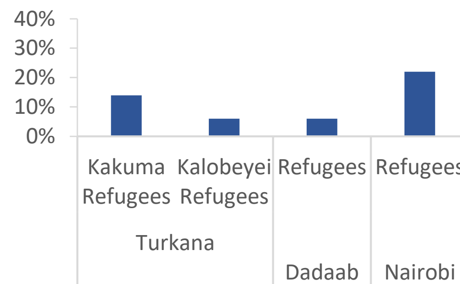
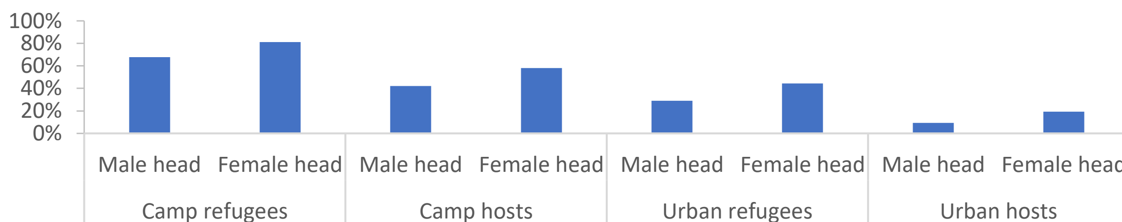


Figure 4.5: Proportion of households with no employment



Source: World Bank staff calculations based on Kenya Longitudinal Socioeconomic Study on Refugees and Host Communities (Wave 1)

5. **The Kenya Railway Corporation Amendment Act Cap 387 of Laws of Kenya, (PA6) is expected to have positive distributional effects in the medium term through expanded railway commuter services in the Nairobi Metropolitan Area and This improved access to jobs for low-income earners.** Nairobi has the lowest poverty rate of Kenya's 47 counties, but due to its large population, it also has the third highest number of poor people. Around 70 percent of Nairobi's poor travel to work by foot, compared to 36 percent of the non-poor (Kenya Continuous Household Survey, 2021), and due to the high costs of living, the poor also tend to live further from the center of city and other job-dense areas, limiting their access to jobs. On average, fewer than 10 percent of existing jobs in Nairobi are within one hour of walking; even when using a minibus, residents can reach only about a quarter of jobs . The expansion of railway commuter services supported by the Railway Amendment Bill is

therefore expected to increase job accessibility, disproportionally benefiting lower-income workers living on the fringes of the capital. Under a scenario with no further investment in commuter rail, people in the Nairobi Metropolitan Area will be able to access an estimated 7 percent of jobs within one hour of walking compared to a scenario with future investment that enables access to as much as 37 percent of jobs within the same distance. While the expansion of rail services is likely to take business away from the *matatu* industry, negative effects are expected to be limited given the rapid pace of urbanization which is expected to keep demand for urban transportation services high, and the fact that the capacity of Nairobi's railway commuter services will still be relatively limited after the expansion.

6. **The National Forest Policy (PA7), while almost certainly having positive effects in the longer run, is likely to have limited negative impacts in the short- to medium-term**. In the long term, more sustainable land use and forest management supported by the policy is expected to mitigate climate change effects and support climate resilience. Sustainable management of forests will ensure continuous flow of ecosystem services, thereby safeguarding livelihood security across generations. In addition, by boosting commercial forestry to support the country's development, the Policy is expected to improve economic activity in the forest sector and create economic activities for the poor in the long run (see below). However, in the short term, the reform poses a risk for negative poverty impacts because the poor are the most likely to be engaged in (often illegal) extraction of timber and charcoal, fuelwood collection, conversion of forestland to farmland, and other poverty-driven human pressures[23]. Effective protection of forests will reduce the supply of agricultural land and constrain charcoal production, possibly negatively affecting earnings of a section of rural households. These effects are mitigated, however, by the operation's focus on inclusive growth (raising real wages), urban productivity (reducing pressures for agricultural frontier expansion), the increased coverage and benefit level of social assistance transfers, and specific measures in DPO 3 to support alternative ways of producing food and energy in forest communities. By curbing corruption, triggers 2.1 and 2.2 are expected to help reduce poverty and inequality in the long term through increased and more effective social spending, more equal distribution of asset ownership and access to education, among other transmission channels.

ENVIRONMENT ANALYSIS

7. **The Railway Amendment Bill (PA6), which strengthens commuter rail services will reduce emissions and improve air quality.** By promoting greater adoption of urban passenger rail, emissions will be reduced through shifts toward transport modes with lower emissions (trains). Lower urban congestion will also reduce emissions and improve air quality.

8. **The National Forest Policy (PA7) will reduce emissions due to land use, land-use change, and forestry (LULUCF) and will increase carbon sequestration.** Landscape restoration could generate benefits from reduced flooding and increased carbon stocks. tThe Kenya CCDR estimated that landscape and forest restoration could reverse the projected 26.38 MtCO2e decrease in the country's carbon stock of between 2020 and 2050 under BAU to an increase of as much as 322 MtCO2e. The National Forest Policy will provide the framework policies and legal incentives to halt and reverse this deforestation and land degradation leading to investments in afforestation and land restoration by the public sector, private sector, and local communities. This is expected to reduce emissions from LULUCF; under BAU, Kenya is expected to increase its average LULUCF emissions by 6 and 6.7 million tons of CO2e per year through continued deforestation and land degradation.

9. **The GoK's National Landscape and Ecosystems Restoration Program Strategy will also reduce net emissions and support climate adaptation.** This three-year timeframe of this DPO aims to catalyze restoration

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[23] The Policy is in part informed by the findings and recommendations in the Report of the 2018 Taskforce on Forest Resources Management and Logging Activities in Kenya which inquired into forest resources management and illegal logging.

of 250,000 hectares of degraded forest land (contributing to the national forest cover target of 10 percent) and 1 million hectares of degraded rangelands (contributing to national tree cover target of 30 percent). This is estimated to reduce net emissions against baseline by 2.75 million tons of CO2e per year over the timeframe of the operation. By 2032, the strategy targets restoration of more than 10 million hectares. PA7 will also support climate adaptation though the generation of ecosystem goods (e.g., food, water, fuel, fodder, timber, medicines) and services (e.g., biodiversity support, watershed service, natural water cleansing, soil rejuvenation, climate change and disaster mitigation, recreational services). This includes improving ecosystem services in Kenya's five major forested water towers—Mount Kenya, Aberdares, Mau Forest Complex, Mount Elgon, and Cherengany Hills—which supply 75 percent of the country's renewable surface water, and are vital for agriculture, industry, and domestic water consumption. The water towers are also important for hydropower generation, which supplies 28 percent of Kenya's current power mix. Landscape restoration could also improve habitat quality, reducing one of the main drivers of wildlife loss and boosting Kenya's wildlife tourism industry, an important source of foreign exchange and jobs in areas that currently have few quality job opportunities.

10. **The National Forest Policy (PA7), while almost certainly having positive effects in the longer run, is likely to have limited negative impacts in the short to medium term**. In the long term, more sustainable land use and forest management supported by the Policy is expected to mitigate climate change effects and support climate resilience. Sustainable management of forests will ensure continuous flow of ecosystem services, thereby safeguarding livelihood security across generations. In addition, by boosting commercial forestry to support the country's development, the Policy is expected to improve economic activity in the forest sector in the long run and create economic activities for the poor. However, in the short term, the reform poses a risk for negative poverty impacts because the poor are most likely to be engaged in (often illegal) extraction of timber and charcoal, fuelwood collection, conversion of forestland to farmland, and other poverty-driven human pressures. Effective protection of forests will reduce the supply of agricultural land and constrain charcoal production, possibly negatively affecting earnings of a section of rural households. These effects are however mitigated by the operation's focus on inclusive growth (raising real wages), urban productivity (reducing pressures for agricultural frontier expansion), the increased coverage and benefit level of transfers, and specific measures in DPO3 to provide alternative ways of producing food and energy in forest communities.

ANNEX 5: PARIS ALIGNMENT ASSESSMENT

Program Development Objectives: To (i) promote efficiency, equity, and transparency of public finance; (ii) foster more competitive and inclusive product and labor markets; and (iii) strengthen climate action.	
Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country's climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	**Answer** Yes. **Explanation**: The DPO's objectives are consistent with Kenya's policies and commitments to make the economy less carbon-intensive and more resilient to climate change.
Mitigation goals: assessing and reducing the risks	
Pillar 1 Objective: ***Promote efficiency, transparency, and equity of public finance***	
Prior Action 1: To enhance the efficiency of public spending, the recipient has: (a) through its Cabinet, approved the Treasury Single Account (TSA), (b) through its cabinet, approved electronic procurement across the national government and counties that also enables the tracking of green tags and compliance with green procurement policy, and (c) through the Salaries and Remuneration Commission, issued a directive abolishing at least two allowances to improve efficiencies of the wage bill.	
Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No **Explanation**: These public finance and administration reforms do not affect Kenya's GHG emissions and are universally aligned.
Conclusion for PA 1: Aligned	
Prior Action 2: To strengthen social protection, the recipient has, through its Cabinet, approved the Social Protection Act for submission to Parliament.	
Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No **Explanation**: Improving social protection targeting and overall systems to deliver social protection do not increase GHG emissions and are universally aligned.
Conclusion for PA 2: Aligned	
Pillar 2 Objective: ***Foster more competitive and inclusive product and labor markets***	
Prior Action 3: To improve Kenya's business environment, the recipient has submitted to the National Assembly the County Licensing (Uniform Procedures) Act.	
Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No **Explanation**: The provisions of the Country Licensing Act are not biased towards GHG-emitting business activities and are unlikely increase GHG emissions.

<table>
<tr><td colspan="2">Conclusion for PA 3: Aligned</td></tr>
<tr><td colspan="2">Prior Action 4: To strengthen competition in the digital economy, the recipient, through the CS for Information, Communications and the Digital Economy has, eliminated restrictions related to a requirement of 30 percent local equity participation for ICT providers by revising the National ICT Policy Guidelines 2020.</td></tr>
<tr><td>Is the prior action likely to cause a significant increase in GHG emissions?</td><td>Answer: No
Explanation: Eliminating restrictions on equity participation in the ICT sector will not increase GHG emissions and may actually reduce them. Eliminating entry restrictions to equity participation in ICT firms would allow for increased financing to the sector and increased participation by foreign firms, boosting competition and further enabling the development of digital and transport infrastructure. This will further support Kenya's low-carbon transition given that digitalization can support GHG reduction in other sectors and the use of low-emission technologies is aligned with the operational incentives of ICT providers. In particular, as market entry by satellite operators is facilitated by this PA, this will not require terrestrial construction work (i.e., by comparison with terrestrial operators that may require deployment of fiber optic cable or cell towers).</td></tr>
<tr><td colspan="2">Conclusion for PA 4: Aligned</td></tr>
<tr><td colspan="2">Prior Action 5: The recipient has, through the Cabinet Secretary for Interior and National Administration, issued (i) the Refugees (General) Regulations (2024) that clarifies the reforms under the Refugee Act (2021); and (ii) legal notice specifying Refugee Identification Documents, for the purposes of accessing services provided by the GoK.</td></tr>
<tr><td>Is the prior action likely to cause a significant increase in GHG emissions?</td><td>Answer: No
Explanation: This prior action will not increase GHG emissions. It will enable clarity on how refugee identification documents can be used to access government services, including social services.</td></tr>
<tr><td colspan="2">Conclusion for PA 5: Aligned</td></tr>
<tr><td colspan="2">Pillar 3 Objective: Strengthen climate action</td></tr>
<tr><td colspan="2">Prior Action 6: To promote urban public transport, the recipient has, through its Cabinet, approved the Rail-ways Bill (2024), which strengthens the provision of commuter rail services</td></tr>
</table>

<table>
<tr><td>Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?</td><td>Answer: No
Explanation: The creation of a regulatory framework for the railway subsector is unlikely to increase GHG emissions. On the contrary, the reform encourages modal shifts toward greener transport, reducing the number of low-capacity vehicles including private cars and matatus. It is also expected that the rail cars will be more fuel efficient, reducing GHG emissions.</td></tr>
<tr><td colspan="2">Conclusion for PA 6: Aligned</td></tr>
<tr><td colspan="2">Prior Action 7: To promote more sustainable land use, the recipient has, through its Cabinet, approved the National Forest Policy (2023).</td></tr>
<tr><td>Is the prior action likely to cause a significant increase in GHG emissions?</td><td>Answer: No
Explanation: This prior action will not increase GHG emissions and will in fact reduce them. The National Forest Policy will strengthen the institutional framework to define land rights, enhance forest management, prevent deforestation, and sustainably identify priority areas for conservation, thereby halting deforestation and restoring key ecosystem services that support climate adaptation.</td></tr>
<tr><td colspan="2">Conclusion for PA 7: Aligned</td></tr>
<tr><td colspan="2">Prior Action 8: To improve Kenya’s climate finance architecture, the recipient has (i) through Parliament, enacted the Climate Change (Amendment) Bill (2023); and (ii) through its Cabinet, approved the Sovereign Green Bond Framework</td></tr>
<tr><td>Is the prior action likely to cause a significant increase in GHG emissions?</td><td>Answer: No
Explanation: These measures are aimed at biasing financing towards investments in activities that generate less GHGs rather than more GHGs, consistent with Kenya’s climate commitments. The amendments to the Climate Change Act of 2023 provides the regulatory basis for carbon markets in Kenya, which through the development of a carbon credit market, will reduce overall GHG emissions. A Sovereign Green Bond Framework will allow the issuance of sovereign green and/or sustainability-linked bond, increasing climate financing and supporting Kenya’s efforts to meet its NDC commitments.</td></tr>
<tr><td colspan="2">Conclusion for PA 8: Aligned</td></tr>
<tr><td colspan="2">Mitigation goals: Conclusion of the Paris Alignment Assessment for the Program: Aligned</td></tr>
</table>

Adaptation and resilience goals: assessing and managing the risks	
Pillar 1 Objective: ***Promote efficiency, transparency, and equity of public finance***	
Prior Action 1: To enhance the efficiency of public spending, the recipient has: (a) through its Cabinet, approved the Treasury Single Account (TSA), (b) through its Cabinet, approved electronic procurement across the national government and counties that also enables the tracking of green tags and compliance with green procurement policy, and (c) through the Salaries and Remuneration Commission, issued a directive abolishing at least two allowances to improve efficiencies of the wage bill.	
Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No **Explanation**: Improved efficiency and enhanced cash management, borrowing, commitments control, and transfers to service delivery units will not have an adverse effect on the prior action's contribution to the Development Objectives. The PA will give more fiscal space to the GoK to manage climate risks.
Conclusion for Prior Action 1: Aligned	
Prior Action 2: To strengthen social protection, the recipient has, through its Cabinet, approved the Social Protection Act for submission to Parliament.	
Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No **Explanation**: Climate hazards are unlikely to affect reforms to improve the targeting of social spending and its indexation. On the contrary, the prior action will allow the poorest and most vulnerable groups to better hedge against climate risks, further enabling the GoK to improve its allocation of spending to climate-resilience actions.
Conclusion for Prior Action 2: Aligned	
Pillar 2 Objective: ***Foster more competitive and inclusive product and labor markets***	
Prior Action 3: To improve Kenya's business environment, the recipient has submitted to the National Assembly the County Licensing (Uniform Procedures) Act.	
Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No **Explanation**: It is unlikely that climate hazards will negatively affect the increased predictability and efficiency of business licensing at the county level, and their contribution to the program development objectives.
Conclusion for Prior Action 3: Aligned	

<table>
<tr><td colspan="2">Prior Action 4: To strengthen competition in the digital economy, the recipient, through the CS for Ministry of Information, Communications and the Digital Economy has, eliminated restrictions related to a requirement of 30 percent local equity participation for ICT providers by revising the National ICT Policy Guidelines 2020.</td></tr>
<tr><td>Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objectives?</td><td>Answer: No
Explanation: Climate hazards are unlikely to affect the improved competition in the ICT sector, which is one of the intended outcomes of this prior action. Thus, climate risks will not have an adverse effect on the prior action’s contribution to the Development Objectives</td></tr>
<tr><td colspan="2">Conclusion for Prior Action 4: Aligned</td></tr>
<tr><td colspan="2">Prior Action 5: The recipient has, through the Cabinet Secretary for Interior and National Administration, issued (i) the Refugees (General) Regulations (2024) that clarifies the reforms under the Refugee Act (2021); and (ii) legal notice specifying Refugee Identification Documents, for the purposes of accessing services provided by the GoK.</td></tr>
<tr><td>Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objectives?</td><td>Answer: No
Explanation: Climate hazards are unlikely to affect the intended objectives of this reform. On the contrary, they might reduce the exposure of migrants and refugees to climate risks by increasing their access to social services.</td></tr>
<tr><td colspan="2">Conclusion for Prior Action 5: Aligned</td></tr>
<tr><td colspan="2">Pillar 3 Objective: Strengthen climate action</td></tr>
<tr><td colspan="2">Prior Action 6: To promote urban public transport, the recipient has, through its Cabinet, approved the Rail-ways Bill (2024), which strengthens the provision of commuter rail services</td></tr>
<tr><td>Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objectives?</td><td>Answer: No
Explanation: Climate hazards are unlikely to affect the new regulatory framework for the railway subsector and its contribution to the program development objectives.</td></tr>
<tr><td colspan="2">Conclusion for Prior Action 6: Aligned</td></tr>
<tr><td colspan="2">Prior Action 7: To promote more sustainable land use, the recipient has, through its Cabinet, approved the National Forest Policy (2023).</td></tr>
<tr><td>Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objectives?</td><td>Answer: No
Explanation: The National Forest Policy will reduce climate risks by reducing deforestation and restoring degraded forest land, and key ecosystems.</td></tr>
<tr><td colspan="2">Conclusion for Prior Action 7: Aligned</td></tr>
<tr><td colspan="2">Prior Action 8: To improve Kenya’s climate finance architecture, the recipient has (i) through Parliament, enacted the Climate Change (Amendment) Bill (2023); and (ii) through its Cabinet, approved the Sovereign Green Bond Framework</td></tr>
</table>

Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No **Explanation**: Climate hazards are unlikely to affect the intended contributions of this prior action to the program development objectives. On the contrary, the amendment to the Climate Change Act and the Sovereign Green Bond Framework should contribute to the objective of stronger climate action through increased financing efforts to reduce climate risks.
Conclusion for Prior Action 8: Aligned	
Adaptation and resilience: Conclusion of the Assessment for the Program: Aligned	
OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSMENT: Aligned	

Adaptation and resilience goals: assessing and managing the risks	
Pillar 1 Objective: ***Promote efficiency, transparency, and equity of public finance***	
Prior Action 1: To enhance the efficiency of public spending, the recipient has: (a) through its Cabinet, approved the Treasury Single Account (TSA), (b) through its Cabinet, approved electronic procurement across the national government and counties that also enables the tracking of green tags and compliance with green procurement policy, and (c) through the Salaries and Remuneration Commission, issued a directive abolishing at least two allowances to improve efficiencies of the wage bill.	
Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No **Explanation**: Improved efficiency and enhanced cash management, borrowing, commitments control, and transfers to service delivery units will not have an adverse effect on the prior action's contribution to the Development Objectives. The PA will give more fiscal space to the GoK to manage climate risks.
Conclusion for Prior Action 1: Aligned	
Prior Action 2: To strengthen social protection, the recipient has, through its Cabinet, approved the Social Protection Act for submission to Parliament.	
Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No **Explanation**: Climate hazards are unlikely to affect reforms to improve the targeting of social spending and its indexation. On the contrary, the prior action will allow the poorest and most vulnerable groups to better hedge against climate risks, further enabling the GoK to improve its allocation of spending to climate-resilience actions.
Conclusion for Prior Action 2: Aligned	

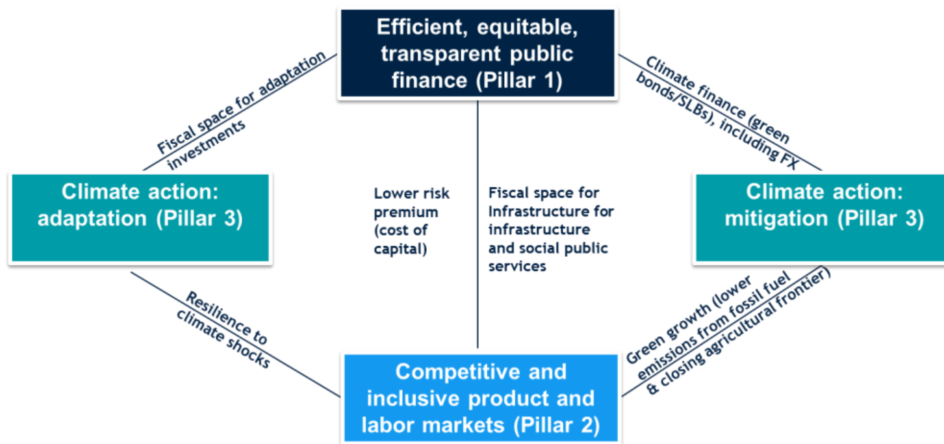
Pillar 2 Objective: ***Foster more competitive and inclusive product and labor markets***	
Prior Action 3: To improve Kenya's business environment, the recipient has submitted to the National Assembly the County Licensing (Uniform Procedures) Act.	
Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No **Explanation**: It is unlikely that climate hazards will negatively affect the increased predictability and efficiency of business licensing at the county level, and their contribution to the program development objectives.
Conclusion for Prior Action 3: Aligned	
Prior Action 4: To strengthen competition in the digital economy, the recipient, through the CS for the Ministry of Information, Communications and the Digital Economy has, eliminated restrictions related to a requirement of 30 percent local equity participation for ICT providers by revising the National ICT Policy Guidelines 2020.	
Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No **Explanation**: Climate hazards are unlikely to affect the improved competition in the ICT sector, which is one of the intended outcomes of this prior action. Thus, climate risks will not have an adverse effect on the prior action's contribution to the Development Objectives
Conclusion for Prior Action 4: Aligned	
Prior Action 5: The recipient has, through the Cabinet Secretary for Interior and National Administration, issued (i) the Refugees (General) Regulations (2024) that clarifies the reforms under the Refugee Act (2021); and (ii) legal notice specifying Refugee Identification Documents, for the purposes of accessing services provided by the GoK.	
Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No **Explanation**: Climate hazards are unlikely to affect the intended objectives of this reform. On the contrary, they might reduce the exposure of migrants and refugees to climate risks by increasing their access to social services.
Conclusion for Prior Action 5: Aligned	
Pillar 3 Objective: ***Strengthen climate action***	
Prior Action 6: To promote urban public transport, the recipient has, through its Cabinet, approved the Rail-ways Bill (2024), which strengthens the provision of commuter rail services	
Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No **Explanation**: Climate hazards are unlikely to affect the new regulatory framework for the railway subsector and its contribution to the program development objectives.
Conclusion for Prior Action 6: Aligned	

<table>
<tr><td colspan="2">Prior Action 7: To promote more sustainable land use, the recipient has, through its Cabinet, approved the National Forest Policy (2023).</td></tr>
<tr><td>Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objectives?</td><td>Answer: No
Explanation: The National Forest Policy will reduce climate risks by reducing deforestation and restoring degraded forest land, and key ecosystems.</td></tr>
<tr><td colspan="2">Conclusion for Prior Action 7: Aligned</td></tr>
<tr><td colspan="2">Prior Action 8: To improve Kenya’s climate finance architecture, the recipient has (i) through Parliament, enacted the Climate Change (Amendment) Bill (2023); and (ii) through its Cabinet, approved the Sovereign Green Bond Framework</td></tr>
<tr><td>Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objectives?</td><td>Answer: No
Explanation: Climate hazards are unlikely to affect the intended contributions of this prior action to the program development objectives. On the contrary, the amendment to the Climate Change Act and the Sovereign Green Bond Framework should contribute to the objective of stronger climate action through increased financing efforts to reduce climate risks.</td></tr>
<tr><td colspan="2">Conclusion for Prior Action 8: Aligned</td></tr>
<tr><td colspan="2">Adaptation and resilience: Conclusion of the Assessment for the Program: Aligned</td></tr>
<tr><td colspan="2">OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSMENT: Aligned</td></tr>
</table>

ANNEX 6: WHOLE-OF-ECONOMY LOGIC OF THIS DPO

1. **This DPO fosters transformative changes in Kenya's economy for stronger, more fiscally and environmentally sustainable inclusive growth.** Consistent with the Kenya CCDR, it does so through a whole-of-economy approach that promotes complementary shifts in the economy, as illustrated in Figure A1.

Figure A1: Theory of change for structural shifts in the Kenya Fiscal Sustainability and Resilient Growth DPO



2. **The first Pillar focuses on a more sustainable and inclusive budget.** Fiscal pressures, namely increasing debt servicing costs amid rising interest rates, currently crowd out critical investments on infrastructure and social spending. Promoting a more efficient budget, through reforms related to PFM, procurement, the wage bill, and corruption, will provide space for spending on social protection (Pillar 1) as well as productivity-enhancing measures (Pillar 2), and climate action (Pillar 3). At the same time, the measures will lower the cost of capital by reducing the country's risk premium, crowding in private credit, and attracting investors by cracking down on corruption, all of which will raise the competitiveness of Kenya's economy (Pillar 2).

3. **The second Pillar focuses on structural shifts in product and labor markets.** Deep-seated structural constraints in the Kenyan economy will be addressed by strengthening the business environment, catalyzing the development of key sectors, and bolster human capital in line with labor market demands. Pillar 2's key focus is on productivity and competitiveness. Higher growth will generate additional revenue, while higher exports will strengthen Kenya's liquidity indicators in the debt sustainability assessment, thus supporting the fiscal consolidation agenda (Pillar 1). Equity in the Kenyan economy will also be enhanced as more residents (including refugees) are included in fiscally sustainable public services and a growing labor market. Finally, higher productivity will raise incomes and structural transformation will draw Kenyans out of climate-vulnerable subsistence agriculture and into cities, raising their overall resilience to climate shocks (Pillar 3).

4. **The third Pillar renders Kenya's economy greener and more resilient.** Pollution, deforestation, and insufficient climate finance are undermining Kenya's progress on its ambitious climate goals. As such, Pillar 3 helps reduce emissions from fossil fuels in the transport sector, promote sustainable forest management, and mobilize climate financing—all of which will help both mitigation and adaptation. These actions have important linkages with the other Pillars. Better ecosystem services promote the structural transformation needed for more competitive and inclusive product and labor markets (Pillar 2), while improved public transport (Pillar 3) will better prepare Kenya for the associated urbanization—all of which supports green growth. At the same time, strengthening climate resilience through forest protection and structural transformation will make the economy

more inclusive (Pillars 1 and 2). Finally, attractive climate finance supports investments in both the public sector (Pillar 1) and private sector (Pillar 2), while generating much needed foreign exchange and helping finance the country's current account deficit.