



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 26-Feb-2019 | Report No: PIDC26440



BASIC INFORMATION

A. Basic Project Data

Country Kenya	Project ID P168204	Project Name Inclusive Growth and Fiscal Management Development Policy Operation (P168204)	Parent Project ID (if any)
Region AFRICA	Estimated Board Date May 31, 2019	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) The Government of the Republic of Kenya (GOK)- The National Treasury	Implementing Agency The Government of the Republic of Kenya- The National Treasury		

Proposed Development Objective(s)

The objective of this Development Policy Operation is to crowd in the private sector and enhance the capacity of the government to advance priorities within its inclusive growth agenda of affordable housing; food security; universal health coverage; and increased share of manufacturing (otherwise referred to as the "Big Four").

Financing (in US\$, Millions)

SUMMARY

Total Financing	0.00
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DETAILS

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. Economic growth of the Kenyan economy has been robust in recent years. Since 2010, GDP growth of the Kenya economy has averaged 5.6 percent. This represents a 1.8 percentage points higher growth than the average for Sub Saharan African countries during this period (3.8 percent) and a two percentage points higher growth compared to the growth rate of the Kenyan economy in the previous decade (3.6 percent growth). Reflecting the resilience of growth, economic growth has not dipped below 4.9 percent since 2010, notwithstanding multiple shocks emanating from both domestic (drought, political uncertainty, security incidences) and external (oil price increases, global financial market turbulences).



Thanks to the robust growth performance and declining fertility, GDP per capita has accelerated in recent years from \$920 prior to 2010 to \$1507 in 2017, thereby enabling Kenya to attain middle income status.

2. The pick-up in growth in recent decades has been broad-based. On the supply side, though all sectors have contributed to the increase in growth, the rapid increase in services sector (especially information and communications technology and financial sub sectors) has accounted for more than half of the increase in GDP growth, followed by industry and to a lesser extent the agriculture sector, reflecting productivity challenges in the sector. On the demand side, rising incomes, robust remittance inflows and improved access to credit has driven private consumption - the main demand side driver of growth. Increased public spending in recent years (both on recurrent and development spending on infrastructure) has also provided a lift to economic growth. Further, macroeconomic stability, improvements in the security environment, relatively stable political transitions and policy reforms to the business environment (between 2014 and 2018 Kenya improved from 136 to 61 on the World Bank's Ease of Doing Business Index) have supported the recent pick-up in growth.

3. Kenya's robust growth performance has translated into a reduction in poverty. At the international poverty line of \$1.90/day, headcount poverty declined from 43.6 percent in 2005 to 35.6 percent in 2015 (latest data). With consumption growth among households at the bottom of the income distribution (3-4 percent) outpacing growth among higher income households, economic growth in Kenya has been pro-poor. Further, robust consumption growth in rural areas led to a more pronounced decline in poverty among rural households relative to their urban counterparts. Gains in monetary poverty reduction were accompanied by progress along several dimensions of non-monetary poverty. Kenya's Human Development Index (HDI), which aggregates education, inequality, and life-expectancy indicators, rose by 0.07 points between 2002 and 2015. The latest World Bank's Human Capital Index places Kenya with third highest human capital in Sub Saharan Africa, after Seychelles and Mauritius.

4. Notwithstanding progress, there still remain significant development challenges. With a third of Kenyans still living under a \$1.90 a day, poverty levels remain high. Further, the translation of the higher economic growth to poverty reduction in Kenya has been less rapid than its regional peers. Given the pre-dominance of poverty in rural areas and the pre-dominance of the agricultural sector in rural economies reforms to boost output in the agriculture sector should help to increase farmer incomes and enhance food security, thereby accelerating the pace of poverty reduction.

Relationship to CPF

5. The Development Policy Operation (DPO) is consistent with the World Bank Group (WBG) Country Partnership Strategy (CPS) FY14-FY20 for Kenya which supports the country's longer-term Vision 2030 and aligns with the WBG twin goals of eliminating extreme poverty and boosting shared prosperity. The CPS has three domains of engagement: (i) competitiveness and sustainability – growth to eradicate poverty; (ii) protection and potential – human resource development for shared prosperity; and (iii) consistency and equity – delivering a devolution dividend. Good governance was seen as an enabler of the three focus areas. This DPO will help achieve some specific goals set in the CPS. Policies to enhance the business environment when combined with sector specific interventions (Agriculture and affordable housing) will support sustainable economic growth and competitiveness, shared prosperity and reducing poverty. The DPO's policy actions geared towards creating fiscal space by enhancing the efficiency of public spending also supports the objective of consistency and equity by enhancing public financial



management, transparency and good governance. In addition, the proposed DPO focuses on crowding-in the the private sector and leveraging on digitization to unleash sector specific potential reinforcing th WBG’s engagement in these sectors.

C. Proposed Development Objective(s) ¹

6. The objective of this Development Policy Operation is to help crowd in the private sector and improve fiscal space to advance the Governments inclusive growth agenda in affordable housing; agricultural productivity; universal health coverage; and increased share of manufacturing (otherwise referred to as the "Big 4").

Key Results

7. The key results of the operation include: (i) an increase in the delivery of affordable housing units though enhancing in the availability of long-term financing to improve housing affordability and removal of key regulatory constraints to building at scale; (ii) increase value-addition in the agriculture sector; and enhancing food security by reducing post-harvest losses, enable farmers access to finance; and enhanced climate resilience through support to irrigation. (iii) Advance digitization to support Inclusive Growth and enhanced delivery of government services; (IV) Create Fiscal Space and crowd in private investments by boost domestic revenue mobilization, improve efficiency of spending, and strengthen debt transparency and management and improving the investment climate.²

D. Concept Description

8. This Development Policy Lending Operation proposes to support selected priorities within the governments medium term plan. The policy and institutional reforms under this DPO are clustered under three main pillars. These are: policy and institutional reforms that support: (a) an increase in agricultural productivity; (b) an increase in the delivery of affordable housing units; and (c) two cross-cutting issues (digital economy and fiscal space) that are foundational to creating an enabling environment for the delivery of the governments inclusive growth agenda. This operation complements other interventions supported by the Bank (e.g., proposed Kenya Affordable Housing Finance Project and ongoing Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya) and other development partners in support of the Big 4 agenda.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

9. The overall Impacts of the policy and institutional reforms under this proposed programmatic DPO series is expected to be largely positive. The poor are expected to disproportionately benefit from

¹ The proposed development objectives, results, concept description, and poverty and social and environmental impacts are preliminary, and will be updated during the further preparation of the operation.



interventions on affordable housing, improvements to agricultural value-added and resilience, and increased coverage of broad band services. Further, increased access to affordable houses is likely to have significant positive economic impacts. Beyond the economic benefits, studies have found that there is a positive correlation between improved housing conditions and human capital outcomes. In addition, the net impact of fiscal reforms is expected to be positive [the quantification of the impacts is ongoing]. The expenditure reforms supported under this operation should help bring about fiscal savings and improve the efficiency of spending. Revenue measures are progressive and should contribute to improving fiscal space.

Environmental Impacts

10. The policy actions and institutional reforms to be supported by this DPO are not likely to cause significant effects on the environment, Forests, and other natural resources in Kenya. Improvements in policies and institutions reforms for managing public resources, attracting and retaining foreign and domestic investors, enhanced resilience of the agriculture systems through increased water harvesting and irrigation, and improving the quality of housing and management of e-waste as proposed cannot in themselves have any direct negative impacts on the environment. However, it is possible that indirectly, the budget support to be provided could be spent on activities that have potential to damage the environment. It is observed that the national environmental framework in Kenya is broadly aligned with the International Standards, the implementation and of this framework can further be strengthened through enhanced supervision and compliance. In Kenya, the Ministry of Environment and Forestry is responsible for setting up policy guidelines on environmental, forest, protection and conservation of the natural environment, while the National Environment Management Authority coordinates the environmental management activities undertaken by lead agencies and promotes the integration of environmental considerations into development of policies, plans, programmes and projects.

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APPROVAL

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