



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 23-Dec-2019 | Report No: PIDC28320



BASIC INFORMATION

A. Basic Project Data

Country Kenya	Project ID P172321	Project Name Kenya Inclusive Growth and Fiscal Management DPO 2 (P172321)	Parent Project ID (if any) P168204
Region AFRICA	Estimated Board Date May 22, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) REPUBLIC OF KENYA	Implementing Agency The National Treasury		

Proposed Development Objective(s)

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

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

Since the first operation (DPO1), economic activity has moderated but remains firm and Kenya’s fiscal position weakened more than expected in the FY2018/19 on the back of weaker revenues. On the bright side, the repeal of the interest rate caps is expected to provide increased flexibility and credibility to monetary policy for price stability and support economic



activity. While the fiscal deficit widened in FY2018/19, the authorities have committed to reduction in the budget deficits and are taking appropriate action through both revenue and expenditure fronts to back their word. This is expected to reduce government's domestic borrowing and crowd-in private sector borrowing to stimulate private investment. The macroeconomic conditions remain broadly stable with low inflation and a narrowing current account deficit. Overall, the macroeconomic framework is deemed adequate for this operation.

The Kenyan economy has maintained a relatively strong real gross domestic product (GDP) growth. In 2018, the economy expanded by about 6.3 percent-representing one of the highest growths in Africa and in the first half (H1) of 2019, it has remained expansionary at about 5.6 percent, with a full year estimated growth of about 5.8 percent. Over the period 2013-2019, GDP growth has averaged 5.7 percent, which is [1.9] percentage points higher than the average for Sub-Saharan African countries (of 3.8 percent). On the supply side, though all sectors have contributed, the rapid increase in the services sector (especially the 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 agriculture. On the demand side, increased private consumption and increased public spending have supported growth. With a strong growth out-turn, price stability, and declining fertility (from 4.5 births per woman in 2009 to 3.6 in 2018)¹, GDP per capita has nearly doubled from US\$920 in 2009 to US\$1,794 in 2018, thereby enabling Kenya to attain middle-income status.

Notwithstanding progress, significant development challenges remain. Increasing pressure on public finances, the determination by the current government to deliver on the Big 4, while being confronted with weak revenue raising ability and increasing debt service obligations continue to undermine progress towards an inclusive growth agenda and potentially crowds out private sector access to credit and investment. Further, with a third of Kenyans still living under a \$1.90 a day, poverty levels remain high. Given the pre-dominance of poverty in rural areas and the importance of the agricultural sector in rural economies, reforms should aim to increase farmer incomes and enhance food security, thereby accelerating the pace of poverty reduction. Addressing the non-monetary dimensions of poverty remains critical. A significant portion of Kenyans still lack access to basic services such as health care, affordable housing and safe drinking water. For instance, it is estimated that some 61 percent of Kenyans living in urban areas live in slums, with its deleterious impacts on productivity and health outcomes.

The GoK's medium term inclusive growth agenda prioritizes four areas comprising of food security, affordable housing, universal health coverage, and manufacturing - otherwise referred to as the "Big Four". The DPO series lends support to this agenda by seeking to crowd in private investment and enhance the public sector's capacity to deliver on the government's inclusive growth agenda. The first operation was approved in May 2019 for an amount of \$750 million in IDA credits. This second operation seeks to deepen the reforms commenced in the first operation in support of the GoK's development priorities.

Relationship to CPF

The Second 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)

¹ <https://databank.worldbank.org/source/world-development-indicators/Type/TABLE/preview/on>



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)

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Key Results

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) increased farmer incomes through improving productivity in the agriculture sector, reducing post-harvest losses, improving farmer access to finance; (iii) rebuilding of fiscal buffers to support the Big Four by boosting domestic revenues and ensuring value for public expenditures, especially in public procurement; (iii) improving the business environment to boost private investment.²

D. Concept Description

This DPO proposes to support selected priorities within the government’s medium-term plan. The policy and institutional reforms under this DPO are clustered under four policy and institutional reform pillars that are foundational to creating an enabling environment for the delivery of the government’s inclusive growth agenda. These are: (i) crowd in private sector investment and financing for the delivery of affordable housing; (ii) enhance farmer incomes and food security; (iii) create fiscal space to support the government’s inclusive growth agenda; and (iv) crowd in private investment and leverage digitization to support the government’s inclusive growth agenda. This operation complements other interventions supported by the World Bank that support the government’s “Big Four” agenda: proposed Kenya Affordable Housing Finance Project (P165034); Kenya Climate Smart Agriculture Project (P154784); National Agricultural and Rural Inclusive Growth Project (P153349); proposed Kenya Marine Fisheries and Socio-economic Development Project (P163980); and the Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (P161387). The operation also complements interventions by other development partners in support of the “Big Four” agenda.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

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 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, Forests, and Other Natural Resource Aspects

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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Approved By

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