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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF EURO 165.4 MILLION (US$200 MILLION EQUIVALENT) TO

REPUBLIC OF KENYA

FOR THE

DISASTER RISK MANAGEMENT DEVELOPMENT POLICY FINANCING WITH A CATASTROPHE DEFERRED DRAWDOWN OPTION

May 24, 2018

Social, Urban, Rural And Resilience Global Practice
Finance, Competitiveness And Innovation Global Practice
Africa Region

Republic of Kenya

GOVERNMENT FISCAL YEAR

July 1 – June 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 30, 2018)
Currency Unit = Kenyan Shilling (KES)
US$1.00 = KES 100.15
US$1.00 = Euro 0.82668540

ABBREVIATIONS AND ACRONYMS

ARC	African Risk Capacity
ASAL	Arid and Semi-Arid Land
Cat DDO	Catastrophe Deferred Drawdown Option
MDA	Central Bank of Kenya
CC	Climate Change
CPS	Country Partnership Strategy
DFID	UK Department for International Development
DPF	Development Policy Financing
DRF	Disaster Risk Financing
DRM	Disaster Risk Management
DRR	Disaster Risk Reduction
EDE	Ending Drought Emergencies
EU	European Union
FDI	Foreign Direct Investment
FTE	Fiscal Transparency Evaluations
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
GoK	Government of Kenya
HSNP	Hunger Safety Net Program
KES	Kenyan Shilling
KLIP	Kenya Livestock Insurance Program
KAIRMP	Kenya Agriculture Insurance and Risk Management Program
MDGs	Millennium Development Goals
MDA	Ministries, Departments and Agencies
NDMA	National Drought Management Authority
NDMU	National Disaster Management Unit
NDOC	National Disaster Operation Center
NPL	Non-Performing Loan
OAG	Office of the Auditor General
PEF	Pandemic Emergency Financing Facility
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Finance Management
SBA	Stand-by Arrangement
SCF	Stand-by Credit Facility
SDGs	Sustainable Development Goals
SFDRR	Sendai Framework for Disaster Risk Reduction
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNISDR	United Nations International Strategy for Disaster Reduction
WBG	World Bank Group
WHO	World Health Organization

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REPUBLIC OF KENYA

DISASTER RISK MANAGEMENT DEVELOPMENT POLICY FINANCING WITH A CATASTROPHE DEFERRED DRAWDOWN OPTION (CAT DDO)

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic
P161562	No

Proposed Development Objective(s)

The overall PDO is to strengthen the Government of Kenya's institutional, technical, and financial capacities to manage the impact of climate and disaster risks.

Organizations

Borrower: REPUBLIC OF KENYA

Implementing Agency: NATIONAL TREASURY AND MINISTRY OF PLANNING

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**200.00**

DETAILS

International Development Association (IDA)	200.00
IDA Credit	200.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Moderate

Results

Indicator Name	Baseline (2018)	Target (2021)
Pillar 1 - Fortifying institutional, planning and policy frameworks to manage climate and disaster risk		
1. Disaster risk profiles produced to inform implementation of County Integrated Development Plans	0	5
2. County level emergency and/or contingency plans adopted that strengthens response capacity	0	8
3. National Disaster Risk Management Strategy that strengthens government coordination for climate resilience and DRM adopted	0	1
Pillar 2 - Strengthening resilience to climate and disaster risk in the urban and water sectors		
4. Urban resilience strategies prepared to enhance city management	0	3
5. New Building Code approved that incorporates multi-hazard resilient design standards	No	Yes
6. Physical Planning Handbook is revised to incorporate DRM and climate change adaptation considerations	0	1
7. National Water Harvesting and Storage Authority established for improved water resource and drought management	0	1
Pillar 3 – Building national financial capacity to advance climate adaptation and mitigation, and respond to the impacts of natural hazards		
8. Establishment of a national climate finance mechanism to support mobilization, coordination and tracking of climate finance from both internal and external sources	0	1
9. Number of households eligible for disaster relief through financial protection instruments	407,877	510,241
10. Reports on consolidated post-disaster expenditure produced annually and submitted to the Budget Department within National Treasury	0	3

IDA PROGRAM DOCUMENT FOR A PROPOSED *CREDIT TO REPUBLIC OF KENYA*

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Disaster Risk Management (DRM) Development Policy Financing with a Catastrophe Deferred Drawdown Option (DPF with Cat DDO), in the amount of Euro 165.4 million (US$200 million equivalent), will support the Government of Kenya's (GoK) reform program to improve the country's capacity to reduce disaster risks and improve management of the socioeconomic and fiscal impacts of disasters.** The GoK has initiated a shift toward a more proactive approach to managing disaster and climate risks. This has involved taking systematic steps to develop a comprehensive approach to overall risk management, including addressing impacts of climate change (CC), to build programs and strategies that strengthen national response, and put in place contingency financing that will serve to improve post-disaster liquidity needed to meet emergency and recovery needs. Under the devolved governance structure that was established by the Constitution of Kenya 2010, the country's forty-seven county governments play a key role in DRM[1]. The Constitution integrates key provisions on DRM including national level support to counties which are required to develop their respective DRM policies and programs in line with the National DRM Policy.

2. **Extreme climatic events have long posed a significant risk to Kenya, and contributed to increasing levels of vulnerability of the poor, smallholder farmers and pastoralists, whose livelihoods are threatened by increased variability of rainfall patterns, triggering episodes of acute food insecurity**. Of concern are floods and droughts, with major droughts occurring about every 10 years, and moderate droughts or floods every three to four years[2]. While usually more localized, floods have led to the greatest loss of human lives[3]. Droughts have affected the most people and had the greatest economic impact – on average, a 0.6 percentage point decline in Gross Domestic Product (GDP) growth is observed in Kenya in years of poor rains[4]. The 2008-2011 drought is estimated to have cost Kenya US$12.1 billion, including US$805.6 million for the destruction of physical and durable assets, and US$11.3 billion for losses in the flows of the economy across all sectors[5]. To respond to disasters, the GoK has in the past relied on ad-hoc donor support. Between 2002 and 2012, international donors have provided on average US$276 million per year to Kenya in humanitarian assistance.

3. **Over the years Kenya has continued to be adversely impacted by drought conditions.** For the third consecutive season, almost all the 23 counties that lie in the Arid and Semi-Arid Lands (ASALs), face a reduction in precipitation. ASALs represent 84 percent of the Kenyan land mass and 30 percent of the Kenyan population. With over 60 percent of the population living below the poverty line, ASALs are characterized by some of the highest poverty levels and lowest levels of human development in Kenya and are the focus of national investment and economic development priorities[6]. ASALs contain 18 of the 20 poorest counties in Kenya; some counties in the north, such as Turkana, Marsabit, Wajir and

[1] County governments have their own legislative (county assembly) and executive (county executive) organs.
[2] AEA Group (2008). Final report. Kenya: Climate screening and information exchange (ED 05603, Issue 2).
[3] UNDP. Kenya natural disaster profile. Enhanced Security Unit.
[4] World Bank Group. Kenya Economic Update. October 2016, Edition No. 14.
[5] Kenya Post Disaster Needs Assessment 2008-2011 Drought.
[6] Including the Vision 2030 Development Strategy for Northern Kenya and Other Arid Lands.

Mandera, have between 74 percent and 79 percent of people living below the absolute poverty line[7].

4. **Global CC is projected to alter Kenya's mean annual climatic conditions as well as its pattern of climate extremes.** Global temperatures are expected to continue to rise in all seasons, with models suggesting that warming of about 1°C will occur by the 2020's, and 4°C by 2100[8]. Warming will vary from region to region within Kenya. Greater uncertainty persists regarding how precipitation patterns might be altered by CC. Analysis by the Intergovernmental Panel on Climate Change (IPCC) using global circulation models projects that East Africa will likely become wetter, particularly during the rainy seasons[9]. Greater rainfall has been observed during the short rains of October to December, and the long rains of March to April are increasingly unreliable in locations such as Eastern Province[10].

5. **Kenya is at an early stage of urbanization, but by 2050 about half of the population will be living in cities.** Around 27 percent of Kenyans live in urban areas, and the country is urbanizing at about 4.3 percent a year[11]. The urbanization process has been accompanied by increasing levels of urban poverty (60 percent of Kenya's urban households live in slums[12]), growth of informal settlements, poorly functioning land markets and institutions, and an incomplete legal and building regulatory framework. Historical factors underpinning land ownership have led to urban land market distortions and, today, these markets are having difficulty supporting sustainable urbanization. In addition, there is low technical capacity to enforce and to build resilient infrastructure, making the country and its population particularly vulnerable. Evidence of this is the proliferation of substandard buildings with poor services and insufficient infrastructure, with the collapse of more than 26 buildings in the last 20 years. Equally important is the exposure of urban areas to moderate seismic risk, due to the East African Rift running through west Kenya and fault lines that are present south of Mombasa.

6. **In addition to the potential impact of natural hazards, East Africa is uniquely vulnerable to emerging infectious diseases and endemic zoonoses, with epidemics of infectious diseases ranking among the top five disaster hazards in the region.** In Kenya, multiple health hazards including disease outbreaks (e.g anthrax, rabies, Rift Valley Fever, Leishmaniasis and Dengue Fever) have contributed to an increased momentum to strengthen mechanisms to manage pandemics. One of the mechanisms the country can access is the Pandemic Emergency Financing Facility (PEF), developed by the World Bank, the World Health Organization (WHO) and private sector partners. The PEF is a quick-disbursing financing mechanism that provides surge financing to countries affected by a large-scale outbreak to prevent the outbreak from reaching pandemic proportions. Eligible countries can receive timely, predictable, and coordinated financing if affected by an outbreak that meets PEF's activation criteria (see Annex 7 for additional information).[13]

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[7] Center for Sustainable Dryland Ecosystems and Societies. Kenya: Country situation assessment Working paper January 2016.

[8] UNDP (2012): Climate Risks, Vulnerability and Governance in Kenya: A review.

[9] Boko, M et al (2007). Climate change: Impacts, adaptation and vulnerability. Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change.

[10] Awuor, C. (2009). Increasing drought in arid and semi-arid Kenya. In J. Ensor & R. Berger (Eds.), Understanding climate change adaptation: Lessons from community-based approaches.

[11] Cira, Dean A.; Kamunyori, Sheila W.; Babijes, Roderick M. (2016). Kenya urbanization review (English). Washington, DC: World Bank. http://documents.worldbank.org/curated/en/639231468043512906/Kenya-urbanization-review.

[12] Under the Millennium Development Goals, a slum dwelling is defined by the absence of running water, permanent walls, a toilet shared by fewer than 20 people, or a sleeping room shared by fewer than three people.

[13] The Cat DDO and the PEF complement each other in that both provide liquidity to countries but on different terms and conditions, strengthening the country's resilience to shocks. Both instruments will be well coordinated (see Annex 7).

7. **Economic losses triggered by disasters in Kenya can hamper poverty reduction efforts and threaten advances in shared prosperity.** Poverty incidence declined from 46.8 percent in 2005/06 to 36.1 percent in 2015/16, using Kenya's official national poverty line.[14] Growth in the agriculture sector accounted for the largest share of poverty reduction, revealing the sectoral vulnerability to shocks that can force households back into poverty. Therefore, the policy reforms included in the proposed operation are aimed at reducing vulnerability to disaster and climate risks and to catalyze economic growth, improving the livelihoods of the most vulnerable. This will support the sustainability of development programs and the Government's efforts to reduce extreme poverty and boost shared prosperity.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

8. **Economic activity in Kenya moderated in 2017 on account of multiple headwinds, but, a nascent recovery is underway.** Economic growth decelerated to a 5-year low of an estimated 4.9 percent in 2017 from 5.9 percent in 2016. Poor rains, slowdown in credit growth to the private sector and election-induced uncertainty weighed down on economic activity in 2017. However, tail winds from the rebound in tourism, strong public investment, and resilient remittance inflows partially mitigated some of the headwinds the economy faced in 2017. Reflecting the easing of some of the transient headwinds including from improved rains and easing of political tensions following the conclusion of the Presidential elections, a nascent rebound in economic activity is beginning to take root in 2018 (Table 1).

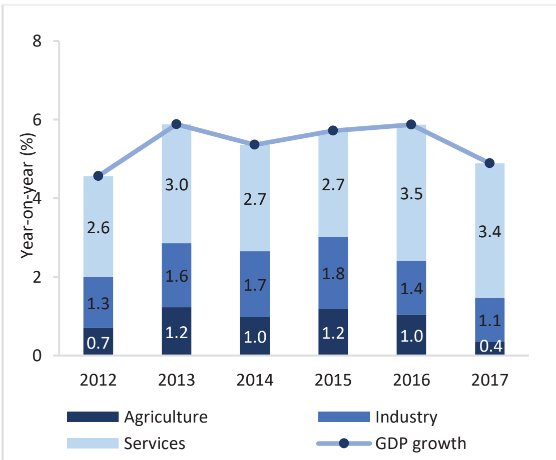
9. **Drought conditions dampened agriculture sector performance in 2017; however, with improved rains, the sector is recovering.** With only 2.0 percent of Kenya's cultivable land under irrigation, agricultural output, is highly rain dependent. Reflecting poor weather conditions in the later part of 2016 and the first half of the year 2017, the contribution of the agricultural sector to GDP growth in 2017 dropped from a historical average of about 1.0 percentage points to just 0.4 percentage points in 2017 (Figure 1). This was the lowest agricultural sector growth since 2009, an indication of the severity of the drought. The growth in tea, and cane production contracted in 2017 while coffee production recorded a positive growth in Q1 2017 before turning negative for the rest of the year (Figure 1).

10. **The economic and political headwinds in 2017 adversely impacted industrial activity, whilst the service sector remained broadly resilient.** The industrial sector which accounts for some 19 percent of GDP, contributed only 1.1 percentage points to GDP growth in 2017 compared to a historical average of 1.6 percentage points. Activity in the manufacturing sub-sector was impacted by a prolonged electioneering period and poor agricultural harvests which dampened business sentiments and weakened agribusiness activity. The services sector, which accounts for 58.5 percent of GDP was the main engine of economic growth in 2017 (Figure 1). However, the robust performance in the sector was uneven. While tourism, ICT and real estate posted solid performance, growth in financial

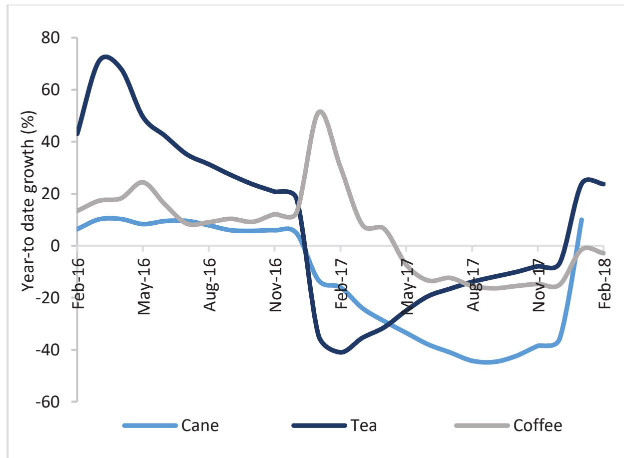
[14] Poverty statistics released March 2018 by the Kenya National Bureau of Statistics.

services –historically one of the key drivers of growth— decelerated in 2017 due to factors including the interest rate controls introduced in September 2016.

Figure 1: The contribution of the agricultural sector to GDP growth in 2017 dropped to 0.4 percentage points with output across the key commodities contracting in H1 of 2017



Source: Kenya National Bureau of Statistics and World Bank



Source: Kenya National Bureau of Statistics and World Bank

11. **Inflation is well within the target band (5±2.5 percent), although credit conditions remain tight**. Compared to the high of 11.7 percent in May 2017, headline inflation fell to 3.7 percent in April 2018—the lower end of the target band (5±2.5 percent) (Figure 2). The improvement reflects a more favorable climate and the impact of the food subsidies introduced by the government to address food shortages. Core inflation, which excludes food and energy prices, fell to 3.2 percent in October 2017—its lowest level since March 2011— but has since recovered to 4.1 percent in April 2018. Private sector credit growth remains weak— falling from its peak of about 25 percent in mid-2014 to 2.0 percent in February 2018. The slowdown in credit growth reflects a variety of shocks that hit the economy since 2015 including the resolution of three non-systemic banks and liquidity segmentation in the interbank market. Furthermore, the enactment of the interest rate caps in September 2016 made an already tough lending environment more difficult. The slowdown in credit growth is broad based, with credit contraction in key sectors of the economy in 2017 (agriculture, private households, exports and business services).

12. **The deceleration of credit growth is reinforced as banks cut back their lending to improve their balance sheets in the context of increasing non-performing loans (NPLs**). The ratio of NPLs to total gross loans increased to 9.7 percent in February 2018. While Banks have remained well capitalized, NPLs increased, as credit growth fell and economic activity (domestic and regional) weakened in 2017.

13. **With the interest rates cap still in place, monetary policy remains constrained.** With the policy rate directly linked to the level of interest rate cap, there is a perverse incentive structure for using the policy rate to spur or restrain economic activity. For instance, under the new regime, a lowering of the policy rate - an action often taken by Central Banks globally if they want to stimulate economic activity - could lead to the opposite effect since the lowering of the cap further narrows the spread between yields on risk free government securities and the maximum allowed lending rates. However,

in March 2018, the policy rate was cut by 50 bps (now at 9.5 percent) to support economic activity, given the weaker growth in 2017.

Table 1: Kenya: Selected Economic Indicators, 2012- 2020

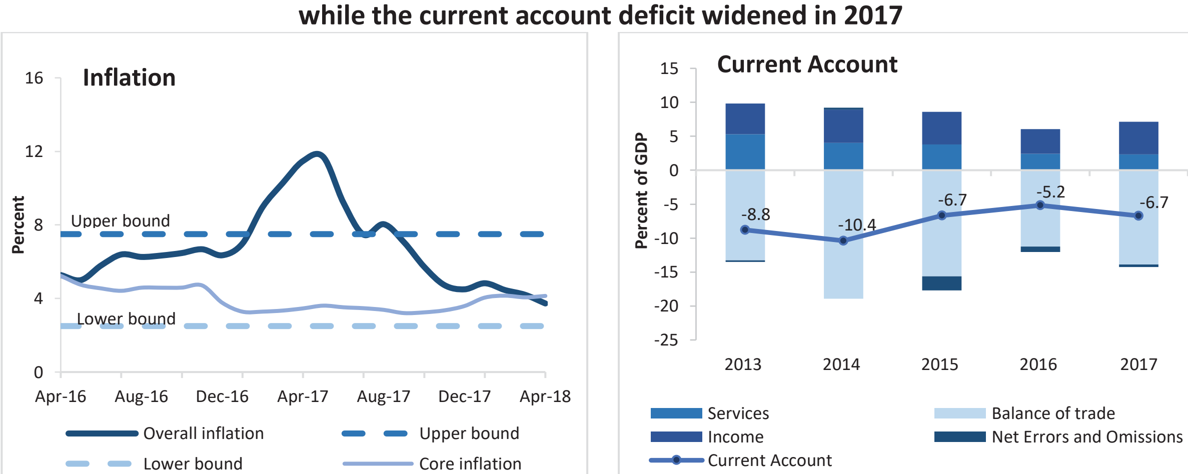
	2012	2013	2014	2015	2016	2017est.	2018proj.	2019proj.	2020proj.
Output and prices	**(Annual percentage change, unless otherwise indicated)**								
Real GDP	4.6	5.9	5.4	5.7	5.9	4.9	5.5	5.9	6.1
Agriculture	3.1	5.4	4.3	5.3	4.7	1.6	3.9	4.3	4.6
Industry	4.2	5.3	6.1	7.3	5.7	3.6	4.0	4.8	5.0
Services	4.7	5.4	6.0	6.0	6.7	6.9	6.8	7.0	7.1
Gross fixed capital investment	12.4	2.1	14.2	6.6	-9.4	6.3	9.2	9.5	12.2
GDP deflator	9.4	5.2	8.1	9.6	8.0	11.1	6.7	6.0	5.9
CPI (period average)	9.4	5.7	6.9	6.6	6.3	8.0	6.8	6.5	6.5
Money and credit	**(Annual percentage change, unless otherwise indicated)**								
Broad money (M3X)	14.1	15.5	16.7	14.5	3.7	8.9		..	..
Credit to non-government sector	10.4	20.1	22.2	16.0	4.1	2.4	..	..	..
Nonperforming loans/total loans (percent)	3.6	4.0	4.4	4.9	7.8	8.9			
Central government budget (fiscal year i.e 2012 = 2012/13)	**(Percent of GDP, unless otherwise indicated)**								
Total revenue & grants	19.7	19.7	19.5	19.2	18.6	19.7	19.4	19.4	19.6
Tax revenues	15.6	16.8	16.4	16.4	15.9	15.9	16.2	16.4	16.6
Non-tax revenues	3.7	2.4	2.5	2.3	2.4	3.1	2.7	2.6	2.6
Grants	0.5	0.5	0.5	0.5	0.3	0.7	0.5	0.4	0.4
Expenditure	25.1	25.6	28.1	27.2	27.5	26.8	25.4	23.8	23.0
Recurrent	18.1	14.8	14.8	15.6	15.4	16.2	15.4	14.5	14.1
Capital	6.8	6.3	8.8	7.0	8.0	7.0	6.7	6.4	6.2
Transfer to counties	0.2	3.8	3.9	4.1	3.7	3.5	3.2	2.9	2.7
Primary balance	-3.0	-3.4	-5.1	-4.0	-5.6	-3.7	-2.2	-0.8	0.0
Overall balance including grants	-5.7	-6.1	-8.1	-7.3	-9.1	-7.2	-6.0	-4.3	-3.4
Financing	5.7	6.1	8.1	7.3	9.0	7.2	6.0	4.3	3.4
Net domestic borrowing	3.8	4.0	4.3	3.1	4.0	3.4	3.8	2.3	1.6
Foreign financing	1.9	2.1	3.7	4.2	5.0	3.7	2.2	2.1	1.8
Public debt stock (fiscal year i.e 2012 = 2012/13)	**(Percent of GDP, unless otherwise indicated)**								
Public gross nominal debt	42.1	47.8	48.8	55.5	57.5	58.0	57.2	54.9	51.7
External debt	18.7	22.4	24.4	27.6	30.0	30.2	28.9	27.6	26.1
Domestic debt	23.3	25.3	24.4	27.9	27.6	27.8	28.3	27.3	25.6
External sector	**(Percent of GDP, unless otherwise indicated)**								
Exports (goods and services)	22.2	19.9	18.3	16.6	14.0	13.9	15.5	15.9	16.2
Imports (goods and services)	-35.5	-33.2	-33.0	-27.6	-22.8	-25.5	-24.4	-24.3	-24.6
Current account balance (including grants)	-8.3	-8.8	-10.4	-6.7	-5.2	-6.7	-6.1	-5.6	-5.3
Gross international reserves (US$ billions)	7.2	8.5	9.7	9.8	9.6	9.6	..	..	..

In months of imports cover (36 months import)	4.3	4.5	5.1	4.8	5.0	4.9	..	..	..
Exchange rate (Kenyan shilling/US$)	84.5	86.1	87.9	98.2	101.5	103.4			
Memorandum items:									
GDP at current market prices (US$ billions)	50.4	55.1	61.4	64.0	70.9	74.9	89.4	97.7	106.9
GDP per capita (nominal US$)	1,155	1,229	1,335	1,350	1,455	1,622	1,754	1,871	1,999

Sources: World Bank, Central Bank of Kenya, Kenya National Bureau of Statistics, and National Treasury.

14. **Kenya's current account deficit widened in 2017 to 6.7 percent of GDP from 5.2 percent of GDP in 2016**. Following a pickup in international commodity prices and economic recovery among Kenya's major trading partners (e.g. the European Union [EU] and USA), the value of Kenya's agricultural exports improved in 2017. Tea, coffee, and horticulture grew by 16.1 percent, 8.1 percent, and 1.5 percent respectively in 2017, compared to -1.7 percent, 0.4 percent and 7.5 percent respectively in 2016. However, overall export grew by 0.8 percent in 2017 as the increase in agricultural exports did not mitigate the contraction from manufactured exports. With regards to imports, a moderate recovery of international oil prices, imports related to public infrastructure projects, and an increase in food imports led to a rise in the import bill to 18.7 percent in 2017. Notwithstanding strong tourism receipts and diaspora remittances, the current account deficit widened in 2017 (Figure 2).

Figure 2: Inflation has remained within the target band while the current account deficit widened in 2017



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

15. **The KES has remained generally stable and foreign exchange reserve buffers are adequate**. Relatively lower oil prices, strong remittance inflows, a rebound in tourism and government borrowing in foreign currency supported the exchange rate market with a moderate appreciation of the KES in 2018. At 5.9 months of import cover in February 2018, foreign exchange reserves continue to provide an adequate buffer against short term external shocks.

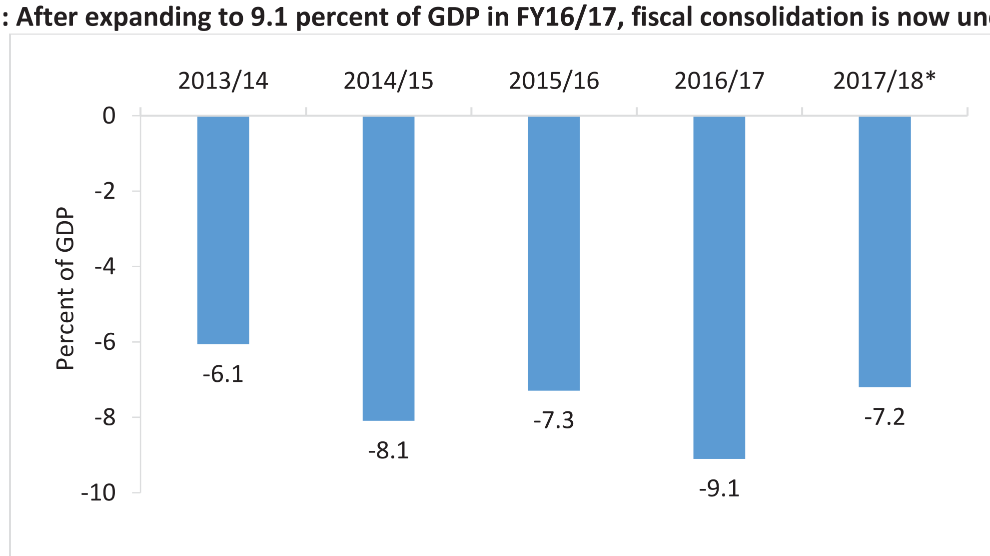
16. **The expansionary fiscal stance in recent years contributed to elevated fiscal deficit levels.** Kenya's expansionary fiscal policy began in FY 2013/14 (Figure 3), driven by the implementation of the 2010 Constitution (roll out of devolution and establishment of independent offices); execution of mega infrastructural projects; high wage bill and increasing interest payments; and transitional factors in FY 2016/17 (elections and drought mitigation expenditures). As a result, total expenditure steadily

increased from 23.7 percent of GDP in FY 2011/12 to 27.5 percent of GDP in FY 2016/17. Notwithstanding robust GDP growth, tax revenues did not keep pace with government spending, thereby contributing to a widening deficit (Table 2). Consequently, the fiscal deficit doubled from 4.5 percent of GDP in 2011/12 to 9.1 percent of GDP in 2016/17 and the stock of public debt as a share of GDP increased by 15.2 percentage points over that period.

17. **Overall public debt has risen in recent years, and the margin for further debt accumulation has narrowed**. External debt reached 30.2 percent of GDP in June 2017, while domestic debt stood at 27.8 percent of GDP, representing 5.6 and 3.2 percentage points higher than their June 2015 level respectively. The overall surge in debt was attributed to increase of both external and domestic debt, as government borrowed to finance large infrastructure projects. The underperformance in revenue generation also contributed to rising fiscal deficits and the debt stock. On the composition of external debt, the stock of debt on concessional basis continued to decline. In February 2018, Kenya successfully issued a US$2 billion Eurobond (US$1 billion for 10 years and US$1 billion for 30 years at 7.25 and 8.25 percent respectively). This issuance is expected to lengthen the maturity profile of loans as well as help refinance upcoming bullet payments on external debt obligations. However, vulnerability to developments in international markets have also increased.

18. **Starting 2017/18, fiscal consolidation has commenced although the quality of adjustment could be improved.** The fiscal deficit has widened from 7.3 percent of GDP in 2015/16 to 9.1 percent of GDP in 2016/17 before a projected decline to 7.2 percent in FY17/18 (Figure 3). The fiscal consolidation is driven by postponement of non-priority development spending and measures to boost domestic revenue mobilization. While this is commendable, much of the burden of fiscal consolidation is being shouldered by development spending. Ongoing fiscal consolidation in FY 2017/18 targets a decline of total expenditure by 0.7 percentage points as a share of GDP all of which comes from a retrenchment in development expenditure (Table 2). However, the contribution from recurrent expenditure to the ongoing fiscal consolidation in 2017/18 and the medium-term remains minimal.

Figure 3: After expanding to 9.1 percent of GDP in FY16/17, fiscal consolidation is now underway



Source: The National Treasury

19. **A growth friendly fiscal consolidation should combine efforts to raise tax revenue with the reining in of recurrent spending.** While boosting domestic revenue mobilization can support the fiscal consolidation process, it should not bear the full burden of fiscal adjustment. Reining in expenditures, in particular recurrent expenditures, will be important. This is all the more critical given that the increasing share of recurrent expenditure (both at national and county level) contributed to the steady increase in total expenditure from 23.7 percent of GDP in FY 2011/12 to 27.5 percent of GDP in FY 2016/17. Indeed, in H1 FY 2017/18 recurrent expenditures alone accounted for some to 92.9 percent of revenues. Nonetheless, notwithstanding the relatively high level of recurrent spending, projected fiscal consolidation for FY17/18 is skewed towards a scaling down of development expenditures by 1.0 percentage points of GDP, in contrast to the 0.8 percentage point of GDP increase in recurrent spending. Given the important role of development spending in improving productivity and potential growth of the economy, the quality of fiscal consolidation process in FY 2017/18 could compromise medium-to long-term growth prospects.

Table 2: Kenya - Key Fiscal Indicators (% of GDP), 2012/13 - 2021/22

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
						Est	Proj.	Proj.	Proj.	Proj.
Total Revenue and Grants	**19.7**	**19.7**	**19.5**	**19.2**	**18.6**	**19.7**	**19.4**	**19.4**	**19.6**	**19.5**
Total Revenue	19.2	19.2	19.0	18.7	18.3	19.0	18.9	19.0	19.2	19.1
Tax Revenue	15.6	16.8	16.4	16.4	15.9	15.9	16.2	16.4	16.6	16.8
Income tax	8.3	8.9	8.7	8.6	8.1	8.2	8.3	8.4	8.6	8.8
VAT	4.1	4.6	4.5	4.4	4.4	4.4	4.5	4.6	4.6	4.6
Import Duty	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Excise Duty	1.9	2.0	2.0	2.1	2.2	2.1	2.1	2.2	2.2	2.2
Other Revenues	3.7	2.4	2.5	2.3	2.4	3.1	2.7	2.6	2.6	2.3
Grants	0.5	0.5	0.5	0.5	0.3	0.7	0.5	0.4	0.4	0.4
Expenditure and Net Lending	**25.1**	**25.6**	**28.1**	**27.2**	**27.5**	**26.8**	**25.4**	**23.8**	**23.0**	**22.6**
Recurrent	18.1	14.8	14.8	15.6	15.4	16.2	15.4	14.5	14.1	13.8
Wages and salaries	6.1	5.5	5.1	4.7	4.4	4.6	4.5	4.4	4.2	3.9
Interest Payments	2.7	2.7	3.0	3.3	3.5	3.5	3.8	3.5	3.4	3.4
Domestic Interest	2.5	2.4	2.4	2.7	2.8	2.5	2.6	2.4	2.5	2.5
Foreign Interest	0.3	0.3	0.6	0.7	0.8	1.0	1.2	1.0	0.9	0.9
Pensions	0.6	0.6	0.6	0.8	0.8	0.9	0.9	1.0	1.0	1.0
Development	6.8	6.3	8.8	7.0	8.0	7.0	6.7	6.4	6.2	6.3
Domestically financed				4.5	5.1	3.8	3.7	3.5	3.4	3.5
Foreign financed				2.6	3.2	3.1	2.9	2.8	2.7	2.7
Net lending				0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to Counties	0.2	3.8	3.9	4.1	3.7	3.5	3.2	2.9	2.7	2.4
Deficit including grants (cash basis)	**-5.7**	**-6.1**	**-8.1**	**-7.3**	**-9.1**	**-7.2**	**-6.0**	**-4.3**	**-3.4**	**-3.0**
Financing	**5.7**	**6.1**	**8.1**	**7.3**	**9.0**	**7.2**	**6.0**	**4.3**	**3.4**	**3.0**
Domestic Financing	3.8	4.0	4.3	3.1	4.0	3.4	3.8	2.3	1.6	1.5

Foreign Financing	1.9	2.1	3.7	4.2	5.0	3.7	2.2	2.1	1.8	1.6
Primary balance	**-3.0**	**-3.4**	**-5.1**	**-4.0**	**-5.6**	**-3.7**	**-2.2**	**-0.8**	**0.0**	**0.4**
Deficit including grants excluding SGR	**-5.4**	**-5.9**	**-6.3**	-6.6	-7.5	**-6.5**	**-5.5**	**-3.9**	**-2.8**	**-2.5**

Source: National Treasury (Quarterly Economic and Budget Reviews, Medium-Term Budget Policy Statement 2018)

20. **The Government has committed to address underperformance in domestic revenue mobilization.** As a share of GDP, revenue collections have consistently decreased in the last three fiscal years, declining from 19.2 percent of GDP in FY 2013/14 to 18.3 percent of GDP in FY 2016/17. The main drivers of revenue growth remained Kenya's traditional sources of tax revenue including income tax, VAT, and import duty. The World Bank is supporting the governments' domestic revenue mobilization agenda by providing technical assistance to build capacity at the Kenyan Revenue Authority and to implement key recommendations from the detailed 2017 tax studies.[15] Under the International Monetary Fund (IMF) program, the Government has committed to introduce through the Finance Bill 2018, revenue raising measures, including removal of some tax exemptions identified in the World Bank study and improvements in tax administration.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

21. **Kenya's economic activity is poised to rebound over the medium-term and inflation is expected to stay within the Central Bank's target corridor.** GDP growth is projected to recover from an estimated 4.9 percent in 2017 to 5.5 percent in 2018, and steadily rise to 6.1 percent by 2020 when output gaps in the economy are expected to close (Table 1)[16]. On the upside, the rebound in economic activity is predicated on favorable weather conditions which should be supportive of the rebound in the agriculture sector, the dissipation of political tension and the strengthening of the global economy. However, partially mitigating the lift from the upside drivers are the rise in oil prices; down-sizing of the fiscal stimulus from earlier years; and the still weak credit growth to the private sector. Regarding the latter, the baseline however assumes that the ongoing discourse to repeal the interest rate cap will be successful in 2018, thereby supporting a robust recovery in private sector credit growth in 2019 and beyond. So far, the rains in 2018 have been in line with projection, and barring sharp rises in oil prices, inflation is expected to be contained within the Government's target range of 5 percent (+/-2.5 percent) in 2018.

22. **Fiscal consolidation should help reduce domestic borrowing requirement over the forecast horizon, thereby supporting a crowding-in of the private sector and an increase in productivity of the economy**. While the slower pace of government spending, if implemented, could be a drag on GDP growth in the near-term, it will be a net positive for Kenyan economy through sustained macroeconomic stability, lowering future borrowing costs and crowding in private investment. Further, fiscal consolidation will enhance the growth in total factor productivity of the Kenyan economy in the medium term through two channels[17]. First, eliminating inefficiencies in public spending will lift the productivity of public investments, ease supply side constraints to growth, and

[15] See Kenya Tax Policy Studies: Value Added Tax and Corporate Income Tax. World Bank Report 2017.
[16] World Bank estimates.
[17] The growth in Kenya's total factor productivity (TFP), though rising, is well short of productivity growth in other Sub-Saharan economies such as Rwanda, Ethiopia and Ghana. The Kenya Economic Update (November 2016) finds that the causes of low efficiency of investment can be attributed to weakness in the system of public investment management (PIM), particularly project appraisal, selection and management.

boost competitiveness of the economy. Second, lower government borrowing in the domestic market will drive down the risk-free rate— one of the key factors depressing private investments. Higher levels of private investment in turn spurs the productivity of physical and human capital in the economy. In addition, the pick-up in private sector demand (both consumption and investment) is expected to mitigate the waning fiscal stimulus from the consolidation of the fiscal stance, and help drive the projected rebound in growth over the medium-term.

23. **The external outlook is favorable**. Kenya's current account deficit widened in 2017 but is expected to narrow in the medium-term on the backdrop of improved export performance (Table 3). A pickup in international commodity prices for Kenya's agricultural exports, a recovery in Kenya's main trade partners (UK, USA, and the EU) and strong performance in tea and horticultural exports will support exports. At the same time, a reduction in one-off bulky capital imports related to the standard gauge rail (e.g. locomotives), is expected to reduce the import bill. As in the recent past, remittances and robust capital flows will be sufficient to finance the current account and meet the government's external debt service obligation (Table 3).

24. **The National Treasury projects the fiscal deficit to decline from 9.1 percent of GDP in FY 2016/17 to 7.2 percent in FY 2017/18 and a further reduction in FY 2018/19**.[18] This would be achieved by spending cuts and postponement of lower-priority capital projects in 2017/18, and supported by a widening of the tax base by reducing exemptions in the VAT and income tax, as well as on-going improvements in revenue administration. While commendable there remain risks and challenges to the achievement of this medium-term fiscal consolidation pathway. Not the least among these are the building pressures on recurrent spending (both wage agitations as well as interest payments), demands from county governments and the resolve to deliver on an ambitious infrastructure agenda. This is made more challenging in an environment where domestic revenue mobilization has been underperforming. The outlined fiscal consolidation remains achievable, but will require disciplined fiscal management. Furthermore, concrete additional steps to rein-in recurrent spending over the medium-term is desirable.

Table 3. Kenya: Gross Financing Needs, 2015–2020

(BPM6 presentation, in millions of U.S. dollars, unless otherwise indicated)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Current account	**-4299**	**-3653**	**-5068**	**-5413**	**-5395**	**-5493**
Trade balance	-8395	-7890	-9602	-10472	-10896	-11702
Services (net)	1321	1691	2047	2636	2845	3065
Incomes (net)	2775	2546	2486	2424	2657	3145
Capital and financial account	-3655	-4044	-4134	-5392	-5941	-5683
Capital account	**263**	**206**	**329**	**477**	**425**	**460**
Financial account	**-3918**	**-4250**	**-4463**	**-5869**	**-6366**	**-6143**

[18] The governments' intentions are outlined in its Budget policy statement (February 2018) and in its request for an extension of its program with the IMF in March 2018.

Foreign direct investment	-379	-348	-419	-569	-614	-663
Portfolio investment	155	383	335	-64	535	-224
Financial derivatives	0	0	0	0	0	0
Other investment	-3695	-4285	-4379	-5236	-6287	-5257
Net errors and omissions	-242	-764	0	0	0	0
Overall balance	-360	39	-277	934	1396	1111
Reserves and related items	-296	106	-277	934	1396	1111
Reserve assets (gross)	-361	38	-396	790	1241	975

Source: Central Bank of Kenya and World Bank Staff Estimates

25. **The projected outlook is subject to downside risks from both domestic and external sources**. On the domestic factors, the projected growth in the economy could be derailed if the ongoing weakness in private sector credit growth is not reversed. The authorities are committed to eliminating or significantly modifying interest rate controls. If this does not occur, it presents a significant downside risk to growth prospects since weak credit growth will continue to dampen effective demand by households, stunt business expansion plans, and lower the growth potential of the Kenyan economy over the long-run. On the external side, spillovers from tighter global financial conditions, represent a risk to Kenya's medium-term prospects. Sharper-than-expected increase in oil prices could also exacerbate pressures on the current account balance. However, the comfortable level of official foreign reserves estimated at 5.9 months of import cover in February 2018 provides buffers to absorb such shocks.

26. **Fiscal slippages represent a significant risk to maintaining macroeconomic stability.** Given the potential for revenue underperformance (if political economy of tax exemptions, estimated at 5 percent of GDP becomes intractable), pressures from recurrent expenditures and vulnerability to drought effects, could derail fiscal consolidation plans. This could have adverse implications for government borrowing cost, crowding out of the private sector, exchange rate stability, and high interest payments, thereby potentially reversing some of Kenya's recent gains (macro-stability, robust growth, poverty reduction). The Monitoring and Evaluation Department, of the National Treasury and Planning is currently carrying out a comprehensive public expenditure review (PER) with the view to provide data and guidance on improving efficiency of public spending.

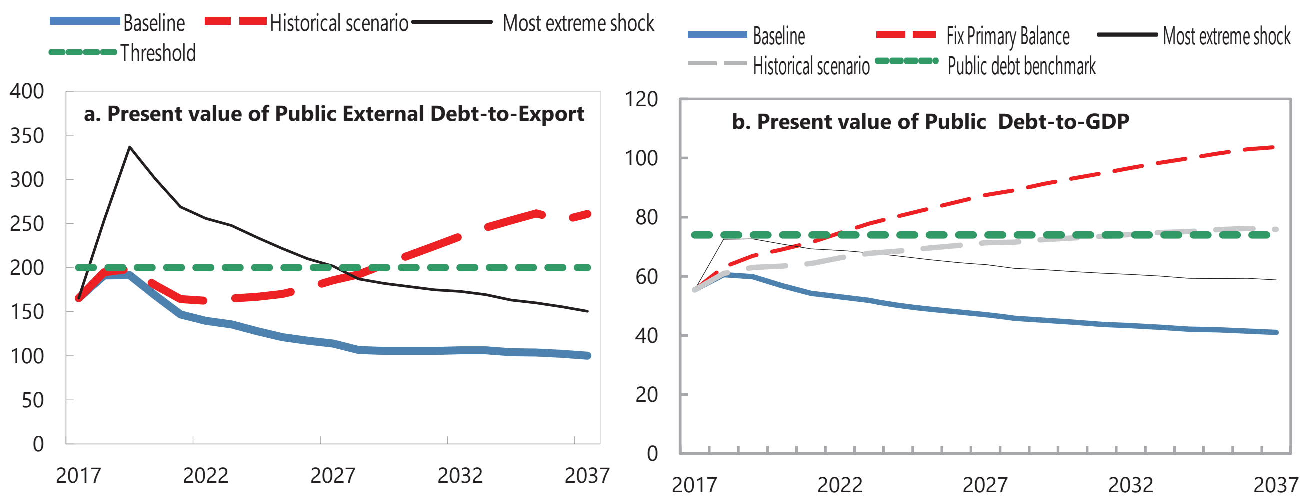
27. **An update of the Debt Sustainability Analysis (DSA) show Kenya's risk of external debt distress is likely to have increased from low to moderate [19].** Kenya's overall public debt has increased in recent years and is estimated at about 57.5 percent at end-June 2017 in nominal terms. Most new debt has financed infrastructure to address bottlenecks and boost growth. In the baseline, overall public debt is expected to peak in 2018, and gradually decline thereafter on the assumption that the authorities deliver on the envisaged medium-term consolidation (Table 1). A likely increase in risk rating reflects the breach of three external debt indicators—external debt service-to-export ratio, external debt service-to-revenue ratio, and the present value of external debt to export ratio—for an extended period under the most extreme shock scenario (Figure 4a)[20.] While the first indicator is also breached

[19] The DSA is jointly undertaken with the International Monetary Fund. The exercise is ongoing and expected to be completed by July 2018.
[20] The two shocks are: (i) Figure 4a: an export shock defined as export values remaining permanently at its lowest level while the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly offsetting the

under the baseline scenario, such a breach is temporary and marginal— related to a bullet Eurobond repayment. However, against the background of continued access to international markets and a comfortable level of official foreign reserves, Kenya should be able to meet its near-term repayment obligation. About half of Kenya's public debt is owed to external creditors. Most of Kenya's external public debt remains on concessional terms, but its commercial component has increased.

28. **Stress-testing scenarios highlights the need to follow through on the intended medium-term fiscal consolidation.** If the primary balance were to remain at its 2017 level, the present value (PV) of public debt-to-GDP would remain on an upwards trajectory and breach the 74 percent benchmark in 2022 (Figure 4b). Furthermore, under an extreme exchange rate shock scenario, the PV of debt-to-GDP would remain below its threshold. However, such a shock would bring overall public debt only about 1 percentage point of GDP away from its benchmark, reflecting vulnerability of public debt to large changes in the exchange rate (Figure 4b). The government is strengthening their debt management capacity to manage large repayments on commercial borrowing. At the same time, concessional borrowing will continue to play an important role in financing investment projects due to its lower cost and longer maturity profile. However, reducing the fiscal deficit over the medium term is essential to limit and eventually reverse the rise in public debt ratios. In addition, the composition of fiscal financing between domestic and foreign sources should seek to contain risks of public external debt from export shocks while avoiding a crowding out of domestic bank credit to the private sector.

Figure 4: Present Value of Public Debt under Alternative Scenario's, 2017-2037



Source: staff estimates

2.3 THE ADEQUACY OF THE MACROECONOMIC FRAMEWORK

29. **The macroeconomic policy framework is considered adequate for the proposed operation**. The adequacy of the macroeconomic framework for this operation is premised on the government's commitment to sound macroeconomic management and efforts to rein in fiscal deficit to ensure debt levels remain sustainable. Kenya continues to be rated as a strong policy performer among low and middle-income countries in the World Bank's Country Policy and Institutional Assessment. It has a

adjustment in import levels); (ii)Figure 4b: a one-time depreciation of 30 percent taking place in 2018.

track record of carrying through reforms as evident in its ambitious devolution program, its maintenance of a stable macroeconomic environment not withstanding several headwinds from the global economy and recent strides in improving its business regulatory environment. Kenya was the only sub Saharan African country among the top reformers in the recently released World Bank Doing Business Report.

30. **The authorities have committed to implement policies that will reduce near- and medium-term vulnerabilities**. The authorities have committed to a reduction in the fiscal deficit to 7.2 percent of GDP by the end of this fiscal year (June 30, 2018), and a further reduction by the end of the next fiscal year (June 30, 2019). Fiscal consolidation would be achieved by spending cuts and postponement of lower-priority capital projects this FY, and supported by reducing tax exemptions, as well as on-going improvements in revenue administration. While the detailed measures would be introduced in the Finance Bill (June 2018), concrete steps to rein-in recurrent spending over the medium-term would be desirable. In addition, efforts are underway to eliminate or significantly modify interest rate controls to ameliorate its impact on credit growth and access to finance and monetary policy effectiveness.

31. **The adequacy of Kenya's macroeconomic framework should be further enhanced by its strong institutional environment.** Significant investment in systems for public financial management over the last few years and progress in improving the framework for public investment management will complement measures outlined above to safeguard the vulnerable macro fiscal position. Furthermore, Kenya's growth prospects continue to remain robust underpinned by strong domestic demand, a rebound in tourism, a stable macroeconomic environment and the easing of supply-side constraints due to the coming on stream of completed infrastructure projects.

32. **Furthermore, the proposed operation has positive macro fiscal linkages.** Recurrent adverse weather patterns and other natural disasters have contributed to fiscal slippages in the past. The proposed operations will help reduce budgetary pressures by strengthening the GoK's institutional, technical, and financial capacities to manage the impact of climate and disaster risks. Furthermore, disaster-related contingent financing could preserve scarce public resources and enable the Government to provide critical services in the event of a disaster materializing. In addition, building resilience to drought will benefit the poor and small-scale farmers who suffer disproportionately from the impact of drought in Kenya.

2.4. IMF RELATIONS

33. **In March 2018, the Executive Board of the IMF granted an extension of the Stand-by Arrangement (SBA) for Kenya to September 14, 2018.** The Executive Board approved a 24-month SBA and a 24-month Stand-by Credit Facility (SCF) for Kenya in March 2014 which the authorities treated as precautionary. The authorities did not request an extension of the SCF arrangement as this type of arrangement can be approved up to a maximum of 24-months. The SBA extension is needed to provide additional time for the authorities to bring the program back on track and reach new understandings with IMF staff on policies and measures that would enable the completion of the pending reviews under the SBA. Prior reviews were missed because of revenue shortfalls and fiscal slippages in part due to the economic and political headwinds of 2017. In addition, the introduction of interest rate controls in September 2016 also reduced the effectiveness of the monetary policy framework. Access under the SBA is about SDR 1.06 billion upon completion of reviews.

3. GOVERNMENT PROGRAM

34. **The GoK has demonstrated commitment to a multi-sectoral approach to reducing vulnerability and strengthening resilience to climate and disaster risk**. The Constitution of Kenya identifies DRM as a responsibility shared by National and county governments. The country's long-term development plan, Kenya Vision 2030, identifies as a priority the transition away from an approach focused on emergency response, towards a comprehensive approach to risk management. It also highlights rapid urbanization as one of four key challenges facing the country, for which delivery of accessible, quality and efficient infrastructure and services play a paramount role. Vision 2030 is structured in five-year Medium-term Plans (MTP). The First MTP (2008-2012) did not explicitly address the issue of natural hazards; the Second MTP (2013-2017) included provisions for addressing Drought Emergencies and Food Security by prioritizing the implementation of the Ending Drought Emergencies (EDE) Plan; and the Third MTP (2018-2022) will further advance incorporation of DRM into Kenya's investment planning.

35. **As part of the transition to a more proactive approach to managing disaster and climate risks, Kenya has developed a series of disaster-related laws and policies.** These include Sessional Paper No. 8 on the National Policy for the Sustainable Development of Northern Kenya and other Arid Lands (the "ASAL Policy", 2012), the EDE MTP (2012), the National Drought Management Authority (NDMA) Act (2013), and the National Climate Change Action Plan (2013).

36. **Various entities have been established to support the country's institutional architecture for DRM**. These include the National Disaster Operations Centre; the National Disaster Management Unit (NDMU); the NDMA and the State Department of ASALs. An informal initiative known as the National Platform for Disaster Risk Management brings together stakeholders interested in DRM and provides an opportunity for State, non-governmental, private and international institutions to participate in consultation and decision-making processes for DRM. However, there is a lack of coordination across these agencies and initiatives.

37. **Kenya has also made notable advances on the design and implementation of disaster risk financing (DRF) instruments, effectively maximizing finance for development by crowding in private sector risk capital.** Through its portfolio of risk financing instruments, the GoK crowds in approximately US$65 million in private sector risk capital every year to help manage climatic risk. The portfolio includes the scalable component of the Hunger Safety Net Program (P131305), micro-level agricultural insurance programs[21], Contingency Emergency Response Components in World Bank projects, the National Drought Emergency Fund, the proposed National Disaster Management Fund, and sovereign-level drought insurance through the African Risk Capacity (ARC) (2014/15 and 2015/16). As part of this DPF, Kenya has also approved Africa's first National Disaster Risk Financing Strategy. The proposed DPF with Cat DDO complements this portfolio of instruments by providing an additional layer of protection in the event of a disaster. Given the selected drawdown trigger, the DPF with Cat DDO offers flexibility to the GoK on when to drawdown resources.

38. **The Government's program is aligned with global, regional and national instruments and conventions for DRM and CC.** These include the Sendai Framework for Disaster Risk Reduction

[21] Including the Kenya Agriculture Insurance and Risk Management Program (Sub-task of P154784) and the Kenya Livestock Insurance Program (P131305)

(SFDRR) and the African Regional Strategy for Disaster Risk Reduction (DRR). The country signed UN Convention on Combating Desertification, UN Framework Convention on Climate Change (UNFCCC), and the Convention on Biological Diversity. According to Kenya's Nationally Determined Contribution, an estimated US$40 billion will be required to finance adaptation and mitigation interventions across six sectors until 2030.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

39. **The development objective of the proposed program is to strengthen the GoK's institutional, technical, and financial capacities to manage the impact of climate and disaster risks.** The Program is structured around three pillars with seven prior actions, fully aligned with the Government's program described in Section 3. Prior actions were agreed jointly with relevant GoK agencies, and the indicators are aligned to the associated policy reforms, bolstering government ownership of the program. These policy reforms and indicators collectively aim to fill critical gaps in the current institutional and financial framework to strengthen the government's ability to respond to the impacts of disasters and improve the country's financial resilience.

- **Pillar 1** will fortify institutional, planning and policy frameworks to manage climate and disaster risk. The policy reforms and associated activities under this pillar will support the GoK's capacity to formulate, prioritize, finance, implement and monitor actions to support the national DRM framework.
- **Pillar 2** will strengthen resilience to climate and disaster risk in the urban and water sectors. The policy reforms and associated activities under this pillar will contribute to reinforce the country's capacity to mainstream DRM and CC into development planning and public investment systems.
- **Pillar 3** will build national financial capacity to advance climate adaptation and mitigation, and respond to the impacts of natural hazards. The policy reforms and associated activities under this pillar will support the development of national financial capacity for early action for both fast and slow-onset disasters, and will contribute to increasing transparency and effectiveness of the government's interventions for climate adaptation and mitigation, including disaster response.

40. **Climate co-benefits for the proposed operation are expected to be high**. CC adaptation considerations are integrated in Prior Actions, with 100 percent climate co-benefits. CC is anticipated to cause increased warming in Kenya coupled with an increasing unreliability of the long rains (see paragraph 4). Policy actions included in this operation will address identified climate risks and vulnerabilities and contribute to enhancing the country's capacity to adapt to CC.

41. **The proposed DPF with Cat DDO can help meet Kenya's immediate need for liquidity in the aftermath of a disaster caused by natural hazards or health emergencies.** This flexible and prompt financial tool will support rapid emergency response and will help alleviate the economic and humanitarian costs associated with delays in securing needed financing.

42. **The proposed operation will be the second Cat DDO in the Africa Region and the first IDA Cat DDO**. To date, the World Bank has approved IBRD Cat DDOs in 15 countries, for an approximate total value

of US$2.5 billion.[22] The design of this DPF with Cat DDO considers lessons learned from World Bank operations in DRM, and from the Implementation Completion and Results Reports of four Cat DDOs (Guatemala, Colombia, the Philippines and El Salvador). Key lessons learned include: (i) a successful Cat DDO operation needs to align actions with government priorities and match the dialogue with technical assistance; (ii) DRM policy is most effective when based on adequate risk identification, including both physical and fiscal risks; and (iii) it is important to position the CAT DDO within a broader DRF strategy.

43. **The principles of Maximizing Finance for Development have been considered in the proposed project design.** Financing of ex-post disaster response in Kenya is rooted in the public sector, but has regularly relied on appeals to, and contributions from, the private sector. Kenya's private sector has actively supported response and recovery efforts by making available its technical expertise, equipment and other resources. This, however, has typically been related to rapid-onset and localized events (e.g. building collapses, terror events, flash floods and mass-casualty road accidents). The proposed operation will, through parallel grant-financed technical assistance initiated under the Kenya Disaster Risk Management Policy Dialogue (P154338), continue and build upon existing dialogue between the GoK and the Kenya Private Sector Alliance (KEPSA) to define a framework to harness and structure private sector contributions to reducing risk in key sectors.

44. **In addition, activities under Pillar 3 of this operation can help the GoK leverage private capital to better manage their disaster-related contingent liabilities and ultimately protect their fiscal balance by complementing scarce public resources.** Market-based risk transfer mechanisms at the sovereign and micro level are part of Kenya's portfolio of risk financing instruments. The newly adopted DRF Strategy proposes an ambitious set of reforms to expand existing public private partnerships (PPPs), including the Kenya Livestock Insurance Program (P153813) and Kenya Agriculture Insurance and Risk Management Program (Sub-task of P154784) to help GoK leverage market-based risk transfer solutions to transfer the risk of specific disaster events to actors in the market and support GoK manage the financial impacts of disasters.

45. **Instrument features**:

- **Drawdown trigger:** Funds may be drawn in response to a declaration of disaster, by the GoK in accordance with national law. In addition to natural hazard risks, a disaster may include, public-health related emergencies, such as the threat or outbreak of fatal or highly infectious diseases including endemics, epidemics, or pandemics. For the purposes of the DPF, a disaster does not include any emergency that is predominantly political, technological, security, military, or fiscal in nature.
- **Drawdown period and renewals:** The drawdown period for this operation will be three years. The Borrower can renew it one time for an additional three-year period during which the Cat DDO can be disbursed. The World Bank will monitor the implementation of the DRM program (see Annex 1). If it is not being implemented in a satisfactory manner, the Borrower may not be eligible to submit a disbursement request. The adequacy of the macroeconomic framework is assessed at

[22] 2017: Dominican Republic (US$150 million) and Serbia (US$70 million); 2015: Philippines (US$500 million) and Peru (US$400 million); 2014: Seychelles (US$7 million) and Sri Lanka (US$102 million); 2012: Colombia (US$250 million); 2011: Philippines (US$500 million) and Panama (US$66 million); 2010: El Salvador (US$50 million) and Peru (US$100 million); 2009: Guatemala (US$85 million); and 2008: Colombia (US$150 million) and Costa Rica (US$65 million).

effectiveness and reconfirmed at renewal, but it is not required for drawdown. The extension would require the approval of the Regional Vice President of the World Bank. Renewals require that the original program remain largely in place. Renewal will need to take place no earlier than one year and no later than six months before the expiration date.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

46. **The prior actions under this DPF set the stage for a broader reform to enable the Government to strengthen resilience to the socio-economic and financial impacts of disasters.** The DPF's pillars and associated results outlined below are aligned with the government's commitment to further develop the country's institutional, technical and financial capacities to manage the impact of natural hazards. The policy reforms being advanced are both ambitious and strategic, collectively supporting an important pivot away from a focus on emergency response to a more holistic approach that encompasses risk identification, risk reduction and risk financing. It can be reasonably expected that challenges will be met during implementation of the Program, and that attainment of the intended results will take time. This institutional transition on risk management is a long-term process which will require sustained commitment and monitoring[23].

Pillar 1: Fortifying institutional, planning and policy frameworks to manage climate and disaster risk

47. Through the reforms included in Pillar I, the GoK is strengthening the legal and institutional framework and technical capacity to incorporate disaster risk considerations and climate adaptation measures into sectoral policies and national development. These important steps will better position the country to begin systematically building resilience and improving the sustainability of development projects.

Prior Action 1: The President has approved the MTP III (2018-2022) of Kenya's Vision 2030, which promotes a shift from emergency response to a more comprehensive DRM approach.

48. **Rationale:** Kenya's major challenge in beginning to strategically address issues of disaster risk is the lack of a legal and institutional framework to guide planning, coordination, and implementation of a country program. Another significant challenge is inadequate mainstreaming of DRM in the country's development planning, coupled with limited budget allocation for and associated investments in DRM. Countries that develop policy, legislative and institutional frameworks for DRM and that can track progress in addressing disaster risk through specific and measurable indicators have greater capacity to manage risks and to achieve widespread consensus, engagement and compliance on DRM measures across all sectors of society.

49. **Substance of Prior Action:** The Third MTP (2018-2022) has been aligned with the Sendai Framework and adopted its pillars to further advance in the incorporation of DRM into Kenya's investment planning. MTP III is the guiding document for public investment programming and sharpens the focus on investment strategies to reduce the country's relative vulnerability to disasters as part of the government's overall development strategy. Unlike the First and Second MTPs, MTP III goes beyond investments in droughts response and recovery and now includes risk identification and risk reduction

[23] Annex 6 identifies World Bank financed lending operations and technical assistance activities supporting prior actions and results indicators.

among its priorities, as well as other natural hazards such as floods, landslides and earthquakes.

50. **Expected Results:** Under the MTP III, the country will be able to address DRM as a cross-cutting development issue; moving toward a more comprehensive DRM approach, and expanding its priorities to all natural hazards. Formally incorporating DRM into Kenya's national development will lead to key medium- to long-term development impacts, including: (i) integrating/mainstreaming of DRM considerations into sustainable development policies, planning and programming at all levels; (ii) development and strengthening of institutions, mechanisms and capacities that can systematically contribute to building resilience at all levels, in particular at the community level; and (iii) improving generation and use of disaster and climate risk information services, including early warning. In alignment with these strategic objectives, the DPF supports disaster risk profiles produced to inform implementation of County Integrated Development Plans, and county level emergency and/or contingency plans adopted that strengthens response capacity.

Prior Action 2: **The Cabinet has approved a National Disaster Risk Management Policy, which establishes, streamlines and strengthens DRM institutions, coordination frameworks, partnerships, and regulations in Kenya.**

51. **Rationale:** As outlined in Section 1, Kenya is vulnerable to both natural and man-made hazards with an estimated 3 to 4 million people affected annually. The economic cost of floods and droughts is estimated at 2 percent-2.4 percent of GDP each year on average. These recurrent impacts on the country's population and economy can be attributed to a number of factors, including: (i) poor coordination among various governmental and non-governmental actors involved in response to disasters; (ii) inadequate Early Warning Systems to support preparedness and rapid response; (iii) lack of long-term funding and investment in DRM and response capacity; and (iv) lack of an effective information management system to report, respond and co-ordinate disaster management.

52. **Substance of Prior Action:** Kenya has developed an awareness of the importance of a coordinated, strategic, and multi-sectoral approach to the management of disaster risk and, in order to begin addressing the challenges described above, has approved a National DRM Policy. The aim of the policy is to "Build a safe and disaster-resilient nation through establishment of a robust Disaster Risk Management system that contributes to and protects the achievements of Kenya's national development". The Policy's objectives are to: (i) Establish and strengthen institutional mechanisms and capacities for DRM; (ii) Reduce disaster risk and vulnerabilities at local, county and national level; (iii) Mainstream DRM into sustainable development policies, strategies and plans at all levels and within and across all sectors; (iv) Enhance resilience to the impacts of disaster risk and CC at the local, County, and National level; and (v) Enhance effective and coordinated disaster preparedness, prevention, response, mitigation, and recovery.

53. **Expected Results:** The National DRM Policy and the DRM Bill will be the cornerstone of Kenya's national program for DRM, contributing to a policy shift away from a reactive approach focused on disaster response, toward a more proactive approach to DRM. This will allow Kenya to protect people and property, improve public awareness of DRM, support capacity building for DRM, and use resources effectively across all aspects of DRM from prevention to response and recovery. The DPF therefore supports the adoption of a National Disaster Risk Management Strategy that strengthens

government coordination for climate resilience and DRM.

Pillar 2: Strengthening resilience to climate and disaster risk in the urban and water sectors

54. **The strengthening of DRM in Kenya's overall development planning and in strategic sectors will further consolidate advances made in the recent past, and demonstrate the operationalization and implementation of DRM as a crosscutting strategy.** With a growing share of its population living in urban areas, and given that the GoK acknowledges that no country has reached high-income status without urbanization, the urban sector is one of the areas of focus for Pillar 2. Rapid and unplanned urbanization is a driver of risk, and failure to invest in urban resilience can have significantly adverse impacts on the urban poor. In addition, the water sector will also be of focus under this Pillar. Both sectors have been prioritized for three main reasons: (i) they are relevant to significantly reduce climate and disaster risk at the national and local level; (ii) the Government Program has prioritized them as reflected in the Third MTP (2018-2022); and (iii) the Government is conducting an ambitious set of reforms in both sectors that this DPF with Cat DDO will be able to support.

***Prior Action 3*: The Parliament has approved the National Urban Development Policy which incorporates urban DRM.**

55. **Rationale:** Kenya Vision 2030 highlights rapid urbanization as one the challenges facing the country hence viewing management of urban development as a national priority. Urban development in Kenya has largely taken place in the absence of a comprehensive national urban policy framework. With an increasing rate of urbanization, expected to surpass 50 percent by 2030, growing concentration of assets and populations in Kenya's cities and towns will result in increased exposure and vulnerability to disaster impacts. This urban expansion, and the associated growth patterns, have resulted in a chronic risk of fires in informal settlements and similarly contributed to 26 cases of structural building collapses between 1996-2017 in Kenya's cities. There is therefore a need to implement regulatory reforms to manage the risks associated with the concentration of poor and vulnerable people living in unsafe structures and often in informal settlements. Both GoK and private sector agree that a regulated built environment is critical to support the country's ambitious economic and social development objectives, including the "Big Four Plan" for economic development announced in December 2017. The Plan places renewed emphasis on supporting affordable housing, which requires a supporting and enabling regulatory regime. However, the repeal of the Local Government Act in 2010, ended the legal effect of the 1968 building code, creating a regulatory vacuum. New national legislation is therefore required to establish a new modern building code incorporating robust provisions for accessibility, fire risks prevention, water and energy efficiency.

56. **Substance of Prior Action:** Building strong city management systems that promote an integrated view to urban development, inclusive of urban resilience, is fundamentally linked to urban planning, land use, and building designs. The aim of the NUDP is therefore to strengthen urban governance and management, development planning, urban investment and the delivery of social and physical infrastructure throughout the country. This encompasses the incorporation of considerations of urban land, environment and CC, coupled with urban DRM and associated information systems.

57. **Expected Results:** The NUDP incorporates urban DRM considerations and it will contribute to an increased resilience to urban risk in Kenya, through a more conducive building regulatory framework and better understanding of risk for urban planning. The long-term goal of the Policy is to reduce

poverty and inequality and to make Kenya's urban areas productive, sustainable, livable, and inclusive. The critical role urban areas and cities play in national development, towards modernization, is clear. The DPF therefore supports preparation of urban resilience strategies to enhance city management, and the preparation and approval of a new building code that incorporates multi-hazard resilient design standards which is proven to be an effective tool in reducing chronic and disaster risks.

Prior Action 4: **The Parliament has approved the National Land Use Policy which promotes land use practices that increase resilience to climate and disaster risk.**

58. **Rationale:** The absence of a clearly defined land use policy in Kenya has resulted in a haphazard approach to managing the different land use practices and policy responses. Land use continues to be addressed through many uncoordinated legal and policy frameworks that have done little to unravel the many issues that affect land use management. One result is that land suitable for low-income housing has increasingly become unavailable due to lack of forward planning, weak land management structures, speculation by private land owners, and abuse of power by various authorities in allocating public land. The Constitution of Kenya, Vision 2030 and the Sessional Paper No. 3 of 2009 on National Land Policy all justify formulation of a framework for effectively addressing land-use challenges. Historically, physical planning has relied on a complex institutional arrangement; plan formulation is undertaken by central government whereas implementation is the responsibility of local government. This has led to physical development plans not being informed by the local needs and are therefore not locally-owned during implementation[24]. Inadequate planning both in urban and rural areas has resulted in haphazard development, underutilization of land and inappropriate settlement systems.

59. **Substance of Prior Action:** To tackle these challenges, a National Land Use Policy has been developed to promote efficient, productive and sustainable use of land, and define key measures to be implemented by the Government (both national and county) and all land users. These measures include conservation and enhancement of the quality of land and land-based resources and the proper management of demographic and health parameters. Other key measures address issues of land cover, land use data and land use planning.

60. **Expected Results:** With the approval of the National Land Use Policy, it is expected that the country will implement land use practices that increase climate resilience and reduce effects of CC; as well as integrate initiatives that address issues of disaster management. This policy will ultimately provide a legal, administrative, and institutional framework for optimal land utilization and productivity of land-related resources in a sustainable manner at national and community levels. The DPF therefore supports the revision of Kenya's physical planning handbook to incorporate DRM and CC adaptation considerations.

Prior Action 5: **The Water Act 2016 which supports programs for water resources management including disaster management and CC adaptation has come into operation.**

61. **Rationale:** Repeated droughts have resulted in increased focus on policies and strategies related to drought risk reduction. In addition to direct impacts on the economy, droughts affect the linkages

[24] Robin McLaren (2009). Formulating a Sectoral Approach to Urban Land Policy: The Case of Kenya. Land Governance in Support of the Millennium Development Goals. FIG-World Bank Conference. Washington D.C.

between different sub-economies, ecologies, communities, and sectors. For instance, as droughts escalate, women typically travel longer distances and spend more time fetching water, limiting the time available to tend their crops. The water and sanitation sector is among those most affected by drought. During the prolonged drought of 2008-2011, impacts on storage facilities, pumping units, transmission systems and sanitary structures, resulted in damages of approximately US$773 million.

62. **Substance of Prior Action:** The water sector has undergone significant reforms in the last year. The Water Act provides regulation, management and development of water resources and water and sewerage services in line with the Constitution. Pertaining to disaster management, the Water Act calls for the: (i) development of national public water works for flood control; (ii) implementation of strategic water emergency interventions during drought; and (iii) formulation and enforcement of standards, procedures and regulations for flood mitigation.

63. **Expected Results:** It is expected that through the enactment of the Water Act 2016, public water programs will be implemented to ensure water availability for marginalized groups, while complementary actions will be taken to protect, conserve, control and regulate use of water resources at the national and county levels. The aggregate impact of these measures over time will strengthen the country's resilience to the impacts of droughts and floods. The DPF therefore supports the establishment of a National Water Harvesting and Storage Authority for improved water resource and drought management. The Authority will play a central role in improving water management across the country, and will lead the development of National Public Water Works program to address challenges of inadequate water infrastructure considering Kenya's low water storage capacity. To complement these initiatives, the strengthening of rainwater harvesting practices is expected to have positive impact for domestic, livestock, irrigation and industrial purposes.

Pillar 3: Building national financial capacity to advance climate adaptation and mitigation, and respond to the impacts of natural hazards

64. **Disaster shocks can negatively affect economic growth and development progress, particularly if resources are not available for timely response and/or the Government is forced to reallocate resources away from other development priorities**. By taking a pre-planned approach to financing, financial protection instruments can help the Government increase ownership and cost-effectiveness of disaster response, ultimately contributing to reducing the impacts of disasters on people and the economy. Implementation of reforms under this pillar will help improve transparency, communication, and decision-making associated with Kenya' portfolio of financial instruments to address the impacts of climate and disaster risks.

Prior Action 6: **The Parliament has adopted the Kenya National Policy on Climate Finance which aims to enhance national financial systems and institutional capacity to effectively access, disburse, absorb, manage, monitor and report on climate finance in support of national sustainable development goals (SDGs).**

65. **Rationale:** As per the Paris Agreement, developed nations have set a goal of mobilizing US$100 billion per year by 2020 to support mitigation and adaptation activities in developing countries. Kenya's Nationally Determined Contribution, estimates that US$40 billion will be required to finance adaptation and mitigation interventions across six sectors until 2030. To be able to effectively raise

and manage climate finance resources to support its ambitious goals, it will be crucial for GoK to establish a dedicated climate finance mechanism.

66. **Substance of Prior Action:** Kenya approved in 2017 a new policy on Climate Finance to improve its ability to mobilize adequate resources to adapt and mitigate effects of CC. To ensure that Kenya is effectively positioned to access this financing on its climate and development priorities, the National Policy on Climate Finance encourages the establishment of a national CC fund that will effectively manage and implement the projects and track climate finance, therefore improving transparency and accountability. The goal of the Policy is to support Kenya's national development goals through enhanced mobilization of climate finance that contributes to low carbon climate resilient development goals.

67. **Expected Results:** By putting in place the right institutional and financial mechanisms, it is expected that the country will improve its ability to mobilise and effectively manage and track climate finance in support of resilient, low-carbon development. The DPF therefore supports the establishment of a national climate finance mechanism to support mobilization, coordination and tracking of climate finance from both internal and external sources.

Prior Action 7: **The National DRF Strategy, which defines strategic priorities to improve post-disaster financing to enable effective and timely action in the event of a disaster, has been approved.**

68. **Rationale:** National Treasury plays an important role in supporting the national government and county governments better prepare and respond to disasters, to protect the lives and livelihoods of vulnerable people and to safeguard the country's growth. The existing portfolio of DRF instruments in Kenya, either active or in preparation is among the most well-developed and comprehensive in the region. Annex 5 provides an overview of the current portfolio of sovereign risk financing instruments at the sovereign and sub-sovereign level. Improving financial planning can strengthen the government's ability to implement rapid and effective disaster response and reduce negative impacts on people and the economy, as part of its overall approach to DRM. Recognizing this, the GoK's DRM Policy calls for strategies "to promote mechanisms for disaster risk transfer and insurance, risk-sharing and retention and financial protection, for both public and private investment in order to reduce the financial impact of disasters on governments and societies, in urban and rural areas".

69. **Substance of Prior Action:** The National DRF Strategy supports National Treasury in the management of its portfolio of risk financing instruments. It complements the government's broader DRM, social protection and agricultural risk management agendas, as well as National Treasury's overall fiscal risk management framework. Ongoing technical assistance from the World Bank has supported the GoK on several flagship disaster response programs. The NDMA has received support to develop a financial model to assess the long-term costs of scaling up the HSNP, including the average annual costs of funding shock response through HSNP. This will now allow NDMA to develop a comprehensive financing strategy for HSNP scalability, as part of a planned US$250 million World Bank financed credit for the Kenya Social and Economic Inclusion Project (P164654). In addition, the World Bank has helped the GoK develop KLIP and KAIRMP. In February 2017, the insurance was triggered for the first time and paid out about US$2 million to 12,000 pastoralists in one of the largest ever agriculture insurance payouts to small holder herders in Africa[25].

[25] To date, the program has made payouts for a total of US$7 million.

70. **Expected Results:** It is expected that the National DRF Strategy will support National Treasury in its decision-making and strategic direction to increase financial resilience by: (i) ensuring a coordinated approach to DRF across National and County Government institutions managing various DRF instruments; (ii) improving sovereign financing capacity by strengthening and expanding the National and County Government's portfolio of DRF instruments; (iii) supporting key programmes to protect and the most vulnerable populations from the impacts of disasters and contribute to building resilience[26]. Results under this Prior Action include the number of households eligible for disaster relief through financial protection instruments, and the reports on consolidated post-disaster expenditure produced annually and submitted to the Budget Department within National Treasury.

Analytical Underpinnings

71. **The design of the proposed operation is backed by extensive analytical work conducted by the Global Facility for Disaster Reduction and Recovery (GFDRR), the World Bank, and specialized agencies of the United Nations System, as described in Table 4.**

Table 4: Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1: Fortifying institutional, planning and policy frameworks to manage climate and disaster risk	
Prior Action 1: MTP III (2018-2022)	-GoK (2007). *Kenya Vision 2030*. It is the country's long-term development Plan. It notes the imperative for Kenya to begin moving from an emergency response to a more proactive DRM approach. *http://www.vision2030.go.ke/about-vision-2030/* -UNISDR (2015). *The Sendai Framework for Disaster Risk Reduction 2015-2030*. The SFDRR (2015-2030), to which Kenya has made commitments, underscores the importance of mainstreaming disaster risk and CC adaptation into development planning as part of the actions to reach the SDGs. *https://www.unisdr.org/we/coordinate/sendai-framework*
Prior Action 2: National DRM Policy	- UNISDR (2015). *The Global Assessment Report on DRR.* A comprehensive review and analysis of natural hazards threatening humankind. It critically examines DRM instruments where significant barriers still exist, such as land use planning, building codes, and ecosystem management, and where new approaches need to be adopted. *https://www.unisdr.org/we/inform/publications/42809*
Pillar 2: Strengthening resilience to climate and disaster risk in the urban and water sectors	
Prior Action 3: National Urban Development Policy	-World Bank (2016). *Investing in Urban Resilience: Protecting and Promoting Development in a Changing World.* This report illustrates how building urban resilience is critical to reducing poverty and promoting shared prosperity. *https://openknowledge.worldbank.org/handle/10986/25219* -Figueroa Fernandez, Raul H. (2014). *Strategies to Reduce the Risk of Building Collapse in Developing Countries. Dissertation*. Using Kenya as a case study, it emphasizes that while reliable building codes are widely used in design, builders in developing countries often fail to meet acceptable standards. Since 2006, more than 80 people have been killed, and over 290 injured by collapsed buildings in Kenya. *http://repository.cmu.edu/dissertations/493*
Prior	-World Bank and Earthquake and Megacities Initiative (2014). *Risk-Sensitive Land Use Planning*

[26] Including the Hunger Safety Net Program, the Kenya Livestock Insurance Program, and the Kenya Agricultural and Insurance Management Program.

Prior Actions	Analytical Underpinnings
Action 4: National Land Use Policy	*Guidebook*. *Bangladesh Urban Earthquake Resilience Project*. This report underscores that the impact of natural and man-made hazards can be reduced through adequate planning and incorporating specific DRR measures in land use planning and urban development processes, thus minimizing the human, economic and environmental damage. *https://www.geonode-gfdrrlab.org/documents/423/download*
Prior Action 5: The Water Act 2016	-Republic of Kenya (2012). *Kenya Post Disaster Needs Assessment 2008-2011 Drought*. It notes that considering frequently recurrent episodes of drought in the country, it has become imperative that Kenya, like other countries, concomitantly implement resilience-building measures to reduce vulnerability. *http://www.gfdrr.org/sites/gfdrr/files/Kenya_PDNA_Final.pdf*
Pillar 3: Building national financial capacity to advance climate adaptation and mitigation, and respond to the impacts of natural hazards	
Prior Action 6: Kenya National Policy on Climate Finance	-GoK (2016). *Kenya Climate Change Act*. It provides for a regulatory framework for an enhanced response to CC, and for mechanisms and measures to achieve low carbon climate resilient development. *http://www.kenyalaw.org/lex/rest/db/kenyalex/Kenya/Legislation/English/Acts%20and%20Regulations/C/Climate%20Change%20Act%20-%20No.%2011%20of%202016/docs/ClimateChangeAct11of2016.pdf-GoK (2016).* *Kenya National Adaptation Plan (NAP) 2015-2030. Enhanced Climate Resilience Towards the Attainment of Vision 2030 and Beyond.* The NAP is Kenya's first plan on adaptation and demonstrates the country's commitment to the Paris Agreement and MDGs by mainstreaming adaptation across all sectors. *www4. unfccc.int/nap/Documents%20NAP/Kenya_NAP_Final.pdf*
Prior Action 7: National Disaster Risk Financing Strategy	-*Kenya Disaster Risk Financing and Insurance: Initial Diagnostic Study* (2017). The report highlights that disaster response causes major impacts on the budget of the GoK. Analysis of different expenditure data sources shows that from 2004/05 to 2010/11, the GoK spent at least an average of US$75-88 million per year on disaster relief measures. -Cummins, J. David; Mahul, Olivier (2009). *Catastrophe Risk Financing in Developing Countries: Principles for Public Intervention*. The book makes the case for public intervention to enhance catastrophe risk financing strategies and lays out steps on how to mitigate the economic and fiscal impacts of disasters. It provides the theoretical framework for this DPF with Cat DDO. *https://openknowledge.worldbank.org/handle/10986/6289*

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

72. **The proposed DPF with Cat DDO is well-aligned with the World Bank Group's (WBG) Country Partnership Strategy (CPS) for Kenya, which covers the period July 1, 2014 to June 30, 2020.**[27] The CPS is anchored in the country's MTP and recognizes the importance of managing risks (including from natural hazards) that can threaten overall poverty reduction prospects. This operation helps to

[27] Country Partnership Strategy for the Republic of Kenya (Report 87024-KE) discussed by the Executive Directors on June 5, 2014; Performance and Learning Review of the Country Partnership Strategy for the Republic of Kenya (Report 113547-KE) considered by the Executive Directors on July 17, 2017.

mitigate that risk and in addition, supports policy reforms which contribute to each of the three main domains of engagement in the CPS. First, reforms in this operation related to fortifying institutional, planning and policy frameworks to manage climate and disaster risk, will support the objective of domain two 'to protect the vulnerable and deliver shared prosperity'. Second, reforms related to strengthening resilience to climate and disaster risk in the urban and water sectors, will support the objective of domain one 'to strengthen planning and management of urban growth to have competitiveness and sustainable growth'. Third, these policy reforms will support the objective of domain three 'to build consistency and equity through devolution'.

73. **The proposed DPF with Cat DDO complements a significant number of WBG-supported operations and technical assistance activities.** Table 5 provides a summary of linkages (see Annex 6 for additional details).

Table 5: Links to World Bank Supported Operations & Technical Assistance

	Lending Operations		Technical Assistance
i.	Regional Pastoral Livelihoods Resilience Project (P129408)	i.	International Finance Corporation's Global Index Insurance Facility
ii.	Kenya Water Security and Climate Resilience Project (P117635, P151660)	ii.	Impact Evaluation of Kenya Water Security and Climate Resilience Project (P145556)
iii.	Kenya Climate-Smart Agriculture Project (P154784)	iii.	Technical Assistance to Kenya Agricultural National Insurance Program (P153813)
iv.	Kenya National Safety Net Program (P131305, P161179)	iv.	Second Generation Financial Deepening and Development Program (P154134)
v.	Kenya Urban Support Program (P156777)	v.	Kenya DRM Policy Dialogue (P154338)
		vi.	Enhancing Dialogue on Environment and Natural Resources in Kenya (P158695)
		vii.	Kenya Devolution: Social Accountability; Devolved Sector Support; and Knowledge Management (P160017)
		viii.	Kenya Macro Fiscal Programmatic Approach (P162368)
		ix.	Strengthening Decentralized Climate Risk Preparedness and Response in Kenya (P162888)
		x.	Strengthening Capacity for Implementing Building Regulations for Resilience (P163394)
		xi.	Strengthening Pandemic Preparedness (P164023)
		xii.	Devolution and Locally-Led Climate and Disaster Risk Management Project (P163600)

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

74. **The Constitution of Kenya requires the State and all State organizations to ensure public consultation on all public policies, legislation or any decision that is likely to impact the people of Kenya.** Public participation as the premise on which devolution is anchored is addressed under section 87 of the County Governments Act (CGA) which among other things provides for: (i) access to information and data relevant to and related to policy formulation; (ii) reasonable access to the process of formulating policy and other government programs; (iii) protection and promotion of minorities within counties; and (iv) recognition of non-state actors in formulation and implementation of policies[28].

75. **Development partners play a key role in DRM in Kenya.** Key partners, including the African Development Bank, the Department for International Development of the Government of the United Kingdom (DFID), EU, GFDRR, the United Nations Development Programme (UNDP), the United Nations International Strategy for Disaster Reduction, and the World Food Programme are supporting the DRM, and DRF agenda in Kenya. Preparation of the DPF with Cat DDO involved consultation with all these partners, as well as with the IMF. Consultations were carried out with the National Platform for DRR at the 4th National Symposium on DRR in October 2016. Consultations on the preparation of a National Strategy for Financial Protection against Natural Disasters were carried out with DFID, the EU, UN agencies, and the ARC in early February 2017. In addition, consultation was undertaken with the UN Regional Economic Commission for Africa, and the Intergovernmental Authority on Development. Lastly, financial support has been provided by the GFDRR to provide technical assistance in support of the policy dialogue on DRM, the DRF initiative, and an assessment of regulatory capacity within the built environment.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

76. **The Government policies supported by the proposed operation are expected to have a positive poverty and social impact in the medium-term.** Natural hazards can increase poverty indirectly through lower economic growth, higher inflation, and consequential lower government spending for social services. The disruption of public utilities, such as potable water or sewage systems, communications, and transport infrastructure during a disaster event, combined with the lack of rain and accessibility to reliable sources of water in drought-prone areas, pose a threat to health, assets, and livelihoods across the population. As in many countries in sub-Saharan Africa, natural disasters in Kenya have a substantial social impact, leading to strong increases in food insecurity, poverty, and inequality[29].

77. **Through their impacts on human capital, disasters can severely affect households' earning potential.** Within households, the impacts of disasters are not spread equally. Women and infant girls are often the ones who bear the brunt of impacts within the poorest households. This includes not only the direct impacts (mortality rates because of disasters are higher among women), but also the

[28] Kenya Law Reform Commission (2015). A Guide to the Legislative Process in Kenya.
[29] International Monetary Fund (2016). Regional Economic Outlook: Sub-Saharan Africa Multispeed Growth.

indirect impacts (negative impacts on nutrition and school performance are disproportionately high among girls). As a signatory to the SFDRR, which was endorsed by the UN General Assembly following its adoption at the Third UN World Conference on Disasters Risk Reduction, the GoK recognizes the importance of gender-dimensions in DRM and supports the calls for inclusiveness and engagement of all of society in implementing related programs and projects.

78. **The envisaged Cat DDO activities are not expected to have negative social impacts that cannot be mitigated.** Nevertheless, given the fragile environment and vulnerable project landscape, it is critical that the Borrower has mechanisms in place to ensure inclusive and transparent consultations; rigorous and continuous monitoring to identify evolving risks as well as prescribing and operationalizing feasible mitigation measures.

79. **In general, post disaster transfers are most desirable where the exposed population is the poorest and where poor people have a high vulnerability.** According to the 2017 World Bank Report *Unbreakable: Building Resilience of the Poor in the Face of Natural Disasters*, because of this dynamic, Kenya is one of 14 countries with the highest benefit-cost ratio of post disaster transfers. This supports GoK's interest in expanding the set of instruments which can be used to support nationally-driven response operations quickly, without having to manage the uncertainty and unpredictability associated with post-disaster appeals processes.

5.2. ENVIRONMENTAL ASPECTS

80. **Prior actions selected for the proposed operation are not likely to cause negative effects on Kenya's environment, forests and other natural resources.** On the contrary, prior actions of the operation, can enhance proper natural resource and environmental management by promoting the integration of risk reduction and resilience measures into development planning and decision-making. The prior actions will strengthen and complement the existing laws and regulations on environmental management, such as the Climate Change Act, 2016, National Climate Change Action Plan (2018-2022), and the MTP III.

81. **GoK has in place environment and natural resources management laws that provides for sustainable utilization and conservation of the of environment and natural resources.** The framework for environmental assessments has been mainstreamed into the development process and for the specific projects, and the Strategic Environmental Assessment (SEA) is required for sectoral policies, plans, programs. However, more effective environmental management requires progress with: (i) strengthening the capacity constraints of the County environment institutions to mainstream the national legislation framework in the development process; (ii) improving compliance with environmental provisions and enforcement, especially since the devolution process gives certain powers to the Counties; and (iii) promoting increased use of strategic environmental assessments to mitigate unanticipated environmental consequences.

82. **The DPF with Cat DDO operation places emphasis on assuring improved transparency and accountability of social and environmental issues with respect to governmental oversight and decision-making processes**. In compliance with DPF operational policy (OP 8.60), the regulations in place for reducing adverse effects and enhancing positive effects have been reviewed. The World Bank through the Kenya Devolution Support Programme (P149129) is supporting the National and County Governments to strengthen capacity of core institutions to improve delivery of services at the county level including the environment in the development process.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

83. **Kenya's fiduciary framework is adequate to support the proposed operation.** The 2012 Public Expenditure and Financial Accountability (PEFA) results noted improved Public Finance Management (PFM) performance following the 2009 PEFA assessment. The situation has improved significantly as the result of the new Constitution (2010) and the approval of the Public Finance Management Act (2012). A full update of the PFM and Accountability assessment is currently underway. A review of the draft PFM and Accountability report of FY17/18 revealed that the overall PFM system performance generally improved since the 2012 PEFA assessment.

84. **Kenya maintains high standards of budget transparency**. The general budget is made available on the National Treasury website throughout the budget preparation process. In addition, the National Treasury and the Office of the Controller of Budget produces regular budget implementation reviews namely the Quarterly Budget and Economic Review (QBER) and the National Government Budget Implementation Report. As of March 2018, Kenya is one of only 23 countries that have participated in the IMF's Fiscal Transparency Evaluations (FTEs). The FTEs provides a comprehensive assessment of country practices against the standards set by the Fiscal Transparency Code (the Code)—the international standard for disclosure of information about public finances.[30]

85. **The GoK's PFM system together with GoK's commitment to improve PFM performance through various initiatives, provide reasonable assurance that GoK can manage the country's budget resources appropriately.** The strengths of the PFM system include a relatively strong budget system that is transparent and accurate; reengineering, roll-out and use of Integrated Financial Management Information System (IFMIS) in all line ministries and counties; well trained and qualified accountants and budget officers in the National Treasury and ministries, departments and agencies (MDA); and functioning Internal Audit Department (IAD) and independent Supreme Audit Institution, the Office of the Auditor General (OAG). Areas for improvement include delays in roll-out of some of the IFMIS modules; integration of IFMIS with some GoK information technology (IT) systems remains pending; errors in annual financial statements resulting in audit report qualifications for a majority of MDAs; and delays in submission of audit reports to Parliament. GoK is working on PFM improvements with support from development partners. The World Bank is providing support to the National Treasury on PFM improvements through the Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (P161387) and the Kenya Accountable Devolution Program (P149129) by use of targeted Disbursement Linked Indicators addressing the areas of weakness.

86. **The IMF 2015 safeguard assessment report of the Central Bank of Kenya (CBK) found that CBK continues to maintain effective operational controls and all recommendations from the previous safeguards assessment have been implemented.** Nevertheless, some weaknesses were noted including lack of functioning Board due to lapse of tenure, which affected functioning of the Audit Committee; challenges of the constitutional requirement to replace the entire stock of currency; and delays in implementation of internal audit report recommendations. The CBK has drafted amendments to the Central Bank Act that broadly address issues identified in previous safeguards assessments and strengthen the bank's autonomy. The CBK received clean/unqualified audit reports.

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[30] The Code comprises a set of principles built around four pillars: (i) fiscal reporting; (ii) fiscal forecasting and budgeting; (iii) fiscal risk analysis and management; and (iv) resource revenue management. More details available at *http://www.imf.org/external/np/fad/trans/*

The most recent audit reports for FY 2013/14, FY 2014/15 and FY 2015/16 were audited by the Auditor General and the audit certificate issued by September of the same year.

87. **Credit disbursement will follow the World Bank's procedures for development policy lending**. The GoK has elected the deferred drawdown option as the disbursement mode for this operation amounting to Euro 165.4 million.

88. **With respect to the flow of funds,** the World Bank will disburse the funds to an account opened by the National Treasury in the CBK which will form part of the foreign exchange reserves. After the deposit of the funds, the CBK would immediately credit the disbursed amounts to the Consolidated Fund as part of the overall exchequer funds. The funds would then be available to finance budgeted expenditures. Given that the timing and amount of funds drawn from the Cat DDO are not known ex-ante and therefore may not be included in the annual budget, supplementary appropriations may be made in accordance with Kenya's budget procedures[31]. Further, the Public Finance Management Act provides authorization to the Cabinet Secretary to advance payment for expenditures which have not been budgeted for due to an unforeseen event and cannot be delayed until a later financial year without harming the general public interest. This includes, events that: (a) threaten serious damage to human life or welfare; (b) disruption of food, water or shelter; (c) threaten serious damage to the environment; (d) cause damage, loss, or hardship; (e) loss of life, human illness or injury; and (f) homelessness or damage to property.

89. **The GoK will be able to access funds from the facility in response to a declaration of Disaster, by the GoK in accordance with national law.** Following a request for withdrawal, the World Bank may disburse the proceeds into an account denominated in foreign currency that forms part of the GoK's official foreign exchange reserves held by the CBK. The CBK may use the proceeds as follows: (i) make budgeted foreign currency payments directly from this foreign currency bank account; (ii) transfer amounts from the foreign currency bank account to a local currency bank account at the CBK, which the GoK then uses to make payments for its budget expenditures; or, (iii) a combination of these approaches.

90. **The accounting of the credit proceeds will be in line with existing PFM arrangements.** Government procedures will be followed to administer, record, and audit transactions relating to the credit proceeds and related payment.

91. **Once the funds enter GoK foreign exchange account and converted into KES, they will be comingled with the GoK's other funds in the Consolidated Fund**. Therefore, the World Bank will not require tracking of the end use of DPF funds. This means that disbursements of the credit will not be linked to any specific purchases and no procurement requirements must be satisfied, except that the Borrower is required to comply with the standard negative list of excluded items that may not be financed with World Bank credit proceeds, as defined in the financing agreement. If any portion of the credit is used to finance ineligible expenditures as so defined in the loan agreement, the World Bank has the right to require the Government to promptly, upon notice from the World Bank, refund the amount equal to such payment to the World Bank. Amounts refunded to the World Bank will be

[31] The Constitution of Kenya 2010 (Article 223, Supplementary Appropriation) allows for the use of funds for a purpose for which no amount has been appropriated.

cancelled from the credit.

92. **The legal agreement includes specific clauses.** This includes requirement of written confirmation from GoK (within 30 days after credit disbursement) that (i) the credit proceeds were received into an account of GoK that is part of the country's foreign exchange reserves (including the date and the name/number of the GoK's bank account in which the amount has been deposited); and (ii) an equivalent amount has been accounted for in the GoK's budget management system (including the Chart of Accounts name/account number, the date, and the exchange rate used).

93. **Audit Arrangements:** Since the control environment is assessed be adequate, there is no mandatory requirement for annual audit. However, the World Bank reserves the right to have an audit conducted, if in the opinion of the World Bank, the control environment ceases to be effective at any time during implementation. In such a case, the National Treasury, on request from the World Bank shall have the bank account into which the IDA funds are credited (both the Euro and local currency) and related transactions, audited based on audit terms of reference (ToR) acceptable to the World Bank. The audit report shall be submitted to the World Bank within a period of 6 months after the World Bank's request for the audit. The audit will be conducted by the OAG which has been assessed as having the technical capacity, and independence to perform the audit.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

94. **The National Treasury is the main counterpart of the World Bank for this DPF with Cat DDO**. Nevertheless, the implementation of the program is a shared responsibility across the Ministry of Interior, Ministry of Devolution and ASAL, Ministry of Transport, Infrastructure, Housing and Urban Development, Ministry of Lands and Physical Planning, and the Ministry of Water and Irrigation.

95. **The results framework presented in Annex 1 will be used as a monitoring tool by both the government and the World Bank.** The Government and the World Bank will review the progress of the DPF program twice a year, and a joint report will be prepared. The National Treasury will be responsible for the overall coordination and monitoring of the reform program supported by the DPF with Cat DDO and will furnish information to the World Bank, as required, to monitor outcomes in the results framework. The National Treasury will liaise with focal points in the other ministries, departments, and agencies involved as needed. Periodic monitoring and dialogue with the relevant line ministries and other stakeholders involved in implementing the reforms will take place through World Bank field missions.

96. **If at any time during the drawdown period the World Bank concludes that the DRM program is not being implemented in a manner satisfactory, the World Bank would promptly advise the Borrower of the need for improvement**. A subsequent review would be necessary to confirm that the DRM program is being implemented satisfactorily before it would be able to process any request for drawdown. In this case, follow-up monitoring would be more frequent until a review confirms that the program is back on track. Once the World Bank is satisfied that drawdown conditions are again in place, the World Bank would inform the Borrower, that its eligibility to submit disbursement requests has been restored.

97. **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 Operation may submit complaints to the responsible country authorities,

appropriate local/national grievance redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. 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 World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

98. **The overall program risk rating is moderate**. The Government has shown remarkable leadership in pursuing the reform agenda, and the country has already achieved substantial results with the new Constitution of Kenya (2010), which has reduced the risk of political and social resistance to reforms. The remaining risk of a limited institutional capacity within sector ministries is moderate, while political and social resistance to change is low. The risk of natural hazards affecting the implementation of this program is also moderate.

99. **While Kenya's macroeconomic outlook is strong, there remains several risks.** On the domestic side, the projected growth in the economy could be derailed if the ongoing weakness in private sector credit growth is not reversed. Furthermore, deviations from the projected fiscal consolidation path could jeopardize Kenya's hard-earned macroeconomic stability and raise debt to GDP ratio. In addition, insufficient rains and potential for drought conditions present significant downside risks to the projected growth. On the external side, spillovers from tighter global financial conditions represent a risk to Kenya's medium-term outlook particularly if the normalization of monetary policy in major advanced economies tightens external financing conditions. Progress with ongoing fiscal consolidation and efforts to repeal and/or significantly modify the interest rate cap, will contribute to mitigating domestic risks. External risks will also be mitigated by Kenya's healthy external reserves.

100. **Risks associated with limited capacity, especially in sector ministries, are being overcome by substantial ongoing and planned technical assistance provided parallel with the DPF with Cat DDO.** In most of the areas covered by this program, parallel technical assistance and knowledge development and dissemination is being provided by the World Bank through technical assistance grants, while other partners have helped to implement reforms and build institutional capacity.

101. **In summary, the proposed credit is rated as moderate risk.**

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
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	Low
9. Other	
Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions	Results Indicator	Baseline (2018)	Target (2021)	Responsible
Pillar 1 - Fortifying institutional, planning and policy frameworks to manage climate and disaster risk				
Prior Action 1. The President has approved **the MTP III (2018-2022)** of Kenya's Vision 2030, which promotes a shift from emergency response to a more comprehensive DRM approach.	**Results Indicator 1**: Disaster risk profiles produced to inform implementation of County Integrated Development Plans and/or Annual Investment Plans.	0	5	Ministry of Interior & National Government Coordination Ministry of Devolution & ASAL National Treasury & Ministry of Planning
	Results Indicator 2: County level emergency and/or contingency plans adopted that strengthens response capacity	0	8	
Prior Action 2. The Cabinet has approved a **National DRM Policy**, which establishes, streamlines and strengthens DRM institutions, coordination frameworks, partnerships, and regulations in Kenya.	**Results Indicator 3**: National Disaster Risk Management Strategy that strengthens government coordination for climate resilience and DRM adopted	No	Yes	Ministry of Interior & National Government Coordination
Pillar 2 - Strengthening resilience to climate and disaster risk in the urban and water sectors				
Prior Action 3. The Parliament has approved the **National Urban Development Policy** which incorporates urban DRM.	**Results Indicator 4:** Urban resilience strategies prepared to enhance city management	0	3	Ministry of Transport, Infrastructure, Housing and Urban Development
	Results Indicator 5: New Building Code approved that incorporates multi-hazard resilient design standards	No	Yes	
Prior Action 4. The Parliament has approved the **National Land Use Policy** which promotes land use practices that increase resilience to climate and disaster risk.	**Results Indicator 6:** Physical Planning Handbook is revised to incorporate DRM and climate change adaptation considerations	0	1	Ministry of Lands & Physical Planning

Prior Action 5: The **Water Act 2016** which supports programs for water resources management including disaster management and climate change adaptation has come into operation.	**Results Indicator 7:** National Water Harvesting and Storage Authority established and operationalized for improved water resource and drought management	No	Yes	Ministry of Water
Pillar 3 – Building national financial capacity to advance climate adaptation and mitigation, and respond to the impacts of natural hazards				
Prior Action 6. The Parliament has adopted the **Kenya National Policy on Climate Finance** which aims to enhance the national financial systems and institutional capacity to effectively access, disburse, absorb, manage, monitor and report on climate finance in support of national SDGs.	**Results Indicator 8:** Establishment of a national climate finance mechanism to support mobilization, coordination and tracking of climate finance from both internal and external sources	No	Yes	National Treasury & Ministry of Planning
Prior Action 7. The **National Disaster Risk Financing Strategy,** which defines strategic priorities to improve post-disaster financing to enable effective and timely action in the event of a disaster, has been approved.	**Results Indicator 9**: Number of households eligible for disaster relief through financial protection instruments	407,877	510,241	
	Results Indicator 10: Reports on consolidated disaster expenditure produced annually and submitted to the Budget Department within National Treasury	0	3	

ANNEX 2: LETTER OF DEVELOPMENT POLICY

HARAMBEE

REPUBLIC OF KENYA
THE NATIONAL TREASURY AND PLANNING

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THE TREASURY
P.O. Box 30007
NAIROBI
KENYA

Ref: CONF/MOF/356/01/TYD (49) **8th May, 2018**

Dr. Jim Yong Kim
President of the World Bank Group
Washington, DC
USA

Dear President,

RE: LETTER OF DEVELOPMENT POLICY

Kenya is one of the most disaster – prone countries in the Greater Horn of Africa. It has 47 Counties which are geographical units envisioned by the Constitution of Kenya, 2010. The powers of the County Governments are provided in Articles 191 and 192, and in the fourth schedule of the Constitution and in County Governments Act 2012. Of the 47 Counties there are 23 Counties classified as arid and semi-arid lands (ASALs), which are generally the most food insecure and exhibit high levels of vulnerability. The majority of the population living in the ASAL regions depend mainly on extensive livestock-grazing production systems and subsistence agriculture as seasonal rainfall variability has made commercial agriculture untenable.

An estimated 3 to 4 million Kenyans are affected annually by natural and human-made disasters that disrupt livelihoods and set back gains achieved in national development. The economic impacts of floods and droughts are estimated to create a fiscal liability equivalent to 2.4 percent of Gross Domestic Product (GDP) each year on average. Kenya's development gains are under threat from the increasing frequency and intensity of disaster shocks. More than 70 percent of natural disasters in Kenya result from extreme climatic events such as floods and droughts. Going forward, climate change

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sustaining the resilience of vulnerable communities by promoting the diversification of their livelihoods and coping mechanisms.

The Government, in partnership with other stakeholders, has developed the Disaster Risk Management Bill which will operationalize the DRM Policy. The DRM Bill is currently undergoing the various legislative procedures at National Assembly.

National Urban Development Policy

The National Urban Development Policy is part of the Government's efforts to implement the provisions on urban development contained in the Constitution, particularly in Article 176 and 184 dealing with devolution, classification and management of urban areas. With the objective to strengthen urban governance and management, development planning, urban investment and the delivery of social and physical infrastructure throughout the country, the Policy is also in line with Kenya Vision 2030, which aims to make cities and counties engines of growth and development.

In an effort to strengthen the country's building regulatory framework, the Government is currently in the process of developing a Built Environment Bill that will undergo the various legislative processes within the next few months.

National Land Use Policy

The National Land Use Policy (NLUP) overarching aim is to move the country towards a sustainable and equitable use of land. The land policy calls for immediate actions to address environmental problems that affect land such as degradation, soil erosion and pollution. It stipulates the principle of conservation and management of land based natural resources, the principle of protection and management of fragile and critical ecosystems including wetlands and arid lands. The policy further calls for extensive overhauls to current policies and institutions in an attempt to address chronic land tenure insecurity and inequity.

In advancing this policy reform agenda, Kenya launched its first National Spatial Plan 2015-2045 last year. The Plan will guide the use and management of land and land-based resources and help in achieving equity, productivity, efficiency and sustainability.

The Water Act 2016

The Water Act 2016 redefines roles and responsibilities for the management, development and regulation of water resources and water services in Kenya. The purpose of the Water Act, 2016 is to align the water sector with the Constitution's primary objective of devolution. The Act recognizes that water related functions are a shared responsibility between the National Government and the County Government.

The Government has established the Water Resources Authority. One of the Authority's immediate tasks will be to develop and approve The Water Resources Strategy.

National Policy on Climate Finance

Kenya is a party to the United Nations Framework Convention on Climate Change, the Kyoto Protocol, and the Paris Agreement. Over the past five years, the Government has made considerable efforts to integrate climate change considerations into the country's policies and programmes, including through the Climate Change Act, 2016 which provides for a regulatory framework for an enhanced response to climate change.

To ensure that Kenya is effectively positioned to access international climate financing to support its national climate and development priorities, the National Policy on Climate Finance, encourages the establishment of a national climate finance mechanism that will help effectively manage and implement climate projects and track climate finance, therefore improving transparency and accountability.

National Disaster Risk Financing Strategy

To address the recurrent financial impacts of natural disasters, the Government has developed a Disaster Risk Financing Strategy. The goal of the Strategy is to strengthen the ability of the National and County Governments to respond effectively to disasters, thereby protecting development goals, fiscal stability and wellbeing of its citizens. In support of this goal, the Strategy identifies four key strategic priorities: (i) to ensure a coordinated approach to disaster risk financing across National and County Government institutions managing various disaster risk financing instruments; (ii) to improve sovereign capacity by strengthening and expanding the National and County Government's portfolio of disaster risk financing instruments; (iii) to support key programmes to protect the most vulnerable populations from the impacts of disasters and contribute to building resilience, including by supporting an expansion in coverage of the Government's flagship programmes; and (iv) to enhance the capacity to respond to disasters of national Ministries, Departments and Agencies, as well as County Governments through targeted support and capacity building. Through the implementation of this Strategy, the National Treasury will contribute to strengthening the government's preparedness and response capacity to manage disaster risks and promote sustained economic growth, while contributing to protecting Kenya's people from the impacts of disasters, in support of the overarching development goals outlined in Vision 2030.

The measures presented above comprise a key subset of the broader Disaster Risk Reduction and Management Program that the Government is implementing in the context of the DRM Policy, the Medium-Term Plan III as and rapid urbanization will further increase the destructive potential of disasters in Kenya.

The Constitution of Kenya, 2010 recognizes that disaster management is a shared function between National and County Governments. Kenya Vision 2030 has an overarching objective of moving the economy towards a high growth trajectory and to achieve a 10 percent economic growth-rate target by 2030. To do so, it prioritizes policies, programmes and projects that generate broad based inclusive economic growth, as well as faster job creation, and the reduction of poverty and inequality. In addition, it identifies disaster risk reduction as a national priority to support the Government's commitment to sustain economic growth, protect economic gains from the impacts of disaster shocks, and reduce the economic impact of disasters on the poorest and most vulnerable people.

The Government of Kenya has therefore started to systematically review its national Disaster Risk Management (DRM) framework to ensure a comprehensive risk management approach. As part of this process, Kenya has embarked on a program of reforms to strengthen its approach to DRM and Climate Change, supported by a set of national policies and strategies as outlined below:

Third Medium Term Plan (2018-2022)

The Third Medium Term Plan defines Kenya's priorities to achieve the Sustainable Development Goals (SDGs), the goals of African Union Agenda 2063, and its national development goals outlined in Kenya Vision 2030, the country's long-term development strategy which seeks to transform Kenya into a newly industrializing middle-income country providing a high quality of life to all its citizens by 2030.

The third Medium Term Plan also includes the National Drought Management Authority Strategic Plan 2018-2022, and for the first time, will take an integrated approach to addressing climate change and disaster risk impacts.

Disaster Risk Management Policy

In the pursuit of reducing vulnerability to disaster risks, the Government has formulated the National Disaster Risk Management Policy. The Policy, which was approved by Cabinet, emphasizes the need for investments in prevention and preparedness at all levels of society, from the national government, to local governments, communities and private sector. The Policy will support the establishment and strengthening of Disaster Risk Management institutions and will enable mainstreaming of Disaster Risk Reduction in the country's development process so as to strengthen Kenya's resilience to natural disasters. In addition, the Policy will also contribute to building and well as international commitments adopted in the Sendai Framework for Disaster Risk Reduction, Paris Agreement and the Sustainable Development Goals (SDGs). They are supported by the Disaster Risk Financing Strategy.

Macroeconomic Management

The Government is also committed to strong policies in support of macro fiscal stability as part of its International Monetary Fund (IMF) program. These include: (i) a reduction in the fiscal deficit from 9.1 percent of Gross Domestic Product (GDP) in 2016/17 to 7.2 percent of GDP by the end of this fiscal year (June 30, 2018) and a further reduction to 5.7 percent of GDP during the next fiscal year (ending June 30, 2019); (ii) a significant modification of interest rate controls to avoid their adverse impact on credit to the private sector, monetary policy effectiveness, and financial stability; and (iii) strengthening the monetary policy framework, including the introduction of an interest rate corridor following the significant modification of interest rate controls.

The purpose of this letter, therefore, is to request financial assistance from the World Bank through a Development Policy Credit with a Catastrophe Deferred Drawdown Option, to sustain the continuing reforms that the Government is making under the Government's broader Disaster Risk Reduction and Management Program.

I would like to reiterate our strong commitment to the reform agenda presented in the aforementioned policies outlined in this letter. We look forward to the Bank's continued support for our efforts ultimately aimed at building a more disaster-resilient nation.

Yours Sincerely,

HENRY K. ROTICH, EGH
CABINET SECRETARY /THE NATIONAL TREASURY AND PLANNING

c.c. Diarietou Gaye
Country Director
Eritrea, Kenya and Rwanda Africa Region
World Bank, Country Office
NAIROBI

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ANNEX 3: 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: Fortifying institutional, planning and policy frameworks to manage climate and disaster risk		
Prior Action 1. The President has approved **the MTP III (2018-2022)** of Kenya's Vision 2030, which promotes a shift from emergency response to a more comprehensive DRM approach.	Positive effect (medium-term)	Positive effect (medium-term)
Prior Action 2. The Cabinet has approved a **National Disaster Risk Management Policy**, which establishes, streamlines and strengthens DRM institutions, coordination frameworks, partnerships, and regulations.	Positive effect (medium-term)	Positive effect (medium-term)
Pillar 2: Strengthening resilience to climate and disaster risk in the urban and water sectors		
Prior Action 3. The Parliament has approved the **National Urban Development Policy** which incorporates urban DRM.	Positive effect (medium-term)	Positive effect
Prior Action 4. The Parliament has approved the **National Land Use Policy** which promotes land use practices that increase resilience to climate and disaster risk.	Positive effect (medium-term)	Positive effect (medium-term)
Prior Action 5: The **Water Act 2016** which supports programs for water resources management including disaster management and climate change adaptation has come into operation.	Positive effect (long-term)	Positive effect
Pillar 3: Building national financial capacity promote climate adaptation and mitigation investments and to respond to disaster shocks		
Prior Action 6. TheParliament has adopted the **Kenya National Policy on Climate Finance** which aims to enhance the national financial systems and institutional capacity to effectively access, disburse, absorb, manage, monitor and report on climate finance in support of national SDGs.	Positive effect (medium-term)	Positive effect (medium-term)
Prior Action 7. The **National Disaster Risk Financing Strategy,** which defines strategic priorities to improve post-disaster financing to enable effective and timely action in the event of a disaster, has been approved.	Positive effect (medium-term)	Positive effect (medium-term)

ANNEX 4: OVERVIEW OF RISK FINANCING IN KENYA

1. In April 2018, Kenya approved its first national DRF Strategy, which aims to increase the ability of the National and County Governments to respond effectively to disasters, thereby protecting development goals, fiscal stability and wellbeing of its citizens. As part of this strategy, the proposed DPF with Cat DDO enhances Kenya's portfolio of risk financing instruments by providing additional liquidity to the government in the event of a disaster.

2. With the selected drawdown trigger, the DPF with Cat DDO complements other risk financing instruments in two key ways: (i) it offers flexibility on when to drawdown resources to support emergency response for disasters caused by multiple natural hazards and/or public health emergencies, compared to sovereign risk transfer instruments which provide payouts in response to specific hazards based on parametric triggers; and (ii) as governments must pay a premium for sovereign risk transfer, international experience demonstrates that such risk transfer instruments provide good value for money when used to respond to infrequent, large scale disasters. In such instances, there is a possibility that a disaster will occur which would not be large enough in magnitude to trigger a payout from the sovereign risk transfer product. In such instances, the Cat DDO complements the sovereign risk transfer instrument as it can be used to finance a response to less severe events, and the Government can use risk transfer to respond to large scale disasters (see Table 4.1 below).

Table 5.1: Disaster Risk Financing Instruments in Kenya

Category	Instrument	Status	National/local level	Type of hazard	Max amount
Sovereign Risk Transfer	**African Risk Capacity**	Under review	23 counties	Droughts	US$60 million
Risk Retention	**International financing**	*Ad hoc*	National level	*Ad hoc*	*Ad hoc*
	World Bank DPF with a Catastrophe Deferred Drawdown Option (Cat DDO)	Under preparation	National level	Disasters caused by natural hazards and/or public health emergencies	US$ 200 million
	Contingencies Fund	Active	National level	Severe disasters	US$ 50 million
	National Drought Emergency Fund	Pending approval of regulations	23 counties	Droughts	US$ 20 million
	County Emergency Funds	Active in 19 counties	County level	Severe county-level disasters	County-specific
	Budget reallocations	Ongoing	National level	*Ad hoc*	*Ad hoc*

ANNEX 5: LINK TO OTHER WORLD BANK GROUP SUPPORTED OPERATIONS

The proposed DPF with a Cat DDO complements a significant number of WBG-supported operations supporting related efforts to mainstream DRM and climate considerations into other investments. The operation also complements several non-lending technical assistance activities, with financial supported provided for many such activities by the GFDRR.

Lending Operations:

i. *Regional Pastoral Livelihoods Resilience Project* (P129408), which has invested in building resilience of pastoral and agro-pastoral communities in cross-border drought prone areas of selected countries and improving the capacity of the selected countries' governments to respond promptly and effectively to an eligible crisis or emergency. This project has a Contingency Emergency Response Component (CERC).

ii. *Kenya Water Security and Climate Resilience Project* (P117635, P151660), which has invested in enhancing the institutional framework and strengthen capacity for water security and climate resilience in certain areas of the country, including improved water services, flood protection, and analytical capacity to understand and manage hydrological variability.

iii. *Kenya Climate-Smart Agriculture Project* (P154784), which has a component that supports mapping existing agro-meteorological and hydrological stations, installing weather stations and purchasing of satellite/remote-sensing infrastructure, and developing the early warning system for flood and drought. This project also has a Contingent Emergency Response Component.

iv. *Kenya National Safety Net Program* (P131305, P161179), a Program for Results operation that included a disbursement-linked indicator on establishment of a "System for scaling up the NSNP as part of the national drought risk management system", which is being implemented by the government through establishment of a National Drought Emergency Fund that would allocate funds to cash transfer through the NSNP. The contingency fund is an important component of the government's portfolio of risk financing instruments.

v. *Kenya Urban Support Program* (P156777) aims to establish effective and empowered urban planning and management systems that deliver infrastructure and supporting services including the mainstreaming of urban safety and DRM.

Technical Assistance Activities:

i. *The International Finance Corporation's Global Index Insurance Facility*, which has provided technical assistance as well as capacity building and premium support grant funds to Agriculture and Climate Risk Enterprise (ACRE) Africa, formerly Syngenta Foundation for Sustainable Agriculture. With UAP Insurance acting as the local underwriter and Swiss Re providing reinsurance capacity, ACRE's weather station and satellite-based index products now provide insurance to approximately 89,100 Kenyan maize, coffee, and wheat farmers each year.

ii. *Impact Evaluation of Kenya Water Security and Climate Resilience Project* (P145556), which is informing investments to improve resilient agricultural production, improving farm productivity, profitability, food security and resiliency.

iii. *Technical Assistance to Kenya Agricultural National Insurance Program* (subtask under P153813 Programmatic Approach to Disaster Risk Finance), which is providing technical assistance to government's establishment of a public-private sector partnership for national livestock and crop insurance.

iv. *Second Generation Financial Deepening and Development Program* (P154134), which initiated technical assistance on sovereign DRF and has supported initial dialogue with government, as well as working with development partners to customize financial solutions that improve response capacity.

v. *Kenya DRM Policy Dialogue* (P154338), which provided a package of technical assistance to complement the Cat DDO, which includes assistance to the process of moving forward DRM policy reform, knowledge exchange on DRM and risk financing, and promoting innovative partnership arrangements with the private sector to strengthen national and subnational resilience.

vi. *Enhancing Dialogue on Environment and Natural Resources in Kenya* (P158695), which is supporting government capacity to integrate environment and natural resources into planning and development processes in a devolved context.

vii. *Kenya Devolution: Social Accountability; Devolved Sector Support; and Knowledge Management* (P160017), which helps counties to translate 2010 Constitution provisions such as DRM into operational practice, systems and capacities.

viii. *Kenya Macro Fiscal Programmatic Approach* (P162368) for providing evidence-based analysis to inform policy making and to support implementation of the government's reform agenda under the MTP II (Vision 2030).

ix. *Strengthening Decentralized Climate Risk Preparedness and Response in Kenya* (P162888), which focuses on using the 2015-2016 El Nino experience to identify gaps and opportunities for strengthening the capacity of the GoK to mitigate and respond to the impacts of weather-related shocks on agri-food systems, rural livelihoods and food security, with a specific focus on coordination mechanisms and early warning and response at various levels, from national to county to local communities.

x. *Strengthening Capacity for Implementing Building Regulations for Resilience* (P163394), which has included Kenya as one of three pilot countries where detailed analytics are prepared with the objective of stopping the expansion of disaster and chronic risk in the siting and construction of new settlements and to reduce disaster risks in vulnerable existing settlements.

xi. *Strengthening Pandemic Preparedness* (P164023), which has an overall objective of improving preparedness capacity and national coordination for pandemic risk reduction, and strengthening animal and human health systems and preparedness planning to better address public health threats in Kenya.

xii. *Devolution and Locally-Led Climate and Disaster Risk Management Project* (P163600) has the objective to improve county governments' capacity to integrate locally-led climate and DRM considerations into their developing planning process. The project also aims to work directly with county level governments and engage the Council of Governors in building awareness and ownership of climate and DRM at county level. Specifically, the activity will support the following Kenya Accountable Devolution Program (KADP) priority areas: (i) enhanced capacity building support to marginalized counties and (ii) strengthening the capacity of counties to address climate related vulnerability, risk management and resilience, including capacity building in environmental and social risk management and safeguards.

Table 6.1: Prior Actions & Results Indicators: Support from Bank Operations

Prior Actions	Results Indicator	Supporting Bank Operations
Pillar 1 - Fortifying institutional, planning and policy frameworks to manage climate and disaster risk		
Prior Action 1. The President has approved **the MTP III (2018-2022)** of Kenya's Vision 2030, which promotes a shift from emergency response to a more comprehensive DRM approach.	**Results Indicator 1**: Disaster risk profiles produced to inform implementation of County Integrated Development Plans	Strengthening Decentralized Climate Risk Preparedness and Response in Kenya (P162888) Kenya DRM Policy Dialogue (P154338)
	Results Indicator 2: County level emergency and/or contingency plans adopted that strengthens response capacity	Strengthening Pandemic Preparedness (P164023) Kenya Devolution: Social Accountability; Devolved Sector Support; and Knowledge Management (P160017) Kenya Climate-Smart Agriculture Project (P154784) Strengthening Decentralized Climate Risk Preparedness and Response in Kenya (P162888)
Prior Action 2. The Cabinet has approved **a National Disaster Risk Management Policy**, which establishes, streamlines and strengthens DRM institutions, coordination frameworks, partnerships, and regulations in Kenya.	**Results Indicator 3**: National Disaster Risk Management Strategy that strengthens government coordination for climate resilience and DRM adopted	Kenya DRM Policy Dialogue (P154338)
Pillar 2 - Strengthening resilience to climate and disaster risk in the urban and water sectors		
Prior Action 3. The Parliament has approved **the National Urban Development Policy** which incorporates urban DRM.	**Results Indicator 4:** Urban resilience strategies prepared to enhance city management	Kenya DRM Policy Dialogue (P154338) Kenya Devolution: Social Accountability; Devolved Sector Support; and Knowledge Management (P160017) Kenya Urban Support Program (P156777)
	Results Indicator 5: New Building Code approved that incorporates multi-hazard resilient design standards	Strengthening Capacity for Implementing Building Regulations for Resilience (P163394)
Prior Action 4. The Parliament has approved **the National Land Use Policy** which promotes land use practices that increase resilience to climate and disaster risk.	**Results Indicator 6:** Physical Planning Handbook is revised to incorporate DRM and climate change adaptation considerations	Kenya DRM Policy Dialogue (P154338) Strengthening Capacity for Implementing Building Regulations for Resilience (P163394)
Prior Action 5. The Water Act 2016 which supports programs for water resources management including disaster management and climate change adaptation has come into operation.	**Results Indicator 7:** National Water Harvesting and Storage Authority established for improved water resource and drought management	Impact Evaluation of Kenya Water Security and Climate Resilience Project (P145556) Enhancing Dialogue on Environment and Natural Resources in Kenya (P158695) Kenya Water Security and Climate Resilience Project (P117635, P151660)

Pillar 3 – Building national financial capacity to advance climate adaptation and mitigation, and respond to the impacts of natural hazards		
Prior Action 6. The Parliament has adopted the **Kenya National Policy on Climate Finance** which aims to enhance the national financial systems and institutional capacity to effectively access, disburse, absorb, manage, monitor and report on climate finance in support of national SDGs.	**Results Indicator 8:** Establishment of a national climate finance mechanism to support mobilization, coordination and tracking of climate finance from both internal and external sources	Kenya Macro Fiscal Programmatic Approach (P162368) Technical Assistance to Kenya Agricultural National Insurance Program (P153813) Second Generation Financial Deepening and Development Program (P154134) IFC's Global Index Insurance Facility Regional Pastoral Livelihoods Resilience Project (P129408) Kenya National Safety Net Program (P131305, P161179)
Prior Action 7. The **National Disaster Risk Financing Strategy**, which defines strategic priorities to improve post-disaster financing to enable effective and timely action in the event of a disaster, has been approved.	**Results Indicator 9**: Number of households eligible for disaster relief through financial protection instruments	
	Results Indicator 10: Reports on consolidated post-disaster expenditure produced annually and submitted to the Budget Department within National Treasury	

ANNEX 6: POTENTIAL LINKAGES BETWEEN THE CAT DDO AND THE PANDEMIC EMERGENCY FINANCING FACILITY

1. **Background:** East Africa is uniquely vulnerable to and bears a large burden of emerging infectious diseases and endemic zoonoses, with epidemics of infectious diseases ranking among the top five disaster hazards in the region. The region is also under threat from several natural and man-made disasters. In Kenya, multiple hazards—including disease outbreaks (such as anthrax, rabies, Rift Valley Fever, Leishmaniasis, and Dengue Fever), droughts, floods, landslides, and other climate-related events—have contributed to an increased momentum to strengthen mechanisms to manage disasters, pandemics, and other risks. In the face of these challenges, the GoK has demonstrated commitment to enhance national capacity to comply with WHO/International Health Regulations and World Organization for Animal Health guidelines on Public Health Emergencies of International Concern and to reduce the impact of these risks through a more a comprehensive and proactive approach to DRM.

2. The efforts also included developing a series of disaster-related laws and policies—such as the National Disaster Response Plan, National Emergency Response Plan and Standard Operating Procedures, and the Disaster Risk Management Strategic Plan, as well as establishing several mechanisms to support DRM, pandemic preparedness, and inter-sectoral coordination between human and animal health – such as the NDMU, the National Disaster Operation Center (NDOC), and the Public Health Emergency Operations Centre (PHEOC). A national One Health office/Zoonotic Disease Unit (ZDU) was jointly established by the MoH and the MoA to support national coordination and the One Health approach at sub-county level and the IHR national focal point (NFP) in the office of the Director Medical Services (DMS).

3. **Joint External Evaluation of IHR Core Capacities:** The WHO mission report of 27 February to 3 March 2017 highlighted a number of best practices/strengths in their review of Kenya's capacities in nineteen areas of the national health system (see Table 6.1)[32].

Table 6.1: Kenya Scores

Capacities	Indicators	Score
National legislation, policy and financing	P.1.1 Legislation, laws, regulations, administrative requirements, policies or other government instruments in place are sufficient for implementation of IHR (2005)	2
	P.1.2 The State can demonstrate that it has adjusted and aligned its domestic legislation, policies and administrative arrangements to enable compliance with the IHR (2005)	3
IHR coordination, communication and advocacy	P.2.1 A functional mechanism is established for the coordination and integration of relevant sectors in the implementation of the IHR (2005)	3
Antimicrobial resistance	P.3.1 Antimicrobial resistance detection	2
	P.3.2 Surveillance of infections caused by antimicrobial-resistant pathogens	2
	P.3.3 Health care-associated infection prevention and control programmes	3
	P.3.4 Antimicrobial stewardship activities	2
Zoonotic diseases	P.4.1 Surveillance systems in place for priority zoonotic diseases/pathogens	3
	P.4.2 Veterinary or animal health workforce	4
	P.4.3 Mechanisms for responding to zoonoses and potential zoonoses are established and functional	3

[32] Joint External Evaluation Tool: International Health Regulations (2005). http://apps.who.int/iris/bitstream/handle/10665/204368/9789241510172_eng.pdf?sequence=1

Food safety	P.5.1 Mechanisms are established and functioning for detecting and responding to foodborne disease and food contamination	3
Biosafety and biosecurity	P.6.1 Whole-of-government biosafety and biosecurity system is in place for human, animal and agriculture facilities	2
	P.6.2 Biosafety and biosecurity training and practices	3
Immunization	P.7.1 Vaccine coverage (measles) as part of national programme	3
	P.7.2 National vaccine access and delivery	4
National laboratory system	D.1.1 Laboratory testing for detection of priority diseases	4
	D.1.2 Specimen referral and transport system	2
	D.1.3 Effective modern point-of-care and laboratory-based diagnostics	2
	D.1.4 Laboratory quality system	3
Real-time surveillance	D.2.1 Indicator- and event-based surveillance systems	4
	D.2.2 Interoperable, interconnected, electronic real-time reporting system	2
	D.2.3 Analysis of surveillance data	4
	D.2.4 Syndromic surveillance systems	4
Reporting	D.3.1 System for efficient reporting to FAO, OIE and WHO	3
	D.3.2 Reporting network and protocols in country	2
Workforce development	D.4.1 Human resources available to implement IHR core capacity requirements	3
	D.4.2 Field Epidemiology Training Programme or other applied epidemiology training programme in place	4
	D.4.3 Workforce strategy	2
Preparedness	R.1.1 National multi-hazard public health emergency preparedness and response plan is developed and implemented	1
	R.1.2 Priority public health risks and resources are mapped and utilized	2
Emergency response operations	R.2.1 Capacity to activate emergency operations	2
	R.2.2 EOC operating procedures and plans	2
	R.2.3 Emergency operations programme	2
	R.2.4 Case management procedures implemented for IHR relevant hazards	2
Linking public health and security authorities	R.3.1 Public health and security authorities (e.g. law enforcement, border control, customs) are linked during a suspect or confirmed biological event	3
Medical countermeasures and personnel deployment	R.4.1 System is in place for sending and receiving medical countermeasures during a public health emergency	1
	R.4.2 System is in place for sending and receiving health personnel during a public health emergency	1
Risk communication	R.5.1 Risk communication systems (plans, mechanisms, etc.)	2
	R.5.2 Internal and partner communication and coordination	3
	R.5.3 Public communication	3
	R.5.4 Communication engagement with affected communities	3
	R.5.5 Dynamic listening and rumour management	2
Points of entry	PoE.1 Routine capacities are established at points of entry	2
	PoE.2 Effective public health response at points of entry	2
Chemical events	CE.1 Mechanisms established and functioning for detecting and responding to chemical events or emergencies	2
	CE.2 Enabling environment is in place for management of chemical Events	2
Radiation emergencies	RE.1 Mechanisms established and functioning for detecting and responding to radiological and nuclear emergencies	1
	RE.2 Enabling environment in place for management of radiation emergencies	2

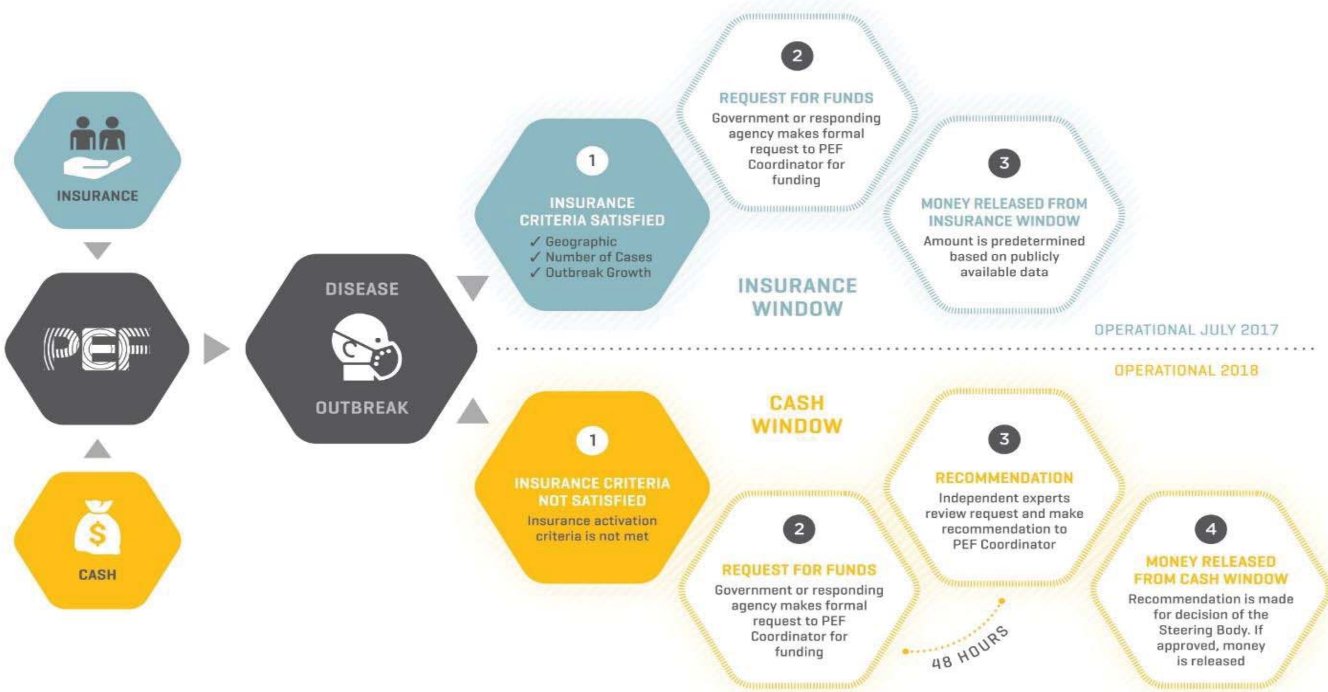
4. **Strengthening Pandemic Preparedness (SPP):** The World Bank is therefore supporting the GoK through a Population and Human Resources Fund (PHRD) financed activity, Strengthening Pandemic Preparedness (SPP). This US$500,000 initiative has the overall development objectives of (i) improving preparedness capacity and national coordination for pandemic risk reduction; and (ii) strengthening

animal and human health systems and preparedness planning in order to better address public health threats in Kenya. In coordination with WHO, JICA, OIE, FAO, USG, and other partners, this project will provide technical support for the GoK to strengthen both human and animal health systems and public health capacities for pandemic risk reduction, preparedness and response to public health threats and other hazards. The SPP is comprised of four pillars which are briefly summarized below:

- **Pillar I: Conduct situational analysis, review existing preparedness plans and identify stakeholders across sectors.** The workstream will support a multisectoral pandemic preparedness plan with an associated implementation plan with clear roles and responsibilities at national and county levels
- **Pillar II: Cost national preparedness plans.** This exercise will cost the national pandemic preparedness plan. It will work towards distinguishing between capital and recurrent costs, and will assist stakeholders in deciding what types of funding vehicles are relevant for pandemic preparedness, depending on the task at hand. The costing plan may be categorized under: Prevent, Detect, Response, and other IHR-Related Hazards and Points of Entry.
- **Pillar III: Develop a financing plan to address financing gaps.** Work undertaken through this pillar will support the development of a financing plan for mobilizing both domestic and external financing for sustained investments in pandemic preparedness.
- **Pillar IV: Strengthen a framework for governance and institutional arrangements.** The activities implemented under this pillar seek to strengthen capacity in the implementation of the new/updated pandemic preparedness plan in Kenya.

Pandemic Emergency Financing Facility

The **Pandemic Emergency Financing Facility (PEF)** was developed by the WBG, in consultation with the WHO and other development partners, and the private sector, to help fill a critical gap in the international aid architecture, as one part of the global solution to strengthening pandemic risk management. The PEF helps fill the financing gap that occurs after the initial outbreak and before large-scale humanitarian relief assistance can be mobilized. Funds made available quickly in this timeframe are essential to preventing a severe outbreak from becoming a pandemic.



Beneficiaries: All IDA-eligible countries are eligible to access PEF funds. In addition, international organizations and NGOs supporting response efforts in affected countries that have been accredited as responding agencies under the PEF are also eligible to access PEF funds. PEF premiums are covered by donors for the initial period of three years, ending June 30, 2020, and beneficiary countries are not required to bear any costs.

Design and activation: The PEF provides surge funding for countries and accredited responding agencies to respond to infectious disease outbreaks. PEF provides funding through two windows: Insurance and Cash. The Insurance Window leverages funding from capital markets via Catastrophe Bonds and SWAPs. The Cash Window is funded by traditional donor contributions. *The Insurance Window* covers high-severity events that have met a specific, pre-determined, activation criteria. These criteria are based on outbreak size (i.e., number of cases or number of deaths), outbreak growth (i.e., the outbreak must be growing over a defined time-period) and outbreak spread (i.e., two or more countries affected by the outbreak). The determination for activation criteria for the Insurance Window is done by an independent calculation agent based on publicly available data published by the WHO. Payout amounts from the capital markets into the PEF vary by disease and outbreak size and spread. Country allocations are pro-rated according to county population and outbreak size. *The Cash Window* provides greater flexibility in funding high-severity infectious disease outbreaks in accordance with the PEF objectives when such funding is not eligible to be provided under the PEF Insurance Window, either because it has not yet met or will not meet its activation criteria. The activation criteria of the Cash Window are based on epidemiological thresholds, independent expert advice and decision of the PEF Steering Body.

Covered diseases: The Insurance Window covers a pre-established group of diseases identified as likely to cause major pandemics. This group of diseases includes: pandemic Influenza (new or novel influenza A virus), Coronaviruses (e.g. SARS, MERS), Filoviruses (e.g. Ebola, Marburg), Crimean Congo hemorrhagic fever, Rift Valley fever, and Lassa fever. The cash window covers all diseases covered by the insurance window, as well as other infectious diseases caused by different pathogens, including new or unknown pathogens, in the event of a high-severity outbreak consistent with the PEF objectives.

5. **Linking Cat DDO and PEF:** The Cat DDO is designed to provide timely liquidity to a country facing a natural catastrophe and has been successfully deployed for seismic and hydro-meteorological events. The CAT-DDO option can also be utilized for public health-related shocks. Both the Cat DDO and PEF are risk management financial products that provide liquidity to countries to respond to natural disasters and health related events. The Cat DDO provides timely liquidity to a country (i) in the aftermath of a natural disaster and (ii) for health-related events, such as an outbreak, not only when an outbreak escalates to an emergency but also at an early stage to prevent an escalation. PEF provides resources to countries for surge response for select disease outbreaks at a certain severity but before they assume pandemic proportions. Both instruments will be well coordinated. The typical sequencing for Cat DDO and PEF draw down for health-related events is presented in Table 6.1. The Cat DDO and the PEF complement each other in that both provide liquidity to countries but on different terms and conditions, strengthening the country's resilience to shocks.

Table 6.1: Use of PEF and Cat DDO resources for disease outbreaks

Sources of funds		**A** Neither Cash nor Insurance Window has been activated	**B** PEF Cash Window has been activated; Insurance Window has not been activated	**C** PEF Insurance Window has been activated
PEF	**Insurance Window**	Not available	Not available	AVAILABLE *Use*: for emergency stage interventions
	Cash Window	Not available	AVAILABLE *Use*: for early or emergency stage interventions *Subject to*: PEF SB approval	Not available
CAT DDO		AVAILABLE	AVAILABLE	AVAILABLE