

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 17-Apr-2018 | Report No: PIDA24674

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Kenya	P161562	Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option (Cat DDO) (P161562)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA	21-Jun-2018	Social, Urban, Rural and Resilience Global Practice	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Kenya	National Treasury and Ministry of Planning		

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.

Financing (in US\$, Millions)

SUMMARY

Total Financing	200.00
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DETAILS

Total World Bank Group Financing	200.00
World Bank Lending	200.00

Decision

B. Introduction and Context

Country Context

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 particular concern are floods and droughts, with major droughts occurring about every 10 years, and moderate droughts or floods every three to four years¹. While usually more localized, floods have led to the greatest loss of human lives². Historically, these extreme climatic events have caused significant loss of life and adversely affected the national economy. Droughts have affected the most people and had the greatest economic impact – on average, a 0.6 percentage point decline in GDP growth is observed in Kenya in years of poor rains³. The overall effects of the 2008-2011 drought in Kenya were estimated through the 2012 Post Disaster Needs Assessment to be US\$12.1 billion, which included 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 sectors⁴. To respond to disasters, the GoK has in the past relied heavily on ad-hoc donor support, in response to appeals. Between 2002 and 2012, international donors have provided on average US\$276 million per year to Kenya in humanitarian assistance.

Economic losses triggered by disasters in Kenya can hamper poverty reduction efforts and threaten advances in shared prosperity. According to the World Bank Kenya Economic Update Edition 17, poverty incidence declined from 46.8% in 2005/06 to 36.1% in 2015/16, using Kenya's official national poverty line.⁵ About 1 out of 3 people in Kenya live below the international poverty line. The poverty rate has moderately reduced over the past decade, dropping from 8 percentage points at the US\$ 1.90 line to five percentage points at the US\$ 3.20 line between 2005 and 2011. Despite this reduction in poverty rate, growth in the agriculture sector accounted for the largest share of poverty reduction, which reveals the sectoral vulnerability to shocks that can force households back into poverty.

Kenya is at an early stage of urbanization, but by 2050 about half of the population will be living in cities. Around 27% of Kenyans live in urban areas, and the country is urbanizing at about 4.3% a year⁶. The urbanization process has been coupled with poorly functioning land markets and institutions, and an incomplete legal and building regulatory framework. There is low technical capacity to enforce and to build resilient infrastructure which renders 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.

With a growing concentration of population and assets in urban areas and increases in climate variability, the economic costs of natural hazards in Kenya are likely to increase in the future. To tackle this, over the past few years, the Government of Kenya (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

¹ AEA Group (2008). Final report. Kenya: Climate screening and information exchange (ED 05603, Issue 2).

² UNDP. Kenya natural disaster profile. Enhanced Security Unit.

³ World Bank Group. Kenya Economic Update. October 2016, Edition No. 14.

⁴ European Union, United Nations and World Bank (2012).

⁵ Poverty statistics released March 2018 by the Kenya National Bureau of Statistics.

⁶ Cira, Dean A.; Kamunyor, Sheila W.; Babijes, Roderick M. (2016). Kenya urbanization review (English). Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/639231468043512906/Kenya-urbanization-review>.

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.

Relationship to CPF

The proposed DPC with Cat DDO is well-aligned with the Bank Group's Country Partnership Strategy (CPS) for Kenya, which covers the period July 1, 2014 to June 30, 2018⁷. The CPS is anchored in the country's Medium-Term Plan (MTP) II for 2013-2017 and recognizes the importance of managing risks (including from natural hazards) that can threaten overall poverty reduction prospects. This operation helps to 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'.

C. 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. The PDO will be achieved by supporting policy reforms under three pillars: Pillar 1 - Fortifying institutional, planning and policy frameworks to manage climate and disaster risk; Pillar 2 - Strengthening resilience to climate and disaster risk in the urban and water sectors; and Pillar 3 - Building national financial capacity to advance climate adaptation and mitigation, and respond to the impacts of natural hazards.

Key Results

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. **Pillar 1** will fortify institutional, planning and policy frameworks to manage climate and disaster risk. This will improve Kenya's overall resilience and sustainability. **Pillar 2** will strengthen resilience to climate and disaster risk in the urban and water sectors. Through the reforms included in this pillar, the country's capacity to mainstream DRM and CC into development planning and public investment systems will be strengthened. **Pillar 3** will build national financial capacity to advance climate adaptation and mitigation, and respond to the impacts of natural hazards. Implementation of reforms under this pillar will help improve transparency, communication, and decision-making associated with Kenya's portfolio of financial instruments to address the impacts of climate and disaster risks.

⁷ The World Bank conducted in 2017 a Performance and Learning Review of the CPS and found that its strategic objectives and design remain valid, and progress towards CPS outcomes is good on most fronts (progress towards improved capacity to manage risks from climate change is partially on track). This review proposes a two-year extension of the CPS to FY20, to ensure a smooth transition in support of the national planning processes and to dovetail with the new data and knowledge to be included in the Systematic Country Diagnostic that will inform the Country Partnership Framework (former CPS).

D. Project Description

The prior actions under this DPC set the stage for a broader reform to enable the Government to strengthen resilience to the socio-economic and financial impacts of disasters.

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

*Prior Action 1: Cabinet has adopted the **Medium Term Plan III (2018-2022)** of Kenya's Vision 2030, which promotes a shift from emergency response to a more comprehensive DRM approach. Under the Third MTP, the country will be able to address DRM as a cross-cutting development issue; move its previous focus from disaster response toward a more comprehensive DRM approach; and expand its emphasis on managing droughts to also include other natural phenomena.*

*Prior Action 2: The Cabinet has adopted a **National DRM Policy**, which establishes, streamlines and strengthens DRM institutions, coordination frameworks, partnerships, and regulations in Kenya. Given that the National DRM Policy and the DRM Bill will be the cornerstone of Kenya's national program for DRM, it is expected that the country will shift its policy emphasis from a reactive disaster response approach to a more proactive approach to DRM. This will allow Kenya to protect people and property, improve public awareness related to DRM, support capacity building for DRM, and establish effective use of resources across all phases of disaster management from prevention to response and recovery.*

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

*Prior Action 3: Parliament has approved the **National Urban Development Policy** which incorporates urban DRM. Since this Policy incorporates urban DRM considerations, it is expected that this 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.*

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

*Prior Action 5: The **Water Act 2016** which supports programs for water resources management including disaster management, climate change adaptation has been declared effective. It is expected that through declaration of effectiveness of the Water Act 2016, public water works and strategies will be implemented for strengthening the resilience of communities vulnerable to droughts and floods.*

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

*Prior Action 6: 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 a transparent and accountable manner. 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.*

*Prior Action 7: The **National Disaster Risk Financing Strategy** has been approved, which provides a comprehensive framework for using multiple instruments and programs to strengthen financial capacity for improved planning and*

response to disasters. It is expected that the National Disaster Risk Financing Strategy will support National Treasury in its decision-making and strategic direction to increase financial resilience by: (i) ensuring a coordinated approach to post-disaster financing across government programs; (ii) improving sovereign financing capacity by expanding, aligning and strengthening the government's portfolio of financing instruments for disaster response, and; (iii) supporting and enabling programs that protect poor and vulnerable households and farmers from the impacts of disasters and contribute to building resilience.

E. Implementation

Institutional and Implementation Arrangements

The National Treasury and Ministry of Planning will monitor the progress of the proposed operation during the entire drawdown period. The World Bank will monitor both the macroeconomic environment and the implementation of the program supported by the DPC during the drawdown period. This will be done through frequent visits to the country and regular communications with National Treasury and Ministry of Planning and key sectors. The World Bank will monitor the status of the project implementation through biannual implementation support missions and by tracking the output indicators.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

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 inequality⁸.

The Government policies supported by the proposed operation are expected to have a positive poverty and social impact in the medium term. The operation will provide access to immediate liquidity to improve the adequacy, allocation, and timeliness of post-disaster assistance, while also promoting better risk management and risk reduction through shared action and responsibility at different levels of society.

Environmental Aspects

Prior actions selected for the proposed operation are not likely to cause negative effects on Kenya's environment 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 establishment of institutional and legal frameworks will lead to better and more environmentally friendly planning. The approval of a National DRM Policy will enable risk information to be more widely available for integration into development planning.

⁸ International Monetary Fund (2016). Regional Economic Outlook: Sub-Saharan Africa Multispeed Growth.

G. Risks and Mitigation

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.

CONTACT POINT

World Bank

Eric Dickson
Sr Urban Spec.

Borrower/Client/Recipient

Republic of Kenya
Geoffrey Mwau
Director General for the Directorate of Budget, Fiscal and E
gnmwau@treasury.go.ke

Implementing Agencies

National Treasury and Ministry of Planning
Charles Owino
Director of National Disaster Operations Center
owinohcharles@gmail.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Eric Dickson
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Approved By

Country Director:	Trichur K. Balakrishnan	07-May-2018
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