Public Disclosure Authorized

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 14-Mar-2024 | Report No: PID048

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BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Kenya	P500912	First Kenya Fiscal Sustainability and Resilient Growth	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
EASTERN AND SOUTHERN AFRICA	30-Apr-2024	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
The Republic of Kenya	National Treasury		

Proposed Development Objective(s)

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

Financing (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	Yes

SUMMARY

Total Financing	**1,200.00**

DETAILS

Total World Bank Group Financing	**1,200.00**
World Bank Lending	1,200.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Kenya has made much progress. Its GDP per capita of US$2,099 in 2022 is relatively high in sub-Saharan Africa (SSA). Its economy is quite diversified making Kenya an important source for industrialized goods, especially in the East African Community. Services, from tourism to ICT, have become an increasing source of exports. Kenya's entrepreneurial business community has also been exporting innovation to the region, such as digital payment systems. The country boasts Africa's highest human capital index score. Kenya is one of the most democratic countries in SSA, having strengthened and decentralized its democracy through its 2010 Constitution. Real GDP per capita growth averaged a solid 2.4 percent between 2009 and 2019, supporting a reduction in both poverty and inequality. In 2014, Kenya accessed global capital markets for the first time, issuing a Eurobond. The Government has positioned Kenya to be a leading African voice on climate change, as architect of the Nairobi Declaration on climate change (2023).

Yet the country is facing a difficult year in 2024. Having emerged from the COVID-19 pandemic and drought in 2021 and 2022, Kenya was hit by additional shocks, including surging global and domestic inflation, aggravated by geopolitical tensions in Europe and the Middle East, tight global credit markets as central banks in advanced economies raised rates, and El Niño floods. This exposed existing vulnerabilities, including falling export competitiveness, high levels of public debt, and the maturing of large financing obligations. The Kenyan government has taken ambitious steps to navigate these challenges, including a significantly tightened fiscal and monetary policy framework, creating an adequate macroeconomic environment for budget support. In addition, the government pursues an ambitious structural reform program under the Bottom-Up Economic Transformation Agenda (BETA), which this Development Policy Financing (DPF) supports, laying the foundation for accelerated poverty reduction, shared prosperity in Kenya, while contributing to a more livable planet.

Relationship to CPF

This DPF is embedded in the World Bank's FY23-28 Country Partnership Framework (CPF) for Kenya, contributing to the following higher-level objectives: i) "faster and more equitable labor productivity and income growth"; (ii) "greater sustainability of Kenya's natural capital." It also supports most detailed CPF objectives, including boosting fiscal and debt sustainability; strengthening the efficiency and transparency of public spending; shrinking disparities in learning outcomes; increasing household resilience to, and national preparedness for, shocks; and reducing Kenya's extreme water insecurity in the face of climate change.

C. Proposed Development Objective(s)

The proposed Development Objective for this DPF is to (i) promote efficiency, equity, and transparency of public finance; (ii) foster more competitive and inclusive product and labor markets; and (iii) strengthen climate action.

Key Results

To promote efficiency, equity, and transparency of public finance, this DPF is expected to generate public expenditure savings through efficiency measures, strengthen the national social protection system, and reduce corruption. To foster more competitive and inclusive product and labor markets the DPF is expected to reduce the number of firms identifying licensing and permits as a major constraint, enabling private capital by promoting competition, raising the number of students enrolled in Technical and Vocational Education and Training (TVET), and increasing the number of refugees and asylum seekers able to access social servicesTo strengthen climate action, the DPF is expected to reduce emissions in the transport sector, increase national forest cover, and improve access to climate finance.

D. Concept Description

This DPF series promotes sustainable and equitable fiscal policy to implement BETA, while supporting its structural reform priorities around inclusive growth and climate change. Actions on PFM, procurement, and wage bill management will generate fiscal savings. The expansion of the social protection system—through a new Social Protection Act—and greater corruption control will improve the equity and transparency of public spending. Jointly, these actions will reduce the economic impact of the fiscal adjustment process while making it more equitable, considering that Kenya continues to experience a cost-of-living crisis.

To promote more competitive and inclusive product and labor markets, the DPF supports reforms a new County Licensing Act that improves the operating environment for businesses across counties, while promoting productivity through greater competition in the digital space through an amended ICT policy. The DPF promotes post-secondary skills formation through the reform of the TVET system, starting with a new Recognition of Prior Learning Policy. Kenya is a leader in the productive integration of refugees and asylum seekers and this DPF supports reforms that provides these groups with improved access to basic services, as expressed in new Refugees Regulations in the framework of the government’s Shirika Plan.

The DPF supports Kenya’s ambitions as a leading voice on climate action by strengthening the legal framework for passenger rail while promoting more sustainable land use through a new Forest Policy. To finance Kenya’s climate action, this DPF supports an improved legal framework for carbon markets and the country’s sovereign green bond framework.

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

Poverty and Social Impacts

This DPF is anchored in a knowledge foundation provided by the 2023 Kenya Poverty and Equity Assessment. It is expected to generate positive social impacts by generating higher economic growth through reforms strengthening the business environment and skills, translating into higher real wages. Strengthening the social protection system, reducing corruption, improving the TVET system, and strengthening the productive inclusion of refugees and asylum seekers are expected to reduce poverty and raise equity.

Environmental, Forests, and Other Natural Resource Aspects

This DPF specifically strengthens systems for climate action, generating strong positive impacts on climate, the environment, and forests. Specific actions supporting more sustainable land use change in Kenya will promote climate change mitigation, through carbon sequestration, adaptation by rehabilitating and conserving degraded forests, addressing flood risk management, and enhancing governance of community structures in participatory resource management. Leveraging climate finance will support Kenya in implementing its ambitions, like the Forest Policy.

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APPROVAL

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