Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 31-Jan-2022 | Report No: PIDA33435

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Kenya	P176903	Accelerating Reforms for an Inclusive and Resilient Recovery DPF 2 (P176903)	P175251
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA EAST	16-Mar-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
National Treasury	National Treasury		

Proposed Development Objective(s)

Contributing to Kenya's inclusive and resilient recovery from the COVID-19 crisis by strengthening (1) fiscal management, (2) operational efficiency in the electricity sector while placing Kenya on an efficient green energy path, and (3) the governance framework for Kenya's natural and human capital (environment, land, water and healthcare).

Financing (in US$, Millions)

SUMMARY

Total Financing	750.00

DETAILS

Total World Bank Group Financing	750.00
World Bank Lending	750.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

Kenya's economy has shown considerable resilience to the COVID-19 crisis, helped by its relatively high degree of diversification, supportive policies, and ongoing reforms. However, the pandemic has hit some sectors hard, disrupted critical services, and exacerbated pre-existing weaknesses in the public finances and the performance of some large state-owned entities (SOEs). Staging a full recovery and returning to an inclusive, sustainable development path will require appropriately-paced fiscal consolidation, more progress on strengthening strategic public institutions, delivering quality public services and accelerating human capital development, as well as policy changes to support green growth and increase climate resilience. Reforms are also needed to enhance the functioning of markets and crowd in private sector investment, to generate more economic opportunities and jobs, drive growth, and thereby make it easier to strengthen the fiscal position.

Kenya's macroeconomic policy framework is adequate for the proposed DPF operation. The policy framework has weathered the COVID-19 shock so far; a coherent mix of supportive fiscal and monetary policies, and other response measures, were implemented quickly, and subsequently policy settings have remained responsive to the fluid situation. Macroeconomic stability has been maintained, including through exchange rate flexibility which has helped to absorb the shock and reduce pressure on official reserves, which have remained adequate. A credible commitment to medium-term fiscal consolidation is critical to support the recovery, reduce debt distress risks, and rebuild space for social and development spending. The government's budget for the current fiscal year is implementing this, benefiting from earlier (pre-crisis) policy reform measures, and supported by the current IMF arrangements. Kenya has also established a strong track record of carrying through economic reforms, as evidenced by its ambitious government devolution program, progress in combatting corruption, and achieving critical sectoral reforms, including those supported by previous DPF operations. The ongoing reform efforts, including those supported by the proposed operation, should further strengthen the macroeconomic and fiscal policy framework. Fiscal risks emanating from SOEs are also receiving needed attention, including through the proposed DPF.

Relationship to CPF

The proposed DPF operation supports the objectives of the WBG Country Partnership Strategy (CPS) FY14–-FY20 for Kenya. Both the DPF and the CPS are underpinned by Kenya's Vision 2030 agenda. The CPS has three domains of engagement: (i) competitiveness and sustainability – growth to eradicate poverty; (ii) protection and potential – human resource development for shared prosperity; and (iii) consistency and equity – delivering a devolution dividend. The CPS recognizes good governance as a cross-cutting platform that underpins all three domains of engagement. The DPF helps to advance the objectives set out in the CPS. The fiscal, public financial management, and debt market reforms in pillar one provide impetus towards realizing the fiscal sustainability and good governance goals of the CPS. The second pillar orients the energy sector to be financially sustainable, efficient and green, which will support the competitiveness of the economy. Reforms in the third pillar enhance the equity, efficiency and sustainability with which Kenya's land and water resources are used, and strengthen access to and the quality of healthcare services – prerequisites for sustainable, inclusive growth.

C. Proposed Development Objective(s)

Contributing to Kenya's inclusive and resilient recovery from the COVID-19 crisis by strengthening (1) fiscal management, (2) operational efficiency in the electricity sector while placing Kenya on an efficient green energy path, and (3) the governance framework for Kenya's natural and human capital (environment, land, water and healthcare).

Key Results

The supported reforms complement and reinforce each other to address the drivers behind fiscal vulnerabilities and help chart a market-oriented path towards green, resilient and inclusive development (GRID). Improving the transparency and efficiency of public spending, including on debt-financed investment projects, addresses underlying factors which have contributed significantly to the large fiscal deficits which have opened up in recent years. The energy, health and education sector reforms all contribute to the fiscal dimension of the reform program by strengthening the performance of critical state-owned entities and reducing the fiscal costs and risks they generate. Crucially, reducing debt risks and restoring fiscal space also requires a strong, sustained economic growth trajectory. The DPF therefore supports improvements to Kenya's policy and institutional framework to expand the role of markets and allow for private sector-led growth. This includes measures to improve the functioning of the domestic debt capital market, moving to competitive auction-based clean energy investment, and supporting a more functional, transparent market for land. To help ensure that growth is both inclusive and sustainable, the program includes a strong focus on strengthening the human and natural capital that underpins the economy and access to expanding opportunities, as well as support to accelerating climate change mitigation and adaptation in Kenya.

D. Project Description

The proposed operation is the second in a programmatic series of two Development Policy Financing (DPF) operations, to support Kenya's recovery from the Coronavirus Disease 2019 (COVID-19) crisis, and steer a course towards green, resilient and inclusive development. The proposed DPF operation supports the government's efforts to strengthen aspects of Kenya's policy and institutional framework critical for a resilient and inclusive recovery, as described in the Economic Recovery Strategy (ERS) which extends and adapts the pre-COVID-19 "Big Four" policy platform. It extends the strong medium-term reform momentum towards the country' Vision 2030 which has been maintained despite the shock, and prioritizes those measures which are critical to the recovery, and to green, resilient and inclusive development (GRID). The program clusters the reforms into three pillars: (i) Fiscal sector reforms to make spending and debt more transparent and efficient; (ii) Electricity sector and PPP reforms to strengthen the cornerstone utility (Kenya Power and Lighting Company, KPLC), place Kenya on an efficient, green energy path, and boost private infrastructure investment; (iii) Strengthen environmental and natural resource governance, combat climate change, and improve healthcare including pandemic response.

This operation complements other ongoing projects supporting the government's development agenda. These include: Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK, P161387); Kenya Electricity Modernization Project (P120014); Kenya Infrastructure Finance and Public-Private Partnerships (IFPPP) Project (P121019); Marine Fisheries and Socio-Economic Development Project (P163980); Water and Sanitation Development Project (P156634); Kenya Water Security and Climate Resilience Project (P117635); Kenya Financing Locally-Led Climate Action Program-for-Results (P173065); Transforming Health Systems for Universal Care Project (P152394); Kenya COVID-19 Health Emergency Response Project (P173820. The operation complements contributions by other development partners to support Kenya's recovery from the pandemic and achieve its development goals, including the current IMF program.

E. Implementation

Institutional and Implementation Arrangements

The National Treasury and Planning will be the coordinating institution for monitoring and evaluation among all the participating ministries for this DPF. The institutional and policy reforms supported by the programmatic DPF series fall under the purview of 12 ministries and agencies. These are: Central Bank of Kenya, Energy and Petroleum Regulatory Authority, Kenya Power and Lighting Company, Ministry of Energy, Ministry of Environment, Ministry of Health, Ministry of Lands and Physical Planning, Ministry of Water and irrigation, National Hospital Insurance Fund, National Lands Commission, National Treasury and Planning, and the Public Procurement and Regulatory Agency. The National Treasury and Planning has chaired the multi-sector coordinating committee established for overseeing the preparation of the operation. This committee will remain in place during the implementation of the program. The committee will also be responsible for monitoring of results indicators and evaluation activities.

The program includes a results framework which will be used as a monitoring tool by both the government and the World Bank. Data availability and quality are appropriate to monitor progress towards the achievement of the results indicators. The National Treasury and Planning will be responsible for the overall coordination and monitoring of the reform program supported by the DPF and will furnish information to the World Bank, as required, to monitor outcomes in the results framework. Most of the results indicators are based on information which is routinely published by the government. For those that are not, the National Treasury and Planning will liaise with focal points in the other ministries involved, as needed, to provide such information at a frequency and in a format satisfactory to the World Bank. The World Bank may provide implementation support and periodic monitoring and dialogue with the relevant ministries and other stakeholders to ensure timely implementation and adequate monitoring of indicators and outcomes of the program.

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

Poverty and Social Impacts

The overall poverty and social impacts of reforms supported by DPF2 are expected to be neutral because most prior actions target sector or macroeconomic performance and therefore will affect the poor and vulnerable indirectly. DPF2 prior actions have the potential to improve non-monetary dimensions of wellbeing. In the medium to long-term, the poor and vulnerable could benefit from more efficient public investments and enhanced capacity of counties to raise own-source revenues from property taxes. The prior actions will also support stronger electricity and water sectors which in turn can benefit Kenyans particularly if the inequality in access to these basic services is addressed. The poor and vulnerable will also benefit from better accessibility and affordability of healthcare and a stronger and better coordinated public health system.

Environmental, Forests, and Other Natural Resource Aspects

The proposed operation is expected to have neutral or positive environmental impacts, overall. Policy actions related to the reforms to strengthen Climate and Environmental Governance are expected to result in more resilient projects and positive environmental impacts. The Environmental Impact Assessment (EIA) of projects is a legal requirement under the current Environmental Management and Coordination Act (EMCA). Climate Change has not systematically been integrated to the EIA process. The revised EMCA as supported by the proposed operation will contribute to enhanced coordination and collaboration between county and national governments in the management of environmental issues. The reforms will incorporate Integrated Environmental Impact Assessment (IEIA), which will among other aspects promote the mainstreaming of climate change issues in the EIA process, and this will improve projects' resilience to climate change.

G. Risks and Mitigation

There is a substantial overall risk to the achievement of the intended development results, driven by substantial political and governance, macroeconomic, and stakeholder- and pandemic-related risks. The program is being undertaken in the context of high uncertainty generated by the ongoing pandemic, adding complexity to the economic, political and institutional capacity backdrop for the implementation of the reforms. To help mitigate these risks to the DPF results, the World Bank and other development partners support measures to improve governance by addressing the bottlenecks to improved economic management and service delivery. Mitigating macroeconomic risks, many of the reforms supported by this operation contribute directly to reducing macroeconomic and fiscal risks, by supporting fiscal performance and consolidation efforts, and by reducing fiscal risks emanating from SOEs. To address stakeholder risks, key stakeholders should continue to be engaged and informed about the reforms, and the Bank will support their sound implementation with existing, and potential additional, technical assistance and projects. Future adverse developments in the COVID-19 pandemic could also impede Kenya's economic recovery, reform implementation, and the achievement of results. In mitigation of this risk, the proposed DPF contributes to strengthening Kenya's policy and institutional platform to navigate through the pandemic and recover, as part of an overall WBG program geared towards helping the government respond rapidly and effectively.

CONTACT POINT

World Bank

Alexis Sienaert, Allen Curtis K. Dennis
Senior Economist

Borrower/Client/Recipient

National Treasury

Implementing Agencies

National Treasury
Julius Muia
Principal Secretary
ps@treasury.go.ke

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):	Alexis Sienaert, Allen Curtis K. Dennis

Approved By

Country Director:	Keith E. Hansen	19-Jan-2022