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EAST AFRICA REGIONAL DEVELOPMENT AND BUSINESS DELIVERY OFFICE (RDGE) – COUNTRY ECONOMICS DEPARTMENT (ECCE) KENYA COUNTRY OFFICE

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COUNTRY STRATEGY PAPER 2024 – 2028

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CURRENCY EQUIVALENTS

August 2023

Currency : Kenya Shilling (KES)

Equivalence :

1 UA = 191.18725 KES

1 USD = 142.36470 KES

WEIGHTS AND MEASURES

Metric System

1 metric	=	2,204 pounds
1 kilogram (kg)	=	2.200 pounds
1 meter	=	3.28 feet
1 millimeter (mm)	=	0.03937 inch
1 kilometer (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

FISCAL YEAR

1st July – 30th June

ACRONYMS AND ABBREVIATIONS

AAA	Accra Agenda for Action
ADB	Africa Development Bank
ADF	Africa Development Fund
ADF-RO	Africa Development Fund Regional Office
AEFPF	African Emergency Food Production Facility
AfCFTA	Africa Continental Free Trade Area
AfDB	Africa Development Bank Group
AGTF	Africa Growing Together Fund
BETA	Bottom-up Economic Transformation Agenda
B4	The Big Four
CBK	Central Bank of Kenya
CDN	Country Diagnostic Note
CERSP	Competitiveness and Economic Recovery Support Program
CFP	Country Financing Parameters
CFRA	Country Fiduciary Risk Assessment
CIT	Company Income TA
CODE	Committee on Operations and Development Effectiveness
COMESA	Common Market for Eastern and Southern Africa
COVID-19	Infectious viral disease caused by Coronavirus SARS-CoV-2
CSP CR	Country Strategy Paper Completion Report
CPI	Corruption Perception Index
CPIA	Country Policy and Institutional Assessment
CPIP	Country Portfolio Improvement Plans
CPPR	Country Portfolio Performance Review
CRFA	Country Resilience and Fragility Assessment
CSO	Civil Society Organization
CSP	Country Strategy Paper
CSP MTR	Country Strategy Paper Medium-Term Review
DfID	Department for International Development
DPs	Development Partners
DPG	Development Partners Group
DRM	Domestic Resource Mobilization
DSA	Debt Sustainability Analysis
EAC	East Africa Community
ESW	Economic Sector Work
EU	European Union
FY	Fiscal Year
GCG	Government Coordination Group
GDP	Gross Domestic Product
GoK	Government of Kenya
IDEV	Independent Development Evaluation
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
MDAs	Ministries, Departments and Agencies
MIC	Middle Income Country
MSMEs	Micro, Small and Medium Enterprises

MTP	Medium Term Prospects
MW	Mega Watts
MWh	Mega Watt – hour
MV	Megavolt
NEER	Nominal Effective Exchange Rates
NSO	Non-Sovereign Operations
OMO	Open Market Operation
PAPs	Project Affected Persons
PBO	Policy Based Operation (Budget Support)
PEFA	Public Expenditure and Financial Accountability
PD	Paris Declaration
PDRM	Policy Reform Dialogue Matrix
GDS	Government Delivery Service
PFM	Public Financial Management
PFMR	Public Financial Management Reform Strategy
PIT	Project Implementation Team
PPP	Public Private Partnership
REER	Real Effective Exchange Rates
RBF	Results Based Framework
RISP	Regional Integration Strategy Paper
SDG	Sustainable Development Goals
SEZ	Special Economic Zone
SME	Small and Medium Enterprises
SWG	Sector Working Group
SWOT	Strength, Weaknesses, Opportunities and Threats
TA	Technical Assistance
TVET	Technical, Vocational Educational and Training
TYS	Ten Year Strategy
TSA	Treasury Single Account
UA	Unit of Account
USD	United States Dollar
VAT	Value Added Tax
WDI	World Development Index

EXECUTIVE SUMMARY

1. This Bank Group’s Country Strategy Paper (CSP) for Kenya covers the period 2024-2028.

It is aligned with (i) the Kenya Vision 2030, the 2022-2027 Bottom-up Economic Transformation Agenda (BETA), and the finalized 2023-2027 medium-term plans (MTP) -IV, and with the Bank’s extended Ten-Year Strategy (TYS) and its High 5s operational priorities. In fact, Kenya’s development trajectory is guided by the economy’s long-term blue-print – Kenya Vision 2030, which seeks to create a globally competitive and prosperous nation with a high quality of life by 2030. Kenya Vision 2030 aims to transform Kenya into a newly industrializing, upper middle-income country, providing a high quality of life to all its citizens in a clean and secure environment. The Vision is implemented through five-year . In order to accelerate socio-economic development for the 2022-2027 period, the policy direction is determined by the BETA) which is premised on five pillars: agriculture; micro, small, and medium sized enterprise (MSME) economy; housing and settlement; healthcare; digital superhighway; and creative economy. Just like the BETA, the MTP-IV is also anchored on a bottom-up approach with overarching objective of economic empowerment for employment creation and poverty reduction. Key enablers include infrastructure, manufacturing, blue economy, the services economy, environment and climate change, education and training, women agenda, youth empowerment and development agenda, social protection, sports – culture – arts, and governance.

2. Kenya was in 2022 the third largest economy in sub-Saharan Africa with a Gross Domestic Product (GDP) of US\$ 115.3 billion after Nigeria and South Africa, and has been perceived as a regional leader in terms of development, having achieved above-average growth rates in Africa, which exceeded 5% for the 15 years preceding the COVID-19 pandemic (2.7% in per capita terms). This growth enabled the country to achieve lower middle-income status in 2015. Kenya’s GNI per capita income has increased by 63% since then, reaching USD 2170 in 2022 from of USD 1,330 in 2015.

3. Kenya’s political and socio-economic situation remained largely stable for the most part of the CSP 2019-2023 period, during which the country maintained its lower middle-income status, and GDP grew on average by 4.5%, despite a contraction of 0.3% in 2020 due to the COVID-19 pandemic. Growth rebounded to 7.5% and 5.5% in 2021 and 2022, respectively. The services sector was a major driver of growth on the supply side and household consumption on the demand side. Inflation remained within the authority’s target band range of 2.5% and 7.5% until 2021 with, higher upper target band movements in 2022, due to the effects of Russia’s¹ invasion of Ukraine¹. Fiscal and current account deficits widened, averaging 8.0% and 5.1%, respectively. Public debt distress remained elevated, increasing from 62.0% of GDP in 2019 to 67.5% in 2022. Kenya remained relatively peaceful compared with its peers. The general elections of August 9th 2022, were relatively peaceful and resulted in a change of leadership. Kenya’s performance in the reduction of poverty and unemployment has improved, *albeit* slowly.

4. The preparation of this CSP follows the endorsement on July 7 2023, of the CSP 2019-2023 Completion Report, including the two Priority Areas proposed for the next CSP 2024-2028, by the Board Committee on Operations and Development Effectiveness (CODE). CODE considered the proposed two Priority Areas to be appropriate and selective. This new CSP 2024-2028 was prepared based on a participatory process involving the government, civil society, the private sector and Development Partners (DPs). The CSP mission was carried out from 7 to 18 August

¹ The phrase used in the communiqué of the Bank Group’s 2022 Annual Meetings held in Accra, Ghana, is: “Russia’s invasion of Ukraine”. However, Algeria, China, Egypt, Eswatini, Namibia, Nigeria and South Africa expressed reservations, suggesting “conflict between Russia and Ukraine”.

2023. The CSP was prepared at a time when political and environmental factors and economic vulnerabilities present credible headwinds to the economic rebound and development of the country.

5. The 2023 Country Diagnostic Note (CDN)² revealed that Kenya’s overarching development challenge remains the slow pace of structural transformation. Structural transformation has had limited contribution to growth. As a result, growth has not been appreciably inclusive especially in terms of job creation, whereas positive developments in other dimensions of wellbeing (i.e., education and health) have been registered. Factors that are holding back structural transformation in Kenya are mainly infrastructure gaps, skills mismatch, limited access to and high cost of finance, governance related challenges, limited competition, low industrial processing level, high cost of doing business, vulnerability to climate change, income inequality, etc. Therefore, to ensure that Bank support will be provided in a focused, well-targeted manner, the priorities of the new CSP are determined based on a set of selectivity criteria.

6. In this respect, based on a set of selectivity criteria, CODE’s guidance of July 7, 2023, lessons learnt from the implementation of the 2019-2023 CSP, the 2023 Country Portfolio Performance Review, the findings of the 2023 CDN and other key analytical work, and the conclusions of the in-country consultations, it is proposed that the main objective of the Bank’s CSP 2024-2028 should be to support Kenya in accelerating structural transformation while building resilience for rapid, inclusive and sustainable growth. To achieve this objective, the new CSP 2024-2028 is anchored on two mutually reinforcing **Priority Areas: (i) Boosting Private Sector - led growth through infrastructure development and policy reforms; and (ii) Human Capital development.** These proposed two Priority Areas were endorsed by CODE on July 7 2023 and are aligned with (i) the country’s development objectives enshrined in Vision 2030, the 2022-2027 Bottom-up Economic Transformation Agenda (BETA) and the finalized 2023-2027 MTP-IV³, and (ii) the Bank’s extended TYS, and its High 5s operational priorities, (iii) the East Africa RISP 2023-2027, and (iv) relevant thematic/sector strategies⁴. The two Priority Areas will mainstream cross-cutting themes, namely, gender and youth, climate change and environment, fragility (including security), private sector development, institutional improvement, and digitalization.

7. The CSP 2024-2028 will be financed by Bank’s and external resources. The 3-year rolling lending program (IOP) for the CSP in its 1st phase (2024-2026) will be programmed within ADF-16 and 17, and ADB funding, with additional funds to be mobilized from other sources. The IOP is made up of 11 Sovereign Operations (SOs) amounting to UA 1.005 billion, and 9 Non-Sovereign Operations (NSOs) amounting to UA 405.00 million. Expected co-financing amounts to UA 250 million. The non-lending program will focus on building capacity across sectors and providing advisory services and analytical support.

8. Overall, the Kenya portfolio is performing well, but with some persistent challenges. Annual performance indicators recorded improvements. However, challenges remain, notably, the length of time between project approval and signature, as well as delays in the first disbursement. As of end July 2023, the portfolio comprised 51 ongoing projects, made up of 37 sovereign (UA 2.384 billion) and 14 non-sovereign (UA 618.700 million) operations with a total commitment of UA 3.000 billion. Sectoral distribution is transport (37%), water and sanitation (20%), energy (17%), finance (13%), agriculture (7%), social (4%), and multi/governance (2%).

9. Further to the endorsement by the Committee on Operations and Development Effectiveness (CODE) on November 21, 2023, The Boards of Directors are requested to consider and approve the Country Strategy Paper (CSP) 2024–2028 for Kenya.

1. INTRODUCTION

1. This Country Strategy Paper (CSP) for Kenya covers the period 2024-2028. Kenya covers an area of 582,646 sq kilometers, with high geographical and topo-graphical diversity, and a population of about 47.5 million people. The country has a remarkable climatic diversity, including, arid, semi-arid, temperate, and tropical zones. Kenya's rich variety of sceneries include access to the Indian ocean and the Lake Victoria basin. It borders five countries (Ethiopia, Uganda, Tanzania, South Sudan, and Somalia), and was in 2022 the third largest economy in sub-Saharan Africa with a GDP of US\$ 115.3 billion after Nigeria and South Africa. Kenya has been perceived as a regional leader in terms of development, having achieved above-average growth rates in Africa, which exceeded 5% for the 15 years preceding the COVID-19 pandemic (2.7% in per capita terms). This growth enabled the country to achieve lower middle-income status in 2015. This new CSP was prepared based on a participatory process involving the government, civil society, the private sector and Development Partners (DPs). The priorities of this CSP build on the findings of the 2023 CDN and other analytical works, lessons learnt from the implementation of the CSP 2019–2023, the 2023 assessment of the performance of the portfolio (2023 CPPR) and the findings from the IDEV Evaluation of 2014-2023 CSPs and programs as well as the guidance and recommendations of CODE that on July 7 2023, endorsed the proposed two Priority Areas: (i) Boosting Private Sector - led growth through infrastructure development and policy reforms; and (ii) Human Capital Development.

2. This CSP was prepared at a time when political and environmental factors and economic vulnerabilities presented credible headwinds to the economic rebound and development of the country. While helping Kenya to accelerate structural transformation for a rapid, inclusive, and sustainable growth, the CSP 2024-2028 aims to support the country in (i) achieving its development objectives as defined in the Kenya Vision 2030, the 2022-2027 BETA, and the MTP-IV, and (ii) advancing the implementation of the Bank's High-5s operational priorities. In addition to this introduction, the present document is structured as follows: section 2 provides country context; section 3 strategic options, portfolio performance and lessons; section 4 Bank Group strategy for Kenya for the 2024-2028 period; and section 5 conclusion and recommendation.

2. COUNTRY CONTEXT AND OUTLOOK

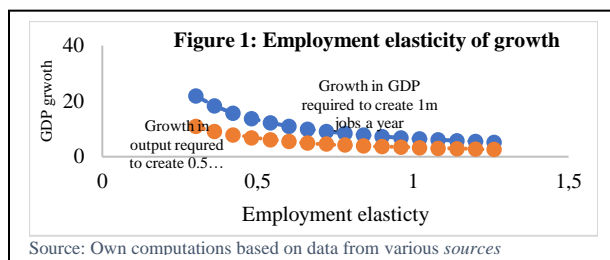
2.1. Political Context and Prospects

3. Kenya is an important anchor for regional stability in East Africa. However, its borders remain exposed to spillover risks of extremism, piracy, human trafficking, and refugee flows⁵. Kenya has held two successive peaceful elections since 2017, which have contributed to a stable and predictable political environment. The general elections of August 9th, 2022 were relatively peaceful and resulted in the election of Dr. William Ruto as the 5th President of the country. The political stability and improvement in social and governance indicators have contributed to Kenya becoming a top investment destination in the region. Kenya was ranked 13/54 on governance by the Mo Ibrahim index in the 2022 edition from 14/54 in 2021. The improved ranking was supported by upward movements in the scores of 'participation, rights and inclusion' and human development'. Similarly, according to various editions of Transparency International's Corruption Perception Index (CPI), Kenya slightly improved its score to 32/100 (with global ranking 123/180) in 2022 from score of 30/100 (128/180) in 2021⁶. The score is at par with Sub-Saharan average of 32 for 2022 and remains far below best performers in the region i.e., Seychelles (70/100) and Botswana (60/100)⁷. Kenya has put in place policies to combat corruption⁸. However, challenges remain⁹. This is supported by Bank's Country Policy and Institutional Assessment (CPIA) and Country Resilience and Fragility Assessment (CRFA) (Annex 15e). According to the 2021 edition

of the CPIA, Kenya improved its ranking by two places to 6 in 2021 against 8 in 2020 out of 54. This improved ranking can be attributed to its high standing on the continent in the following dimensions: Infrastructure and Regional Integration (3rd on the continent), Policies for Social Inclusion/Equity (4th), and Structural Policies (6th). However, the 2022 edition of the CRFA shows that Kenya has high pressures in corruption and bribery; presence of armed conflict; access to justice; insecurity in neighboring countries (e.g., civil war in the Sudan); poverty and inequality; and vulnerability to natural disasters.

2.2. Economic Context and Prospects

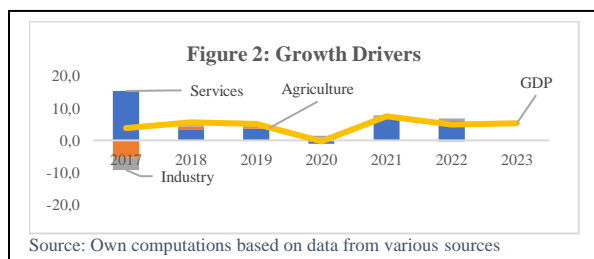
4. Economic status and structure: Kenya attained a lower middle-income status in 2015¹⁰. Since then, GDP growth averaged 4.5%, lower than Vision 2030 and the MTP-III growth targets of 10.0% and 7.0%, respectively. Growth has not yet been appreciably inclusive especially in job creation (Annex 9.1, Fig. 1a) except in other dimensions such as health and education



(Annex 9.1, Fig. 1b). This is attributable to the minimal contribution of structural transformation to growth¹¹. Labor is moving out of agriculture to a less labor-intensive services sector than industry¹² (Annex 9.1, Fig. 1c). The status quo implies that growth remains vulnerable to shocks (Annex 9.1, Fig. 2f) and a more than 7% a year growth in GDP is required to absorb new entrants into the labor market¹³ (Fig. 1). In general, structural transformation, infrastructure, human capital, and improved governance are key for a rapid, sustainable and inclusive growth and to avoid the middle-income trap (Annex 9, Fig 1d)¹⁴. Structural transformation is constrained, among other things, by: (i) macroeconomic instability; (ii) weak private sector participation (e.g., in industry¹⁵); (iii) low agricultural productivity¹⁶; (iv) shortage of skilled labor and skills mismatch; (v) weak governance; (vi) inadequate access to finance¹⁷; and (vii) deficiency in enablers of structural transformation (e.g., infrastructure - energy, transport, water, etc.).

5. Recent economic growth performance:

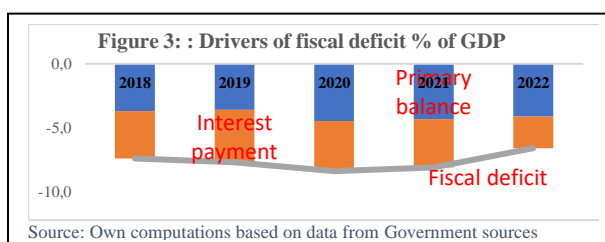
Kenya's economy grew on average by 4.5% between 2013 and 2022, below East Africa's average of 5.0%, but higher than the continental growth rate of 3.2%. The Kenyan economy rebounded to 7.6% in 2021 from a contraction of 0.3% in 2020 on the back of lifting of COVID-19 restrictions and positive policy responses.



However, growth slowed down to 4.8% in 2022 (Fig. 2). Growth in industry slowed down while that in agriculture contracted (due to drought). In general, growth continued to be factor-accumulation-led (i.e., labor and capital), with human and physical capital accounting for over 48% and 28%, respectively, of the growth during the period (Annex 9.1, Fig. 2e). The services sector benefitted the most from the factor-accumulation-led growth. It absorbed, between 2018 and 2022¹⁸, 77% of the 4% average growth in employment (Annex 9.1, Fig. 2c); and 34% of the 5% average growth in investment (Annex 9.1, Fig. 2d). The services sector contributed 75% of the GDP growth, followed by agriculture at 15%, and industry at 10% (Fig. 2). On the demand side, growth was domestic absorption driven (e.g., consumption and investment); while external demand remained a drag to growth. Domestic absorption accounted for 97% of the average growth of which about 67% came from households.

6. Monetary policy: Between 2018 and 2021, the Central Bank of Kenya (CBK) was able to contain headline inflation at an average of 5.3%, within the target band of 2.5% to 7.5%. In 2022 and 2023, however, inflation fluctuated between 5.3% in January 2022 and 9.1% in July 2023, higher than CBK's upper target band, but lower than the regional and continental averages of 14.2% and 28.9%, respectively. The sharp rise in inflation was attributed to, among other things, Russia's invasion of Ukraine, the weakening in the Kenyan shilling (KES) and drought. Food inflation accounted for 54% of the change in headline inflation, fuel inflation (32%) and core inflation (14%) (Annex 9 Fig.3a). The exchange rate depreciated by 41% from KES100 per US dollar in December 2019 to KES141 per US dollar in July 2023. The weak shilling can be attributed to tight global financial market conditions which resulted in an increase in foreign investors' outflow¹⁹. The CBK hiked the policy rate several times from 7.0% in December 2021²⁰ to 10.5% in August 2023. It also implemented Open Market Operation (OMO)²¹ (Annex 9.1, Fig. 3b) and sale of forex (Annex 9.1, Fig. 3c), aimed at containing domestic inflation and minimizing pass through effect of exchange rate depreciation to domestic inflation²². Headline inflation is projected to increase to 8.6% in 2023 and fall to 5.9% in 2024²³.

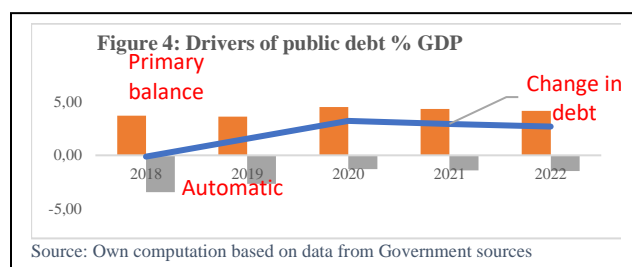
7. Fiscal policy: The fiscal deficit narrowed to 6.3% of GDP in 2022 from 8.2% in 2021, higher than the regional and continental averages of 4.3% and 4.0% of the GDP, respectively (Fig. 3)²⁴. Government revenues, expenditures and fiscal deficit averaged 17%, 25% and 8% between 2018 and 2022, respectively. Improvements in fiscal balances since 2021 are attributed to adherence to quantitative targets of the fiscal consolidation path²⁵ (Annex 9.1, Fig. 4a). This has happened amid fiscal pressures arising from the effects of Russia's invasion of Ukraine²⁶ and recently liquidity crunch in the international financial market²⁷. From 2023, the Government of Kenya (GoK) has introduced additional fiscal policy measures to meet the increase in financing needs (see Box 1 for resource mobilization). Minimizing fiscal vulnerability would entail, among other things, growth-enhancing structural reforms, and improved debt management^{28,29}. The fiscal deficit is projected to narrow to 6.1% and 5.4% of GDP in 2023 and 2024, respectively. This is expected to happen on the back of a projected decline in the primary deficit, lower interest payments, and exchange rate stabilization³⁰. Risks to the outlook could emanate from persistent global financial tightening. This could be mitigated by deepening the fiscal consolidation program.



Box 1: Revenue Mobilization

Tax revenue accounts on average for 90% of total revenue for the GoK, accounting on average, 14.2% of GDP between 2019 and 2022 lower than the 15% threshold required for an accelerated and sustainable growth. At a tax gap of 3% of GDP, Kenya has the potential to increase the tax to GDP ratio to 18% of GDP. Various tax policy measures have been implemented to bridge the overall tax gap. They include among other things, improving the tax administration system to tackle tax evasion and illicit trade to decrease the tax compliance gap (estimated at 30%), and broadening the tax base, among other things, by formalizing the informal sector and streamlining tax exemptions (tax expenditures). Kenya has managed to reduce tax expenditure to 2.9% of GDP from about 5% (in CIT and VAT in 2017). Annex 1.3b provides policy reforms supported by the Bank to improve revenue mobilization.

8. Public debt: Public debt as a percent of GDP showed signs of stabilization in 2022 (67.5%) after significant surges from 56.0% of GDP in 2018 to 69.0% in 2021. This can be attributed to the fiscal consolidation program. Both external and domestic debt increased during the period: however, the rate of increase was greater in the latter due to the country's



constrained access to the international financial market (Annex 9.1, Fig. 5a). Debt accumulation to date is driven by primary fiscal deficit, increase in interest rate, and exchange rate depreciation (Fig. 4). In 2023, Kenya introduced fiscal rules (debt rule³¹) to stabilize debt and this was complemented by the presence of oversight institutions such as the Parliamentary Budget Office and Office of the Auditor General. Nevertheless, efforts are constrained by tighter liquidity in the international financial market. Since 2018, credit rating agencies have downgraded Kenya's sovereign debts on solvency and liquidity grounds. In 2021, Kenya was assessed at high risk of debt distress by the IMF, while Moody's, S&P and Fitch downgraded Kenya in 2023³². Public debt is projected to stabilize in the medium term owing to the continued implementation of the fiscal consolidation program. According to IMF's 2021 Debt Sustainability Analysis (DSA), public debt in present value terms is expected to decline to 60.0% and 57.8% of GDP in 2023 and 2024, respectively, and is projected to fall below the sustainable threshold of 55% by 2026 (Annex 9.2). Risks to the outlook emanate from persistent global financial tightening. This could challenge debt sustainability by raising the fiscal adjustment cost of stabilizing debt. The risk can be mitigated, among other things, by seeking external financial assistance³³ and deepening the fiscal consolidation program in a growth friendly manner.

9. Economic and Financial Governance: Since the publication of the Public Finance Management (PFM) Act of 2012, changes which, among others, promote transparency and accountability have been introduced³⁴. Positive developments include harmonization of accounting standards across all Ministries, Department and Agencies (MDAs); linking IFMIS to the CBK to allow online processing of payments to suppliers; over 90% of the Government bank accounts are now opened and operated at the CBK; connecting the National Government and the Counties with the e-procurement; introduction of the Treasury Single Account (TSA) and availability of consolidated GoK financial statements due to up-to-date financial reporting with the MDAs and county governments. The PFM Reform Strategy (PFMR) 2019-2023 is anchored on the findings and recommendations of 2017 Public Expenditure and Financial Accountability (PEFA) report. The 2022 PEFA report has highlighted some areas in which there has been improvement with other indicators remaining unchanged. As noted earlier, Bank's updated 2023 Country Fiduciary Risk Assessment (CFRA) (Annex 13) identified improvements on the transparency of public finances, but still indicated areas on accountability and external audit which require improvements especially the 100% coverage of audit of all public funds. Governance and corruption still remain a challenge, hindering performance in the public sector. A review of the country procurement system through the Methodology for Assessment of Procurement Systems is being undertaken and is expected to improve governance performance.

10. The external sector: External demand, measured by net export, remains a drag on GDP growth in recent years (Annex 9.1, Fig. 2b). The trade deficit is a major driver of the current account deficit as it has widened on average by 5.1% per annum since 2018 and is estimated to have reached 5.9% of GDP in 2022. The trade deficit accounted for 212% of the increase in current account deficit (Annex 3, Fig. 6a). On the contrary, net primary income (e.g., interest payments on debt)

and secondary income (e.g., remittances and development aid) reduced the current account deficit by 32% and 80%, respectively. Diaspora remittances alone reduced current account deficit on average by 29%. The rise in the trade deficit is attributable, among others, to declining terms of trade³⁵ as exports are dominated by less value primary commodities while imports are by high value-added manufactured goods. The Real Effective Exchange Rate (REER)³⁶ slightly depreciated compared with the period prior to 2019. It is explained more by the depreciation of Nominal Effective Exchange Rate (NEER) against major trade partner currencies, than stable/lower local prices (Annex 9, Fig. 3c). To improve the trade balance, there is a need for diversifying the export base³⁷ and destinations and shifting from export of primary commodities to high value-added goods³⁸. The introduction of the Africa Continental Free Trade Area (AfCFTA)³⁹ is expected to improve Kenya's trade balance. The current account deficit has been financed by a surplus in the financial account, but its contribution is expected to diminish with the current capital reversal, caused by shifts in monetary policy in advanced economies. The effect is being felt as foreign exchange reserves reduce with months of import cover dropping from 4.5 as at end December 2020 to 4 months in November 2022.

11. Kenya's private sector accounts for 75% of the country's GDP and over 89% of total employment. The sector is dominated by informal activities which account for 34.3% of GDP and 81.0% of new jobs created. The MSMEs account for about 28.5% of the GDP with the majority of them operating in wholesale and retail trade, and repair of motor vehicles and motorcycle businesses. Their role was boosted during MTP III, when 9,730 MSMEs were linked to markets⁴⁰. Private sector-led structural transformation is constrained by deficient infrastructure, corruption, weak regulatory environment, shortage of skilled labor, limited affordable credit, high cost of cross border trade and energy prices. For example, average electricity prices have increased by 48% between September 2022 and August 2023. The increase in energy increases the cost of doing business by negatively affecting Kenya's competitiveness. Successive policies have attempted to address these challenges and some positive results have been achieved⁴¹. The "the Big Four" agenda⁴² covering the period 2018 to 2022 and its sector level implementation plans were all private sector development focused. In addition, its enablers addressed issues related to deficient infrastructure, human capital development and governance. According to the 2022 edition of Global Sustainable Competitiveness Index (GSCI), Kenya was ranked 96 globally, against 91 in 2018 and 4th in Africa behind Mauritius (67th), Sao Tome & Principe (87st), and Ivory Coast (95th). Of the six dimensions used in the GSCI calculations, Kenya was ranked top in Resource Intensiveness (9th). To improve its competitiveness, Kenya needs to work on 'Natural Capital' (ranked 168th), 'Governance' (116th), 'Intellectual Capital' (111th), 'Social Capital' (97th), and 'Economic Sustainability' (78th). Kenya has a Public, Private Partnership (PPP) framework. However, its capacity needs to be revamped to attract new programs as well as implement existing ones.

12. Kenya's financial sector is dominated by the banking industry and includes insurance companies, capital markets, pension funds, and savings and cooperative societies. Credit provided to the private sector increased to 33% of Gross Domestic Product in 2021, against 12% in 2020. In terms of structure, the banking sector is comprised of 42 banks, of which 41 are commercial banks and one mortgage refinance company. The Banking sector has maintained all statutory requirements except the non-performing loans ratio, which increased to 14% in March 2022⁴³. Access to financial services increased to 89% in 2022 mainly due to digital technology (e.g., mobile banking and mobile money). To mitigate the effects of poor asset quality, the banking sector increased provisions of loans losses by 47.5% as required by International Finance Reporting Standards. The sector was assessed to be sound and stable in 2022, due to sufficient capital and liquidity as the sector is highly interconnected, diversified, and segmented, with

significant cross border operations. Kenya has a vibrant microfinance sector made up of deposit taking microfinance institutions, non-governmental organizations, church-based organizations, rotating savings and credit associations, accumulative savings and credit associations and investment groups. MSMEs financing remains constrained by the high cost of borrowing, limited diversification of financial products and collateral requirements. Efforts are underway to address these challenges on the demand side, including de-risking MSMEs through government sponsored guarantee schemes⁴⁴, enhancing banking liquidity; and on the supply side, by diversifying financial products. To promote sustainable financing, the Central Bank issued guidance for banks to incorporate climate change.

2.3 Sector Context

13. Transport is one of Kenya's key enablers for its development objective of inclusive growth and realization of its desired economic outcomes. In recent years, the government has invested significantly in transport infrastructure, mainly in roads⁴⁵, aviation, and railway subsectors. Despite the high concentration of transport infrastructure in the south-western quadrant of the country and along the northern corridor, there is significant improvement in investment in transport infrastructure in the northern quadrant of the country as well. However, road transport remains the main mode of transportation accounting for 90% of freight and passenger demands due to its flexibility, speed, and accessibility. This has only been partially offset by the introduction of the SGR services in 2018, which is currently restricted to Mombasa through Nairobi to Naivasha. The key challenges facing the transport sector is the need to address rapid urbanization, which means there is demand for an integrated, balanced and environmentally sound urban transport system, and the inappropriate modal split due to lack of deliberate logistic linkages between the different transport modes. Other key challenges facing the sector include lack of climate resilience given frequent shocks, namely, storms, floods and torrential rains posing greater risks of damage to road infrastructure. Also, the increasing temperatures pose the risk of rail track warping, softening and expansion of pavements which tend to accelerate road damage. Additionally, the roads sub sector is facing challenges that are affecting the smooth implementation of projects; these are mainly: (i) delay in clearing the right of way required for the works from any obstructions (properties, land acquisition and relocation of utilities) and (ii) shortage in counterpart financing. These shortcomings are leading to delays in completing these projects, thereby delaying the realization of the project benefits and impacts. The response to these challenges requires increased investment in climate adapted infrastructure, policy transformation and innovative financing for development.

14. Energy: Kenya is committed to national and global targets of reliable, affordable, and clean energy. In line with the Least Cost Power Development Plan (2020-2040), significant public and private resources have gone into the energy sector to increase generation capacity as well as the expansion and reinforcement of transmission and distribution systems, including last mile connections. Despite this, energy outage is common and is explained by loss of power generation, extreme weather and vandalism. The average electricity retail tariff and generation cost are high⁴⁶ due to low efficiency and losses in the energy value chain⁴⁷. The share of renewable energy in the energy mix increased from 79.3% in 2017/18 to 89.6% in December 2022 with geothermal energy taking the highest share of 45.5%⁴⁸. Peak electricity demand increased from 1802 MW in 2018 to 2149 MW in December 2022⁴⁹ while installed generation capacity increased from 2,712 MW at the end of December 2018 to 3,601 MW as of December 2022⁵⁰ which includes 280.76 MW of captive power and 200MW of new imports from Ethiopia. The on-grid electricity access in number of customers increased from 6,761,090 in December 2018 to around 9,010,856 in December 2022. Kenya is a member of the Eastern Africa Power Pool, and this year commissioned the Ethiopia-

Kenya Electricity Highway now delivering 200MW for the November to December 2022 period and supplying Kenya with 143 GWh of energy or 2.1% in just 2 months. The Kenya-Tanzania interconnection line is also expected to be commissioned by the end of 2023. The COVID-19 pandemic and the subsequent lockdowns impacted the energy sector by causing shortfalls in revenue and increasing operating cost per MW and productive cost per MWh, thus leading to constraints in meeting the utility's financial obligations in respect of the various active power purchase agreements⁵¹.

15. Water and Sanitation: the annual national water availability per capita is about 452 m³. There is a decreasing trend in water availability due to the increasing population, expanding economic activities, and increasing degradation of catchment areas. Kenya's Renewable Water Resources (RWR) are estimated at 617 m³/per inhabitant /year (2017), which is significantly below the Falkenmark Water Stress Index threshold for water scarcity of 1,000 m³/inhabitant/year. Kenya's total RWR per capita shrunk by 83% over the past 56 years, largely due to population growth. The annual freshwater withdrawals are estimated at 13% of the total RWR, with 80% utilised for agriculture. Groundwater is underdeveloped, with only an estimated 25% exploited. Saline groundwater occurs in aquifers in the Turkana region and the coastal areas. Access to water and sanitation in Kenya lags population growth, as only 62% of Kenyans (against 57% in 2018) have access to basic drinking water (87% urban, 52% rural). The proportion of population with improved sanitation services is estimated at 82.5% in 2022 against 74.8% in 2021⁵² and 27.7% of urban population had access to sewerage connection in 2022 against 26.0% in 2018⁵³. This places increased demands on urban infrastructure and stretches the limited available sector finance for services. Water resources are unevenly distributed with an estimated 84% of the country classified as arid or semi-arid. Cities in Kenya face challenges in water availability and climate change is expected to amplify the already high inter-seasonal variability through increased precipitation, and frequent and intense flooding as well as prolonged drought seasons. Water abstraction, treatment, distribution, and wastewater treatment infrastructure, as well as water resources availability and quality are highly vulnerable to the impacts of climate change. The sector faces a myriad of challenges such as, lack of adequate investment, institutional capacity weaknesses, limited water harvesting and storage capacity, and weak resilience to climate shocks. These challenges can be addressed by increased investment in infrastructure, policy transformation and innovative financing.

16. Agriculture is an important sector in the Kenyan economy in terms of share in total employment (>50% according to the International Labour Organization), GDP contribution (> 52% directly and indirectly through linkage effects), source of livelihood (> 80% of the population), and foreign exchange earnings (>65% of total). Regardless, the sector is operating below its potential⁵⁴, compared with 2005-2010 agricultural productivity has recently declined by about 25%, impacting food and raw material availability. The decline is attributable to distortions caused by different factors⁵⁵. Available data indicate that per capita calorie, protein, and fat supplies have declined in the domestic market, due to the drop in imports⁵⁶. Therefore, a policy response to increase agricultural productivity and build resilience is key. This was evident during MTP III, when GoK increased irrigated land from 484,000 acres in 2018 to 600,000 acres in 2021. This contributed to a rise in total food products/food self-sufficiency ratio from 89.1% in 2018 to 90.3% in 2021. Reducing the cost of living and eradicating hunger are among the five objectives of MTP-IV. To achieve this, targeted investment in agriculture is identified in MTP-IV which is also in line with Agricultural Sector Transformation and Growth Strategy (ASTGS, 2019-2029).

17. Regional Integration and Trade: Kenya is a member of the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), the Horn of Africa Initiative, World Trade Organization, and recently the AfCFTA. According to the Africa Regional Integration

Index, Kenya is the second most integrated nation in Africa behind South Africa. Kenya fares well in the regional trade blocks in the following dimensions: free movement of persons, and infrastructure, productive and trade integration. Kenya's major export destinations between 2018 and 2022 were Africa (38.3%), Asia (26.0%), and Europe (26.0%) of total exports. Asia alone accounted for about 65% of Kenya's total imports. Kenya's trade balance is in surplus only with East Africa and exports to Africa are dominated by food and beverages, thus, AfCFTA is expected to improve Kenya's market access and increase competition⁵⁷. See paragraph 10 for detailed discussion on Kenya's trade performance. The following factors, among others, continue to hinder regional integration: regional infrastructure, cumbersome custom procedures, non-tariff barriers, and certificate of origin. Despite these challenges, Kenya has complied with both COMESA and EAC treaty requirements.

2.4. Social Context and Cross-Cutting Themes

18. Kenya's performance in poverty, unemployment, and income inequality has improved, *albeit* slowly. According to the World Poverty Clock, the number of people living in extreme poverty declined marginally to 18% in 2022 from 19% in 2019; unemployment to 4.9% in 2022 from 6.5% in 2019⁵⁸. However, income inequality measured by Gini-Coefficient rose to 38.9% in 2021 from 35.8% in 2020. At 15.6% in 2022, unemployment is the highest among those aged 20-24⁵⁹. The improvements in poverty indicators can be attributed to the increase in per capita income, social safety net programs and recently, normalization of economic activities⁶⁰. The Human Development Index dropped slightly to 0.575 in 2021 from 0.600 in 2019, mainly due to the unprecedented effects of the COVID-19 pandemic (see Annex 19 for Health sector status). According to the 2021 Africa SDG Index, Kenya is ranked 118/163 globally and 7th in sub-Saharan Africa with a score of 61 out of 100⁶¹. Efforts are underway to link the supply and demand sides of the labor market to address unemployment and skills shortages, and gaps by, among others, curricula development; improving access, quality and relevance of TVET (see Annex 18 for detailed discussion on human capital development); frameworks to strengthen partnership between academia and industry and entrepreneurship development⁶². In general, increased structural transformation, macroeconomic stability and pro-poor distributive policies continue to be critical to building resilience to shocks and addressing perennial socioeconomic challenges.

19. Gender Equality and Youth: The 2023 edition of Global Gender Gap Index (GGGI) placed Kenya at 77/146 globally compared with 109/144 in 2017. Kenya's performance in GGGI individual indicators varied with economic participation and opportunity being highly ranked at 16/146 globally (score of 0.791/1) and education attainment reporting the lowest rank of 134/146 (0.858/1). Improvements in dimensions on gender gaps such as education attainment and political empowerment will enhance equality⁶³. Kenya is signatory to several international and regional treaties and conventions that aim at protecting and advancing the rights of women and girls⁶⁴, which are domesticated and mainstreamed in MDAs⁶⁵ to bridge the gender gap. However, the implementation of gender equality policies remains a challenge. **According to the 2019 Kenya population and housing census**, 75.1% of the country's total population of 47.6 million people was composed of people aged below 35 years; and those aged between 15 and 34 years at about 36.1%. On the other hand, youth unemployment (age 15-24) remains high, at about 22%⁶⁶, about 3 times the national unemployment rate of 7.4%. About 80% of all unemployed Kenyans are below 35 years of age, with 38.9% of young Kenyans (age 18-34) being unemployed.

20. Climate Change: Kenya is impacted by climate change mostly through frequent drought, locust invasion and floods. The arid and semi-arid lands, accounting for over 84% of the land area, are among the most frequently affected. Climate related extreme weather conditions have socio-economic impacts⁶⁷, which amplify food insecurity. The 2021 Global Climate Risk Index for climate vulnerability and highly sensitive countries to climate change ranked Kenya 25/180. The

GoK has introduced various national policies, plans and legal frameworks⁶⁸ that are implemented through sector plans, programs, and projects⁶⁹. Kenya's updated nationally determined contribution sets out adaptation and mitigation measures to reduce its green gas emissions by 31% in line with COP26 global warming target of 1.5°C by 2030; and transition to a zero emission by 2050. This is also addressed through its National Climate Change Action Plan II (2018-2022). Kenya is on track to achieve mitigation and adaptation objectives as many sectors have made commitments to reduce emissions⁷⁰. The mitigation and adaptation activities and actions are expected to cost USD 64.9 billion between 2020 and 2030. Kenya is exploring various sources of climate finance such as, carbon markets, green climate fund, Africa climate change fund, etc. However, the climate finance flow is highly skewed to mitigation at about 80% despite adaptation being a recognized priority in Kenya. The GoK, working with its institutions and DPs, seeks to prioritize significant scaling up of climate finance by 2030.

2.5. Country Strategy Framework

21. Kenya has a long-term development plan (i.e., Vision 2030), with three Pillars: economic, social, and political, aimed at transforming the country into an industrializing upper middle-income status. The vision is implemented in successive five-year plans known as medium-term plans, and the 2022-2027 BETA. The theme of the MTP-IV is “Accelerating Socio-Economic Transformation to a more Competitive, Inclusive and Resilient economy – A Bottom-up Approach”. The plan is made up of six objectives that include (i) bringing down cost of living, (ii) eradicating hunger, (iii) employment creation, (iv) increasing the tax base, (v) increasing the foreign exchange balance, and (vi) inclusive growth. Furthermore, the plan identifies key enablers, among others, as infrastructure; manufacturing; blue economy; the services economy; environment and climate change; education and training; women; youth empowerment; social protection and governance to help drive the Kenyan development agenda. To achieve this, the plan targets five pillars which are the five priority sectors of the 2022-2027 BETA, namely (i) Agriculture, (ii) MSME economy, (iii) Healthcare, (iv) Housing and Settlement, and (v) Digital superhighway and creative economy. These Pillars focus on fostering economic growth/recovery with the objective of bottom-up economic empowerment for employment creation and poverty reduction. Like Vision 2030, it is made up of economic, social and political pillars⁷¹ and articulated around its enablers⁷². Key milestones include, achieving a GDP growth target of 9.2% and increasing the contribution of manufacturing⁷³ to GDP to 15% by 2027. The BETA is expected to be supported by sector strategies and financed by allocations from the national budget, the private sector and Development Partners.

2.6. Aid Coordination Mechanisms, Bank Positioning, and Comparative Advantage

22. Kenya's Development Partners Group (DPG) is made up of several bilateral and multilateral DPs and is coordinated at three levels of cooperation: Heads of Missions, Heads of Cooperation and Thematic Sector Working Groups (SWGs). The main DPG is Co-chaired by the Deputy President of Kenya and meet at least twice a year at a development partnership forum to discuss topics of national interest including political and policy issue. The development effectiveness group brings together Heads of cooperation and senior government officials, meets quarterly to discuss development and operational matters, and acts as the clearing house between the main DPG, and the sector working groups. The civil society organizations and the private sector representatives are active participants at the development partnership forum and development effectiveness group meetings. Dialogue at the SWG level is jointly led by DPG and the Government and aims at implementing the commitments under both the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action (AAA) and the Busan Partnership for Effective Development Co-operation. The government and DPs are guided by a Development Co-operation

Strategic Plan, through which they work to strengthen collaboration with other DPs to coordinate project implementation in Kenya. The Bank co-chairs the energy sector working group and education sector working group and actively participates in all DPG-GoK dialogue forums.

23. Bank's Groups Comparative Advantage: The Bank is a premier, regional lending intermediary in Africa and has over the years gained a unique position with its vast experience in supporting Kenya. The Bank Group has been active in all levels of development cooperation and holds a leadership role in the energy, and transport and roads SWG. Its projects are aligned with the Government's long-term developmental goals (i.e., Vision 2030) and stress the need for economic growth and structural transformation. The Bank continues to position itself as a trusted partner and maximizes its comparative advantage in infrastructure development.

2.7. Strengths and Opportunities, Challenges and Weaknesses

24. As the preceding sections have highlighted, Kenya's overarching development challenge remains the slow pace of structural transformation, which is exacerbated by its vulnerability to external shocks. Underlying development challenges include infrastructure deficiencies (energy, transport, ICT, water/irrigation, etc.), limited access to and high cost of finance and skills mismatch, limited competition, high cost of doing business, notably due to high energy costs, governance related challenges (inefficiency in some public institutions, prevailing corruption, etc.), low industrial processing level, vulnerability to climate change, income inequality, etc. To overcome these challenges, Kenya offers various strengths and opportunities to improve its developmental outcomes drawing from the implementation of previous MTPs. Annex 20 presents a summary of Kenya's Strengths, Opportunities, Challenges and Weaknesses.

3. KEY FINDINGS OF COUNTRY PORTFOLIO PERFORMANCE REVIEW

3.1 Ongoing Portfolio

25. The Bank Group's ongoing portfolio in Kenya is focused on infrastructure. As of July 2023, the Bank Group's active portfolio in Kenya comprised of 51 operations (37 public and 14 private) with a total commitment value of about UA 3,001.1 million, of which UA 2,384 million was committed for sovereign operations and UA 618.7 million for non-sovereign operations. The transport sector accounts for 37%, water and sanitation (20%), energy (17%), agriculture (7%), finance (13%), social/skills development (4%), and multi-sector (2%) of the Bank Group's total active portfolio. The Kenyan portfolio is financed from ADB sovereign at 50% and ADB non-sovereign at 18%, ADF at 27%, other non-sovereign loans (AGTF, climate support facility, private sector facility, and clean technology fund) at 3%, and grants including EU/AIP, MIC-TAF, and other special/trust funds at 2%. The details are presented in Annex A.6.1.

3.2. Portfolio Performance

26. The Kenya portfolio is performing, with annual performance indicators, such as the number of problematic projects, the proportion of red-flagged projects, disbursement rate, commitments at risk, and the average public sector project size, all recording improvements. However, challenges remain, notably, the length of time between project approval and signature, as well as delays in the first disbursement, and the increase in the number of aging projects in the portfolio. The details are presented in Annex A.6.2.

27. The implementation of the last CSP (2019-2023) showed that Bank Group financed projects were generally consistent with the two priority Areas of the CSP and recorded significant results which provided important lessons for the new CSP (2024-2028). Overall, 92.2% of the outputs and 87.9% of the outcomes were either fully achieved or are expected to be achieved by the

completion of the CSP period in December 2023. Notable results spanned various sectors and collectively generated significant socioeconomic benefits including increased household electricity access, better road connectivity, greater potable water access, improved sanitation, and increased enrollment in TVET and universities.

3.3. Strategic and Operational Challenges

28. Despite the improvements, delays in start-up and implementation could be further improved. The two persistent challenges that most negatively affected the portfolio quality were start-up delays and the slow pace of project implementation, manifested in slow disbursement and increased number of aging projects in the portfolio. Start-up delays were mostly the result of late compensation of the project affected persons (PAPs) and delays in loan signing and fulfilling loan effectiveness conditions, including delays in receiving legal opinion from the Attorney General of the country. Implementation delays are the results of weak capacities of the executing agencies caused by frequent changes in project implementing teams. Slow project implementation is caused by weak performance of the contractors and consultants resulting from non-adherence to the work program, cash flow problems, as well as the failure to appoint appropriate technical staff and engineers. These challenges tend to reduce the efficiency and timeliness with which the Bank delivers its operations.

29. The Bank has diligently implemented the annual portfolio performance improvement plans to address implementation challenges. Actions to address the various challenges were agreed with the government and were documented in the Country Portfolio Improvement Plan (CPIP) for both the Bank and the Government. The latest CPIP was prepared in 2023 and is presented as Annex A.6.3. Some of the recommended actions include the timely signing of loan agreements, timely acquisition of right of way and payments of compensations to PAPs. In this regard, the Bank will consider financing part of the compensation payments to reduce start-up delays. The Government should provide sufficient budgetary allocation and ensure timely release of counterpart funds. The counterpart fund requirements should follow the Country Financing Parameters (see Annex 9.2). Furthermore, delivery of regular capacity-building of staff and appointment of full-time project implementation teams were undertaken to speed up project implementation and improve the portfolio performance and quality. The regular internal portfolio performance review meetings have also been a useful tool in resolving emerging portfolio issues.

4. LESSONS LEARNED

4.1. Bank Group

30. The implementation of the outgoing CSP brought out strategic and operational lessons that were taken into account in the preparation of the new CSP 2024-2028.

31. At strategic level, (i) application of selectivity principles to ensure that the Bank's limited resources should be considered in activities with greater development impact. (ii) the need to strengthen internal synergy among Bank financed projects and coherence between Bank and stakeholder financed projects.

32. At the operational level: (i) scaling up high level dialogue to address project implementation related challenges; (ii) capitalizing on experiences gained in PBOs in the implementation of non-lending operations; (iii) embedding Technical Assistance (TA) (e.g., advisory services and knowledge products) in investment projects to maximize development impact and reduce transaction costs for both the Government and the Bank; (iv) the need to put in place innovative financing approaches to support project implementation due to, among other things, delay in counterpart funding, land acquisition and compensation of PAPs.

33. Technical assistance should be embedded in investment projects. This will enhance maximum development impact and reduce transaction costs for both the Government and the Bank. TA should be supported with increased advisory services and preparation of knowledge products on innovative, traditional and non-traditional investment projects.

4.2. Government

34. To improve on the timely completion of projects, the Government should consider continuous engagement and consultation with the Bank to address the existing challenges on counterpart funding, land acquisition and compensation payments.

35. The GoK should also consider improving monitoring and evaluation processes of the land used for project implementation. The current land evaluation process has led to overvaluation of properties, thereby causing delays and affecting timely compensation and prolonged litigation processes.

36. The Government should enhance collaboration with the Bank by factoring counterpart funding in the budget during the preparation process as this will help mitigate delays in project completion.

37. Improving Government's internal operational efficiencies will lead to timely completion of projects with maximum and timely returns. Part of uncompleted projects are due to implementation delays. While the use of advance contracting has reduced project start-up delays, the Government should consider automating the procurement services at all levels to enhance transparency and accountability.

4.3. Development Partners

38. At the strategic level, the Bank should strive to work closely with other DPs to coordinate resources, organize joint policy dialogue sessions and where possible develop joint policy matrix to avoid duplication of efforts and minimize transaction costs.

39. The Bank to continue the consultations with other DPs on project implementation and jointly develop policy reforms to ensure effective completion of projects.

5. BANK GROUP STRATEGY 2024-2028

5.1. Strategy Rationale, Selectivity, Objective and Priority Areas for Bank Support

40. Strategy Rationale: As indicated earlier, **Kenya's overarching development challenge remains the slow pace of structural transformation** which is exacerbated by its vulnerability to external shocks. Underlying development challenges are infrastructure deficiencies (energy, transport, ICT, water/irrigation, etc.), limited access to and high cost of finance and skills mismatch, limited competition, low industrial processing level, high cost of doing business, governance related challenges (inefficiency in some public institutions, prevailing corruption, etc.), vulnerability to climate change, income inequality, youth unemployment, gender/regional disparities, etc. Empirical evidence suggests that the overarching and underlying development challenges can be addressed through structural change, infrastructure and private sector development, human capital development, improved governance, and resilience building. In fact, the last five years showed that Kenya's increased exposure to shocks impacted the full implementation of the MTP-III and realization of macroeconomic targets, thereby enforcing the need for structural change.

41. Selectivity: To maximize the effectiveness of Bank Group support given Kenya's **current scope and magnitude of development challenges, a selective approach is required to ensure that Bank interventions maximize their developmental impact.** As noted above and in the Country Diagnostic Note, Kenya faces daunting development challenges that are diverse and multifaceted. Therefore, the thrust of the Bank's new CSP 2024-2028 is defined by a set of

selectivity criteria, namely (i) potential impact of priority areas to address Kenya’s development challenges as analyzed in the CDN; (ii) outcomes of Government priorities as validated during the CSP 2024-2028 stakeholder consultations with the National Treasury, other line Ministries, the Kenya Revenue Authority (KRA), the World Bank, IMF, the private sector, the civil society organizations (CSO) among others (see summary of consultations in Annex 5); (iii) Bank Group comparative advantage; (iv) opportunities for partnerships to leverage additional resources notably, from DPs to enhance complementarity and improve the impact of operations; (v) opportunities to mainstream key cross-cutting issues; and (vi) guidance provided by CODE (see Annex 4.1). This will be supported by the selection of achievable targets and indicators in the CSP 2024-2028. These selectivity criteria will ensure compliance of the new CSP 2024-2028 with the Bank’s paper on selectivity “*Sharpening the Bank’s Strategic Focus: A Proposal to Increase the Bank’s Selectivity*”, approved in May 2021.

42. CSP Objective and Priority Areas for Bank Support: The main objective of CSP 2024-2028 will be to support Kenya in accelerating structural transformation while building resilience. To achieve this objective, two mutually reinforcing Priority Areas have been identified to achieve this objective: **(i) Boosting Private Sector led growth through infrastructure development and policy reforms;** and **(ii) Human Capital Development.** These Priority Areas will build on and consolidate the gains achieved from past Bank support, while continuing to support Kenya’s vision of achieving structural transformation and building resilience. Bank support under the CSP 2024-2028 will selectively focus on 4 sectors: (i) transport, (ii) water and sanitation, and (iii) economic governance under **Priority Area I;** and (iv) skills development under **Priority Area II.**

What the Bank will do differently under the new CSP 2024-2028

43. During implementation of the CSP, the Bank will adopt a different approach to selectivity, narrowing the broad infrastructure projects to only two sectors, namely transport, and water and sanitation, to enhance productivity and competitiveness, noting that water will involve dams and irrigation that support greater agricultural productivity. The new CSP will support improvement in policy reforms and governance for efficient service delivery through economic governance as the 3rd sector in the first Priority, which is a departure from the CSP 2019-2023. The PBOs programmed in the CSP 2024-2028, shall put greater emphasis on **policy reforms** in critical areas that can boost private sector and value chain development. Options will be explored to support reforms to strengthen **domestic resource mobilization,** and public financial and debt management through various non-lending activities such as ESWs, TA, and policy advisory services. The focus of the CSP 2024-2028 on four sectors is a major departure from the Bank’s previous CSP that focused on six sectors. During the CSP 2024-2028, the Bank will hold high-level dialogue frequently to address persistent issues that have occurred in the outgoing CSP. To minimize start-up delays, the Bank will consider financing compensation payments to PAPs, and the approved CFP will be adhered to relieve the government from some pressure on counterpart funding requirement. The Bank will use a proactive approach in the new strategy to pursue private sector financing to support PPP projects included in the IOP (see Annex 2.2).

44. The new strategy will be implemented differently with expected better Portfolio performance, as the Bank will consider financing part of the compensation payments to reduce start-up delays caused by late compensation payments. Additionally, during dialogue with the GoK, they have agreed to provide sufficient budgetary allocation to ensure timely payments to contractors and for counterpart contributions in line with the Board approved CFP. To ensure efficacy in project delivery, during project design, the Bank will identify project and staff training needs that contribute to timely delivery of the projects. The new strategy will build a robust pipeline of

projects reflecting the CSP strategic thrust through upstream strategic studies and dialogue with GoK to select increasingly transformative project for Bank financing. Project quality at entry will be emphasized in the CSP 2024-2028 with adherence to readiness criterion. Projects will be made implementation ready through satisfactory financial management arrangements, availability of counterpart funding among other project implementation requirements.

45. To support BETA and other GoK development goals, the economic policy reforms under this CSP will use a more targeted approach different from the outgoing CSP. In particular, the PBOs will be focus on building human capacity in GoK institutions such as KRA to improve domestic resource mobilization by expanding the tax base which is an improvement compared to the PBOs in the CSP 2019-2023. Expansion of the tax base will target SMEs operating in the informal sector to improve domestic resource mobilization. This will be supported by timely performance targets (outcomes and outputs) that will be reviewed bi-annually and shared between the Bank and the GoK. The use of technical assistance (TA) will follow a principle-based approach to optimize the use of resource with focus on knowledge products and advisory services to address complex policy challenges in government agencies.

46. The CSP 2024-2028 will be implemented differently on co-financing to raise resources for project implementation. The Bank will explore funding instruments such as guarantee instruments to complement the country headroom that is not sufficient to meet budgetary needs. Private sector development support will be expanded to focus supporting the GoK to create a conducive environment that attracts investments. Some of the NSOs may use blended finance to boost the development impact of the projects.

47. The new strategy mainstreams gender and climate change which will be delivered in a more structured way that considers the requirements of the gender marker in line with the Bank's policy. To this end, key delivery indicators such as ratio of women economically empowered shall be tracked through monitoring and evaluation tools on bi-annual basis and inform project progress report that will be prepared at mid and end term of the CSP. For example, on skills development, Bank financed projects will aim to benefit 50% of women and also support guidelines for integrating gender in TVET, with a particular focus on science technology engineering and mathematics (STEM) where enrolment of women is lower than men. This is an improvement from the outgoing CSP, that did not clearly indicate the ratio of women that will benefit from Bank financed project.

48. Alignment: The two proposed Priority Areas are aligned with (i) the GoK's development objectives enshrined in its Vision 2030, the 2022-2027 BETA and the finalized 2023-2027 MTP-IV, (ii) the Bank's TYS and its High-5s operational priorities, the East Africa RISP 2023-2027, and relevant thematic/sector strategies, and (iii) the Africa Union (AU) Agenda 2063 Priority Areas and Sustainable Development Goals (SDGs). The two priority areas of intervention are complementary and will be backed by integrated projects with a high transformative impact.

5.2. Strategy and Main Expected Results

Priority Area I: Boosting private sector led growth through infrastructure development and policy reforms

49. Objective: The main objective of this Priority Area is to support the Government's overall target of achieving sustainable and inclusive growth by building resilience to support structural transformation. Through various highly transformative integrated investments, Bank support under this Priority Area will thus include (i) improving production/productivity through infrastructure development (transport, and water and sanitation) aimed at enhancing access to production zones, setting up of agribusinesses, improving and diversifying production, and

supporting structural transformation processes; and (ii) promoting economic governance in support of private sector development with the aim of increasing MSME participation in the 2022-2027 BETA (areas of MSME economy, digital superhighway, creative economy, etc.). The aim of private sector development is to support value chain development for job creation to promote a sustainable and inclusive economy. To further support infrastructure in the identified sectors, the Priority Area will aim to build resilience through improved economic governance. The Priority Area is well aligned with the Kenyan Vision 2030 and its operational priorities and the Bank's extended TYS and the High-5s. It is also aligned with SDGs 6, 9, 12 and 16, and Africa Union Agenda 2063 priority areas.

50. Strategic Outcome 1: Competitiveness enhanced by reducing business cost. The operations envisaged in the CSP are expected to contribute to the Government manifesto targets of supporting private sector led and sustained GDP growth of 9.2% by 2028. This is to be achieved through increased productivity in all sectors, thereby enhancing national competitiveness. Under the 2022-2027 BETA and finalized MTP IV, GoK plans to improve productivity through cross-sectoral linkages and promote collaboration across sectors to foster integration of cross-cutting issues by adopting a value chain approach. Infrastructure policy will be deployed to enhance expansion and rehabilitation of infrastructure at national, county and regional levels. Improved infrastructure will enhance Kenya's access and competitiveness in the global market. It is also expected that through enhanced competitiveness and reduced cost of doing business, Kenya will attract foreign investment in special economic zones and industrial parks, promote local manufacturing industries and MSMEs by improving product competitiveness and export market access through the establishment of regional and international trade logistic hubs. To achieve this objective, the Bank will invest in infrastructure (i.e., transport and water and sanitation⁷⁴) to reduce transportation cost and time and improve access to water and sanitation at a lower cost and improve agricultural productive capacity through irrigation to address food insecurity in the country. The Bank is expected to use its financing windows to play a catalytic role to attract investment in critical sectors that enhance green and inclusive growth with potential to unlock Kenya's development challenges, create jobs and mainstreaming climate change, digitization, and other cross-cutting themes. To support private sector development and reduce the cost of doing business, the Bank plans to finance additional energy non sovereign operations (see Annex 2.2). . The expected results under Strategic Outcome 1 are: (i) improved transit time for public service vehicles from 40 km/hour in 2022 to 60 km/hour in 2028, (ii) the transport operating cost to reduce on average from USD 0.85 to USD 0.50 per vehicle/km, (iii) the use of water by industries to increase from 1,500 m³/day 2022 to 16,000 m³/day in 2028, (iv) water treatment capacity by industries to increase from 1,000 m³/day in 2022 to 6,000 m³/day in 2028.

51. Strategic Outcome 2: Improved business environment to boost private sector development. Through the 2022-2027 BETA and the finalized MTP IV, the GoK plans to improve business environment through strengthening institutions, use of prudent monetary policy to achieve the inflation target of 5% and provision of quality and affordable farm inputs and products. The MTP IV also outlines ways to boost private sector development through construction and rehabilitation of urban and rural roads, improving electricity transmission, enhanced access of digital services, construction of water dams to support value chain development in manufacturing and irrigation sub-sectors and construction of 400 markets to enhance trade activities. This will be supported by implementation of the 2019 Investment Policy that seeks to create a conducive business environment to attract investment. In the area of economic governance, PBOs, result-based financing and TA shall be used to improve policy reforms aimed at improving the business environment through regulations that will promote private sector activities. This will be achieved through targeted reforms aimed at addressing constraints on regulation and competition in key

development activities that promote processing and value chain development. The expected results under Strategic Outcome 2 are: increased Kenya global entrepreneurship index⁷⁵ (GEI) from 18.3/100 in 2019 to 25/100 in 2028; increased new business density rate⁷⁶ from 1.5 in 2021 to 3.0 in 2028. It is expected that the economic reforms will result in 10% increase in tax revenue in order to reach the tax revenue to GDP ratio of 16% by 2028 from 14.5% in 2022.

Priority Area II: Human capital development

52. Objective: The main objective of this Priority Area is to support the Government's efforts on development of skills that advance industrial development to achieve inclusive growth. National priorities in this priority area include the automation and skills development of 144 digital labs, expansion of tertiary education across all counties, infrastructure development in primary, secondary and higher education institutions to enhance equity and access to education opportunities and strengthen linkages between demand and supply of labour from training institutions. The Bank will support the GoK efforts on projects that promote human capacity development in tertiary institutions. This area of focus is consistent with SDGs 3, 4, 8, 9 and 10 and the High 5s, notably industrialize Africa and Improve the Quality of Life of the People of Africa. Therefore, Bank operations will aim to (i) build human capacity of tertiary (higher education institution) graduates to facilitate their integration in the job market; including green and blue economy jobs, (ii) improve the transition to work with focus on youth and women. The operations will be designed to offer transformative investment opportunities on training by developing industrial linkages in line with job market demand. To achieve the objective of Priority II, the Bank operations will be aligned with the private sector development programs on skills development.

53. Strategic Outcome 3: Enhanced availability of technical graduates in support of high value-added and productive activities. The MTP IV identifies skills development as an enabler to achieving its development targets. This will be achieved through building skills to improve youth employability and access to employment opportunities. To achieve the, GoK plans to build entrepreneurial skills through the Kenya Innovation and Youth Enterprise Program by allowing graduates of the program to access start-up grants, skills training, mentorship, internship, and job placement. Bank support is expected to contribute to the MTP-IV through targeted skills development to promote productive economic activities and enhance labor productivity. It will also address skills mismatch⁷⁷ by creating decent employment opportunities through improved labor market efficiency and institutions. In particular, the Bank operations such as investments projects, PBOs and TA among others shall be used to build skills that promote entrepreneurial skills, and youth and women employment. The expected results under Strategic Outcome 3 will include (i) increased number of youths and women with employable skills from 20% in 2022 to 30% in 2028; (ii) increased enrollment in TVET to grow from 37% in 2022 to 45% by 2028⁷⁸; (iii) increased number of tertiary education institutions and industry linkages created from 20% in 2023 to 40% in 2028; (iv) graduates from tertiary institutions employed to increase from 10% in 2023 to 40% in 2028; and (v) number of sustainable businesses created by trained youths on entrepreneurship to increase from 500 in 2023 to 2000 in 2028.

54. Cross-cutting themes: The Bank's new operations in the CSP's two Priority Areas will mainstream several cross-cutting themes: gender, climate change and environment, fragility, private sector development, institutional improvement, and digitalization. More specifically, the integration of gender focused indicators will be pursued during design, implementation and monitoring stages of all operations. These cross-cutting themes will be mainstreamed in the Bank's new operations in the 4 sectors of the CSP and will also support private sector development by creating a conducive business environment. The Bank will mobilize resources to support the cross-

cutting themes from trust funds and co-financing. The expected results for each of the cross-cutting themes are captured in Annex 1.2⁷⁹.

55. Gender and youth: All new Bank projects under the CSP 2024-2028 will undergo gender screening as per the three pillars of the Bank's Gender Strategy; (i) empowering women through access to finance and markets; (ii) accelerating employability and job creation for women through skills development; and (iii) increasing women's access to social services through infrastructure. Additionally, gender activities will be mainstreamed in all Bank projects, and screening and categorization will also be undertaken as per the Bank's Gender Marker System. Measures to improve women participation and reduce gender-based violence (GBV) will be implemented in male dominated sectors such as construction. The Bank will support the GoK to build institutional and human capacity on data disaggregation based on gender to enhance the efficacy of outcomes and outputs of Bank operations. Each Bank's project will mainstream gender and youth-related issues through support for job creation and income-generating activities to improve the living conditions of women and youth in the areas of intervention. It's envisaged under TVET IV to equip 5000 vulnerable youth with relevant TVET Skills and work experience. Gender and youth mainstreaming is aligned to Kenya Vision 2030, the BETA 2022-2027 and the Bank's Gender Strategy 2021-2025, the Jobs for Youth Strategy (2016-2025), the TYS and the High 5's.

56. Private sector: The implementation of the CSP 2024-2028 will be supported by several actions that support private sector development to improve value chain development, enhance innovations to improve competitiveness to avoid the middle-income trap. This will be essential to support Kenya's desire for structural transformation to build resilience. To consolidate Bank interventions several opportunities such as improving the regulatory environment for PPPs will be supported. The CSP will also support project design for presentation to planned Africa Investment Forum to tap into private sector resources to amplify the impact of Bank project financing across the four sectors. The Bank, in collaboration with GoK, will catalyze PPPs in climate resilient investments, strengthen Kenya's role in regional infrastructures for peace, promoting integrated development approaches, and exploring humanitarian, development and peace nexus approaches to achieve inclusive development. The planned NSO will provide financing for the private sector in the energy, water, agriculture and finance sectors (Annex 2.2). The cross-cutting theme of mainstreaming private sector is aligned with Kenya Vision 2030, the BETA 2022-2027 and the Bank Group extended TYS, the High 5's, and the Private Sector Development Strategy (2021-2025).

57. Climate change and environment: All projects funded by the Bank will undergo screening and categorization by the Bank's climate change categorization system and measures will be integrated to strengthen mitigation and adaptation to build resilience. Each project will be assessed to align with Kenya's nationally determined contributions and existing and emerging climate change policies and guidelines to meet Kenya's goal of low carbon emission. Additionally, environmental and social safeguards will be mainstreamed, and compliance met according to the Bank's rules and National policies. These efforts will help address climate change challenges that are significantly affecting Kenya's productive sectors that are dependent on weather conditions such as agriculture. These adverse conditions also do affect the livelihoods of people in critical sectors such as agriculture and tourism. During the recent spell of drought in Kenya, a total of 32 counties out of 47 were affected. The problem is compounded by the lingering effects of COVID-19 recovery and Russia's invasion of Ukraine that have elevated food and energy prices. Climate change is aligned to Kenya Vision 2030, the National Climate Change Action Plan for Kenya, the Bank Group's Climate Change and Green Growth Action Plan, SDG 13, and AU 2063 Priority on Climate Change.

58. Fragility (including security): The CSP 2024-2028 will address fragility and vulnerability challenges and the Bank commits to systematically assess the drivers of fragility and support the prescription of mitigation measures. The Bank will continuously use the CRF diagnostic tool in collaboration with relevant agencies such as the Ministry of Interior, among others, to seek opportunities to support early warning mechanisms and joint work to monitor risks. Furthermore, during the implementation of Bank funded projects, communities will be sensitized on peaceful co-existence. While Kenya remains an important anchor for regional stability in East Africa, its borders remain exposed to spillover risks of violent extremism, piracy, human trafficking, and refugee flows, among others. Recent statistics from UNHCR show that the refugee and asylum-seeking population in Kenya stood at 580,792 persons as of 28 February 2023. A significant number of these refugees resides in northern parts of the country, among populations that are themselves vulnerable. Therefore, mainstreaming fragility in CSP 2024-2028 will help improve response mechanism, mitigate internal pockets of insecurity and conflicts and support Kenya's efforts to bring peace across the East Africa region. This cross-cutting theme is aligned to Kenya Vision 2030, the Bank's TYS, the Bank strategy on fragility, SDG 16 and AU Agenda 2063.

59. Institutional Improvement: During the implementation of the CSP 2024-2028, institutional capacity development will be central to enhance governance, efficiency, transparency and accountability in public service delivery. Institutional capacity-building components will be included in each Bank project to support their implementation, particularly regarding procurement. The Bank Group will promote institutional improvement by building soft infrastructure such as monitoring and evaluation tools and policy frameworks to improve project completion. Additionally, through provision of TA, the Bank will support the KRA to build institutional capacity to enhance domestic resource mobilization and help narrow the fiscal deficit. Through existing TA to the Debt Management office, the Bank will build capacity to enhance fiscal surveillance. Through use of TA, the Bank will support government initiatives to mitigate emerging macroeconomic challenges that undermine government's fiscal capacity to address these emerging climate and security vulnerabilities. Furthermore, enhanced institutional efficiency and governance will improve the government's fiscal space to respond to critical social sectors. During the new CSP implementation, prudence in fiscal management will be supported by the current CBK's proactive surveillance to improve price stability and cushion the most vulnerable populations. This theme is aligned to Kenya Vision 2030, the Bank's TYS and Bank Group Capacity Development Strategy 2021-2025, SDG 16 and AU Agenda 2063.

60. Digitization: To improve public service delivery, the CSP 2024-2028 will mainstream the use of digital services. In this regard, the new CSP will promote deepening of information, communication and technology services with the use of digital platforms to enhance business-to-business, customer-to-business and government-to-citizen services to reduce transaction costs, improve efficiency and support the 2022-2027 BETA for economic empowerment, job creation and improve linkages between BETA digitization Pillar with innovation and industrial transformation. Given the growing dematerialization processes in many sectors, each Bank's project will put emphasis on digitization. The mainstreaming of digitization in the CSP 2024-2028 is aligned to Kenya Vision 2030, the Bank's TYS, the Bank Digital Strategy (2022-2026) UN Road Map to Digital Cooperation of 2020 and AU Digital Strategy for Africa (2020-2030).

5.3. Indicative Lending/Non-Lending Program

61. The new CSP's 3-year rolling **lending program** (IOP) 2024-2026 will be funded from ADF-16 and 17 and ADB resources. The rolling three-year indicative operation program (IOP) currently consists of twenty lending interventions (eleven sovereign and nine non sovereign operations) as summarized in Annex A.2.1. Of the sovereign operations, eight (8) are envisioned under Priority

Area I and three (3) under Priority Area II with sectoral distribution of the program is as follows: transport (53%), water (15%), economic governance (20%), and social sector (12%). The sectoral distribution of the non-sovereign indicative operation program, on the other hand, is energy (80%), finance (12%) and agriculture (8%). The IOP was agreed following consultations with the authorities on priority areas for Bank support, based on Vision 2030, 2022-2027 BETA, and the finalized MTP IV, and the Bank's value proposition (corporate priorities, comparative advantage, leverage and anticipated resource envelope). The Bank will deploy various instruments from both the ADF and ADB windows, including the guaranteed instruments as necessary. Furthermore, the Bank will maintain coordination with other DPs active in Kenya to leverage resources in the form of co and parallel financing. The largest proportion of the IOP will consist of sovereign investment operations, PBOs, TA, and institutional support programs. For NSOs, the Bank will avail the full range of instruments such as direct financing assistance (long-term debt, trade-finance, equity, guarantees, loan syndications, and underwriting), advisory services, TA and capacity building. More information regarding the planned NSOs in the 2024-2026 IOP is given in the Annex A.2.2. Implementation of ongoing projects approved under the previous CSPs will also continue during the new strategy. The IOP will be revisited at MTR of the CSP to ensure implementation scheduling and alignment with any emerging changes in national priorities.

62. Indicative non-lending operations. The non-lending program will focus on building capacity across sectors and providing advisory services and analytical support. The outcome of the analytical work will inform the Bank's dialogue with the GoK aimed at: (i) improving new Bank operations, (ii) informing the design of planned operations, (iii) informing expected reforms to achieve inclusive and structural transformation, including improving domestic resource mobilization (iv) supporting policy implementation, (v) improving portfolio performance and (vi) improving GoK's decisions in the Bank's areas of interest.

5.4. Country Dialogue and Reforms

63. Dialogue with the GoK and other key stakeholders will continue, focusing on (i) improving the macroeconomic framework, notably with a focus on public debt and structural transformation to build resilience; (ii) strengthening domestic resource mobilization by widening the tax base and bridging the tax compliance gap; (iii) improving productive capacity by enhancing value chain development; (iv) improving private sector and capacity development; and (v) improving the quality of the portfolio and policy reforms to address identified challenges in project implementation and structural policy reforms guided by the Policy Reform Dialogue Matrix (Annex 1.3). The Dialogue with the DPGs will involve coordinating efforts in general budget support and co-financing (Annex 14).

5.5. Financing the Strategy

64. The estimated financing of the IOP is approximately UA 1410 million, of which the ADF will contribute 6.4%, the ADB Sovereign Loans 64.9%, and the ADB Non-Sovereign Loans 28.7%. Estimated co-financing is UA 250 million. Financing of Priority Area I projects is estimated at UA 885 million, while that of Priority Area II projects is estimated at UA 120 million. The average size of public projects as of July 2020 was UA 76.3 million (Annex A.6.2), while the average project size for the public sector IOP (2024-2028) is estimated at UA 83.2 million (Annex A.2.1). There is better selectivity and focus on larger transformative operations in the new CSP.

65. To leverage its limited resources, the Bank will connect with and coordinate co-financing arrangements with various partners on both sovereign and non-sovereign operations and especially with partner development institutions such as the World Bank Group, the European Union and the other bilateral development agencies active in Kenya. The Bank will supplement these efforts with

Bank-managed funds including the Japan’s Enhanced Private Sector Assistance (EPSA), China’s Africa Growing Together Fund (AGTF), the various Climate Investment Funds, the Affirmative Finance Action for Women in Africa (AFAWA) and the Gender Equality Trust Fund (GETF), as well as other bilateral co-financing arrangements such as those with Japan International Cooperation Agency (JICA), French Development Agency (AFD), and Korea’s EDCF, among others. Whenever possible, the Bank will take the lead on a given project while seeking to get others to follow, thereby avoiding any duplication of efforts and ensuring efficiency. The non-lending program will support lending operations and underpin Government policy and decision-making. Funding of these programs will be supported from MIC TAF, other trust funds and RDGE’s administrative budget.

5.6. Implementation Arrangements, Monitoring and Evaluation

66. During the implementation of CSP 2024-2028, monitoring and evaluation arrangements will be improved. Further to the results measurement framework that comprises of strategic alignment and performance matrices, conclusions and recommendations of the portfolio performance review, project and program completion reports and those of the CSP MTR in 2026 and the CSP CR in 2028 will be used as a basis to improve the assessment of the progress of the new CSP 2024-2028. This will be undertaken in a multifaceted approach to strengthen monitoring and evaluation systems of the GoK. Through support from RDGE and Bank’s Statistics department all projects will have monitoring and evaluation components⁸⁰ and a progress report tracking output and outcome results to be prepared at Mid-term and completion.

5.7. Risks and Mitigation Measures

67. The major risks likely to impact the implementation of the Bank’s new intervention strategy include (i) the negative effects of climate change that result in drought, (ii) commodity price fluctuations due to the prolonged effect of Russia’s invasion of Ukraine, (iii) tight liquidity in the international market due to debt sustainability concerns and shifts in monetary policy in advanced economies, (iv) emerging variants of COVID-19 and other pandemic risks, and (v) fiduciary and fiscal risks. Furthermore, risks related to project implementation such as roads may arise with citizens’ concerns regarding access and compensation. The new CSP will hold policy dialogue meetings with concerned stakeholders and GoK for timely response and completion of projects. These risks and respective mitigation measures are elaborated in detail in Annex 15.

68. Political instability and prevailing unrests. The election of August 15, 2022, ushered in a new Government that is implementing several policies/programs aimed at addressing macroeconomic challenges to support achievements of socioeconomic development objectives such as inequality, poverty, etc. However, these policies such as the Finance Act of 2023 have led to an increase in value added tax and the cost of living, thereby causing political instability through demonstrations. Consequently, business activities have closed during demonstrations and properties were destroyed across major cities of Nairobi, Mombasa and Kisumu and other towns. The continued instability may affect implementation of Bank’s operations. The Bank proposes to mitigate this risk through a comprehensive support to improve domestic resource mobilization by expanding the tax base and institutional capacity building to mitigate fiscal risks on debt.

6. CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

69. The CSP 2024-2028’s main objective is to support Kenya to achieve structural transformation and build resilience, through priority areas: (i) Boosting private sector development through infrastructure and policy reforms, (ii) Human capital development. These two priority areas will support the Bank to consolidate its accomplishments in Kenya and support Kenya’s sustainable

and inclusive growth agenda, policy reforms to improve domestic resource mobilization and debt management which are crucial for the country to build resilience so as to cushion itself against emerging shocks.

6.2 Recommendation

70. Further to the endorsement by the Committee on Operations and Development Effectiveness (CODE) on November 21, 2023, **The Boards of Directors are requested to consider and approve the Country Strategy Paper (CSP) 2024–2028 for Kenya.**

LIST OF ANNEXES

Annex 1: CSP 2024 – 2028 Results Based Framework

Annex 1.1 Strategic Alignment Matrix

Priority Area I – Boosting Private Sector led Growth through infrastructure development and policy reforms	
National Development Goals	Bank Group Policies/Strategies
<p>Kenya Vision 2030: aims to “create a globally competitive and prosperous country with high quality of life by 2030”. Vision 2030 is made of three pillars that include (i) economic pillar, (ii) social pillar and (iii) political pillar. The economic pillar seeks to improve the lives of the people by achieving a 10% growth rate.</p> <p>Kenya’s 2022-2023 Bottom-up Economic Transformation Agenda (BETA): the five priority sectors include (i) Agriculture; (ii) MSME economy; (iii) Healthcare; (iv) Housing and Settlement; and (v) Digital Superhighway and Creative Economy. From the five identified BETA Pillars, the Bank will contribute to (i) Infrastructure development in transport and water to improve domestic productivity, spur private sector development and attract foreign direct investment; (ii) Effective governance through improving efficiency of institutions; (iii) Private sector development that enhances industrial productivity; (iv) Human capital development for a globally competitive and highly motivated human resource; and Climate change sustainability to build resilience for a clean and secure environment.</p>	<p>Ten-Year Strategy 2013-2022 Extended to end-2023: Operational priorities – private sector development; economic governance; accountability; skills development.</p> <p>High 5s: (i) Light up and Power Africa; (ii) Feed Africa; (iii) Industrialize Africa; (iv) Integrate Africa; and (v) Improve the Quality of Life of the People of Africa.</p> <p>East Africa Regional Integration Strategy Paper 2023-2027: The two Priority Areas of (i) Improving regional infrastructure and (ii) developing regional value chains and facilitating trade are well aligned with the 2024-2028 CSP.</p>
Country Sector/Thematic Strategy	Bank Sector/Thematic Strategy
<p>Kenya Road Board Strategic Plan 2023-2027 National Road Safety Action Plan 2021-2025 Kenya Urban Roads Authority Strategic Plan Kenya National Highways Strategic Plan 2023-2027 National Water Services Strategy 2007-2015 National Water Master Plan 2030 National Water Harvesting and Storage Strategy 2020-2025 Ministry of Water and Sanitation Strategic Plan 2018-2022 Kenya Environmental Sanitation and Hygiene Policy 2016-2030 National Climate Change Action Plan 2018-2022 National Determined Contribution to the Paris Agreement Updated 2020 Medium Term Plan IV 2024-2028 Medium Term Debt Management Strategy 2023 Medium Term Revenue Strategy 2023</p>	<p>Bank’s Water Policy - approved in May 2021 Bank’s Water Policy – approved in May 2021 Africa Water Facility Strategy 2017-2025 Bank Group Gender Strategy 2021-2025 Strategic Plan for Economic Governance in Africa 2021-2025 Bank Group Strategy for Addressing Fragility and Building Resilience in Africa 2022-2026 Bank Groups Capacity Development Strategy 2021-2025 Climate Change and Green Growth Strategy 2021-2030 Bank Group PPP Strategic Framework 2021-2031 Regional Integration Strategic Framework 2018-2025 Strategy on Economic Governance in Africa 2021-2025 Bank Group’s Strategy for Addressing Fragility and Building Resilience in Africa 2022-2026</p>

Kenya Revenue Authority Strategic Plan 2022-2024			Bank Group Africa Digital Transformation Plan 2022-2026	
Country Development Results/Indicators			Planned Bank's Interventions & Resources	
Indicator	Baseline (2023)	Target (2028)	Generic areas of interventions/instruments	UA million/billion
Transport			Investments	1,790
Construction/rehabilitation of roads (Kms)	4,000	10,000	... of which sovereign operations	885
Construction/rehabilitation of paved road network (%)	50	70	... of which non sovereign operations	405
Transport index of the African Infrastructure Development Index (AIDI)	10.4 (2022)	13	... of which co-financing	500
			Capacity building	0.8
Water			Technical Assistance	1.5
Construction of water dams/pans (number)	150	600	Knowledge work	0.6
Water storage capacity (billion m ³)	1	1.5		
Sewerage capacity to increase (%)	32	45		
Economic Governance				
Tax revenue to GDP ratio	14.5%	16%		
Public and publicly guaranteed debt service to exports ratio	20.5%	18.5%		
Priority II: Human Capital Development				
National Development Goals			Corporate Policies	
Kenya Vision 2030: aims to “create a globally competitive and prosperous country with high quality of life by 2030”.			Extended Ten-Year Strategy 2023-2032: Operational priorities – private sector development; economic governance accountability; skills development. High 5 Priority Areas: (i) Industrialize Africa and (ii) Improve the quality of life for the people of Africa.	
Country Sector Strategy			Bank Sector Strategy/Thematic Strategy	
Kenya National Education Strategic Plan 2018-2022 Kenya Education Sector Reform Report of the Presidential Working party on Education 2022			Skills for Employability and Productivity in Africa Action Plan, 2022–2025 Strategy for Economic Governance in Africa 2022-2026 Jobs for Youth in Africa Strategy 2016-2025 Jobs for Youth in Africa Strategy 2016-2025 Bank Group's Capacity Building Strategy 2021-2025	
Country Development Results/Indicators			Planned Bank's Interventions & Resources	
Indicator	Baseline (2023)	Target (2028)	Generic areas of interventions/instruments	UA million/billion
Skills development			Investment:	120
Youth unemployment rate (%)	35%	30%	... of which sovereign operations	30
			... of which non sovereign operations	90
			... of which co-financing	

			Capacity building	0.4
			Technical assistance	0.5
			Knowledge work	0.15

Annex 1.2: Performance Matrix

Performance areas	Monitoring indicators	Baseline 2024	Target 2028	Means of verification	
Operational Results: Outcomes	Priority Area I: Boosting private sector led growth through infrastructure and policy reforms				
	Transport				
	Average fare for public road transport (USD)	20	10	Project evaluation reports, KNBS and Ministry of Roads and Transport	
	Time spend in transit (kms/hour)	80	60		
	cross-bording time between Kenya and Tanzania, Kenya and Uganda border crossing time etc. (number of hours)	1	0.5		
	Water and sanitation				
	Profit income for industries (% of total)	5%	15%	Country office reports, KNBS	
	cost of handling on site sanitation by industries (% of total)	5%	25%		
	Economic governance				
	CPIA debt policy score (index)	3.5	4.0	Country office reports, CPIA report, KNBS	
Tax compliance sensitization workshops (number)	20	40			
Operational Results: Outcomes	Priority Area II: Human capital development				
	Skills development				
	Number of linkages between tertiary and industry (%)	2%	20%	Project evaluation reports, CSP Completion Report, Education Sector Reports, Country office reports	
Number of tertiary graduates employed (% of total graduates)	10%	40%			
Operational Results: Outputs	Priority Area I: Boosting private sector led growth through infrastructure and value chain development				
	Transport				
	Roads constructed (in kms)	500	900	PCR/PER/ CSP CR/KNBS Sector Reports, Country office reports	
	Density of road network (kms/1000 inhabitants)	500	800		
	Water and sanitation				
	Water supply for industries (m ³ /day)	1,500	16,000 m ³ /day		
	Industrial water treatment capacity (m ³ /day)	1,000	6,000 m ³ /day		
	Economic governance				
	policy reforms developed for resource mobilization (number)	1	2		
	policy reforms developed for business environment (number)	1	2		
People trained on debt management and PFM (number- 50% women)	25	100			
Priority Area II: Human capital development					

Operational Results: Outputs	Skills development			
	Tertiary Institution: TVET & University (number of staff)	2,432	2,500	PCR/PER/ CSP CR/KNBS Education Sector Reports, Country office reports
	youths trained on entrepreneurial skills (number)	1,000	5,000	
	Youths trained on entrepreneurial skills (number-50% women)	1,000	5,000	
Cross-cutting issues				
Job created				
Climate change and green growth	Projects that incorporate climate change on adaptation and mitigation measures, aligned to Paris agreement (% of operations)	50%	100%	Project evaluation reports/Climate change progress reports
	Trainings on climate change and green growth (training)	1	4	
	Allocation of climate portfolio financing (% of Bank's climate financing)	2	20	
	external climate financing mobilized (USD million)	6	50	
Gender	Establish a gender desk in the Ministry of Water, Sanitation and Irrigation (no/yes)	No	Yes	Project evaluation reports, KNBS
	women in STEM training (% of total STEM graduates)	20	40	Project evaluation reports,
	Number of female Tertiary education beneficiaries (% of total)	10	50	MoE reports, KNBS
Financial leveraging				
Private sector development	Number of entrepreneurial trainings for businesses (1 per year)	1	4	Project evaluation reports, KNBS
	Industrial linkages between tertiary institutions and industry (number)	2	22	
	Develop a Public, Private Partnership financing and infrastructure maintenance and sustainability model (number).	1	2	
Fragility (including security) – vulnerability and resilience	Jobs created in security affected areas (% of total jobs in area)	2	10	Project evaluation reports
	Infrastructure projects with community resilience components (Number)	10	60	
	New capacity building projects including business environment and related activities (% of total)	10	50	
Institutional improvement	Number of trainings to strengthen institutional governance (1 per year)	2	6	Project evaluation reports
	Number of trainings for tertiary institutions staff on curriculum development (4 per year)	4	24	
	Number of government staffs trained on governance (4 per year)	4	24	
Digitization	Number of tertiary trainings with digital component (% of total)	10	20	Project evaluation reports/CSP CR/PCR
	Number of staff from tertiary institutions trained on use of digital components (% of total)	5	20	
	Number of institutions supported to build digital infrastructure for sector inter-linkages (1 per year)	2	6	
Portfolio performance	Projects flagged due to implementation difficulties (%)	25.6%	20%	CPPR dashboard

	Time elapsed between project approval and signature (numbers of months)	5.1	4.5	
	Time elapsed between loan approval and first disbursement (number of months)	14.8	10	
	Risky projects (number of projects)	1	0	
Sustainability and capacity building	Fiduciary clinics organized (1 per year)	4	8	PCRs/CSP CR and country office reports
	Projects with embedded capacity building initiatives (%)	50	80	
Knowledge based activities/policy advisory works	ESWs carried out (1 per year)	2	6	Country office reports
	Number of Policy dialogue notes prepared (1 per year)	2	6	
Harmonization of development initiatives	Working groups AfDB staff participates (number – 2 per year)	2	6	Country office reports, IPR/PCR
	Joint donor missions (1 every two years)	1	3	
	Joint Bank departmental missions (number)	1	5	
	Working groups co-chaired by AfDB (1 out of total working groups)	1	1	
	Use of country procurement systems (% of AfDB operations)	15	30	

Annex 1.3a: Policy Reform Matrix

KENYA POLICY REFORM DIALOGUE MATRIX									
Reform/ Activity supported	GCI-VII and/or ADF-16 high-level commitment (for ADF-16 commitments indicate pillars plus objective and objective code)	High-5(s) supported	Technical Bank department(s) in charge	Expected timeline for completion of reform(s)	Key expected results	Support Instrument (PBO/RBF/Investment Project/ISP/ESW/TA/etc.)	ESW/TA required? (title/purpose, cost secured/not secured, timelines)	Status/progress & Key Milestones achieved	Comments
Structural reforms through private sector development									
Private sector reform to promote private sector investment	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: Developing capacity .	Industrialize Africa	RDVP	4th Quarter 2028	(1) institutional, legal and policy reforms supported to improve private sector participation and improved macroeconomic management. (2) Envisaged policy reforms during the new CSP period include: tax reforms on reporting and compliance, improved debt management, digitization of Government Services, intra-ministerial project coordination, monitoring and evaluation improved; policy reforms to support trade and industry; regulations governing EPZ operations harmonized. (3) Increased investment in enablers of structural transformation e.g., human capital development, infrastructure, etc.	PBO PBO	No YES	See Annex 1.3b for details of reforms supported by the Bank and progress made. New	Bank supported policy reforms are implemented. N/A

Annex 1.3b: Kenya Policy Reform Dialogue Matrix: Results Achieved

KENYA POLICY REFORM DIALOGUE MATRIX : REFORMS IMPLEMENTED								
Reform/Activity supported	GCI-VII and/or ADF-16 high-level commitment (for ADF-16 commitments indicate pillars plus objective and objective code)	High-5(s) supported	Technical Bank department(s) in charge	Implementation period	Support Instrument (PBO/RBF/Investment Project/ISP/ESW/TA/etc.)	ESW/TA required? (title/purpose, cost secured/not secured, timelines)	Status/progress & Key Milestones achieved	Comments
Structural reforms through private sector development								
Guidelines for Special Economic Zones (SEZ) providing clarity on customs facilitation approved and published	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To grow the manufacturing sector, and provide clarity on customs facilitation, the Government published the SEZs Amendment Regulations that operationalize the SEZ Act. To grow the manufacturing sector, and provide clarity on customs facilitation, the Government published the SEZs Amendment Regulations that operationalize the SEZ Act.			2021				
SEZ legislation amended.	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To bring clarify, predictability and sustainability on SEZ incentives and aligned with AfCFTA requirements			2022					PBO

Green Manufacturing Strategy approved and implemented.	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: Enhancing sustainability			2021	Bank's prior/trigger actions in its Competitiveness and Economic Recovery Support Program (CERSP) – A Budget Support Operations.	in 2019 and was on track to reach the target of KES 847 billion in 2022. (iii) The Micro & Small Enterprises Authority (MSEA)'s database has about 19,042 registered MSMEs since the registration system went live in April 2021 with the support of UNDP. Sensitization campaign across all 47 counties has been stepped up and, therefore, this indicator was on track to be met by December 2022. The disaggregated data by women is not available. (iv) 1,573,085 Kenyans (including 1,093,852 under the <i>Inua Jamii</i> cash transfer program that target the most vulnerable) have this far benefited from social protection and safety nets programs support by Government in partnership with DPs. The disaggregated data by women is not available.	
Public Private Partnership (PPP) Unit elevated to a Directorate.	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To streamline the PPP approval process and improve the institutional arrangements for PPPs and to facilitate private investments in infrastructure and the industrial sectors.			2021			
Public Investment Management (PIM) Regulations published	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: Improve efficiency public investments.			2021			
National Treasury applies PIM M&E criteria to the inventory of active projects and	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To rationalize public sector inventory.			2021			
Macroeconomic Policy Reforms							

The Big Four Economic Plan – Operational priority of the 3 rd Medium Term Plan.	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: Support the Kenyan Government in the design of operational priorities for the 3 rd Medium term plan.			2019-2022			Four priority areas were identified (food and nutrition security, manufacturing, affordable housing and universal health coverage.). The National Planning at the National Treasury is currently working on the MTP-III Completion report.	The African Development Bank as a trusted partner was among the few stakeholders that supported the plan.
Supporting the Tax Law (Amendment) Bill No. 2 2020 to enhance revenue performance	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To enhance revenue performance		RDVP/ ECVP	2020				
Supporting the Kenya Revenue Authority to audit all product tax exemptions over the past 5 years.	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To create fiscal space.			2022				
Second Mutual evaluation by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) conducted.	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To improve transparency in public finances			2022		The importance of these reforms for macroeconomic stability were acknowledged by various analytical works (Growth Diagnostics Study) and consultations with various stakeholders. They were made part of Bank's prior/trigger actions in its Competitiveness and Economic Recovery Support Program (CERSP) – A Budget Support Operations.	Some of the envisaged outcomes of the policy reforms include: (i) the overall fiscal balance as percent of GDP has narrowed from -8.1% in 2020 to -6.9% in 2022 (slightly short of the target of -6.6%). This could be attributed to	

Public Procurement and Asset Disposal (PPAD) Regulations issued to facilitate e-Procurement; 23 Standard Bidding documents (SBDs) approved and published	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To create fiscal space.		2020			increase spending due to the Ukraine crisis instigated shocks. (ii) public and publicly guaranteed debt service to exports ratio has improved from 27.5% in 2020 to 21.6% in 2022 (surpassed the target of 25.5%).
E-Procurement policy framework (including e-procurement strategy, implementation roadmap, business model and business processes and specifications)	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To rationalize public spending and improve efficiency of public expenditure.		2020			
Comprehensive information on all awarded public tenders including beneficial ownership information published on the public procurement information portal	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To rationalize public spending		2021			
Management Information System (MIS) for SOE monitoring enhanced to include SOEs financial information, budget submission and monthly/ quarterly reporting	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To manage contingent liability.		2021			

Updated Sovereign Debt Management Strategy (SDMS) approved and published (SDMS)	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To improve debt management			2021				
Fiscal Commitments and Contingent Liability (FCCL) framework developed and operationalized	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To improve contingent liability management.			2021				
Disclosure framework for debt statistics, reporting and settlement revised in line with international best practice	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To improve debt management.			2021				
The Unemployment Insurance Fund (UIF) established	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To improve social inclusion			2021				

Women's Enterprise Fund (WEF) Credit Policy (introducing new products and tech-based services) and Procedures Manual approved by the WEF Board	PILLAR 2 - Governance, institutions and human capacity for inclusive growth. Objective: To improve social inclusion			2021				
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Annex 2.1: Sovereign Indicative Operations Program (IOP) 2024-2026

Project	Year	Amount in UA(Million)		Leading Bank Dpt.	Sector	Associated High 5	Indicative Cofinancing UAM
		ADB	ADF				
Priority Area I Boosting Private Sector led growth through infrastructure and value chain development							
National Urban Water and Sanitation Program	2024	60		AHWS	Water	Improve the Quality of Life for the People of Africans	
Thwake Multipurpose Dam Irrigation Component Development	2024	90		AHAI	Water	Feed Africa	
Economic Governance Reforms Program Phase I	2024	100		ECGF	Economic Governance	Improve the Quality of Life for the People of African	50
Multinational: Malindi-Mombasa-Lunga-/Tanga-Bagamoyo Road (Phase II)	2025	150		PICU	Transport	Integrate Africa	40
Rehabilitation of Kisumu – Busia Road	2025	120		PICU	Transport	Integrate Africa	
Economic Governance Reforms Program Phase II	2025	100		ECGF	Economic Governance	Improve the Quality of Life for the People of African	
Urban Mobility - Nairobi Mass Transit System (MRTS)	2026	150		PICU	Transport	Integrate Africa	100
Rehabilitation of Thika – Kenol Road	2026	115		PICU	Transport	Integrate Africa	
Sub-Totals for Priority I		885					190
Priority Area II: Human Capital Development							
Support to Higher Education Science and Technology (HEST) Phase II	2024		40	AHHD	Social	Improve the Quality of Life for the People of African	
Support to Enhancement of TVET Skills Delivery for Employment (ETSDE)- TVET Phase IV	2025		50	AHHD	Social	Improve the Quality of Life for the People of African	30
Kenyan Innovation and Youth Enterprise Program	2026	30		AHHD	Social	Improve the Quality of Life for the People of African	
Sub-Totals for Priority II		30	90				220
Grand Totals Priory I & II		915	90				

Annex 2.2: Non-Sovereign Indicative Operations Program (IOP) 2024-2026

Project	Year	ADB Amount in UA(Millions)	Leading Bank Dpt.	Relevant High 5	Indicative Cofinancing (UAm)
Selu Ltd – Galana Kulalu Irrigation Scheme	2024	20	AHFR	Feed Africa	30
TARDA Integrated Livestock Farm,	2024	12	AHFR	Feed Africa	
Aperture Green Power	2024	30	PESR	Light Africa	
Kenya Transmission PPP	2024	60	PESR	Light Africa	
Green Bond for Sustainable Energy Solutions - Safaricom	2025	50	PIFD	Industrialize Africa	
Trade Finance and Transaction Guarantee for Equity Bank	2025	50	PIFD	Industrialize Africa	
Fortescue Future Industries Geothermal Project	2025	50	PESR	Light Africa	
Kenya Electricity Generation Company - Corporate Loan	2026	113	PESR	Light Africa	
Sosian-Menengai Geothermal Power project	2026	20	PESR	Light Africa	
Sub-Totals NSO		405			30
Grand Totals SO and NSO		405	1410		250

Annex 2.3: Indicative Non-lending Program

Projects	Type of activity	Year	Amount (in UA) and Source of funding
Optimization of Public Debt and its Impact on Economic Growth	ESW	2025	50,000 (Adm budget)
Understanding and managing fiscal risks in Kenya	ESW	2024	50,000 (Adm budget)
Study on the Impact of AfCFTA on sectoral performance in Kenya	ESW	2026	50,000 (Adm budget)
Country Resilience & Fragility Assessment (CRFA) - 2024	ESW	2025	NA
Kenya Country Focus Report	Flagship report	2024	NA
Kenya Country Focus Report	Flagship report	2025	NA
Kenya Country Focus Report	Flagship report	2026	NA
Kenya Country Note for 2024 Africa Economic Outlook (AEO)	Flagship report	2024	NA
Kenya Country Note for 2025 Africa Economic Outlook (AEO)	Flagship report	2025	NA
Kenya Country Note for 2026 Africa Economic Outlook (AEO)	Flagship report	2026	NA
Training of Line Ministries, PIUs and NT on emerging issues	Training	As demand arises	NA
Support to National Treasury to implement the new PFMR strategy	Technical Assistance (TA)	2024	300,000 (MIC grant)
Support the Public Procurement Authority	TA	2025	300,000 (MIC grant)
Occasional advisory services to government on diverse economic policy issues, particularly as part of budget support operation dialogue missions	Policy advice	As demand arises	NA
Total			750,000

Annex 2.4: Contribution of Sovereign Indicative Operation Program

Lending: The rolling, three-year indicative operation program (IOP) of the Bank Group in Kenya for the period 2024-2028 currently consists of twenty (eleven SOs and nine NSOs) lending interventions as summarized in Annex 2.1. Of the sovereign operations, six (6) are envisioned under Priority Area I and five (5) under Priority Area II. The sectoral distribution of the SO indicative operation program is as follows: transport (53%), water (15%), economic governance (20%), social sector (12%). The sectoral distribution of the non-sovereign indicative operation program on the other hand is as follows; Energy (80%), finance (12%) and agriculture (8%). The IOP was agreed following consultations with the authorities on priority areas for Bank support, based on Vision 2030, 2022-2027 BETA, finalized MTP IV and the Bank’s value proposition (corporate priorities, comparative advantage, leverage and anticipated resource envelope). The Bank will deploy various instruments from both the ADF and ADB windows, as necessary. Furthermore, the Bank will maintain coordination with other development partners active in Kenya to leverage resources in the form of co-financing/parallel financing. The largest proportion of the IOP will consist of sovereign investment operations, policy-based operations (budget support), technical assistance, and through institutional support programs. For non-sovereign operations, the Bank will avail the full range of instruments, including, direct financing assistance (long-term debt, trade-finance, equity, guarantees, loan syndications, and underwriting), advisory services, technical assistance and capacity building. More information regarding the planned non-sovereign operations in the 2024-2028 IOP is given in the Annex A.2.1.2 Implementation of ongoing projects approved under the previous Bank Group strategy for Kenya will also continue during the new strategy. The IOP will be revisited at the mid-term review of the CSP to ensure implementation scheduling and alignment with any emerging changes in national priorities.

Annex 3.1: Key findings of the CSP Completion Report

Transport
The outcomes realized was reduction in travel time, cost, and congestion in urban roads and major cities and towns, and improvement in regional trade flows.
Energy
The share of renewable energy increased from 66.6% to 92.2%, the share of persons with access to electricity increased from 75% to 78% and electricity installed increased from 2351 MW to 3064 MW.
Water and Sanitation
Persons connected to safe pipe water increased from 60% to 63% and those connected to sanitary services increased from 24% to 25.5%.
Agriculture
The farmers income due to value addition increased from 15% to 45%, land with increased water management increased from 3,173 to 12,000 hectares and volume of water stored increased 70,000 to 2 million. Additionally, the average crop yield increased from 2.7 to 9.45 hectares, people benefiting from investments in agriculture increased from 6,000 to 1.08 million and average farmers income increased from Kes. 150,000 to Kes. 206,750.
Finance
The Bank operations led to US\$ 0.8 billion increase in foreign direct investment, and manufacturing export increased from US\$ 1,550 million to US\$ 2,200 million. The contribution of manufacturing to GDP increased from 9% to 10% and 352,600 jobs created in the sector.
Social sector
Enrollment in TVET increased by 43%, and 77% of TVET graduates were employed. The number of TVET student enrollment increased from 212,000 to 500,000 and the percentage of university students enrolled in engineering and applied sciences increased to 20.6%. The youth unemployment reduced from 22% to 17.6%.
Multi-sector

Through the PBO to support mitigation the effects of COVID-19 significantly increased the number of healthcare workers from 5,116 to 10,616 personnel and this boosted testing and vaccination capacity increasing from 0.0% in 2019 to 4.9% of the total population. The reforms implemented through the Bank's support also led to the protection of SMEs through tax reliefs during the pandemic. During the program 35,450 firms with turnover below Ksh.100 million benefited from corporation tax relief and turnover tax reduction from 3% to 1%.

Cross-cutting issues

Several achievements were realized under the cross-cutting issues leading to the following outcomes (i) improved women's economic and social conditions; (ii) enhanced sustainability in road infrastructure; (iii) technical empowerment of women thanks to among others, 42.8% of TVET enrollments that went to girls; (iv) climate-resilient infrastructure in water sector through 98,000 trees planted to protect water catchment areas; (v) increase in cross border trade.

Annex 4.1: CODE Comments on CSP 2019-2023 Completion Report together with CPPR

Guidance	Response / Action Taken
Conclusions	
The Committee endorsed the Kenya Country Strategy Paper 2019-2023 Completion Report and the Country Portfolio 2022 Performance Review.	Noted and thanks
It expressed satisfaction with the implementation of the CSP 2019-2023 and the country's economic resilience to shocks and welcomed the mobilization of co-financing. However, the Committee noted the persistence of challenges at several levels, including economic, social, governance and security.	Noted and thanks
Members noted shortcomings in the implementation of the portfolio, particularly with regard to environmental and social safeguards, and asked management to further improve the situation in this respect during the next programming cycle.	The following actions will improve the compliance to the Environment and social safeguard implementation requirements (i) The Capacity building trainings on the Bank's E&S implementation and reporting requirements will be strengthened to enhance the awareness and capacity of all implementing agencies officers from the National land commission and National Environment Management Authority (ii) RDGE has recruited a dedicated consultant who is in charge of supervising projects and day to day engagements with the executing agencies and communities to ensure compliance with agreed E&S requirements (iii) The Bank has committed to financing part of the compensation payment to people affected by the project to minimize complaints caused by compensation payment delay.
The Committee considered the two priority areas for the next CSP 2024-2028 to be appropriate and selective, and welcomed the focus on water and sanitation and the private sector, including strengthening links with local banks to ensure better access to finance.	Noted and thanks
The Committee encouraged the emphasis on improving domestic resource mobilization and strong coordination between DPs.	The new CSP will work to strengthen KRA operations through institutional capacity building that can support expansion of the tax base and domestic resource mobilization (see para 52). This will be achieved through provision of TA, advisory services and policy dialogue. Through the Development Partners Group (DPG) and the Sector Working Groups, the Bank will collaborate and coordinate with different partners to achieve the objectives of Paris Declaration of Aid Effectiveness, the AAA and the Busan Partnership for Effective Co-operation (see para 22).
Lastly, it stressed the importance of reliable data, disaggregated by gender, to properly measure progress.	Through Priority II on human capacity development implemented in the skills development sector, the new CSP will help strengthen capacity of Ministries and agencies on statistics and data collection. This will focus on disaggregation by gender to meet the expected outcomes and outputs of the projects (see para 48).
Recommendation	
Monitors the debt situation and focus on infrastructure maintenance for project Sustainability.	The new CSP 2024-2028 shall strengthen institutional capacity of Debt Management Office (DMO) through PBO and TA to building capacity on (i) debt and fiscal risk assessment (ii) regulatory framework to strengthen debt management, see para 52.

Annex 5: Findings of stakeholder consultations

Consultation with the Private sector

Consultations with the private sector took place in August 2023 during the CSP preparation mission with representatives from KEPSA. KEPSA on behalf of the private sector acknowledged the relevance of the CSP 2024-2028 and the two Priority areas. They underscored the need for the Bank to partner with KEPSA to build capacity, knowledge production and improve access to commercial bank lines of credit. This will be important to enhance productivity, improve value chains and public, private partnership in project implementation. The private sector also proposed policy reforms such as harmonization of policy and regulations on EPZs and develop a white paper for export-oriented economy to build resilience. More reforms to improve business climate through improved regulatory framework were called for to ease business operations, simplified tax regime and knowledge sharing between sector players. In the regard, the Bank to human and institutional capacity building to de-risk SMEs and MSMEs to enhance their access to credit facilities. The lines of credit advanced by the Bank to commercial banks should be require enhanced monitoring and evaluation and provision of adequate data of beneficiaries of the facility.

Consultation with Development Partners

The consultation with DPs was held on 11th August 2023 and they acclaimed the strategic relevance of the CSP 2024-2028. The search for co-financing and parallel financing will be pursued with DPs that include the World Bank, the European Union, the EIB, JICA, AFD, among others to support GoK development priorities. The Bank to collaborate with the UNDP on PFM that is already being done to build capacity in different government agencies. Further collaborations will be pursued with the IMF on reforms and governance in fiscal policy management to enhance resource mobilization and debt management. The Bank to collaborate with UNHCR and WFP to mitigate fragility and vulnerability challenges that affect Kenya.

Consultation with the Civil Society Organizations

The mission held a consultation with the CSO's and they support the two Priority areas acknowledging that they help improve the welfare of the citizens while addressing Kenya's development challenges. In particular, mainstreaming of cross-cutting issues will be central to address climate change challenges, improve gender representation and address pockets of fragility in Kenya. Given the indisputable role of CSO's in the development process, there is need to deepen partnership. Their presence is instrumental in creating an environment where economic growth is advantageous for all sectors of society, and where considerations for social and environmental well-being are prioritized. CSOs contribute to this vision by advocating for inclusive policies, conducting meticulous research, promoting accountability, and

encouraging community engagement. These contributions greatly influence the success of endeavors aimed at achieving sustainable and equitable development through structural transformation. The CSO's consider the two priorities as relevant to the needs and aspirations of Kenyans for improved job creation, economic empowerment and inclusive growth.

The CSOs have encountered limited opportunities for project consultations. However, when granted the opportunity, they consistently raise pertinent issues pertaining to climate change and environmental safeguards. It is worth highlighting that the Independent Review Mechanism (IRM) has registered more than four project requests from Kenya in August 2022 alone⁸¹. It would be advantageous to engage with them during project designs and implementation to ensure concerns on climate change and environmental are comprehensively addressed within projects. Additionally, their engagement can be extended to include participation in CSOs open days, providing a means to keep them informed about the Bank's operations in Kenya. This multi-pronged approach not only enhances the Bank's relationship with CSOs but also fosters a more robust and inclusive project development process.

Annex 6.1: Ongoing Operations 31 JULY 2023

Project Description	Funding/ Fin. inst	Approval Date	Closing Date	Net Ln (UA M)	Disburd (UA M)	Disburse (%)	Age
A. SOVEREIGN OPERATIONS				2368.8	1233.6	53.2%	
AGRICULTURE				223.3	130.8	59%	5.1
KENYA RURAL TRANSFORMATION CENTRES DIGITAL PLATFORM	FAPA Grant	09/06/2020	31/03/2024	0.6	0.1	10.3%	3.1
ENABLE YOUTH KENYA	ADF Loan	11/01/2018	30/06/2025	21.3	4.1	19.3%	5.5
GREEN ZONES DEVELOPMENT SUPPORT PROJECT-PHASE 2	ADB Loan	03/12/2018	30/06/2024	4.1	2.6	62.4%	4.7
	ADF Loan	03/12/2018	30/06/2024	29.7	9.5	32.1%	4.7
SMALLSCALE IRRIGATION & AGRICULTURE VALUE CHAIN DEVELOPMENT	ADB Loan	18/11/2015	30/06/2024	29.8	18.5	59.4%	7.7
	GAFSP Grant	18/11/2015	30/06/2023	17.2	13.3	77.4%	7.7
KENYA-DROUGHT RESILIENCE & SUSTAINABLE LIVELIHOOD PROGRAM IN	ADF Loan	19/12/2012	31/12/2023	37.4	34.1	91.2%	10.6
KENYA - PROGRAM TO BUILD RESILIENCE FOR FOOD AND NUTRITION S	ADF Loan	24/11/2021	31/12/2027	30.0	0.2	0.7%	1.7
AFRICA EMERGENCY FOOD PRODUCTION FACILITY	ADB Loan	14/07/2022	30/06/2023	50	50.0	100.0%	1.0
MULTINATIONAL-GEF RURAL LIVELIHOODS ADAPTATION TO CLIMATE CH	GEF Grant	15/12/2016	31/05/2022	2.0	0.7	35.0%	6.7
SOCIAL				119.7	49.1	41%	
SUPPORT TO TVET AND TRAINING FOR RELEVANT SKILLS DEVELOPMENT	ADF Loan	01/07/2015	31/12/2023	41.0	33.6	82.0%	8.1
TECHNICAL AND VOCATIONAL EDUCATION TRAINING AND ENTREPRENEUR	ADF Loan	17/12/2019	30/06/2025	26.9	0.2	0.7%	3.6
EAST AFRICA CENTERS OF EXCELLENCE KENYA	ADF Loan	03/10/2014	31/12/2025	25.0	15.4	61.6%	8.8
EAST AFRICA CENTERS OF EXCELLENCE KENYA- ADDITIONAL FINANCING	ADF Loan	28/02/2022	31/12/2028	14.0	0.0	0.0%	0.6
INTEGRATED MECHANISMS FOR POVERTY REDUCTION & SUSTAINABLE EDUCATION AND DEVELOPMENT PROJECT	ADF Loan	13/03/2023	31/12/2028	12.8	0.0	0.0%	0.4
MULTISECTOR				71.2	70.4	98.9%	1.9
COMPETITIVENESS AND ECONOMIC RECOVERY SUPPORT PROGRAM II	ADB Loan	29/06/2022	30/06/2024	70.0	70.0	0.0%	1.1

NATIONAL TREASURY CAPACITY STRENGTHENING PROJECT	MIC Grant	18/12/2020	31/03/2024	0.2	0.1	32.1%	2.6
PUBLIC DEBT MANAGEMENT SUPPORT PROJECT	MIC Grant	27/04/2020	31/05/2024	0.8	0.2	22.4%	3.3
INSTIT. SUPPORT TO AUDITOR GENERAL OFFICE	MIC Grant	21/12/2021	31/12/2023	0.2	0.1	50.0%	1.6
INSTIT. SUPPORT TO AUDITOR GENERAL OFFICE-AD FIN	MIC Grant	20/12/2022	31/12/2025	0.2	0.0	0.0%	0.6
FINANCE				70.8	52.7	74.4%	4.2
KENYA MORTGAGE REFINANCE COMPANY (KMRC)	ADB Loan	15/05/2019	30/06/2026	70.8	52.7	74.4%	4.2
POWER				300.4	176.8	69.3%	5.3
SUPER ESCO DEVELOPMENT KPLC	SE4A Grant	13/09/2021	31/12/2024	0.8	0.0	0.0%	1.9
KENYA – PUBLIC-PRIVATE PARTNERSHIPS IN TRANSMISSION LINES	FAPA Grant	28/09/2020	31/12/2023	0.3	0.0	0.0%	2.8
ETHIOPIA-KENYA ELECTRICITY HIGHWAY(KENYA)	ADF Loan	19/09/2012	31/12/2023	75.0	65.8	87.7%	10.9
SUPPLEMENTARY FINANCING: ETHIOPIA - KENYA ELECTRICITY HIGHWAY	ADB Loan	14/12/2018	31/12/2024	20.8	11.8	58.7%	4.6
KENYA - LAST MILE CONNECTIVITY PROJECT	ADF Loan	19/11/2014	31/12/2024	90.0	78.7	87.5%	8.7
KENYA - TANZANIA INTERCONNECTION (KENYA)	ADF Loan	18/02/2015	31/12/2023	27.5	21.2	77.2%	8.4
TRANSMISSIONTRA NETWORK IMPROVEMENT	ADB Loan	12/07/2023	31/12/2028	43.0	0.0	0%	0.0
	EDCF Loan	12/07/2023	31/12/2028	43.0	0.0	0%	0.0
WATER AND SANITATION				606.4	391.5	64.6%	5.9
KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM	ADB Loan	09/11/2016	31/12/2025	299.7	162.7	54.3%	6.7
	ADF Loan	09/11/2016	31/12/2025	5.1	2.9	57.0%	6.7
	ADF Grant	09/11/2016	31/12/2025	0.5	0.4	86.4%	6.7
	MIC Grant	09/11/2016	31/12/2025	1.2	0.8	67.4%	6.7
NAIROBI RIVERS BASINS REHABILITATION RESTORATION: SEWERAGE I	ADB Loan	11/12/2018	31/05/2024	45.0	21.0	46.5%	4.6
	ADF Loan	11/12/2018	31/05/2024	2.9	0.7	24.7%	4.6

THWAKE MULTIPURPOSE WATER DEVELOPMENT PROGRAM (PHASE 1)	ADF Loan	30/10/2013	30/06/2025	61.7	55.2	89.5%	9.7
	ADF Grant	30/10/2013	30/06/2025	1.2	1.1	93.0%	9.7
THWAKE MULTIPURPOSE WATER DEVELOPMENT PROGRAM I - ADDITIONAL	ADB Loan	14/11/2018	30/06/2025	153.8	126.3	82.1%	4.7
	AGTF Loan	14/11/2018	30/06/2023	34.5	30.3	87.9%	4.7
FEASIBILITY STUDIES AND DETAILED DESIGNS FOR THE NAIROBI INC	AWF Grant	24/01/2020	31/12/2023	0.7	0.3	40.3%	3.5
TRANSPORT				977.0	344.4	31.5%	4.1
SIRARI CORRIDOR ACCESSIBILITY & ROAD SAFETY IMPROVEMENT PROJ	ADB Loan	30/03/2016	31/12/2024	171.5	130.9	75.9%	7.3
	EU/AITF Grant	30/03/2016	31/12/2024	7.9	4.7	62.0%	7.3
MOMBASA-MARIAKANI ROAD HIGHWAY PROJECT	ADF Loan	11/03/2015	30/06/2023	80.0	55.1	68.8%	8.4
DUALING OF KENOL – SAGANA - MARWA	ADB Loan	26/09/2019	31/12/2024	140.0	65.0	46.4%	3.8
	AGTF Loan	26/09/2019	31/12/2024	24.5	13.0	54.9%	3.8
(KENYA)BAGAMOYO–TANGA-HOROHORO/LUNGA LUNGA-MALINDI ROAD PROJECT	ADB Loan	12/12/2019	31/12/2025	84.9	14.8	18.1%	3.6
	ADF Loan	12/12/2019	31/12/2025	46.4	8.3	17.8%	3.6
	EU-AIP Grant	12/12/2019	31/12/2026	24.4	0.0	0.0%	3.6
KAPCHORWA - SUAM - KITALE AND ELDORET BYPASS ROADS PROJECT (	ADB Loan	29/03/2017	31/12/2024	61.7	35.3	54.7%	6.3
	ADF Loan	29/03/2017	31/12/2024	35.1	23.0	65.3%	6.3
ISIOLO – MANDERA CORRIDOR ELWAK – RHAMU	ADB Loan	17/11/2021	30/06/2027	53.0	0.0	0.0%	1.7
	ADF Loan	17/11/2021	30/06/2027	100.0	0.0	0.0%	1.7
MULTINATIONAL: LESSERU – KITALE	ADB Loan	16/12/2022	31/01/2028	92.0	0.0	0%	0.6
	ADF Loan	16/12/2022	31/01/2028	56.0	0.0	0%	0.6

B. NON-SOVEREIGN OPERATIONS				618.7	357.6	58%	
FINANCE				303.0	232.2	77%	
SUBORDINATED LOAN TO COMMERCIAL BANK OF AFRICA LIMITED	ADB Loan	25/01/2017	5/10/2022	18.8	18.8	100.0%	
EQUITY GROUP HOLDINGS PLC SUBORDINATED DEBT	ADB Loan	28/11/2019	9/12/2022	75.2	75.2	100.0%	
	PSF Loan	24/02/2021	01/10/2027	26.3	0.0	0.0%	
CREDIT BANK KENYA LIMITED SME LOAN	ADB Loan	15/01/2020	---	2.0	0.0	0.0%	
IMPERIAL BANK KENY IN RESPECT OF COMMERZBANK RPA	ADB Loan	03/05/2016	---	0.6	0.6	100.0%	
DIAMOND TRUST BANK LOC I	ADB Loan	18/11/2016	28/03/2022	37.6	37.6	100.0%	
	ADB Loan	18/11/2016	28/03/2021	18.8	18.8	100.0%	
KENYA COMMERCIAL BANK LIMITED	ADB Loan	25/10/2017	01/02/2025	75.2	75.2	100.0%	
CREDIT BANK KENYA LIMITED SME LOAN	ADB Loan	17/07/2019	1/4/2022	6.0	6.0	100.0%	
FAMILY BANK LIMITED - TRADE & SME FINANCING FACILITY	ADB Loan	8/3/2023	31/12/2023	22.5	0.0	0.0%	
KENYA RISK SHARING FACILITY JOB CREATION FOR YOUTH AND WOMEN	ADB Loan	06/06/2023	---	20.0	0.0	0%	
ENERGY				204.5	125.4	61%	
THIKA THERMAL POWER PROJECT	ADB Loan	26/04/2013	30/05/2027	21.6	21.6	100.0%	
	PSF Loan	07/12/2011	15/01/2027	0.7	0.0	0.0%	
LAKE TURKANA WIND POWER PROJECT	ADB Loan	26/04/2013	15/09/2029	88.4	88.4	100.0%	
	PSF Loan	04/11/2015	23/03/2029	18.8	0.0	0.0%	
	ADB Loan	26/04/2013	15/09/2017	15.4	15.4	100.0%	
QUANTUM POWER MENENGAI 35 MW GEOTHERMAL IPP	ADB Loan	06/06/2018	---	22.2	0.0	0.0%	

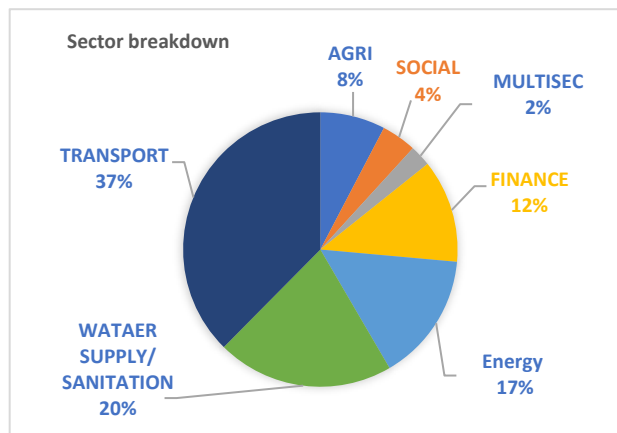
	CTF Loan	06/06/2018	---	15.0	0.0	0.0%	
KOPERE 40 MW SOLAR PV IPP	ADB Loan	27/02/2019	---	13.7	0.0	0.0%	
	CSF Loan	27/11/2018	---	8.7	0.0	0.0%	
TRANSPORT				111.2	0.0	0.0%	
NAIROBI-NAKURU-MAU SUMMIT HIGHWAY	ADB Loan	14/07/2022		111.2	0.0	0.0%	

Annex 6.2: Portfolio Performance Review

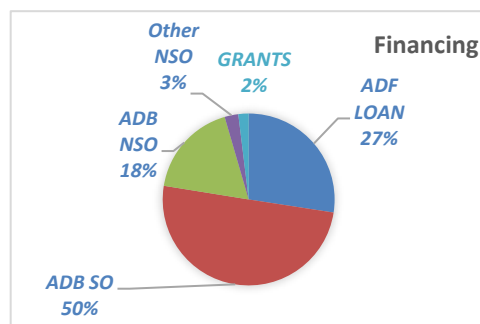
1. Ongoing Portfolio

The active portfolio at the end of June 2023 comprises 51 ongoing projects consisting of 37 sovereign and 14 non-sovereign operations with a total commitment of UA 3.0 billion. The sovereign operations total UA 2.382 billion (representing 79%) of which the multinational/regional projects are worth UA 677.4 million accounting for 28% of the sovereign operations and 22.6% of the total commitments. The non-sovereign portfolio total UA 618.7 million (21%) of the total commitments.

Sectoral Composition: The investment in infrastructure (transport (37%) water and sanitation (20%) and energy (17%) accounts for about 74% of the total commitment followed by the finance sector at 13%, agriculture and food security at 7%, social (education, and health) sector at 4% and multi/governance sector at 2%. The large proportion of infrastructure projects reflects the Bank's commitment to infrastructure development in Kenya. The infrastructure projects are regional/multinational operations. They aim at assisting Kenya's effort to; (i) boost regional integration by enhancing infrastructure connections with neighboring countries and (ii) achieve the goal of becoming a regional hub.



Portfolio financing: The Kenyan portfolio is financed from ADB sovereign (50%) and ADB non-sovereign (18%), ADF (27%), other special funds (climate support facility, private sector facility, and clean technology fund) at 3%, and the remaining financed by grants including EU grant, MIC-TF, and other special/trust funds. The ongoing portfolio comprises 36 investment projects, 2 program-based operations, 6 lines of credit, 1 guarantee, 6 technical assistances, and an institutional support.



2. Portfolio performance:

The Country Portfolio Performance Review concluded that the overall performance of the portfolio is satisfactory indicating that projects will likely meet their development objectives. The average disbursement ratio at the end of July 2023 was 53%. Overall, the portfolio performance is rated satisfactory, but with several persistent challenges. Annual performance indicators, such as the number of problematic projects, the proportion of red-flagged loans, the disbursement rate, commitments at risk, average age and the average public sector project size, all recorded improvements. However, challenges remain, notably, the length of time between project approval and signature, as well as delays in the first disbursement, and the increase in the number of aging projects in the portfolio. As per the portfolio flashlight report of the end of July 2023, 24% of the financing instruments were flagged red in the portfolio, including three non-sovereign operations with four instruments affected by lengthy negotiations leading to signature and effectiveness delays, and 12 sovereign projects due to start-up delays (signature and 1st disbursement delays), and slow disbursement and slow procurement. Overall, in 2023 the monthly proportion of the Kenya portfolio red flagged projects varied between 28% and 22% with the average of 25%.

ANNEX A.6.2: Portfolio Performance Indicators (2020-2023)

Indicator	2020	2021	2022	July 2023
Total no. of Ongoing Operations	40	43	47	51
Public Sector	32	32	35	37
Private Sector	8	11	12	14
Total Commitment (UA billion)	2.41	2.35	2.82	3.0
Avg. Public sector Project Size (UA million)	67	76	75.8	76.3
Average Age (yrs)	3.3	3.5	4.4	4.3
Disbursement ratio (%)	32	45	53.2	56.1
Lapse of time - approval to signing (months)	4.7	5	5.1	6.2
Lapse time-approval to 1st disbursement (months)	14	14	14.8	15.4
Commitment at risk (%)	0.16	0.18	0	0
Project at risk (Numb)	1	1	0	0
Flagged projects (%)	28	24	25	24
Ageing Project (Numb)	3	3	6	8
Over all rating	3.0	3.0	3.1	3.1
Implementation Progress	2.67	2.97	3.03	3.0
Development Objective	3.2	3.1	3.12	3.2

The implementation of the last CSP showed that Bank's projects were generally consistent with the two priority Areas of the CSP. Overall, 92.2% of the outputs and 87.9% of the outcomes were either fully achieved or are expected to be achieved by the completion of the CSP period in December 2023. Notable results spanned various sectors and collectively generated significant socioeconomic benefits including increased household electricity access, better road connectivity, greater potable water access, improved sanitation, and enrollment in TVET and universities increased.

3 Strategic and Operations Challenges

The delays in start-up and implementation could be further improved. The two persistent challenges that most negatively affected the portfolio quality were start-up delays and the slow pace of project implementation, manifested in slow disbursement and increased number of aging projects in the portfolio. Start-up delays were mostly the result of late compensation of the project affected persons (PAPs) and delays in loan signing and fulfilling loan effectiveness conditions, including delays in submitting legal opinion. Implementation delays are results of and weak capacities of the executing agencies caused by frequent changes in project implementing teams. Slow project implementation on the other hand is caused by weak performance of the contractors and consultants resulting from non-adherence to the work program, cash flow problems, as well as the failure to appoint appropriate technical staff and engineers. These challenges reduced the efficiency and timeliness with which the Bank delivered its operations.

The Bank has diligently implemented the annual portfolio performance improvement plans to address implementation challenges. Actions to address the various challenges were agreed with the government and were documented in the Country Portfolio Improvement Plans (CPIPs) for both the Bank and the government. The latest CPIP (2022/2023) is presented in the Annex A.6.3. Some of these actions need to be take include the timely signing of loan agreement, timely acquisition of right of way and payments of compensations to PAPs to reduce start-up delays. The Bank has committed to finance part of the compensations to PAPs as one of the key strategies to reduce the start-up delays. In 2023, the Board has approved the Transmission Network Improvement project that will finance among other compensation payments to people affected by the project, which could be considered as piloting compensation payment.

Furthermore, the Bank will deliver regular capacity-building trainings on environmental and social safeguard, and other Bank Group rules and procedures. The government will appoint full-time project implementation teams to speed up project implementation and thereby improve the portfolio performance and quality. The regular portfolio performance review forums will continue to serve as a useful tool in resolving emerging portfolio issues.

Annex 6.3: Country Portfolio Improvement Plan-2023

Issues	Challenges	Recommendations/ Corrective Actions	Indicators	Responsible Party	Monitoring Time Frame
1. Project Start-up Delay	<p>(i) Delays in signing loan agreements and attaining loan effectiveness</p> <p>(ii) Delays in land acquisition and compensations payments</p>	<p>(i) Engage the Attorney General's Office through NT to foster better understanding and fast-track the review and clearance of Loan Agreements</p> <p>(ii) The Bank to consider financing compensation costs.</p> <p>(iii) Line Ministries to engage NLC to fast-track the compensation of PAPs</p>	<p>(i) Lapse of time from approval to signature (BL 6.2 months)</p> <p>(ii) Lapse of time from approval to first disbursement (BL 15.4 months)</p> <p>(iii) No. of projects received compensation payment from loan proceeds (BL -0)</p> <p>(iv) Process efficiency improvement in Compensation payments</p>	NT/EA/NLC/AfDB	Quarterly
2. Disbursement Issues	<p>(i) Inadequate budgetary allocations in the annual budget</p> <p>(ii) Poor quality of disbursement documents</p> <p>(iii) Delays in justification of advance to the Special Account</p>	<p>(i) Line Ministries to prioritize budgeting for counterpart funding to ensure adequate budgets for all projects</p> <p>(ii) submit the application with complete information and supporting documents</p> <p>(iii) Submit justification as early as possible without waiting for a 50% threshold</p>	<p>(i) Increase the percentage of projects receiving a sufficient budgetary allocation (BL 65%)</p> <p>(ii) Percentage of DA rejected due to missing info (BL 10%)</p> <p>(iii) Percentage overdue advance cleared (BL 25%= UA 2.8 M)</p>	PITs/NT/AfDB	Quarterly
	(iv) Delays in disbursement	<p>(iv) Improve efficiency in Vetting disbursement applications</p> <p>(v) Bank to maintain its disbursement lead time for DP and SA</p>	(iv) The time required for vetting an application (BL 40-60 days)	NT/EA/AfDB	Quarterly
3. Inadequate and untimely release of CPF	Payment delays to contractors from CPF	<p>(i) The Government is invited to fulfill its contractual obligations.</p> <p>(ii) CPF requirements to follow the CFP parameters</p> <p>(iii) Line Ministries to prioritize budgeting for counterpart funding to ensure adequate budgets for all projects</p>	<p>(i) Percentage of projects received more CPF compared to the previous yr.</p> <p>ii) No. of new projects aligned to CFP requirements</p> <p>(ii) No. of projects affected by delayed payments to contractors</p>	NT/EAs/PITs/AfDB	Budget Cycle

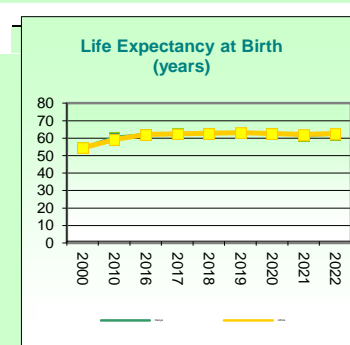
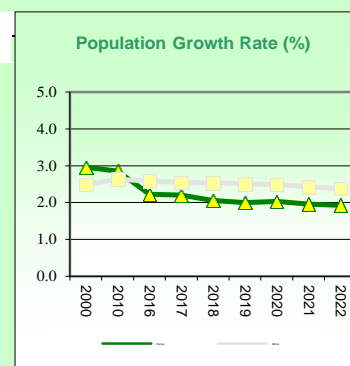
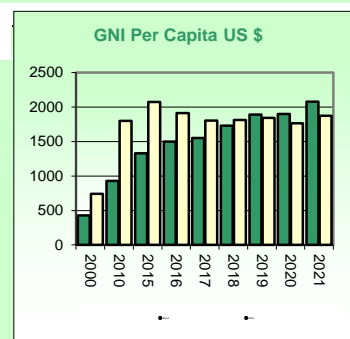
4. Project Management Issues	(i) Inadequate performance of Contractors and consultants	(i) Rigorous contract management and observance of contract provisions to avoid time and cost overruns	(i) Number of projects granted time extensions for contractors/consultants	PITs/EAs	Quarterly
	(ii) Delays in tax exemptions and VAT refund	(ii) Timely actions to approve all tax exemptions (iii) Timely actions to refund VAT claims	(ii) Percentage of projects received tax exemption on time (iii) Percentage of projects received VAT refund on time	NT/EAs/PITs	Quarterly
	(iii) Lack of timely review and support for projects experiencing challenges	(iv) Conduct joint quarterly review meetings (v) AfDB Desk Officers at NT to participate in supervision missions (vi) Deliver training to the PITs/EAs	(iv) Number of joint review meetings organized (v) Number of supervision missions attended by Desk officers (vi) Number of PIT staff and others trained	NT/PITs/AfDB	-Quarterly -At least one training/yr
	(iv) Partial/non-submission of Quarterly Progress Reports	(vii) Submit comprehensive QPR as required by the agreements	Percentage of projects submitting QPR regularly	PITs	Quarterly

Annex 7: Donor's Activities Vs Bank's Pillar Alignment

Pillars	DP/ Sec	IDA	Sida	DANIDA	Japan	Italy	Belgium	KFW	China	EDF	ADB	GIZ	AFB	World Bank	Finland	France	Netherlands	USAID	UNICEF	FAO	UK	DFID	IFAD	BADEA	EIB	IMF	ILO	EU	Kuwait	OPEC	Spain	Saudi Arabia	UNESCO	Switzerland	Abu Dhabi	GEFT	India	Total		
Pillar I Private sector devt' infrastructure, & value chain	Agri	X	X		X			X		X	X	X		X				X					X																	9
	Man	X			X																																			2
	PriF										X			X		X					X																			4
	Tra	X				X				X				X							X	X		X						X										8
	EWS CG	X	X	X	X	X				X	X	X	X	X	X	X		X						X				X	X	X				X		X				18
	PUH	X	X			X		X		X			X			X				X																				8
	MGP		X								X	X		X		X			X						X			X												8
	Ener	X		X	X		X		X		X					X									X	X					X	X	X					X		13
	Roa	X		X	X			X	X	X	X		X	X											X				X	X		X			X					14
	Trans	X		X	X						X		X	X		X												X												8
Pillar II (Human capital Devt.	E&T	X					X	X			X							X			X					X	X					X								10
	SoP																		X		X																			2
	LYH	X	X			X			X	X	X					X	X					X																		9
	STI								X		X						X																							3
Total		10	5	4	6	4	2	4	4	6	10	3	4	6	1	7	2	3	2	1	4	2	1	4	2	1	1	3	3	4	2	2	1	1	1	1	1	1		
Sectors: Agri -Agriculture, Tra -Trade, Man -Manufacturing, E&T -Education and Training, EWSCG -Environment, Water and Sanitation, Climate & Green Growth, LYH -Labour, Youth and Human Resources, MGP - Macroeconomic Policy, Governance and Public Financial Management, PUH -Population, Urbanisation and Housing, PriF -Private Sector and Finance, Ener -Energy, Roa -Roads, Trans -Transport, STI -Science Technology and Innovation, SoP - Social Protection.																																								

Annex 8: Comparative Socio-Economic Indicators

	Year	Kenya	East Africa	Africa	Developing Countries
Basic Indicators					
Surface Area ('000 Km ²)	2022	580	6,228	30,064	96,259
Total Population (millions)	2022	54.0	398.0	1,424.9	6,619.6
Urban Population (% of Total)	2022	30.1	29.1	44.1	51.7
Population Density (per Km ²)	2022	94.9	68.2	48.5	69.8
GNI per Capita (US \$)	2021	2 080	1 015	1 874	5 259
Labor Force Participation *- Total (%)	2022	74.4	71.7	62.7	58.7
Labor Force Participation **- Female (%)	2022	72.7	65.8	53.8	44.7
Sex Ratio (per 100 female)	2022	98.3	99.2	99.7	106.0
Human Develop. Index (Rank among 191 countries)	2021	152	...	...	...
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-19	29.4	32.5	30.2	10.0
Demographic Indicators					
Population Growth Rate - Total (%)	2022	1.9	2.6	2.4	1.0
Population Growth Rate - Urban (%)	2022	4.2	4.5	3.5	2.0
Population < 15 years (%)	2022	37.8	41.3	40.2	27.2
Population 15-24 years (%)	2022	21.0	20.6	19.2	16.2
Population >= 65 years (%)	2022	2.9	2.9	3.5	7.9
Dependency Ratio (%)	2022	68.6	79.4	77.4	55.4
Female Population 15-49 years (% of total population)	2022	26.2	24.6	24.2	24.9
Life Expectancy at Birth - Total (years)	2022	62.1	64.3	62.6	70.8
Life Expectancy at Birth - Female (years)	2022	64.7	66.9	64.6	73.3
Crude Birth Rate (per 1,000)	2022	27.5	32.9	32.1	18.6
Crude Death Rate (per 1,000)	2022	7.8	6.8	8.4	7.7
Infant Mortality Rate (per 1,000)	2021	28.0	36.4	46.3	29.7
Child Mortality Rate (per 1,000)	2021	37.2	50.8	66.6	39.9
Total Fertility Rate (per woman)	2022	3.3	4.2	4.2	2.4
Maternal Mortality Rate (per 100,000)	2017	342.0	444.2	475.7	231.0
Women Using Contraception (%)	2022	63.7	40.8	38.4	62.5
Health & Nutrition Indicators					
Medical doctors (per 100,000 people)	2010-19	19.6	18.0	38.1	138.0
Nurses and midwives (per 100,000 people)	2010-19	105.9	85.3	106.5	252.7
Births attended by Trained Health Personnel (%)	2011-21	70.2	63.5	67.6	81.0
Peop. Using at least basic drinking water services (% of Population)	2020	61.6	56.1	69.3	88.1
Peop. Using at least basic sanitation services (% of Population)	2020	32.7	25.7	41.9	73.8
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2021	4.0	2.3	2.7	0.9
Incidence of Tuberculosis (per 100,000)	2021	251.0	159.5	185.8	157.0
Child Immunization Against Tuberculosis (%)	2021	97.0	75.7	79.0	88.0



Annex 9.1: Selected Macroeconomic Indicators

Figure 1a: Structural Transformation

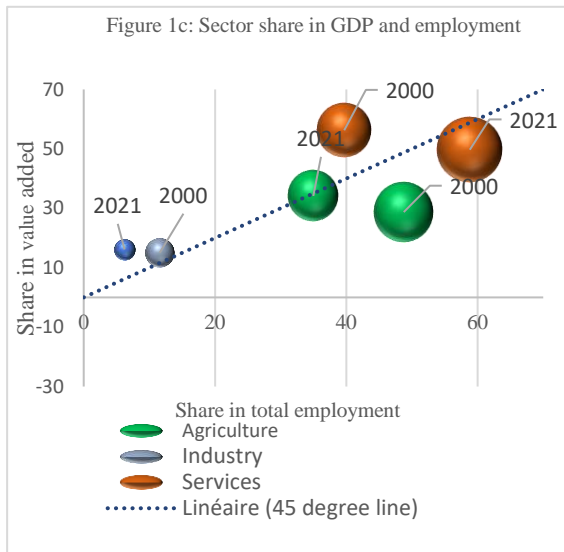
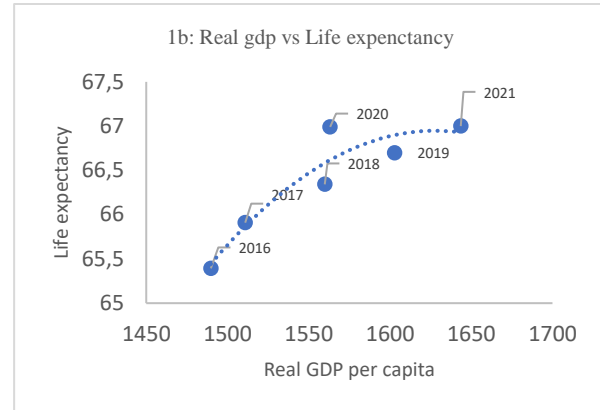
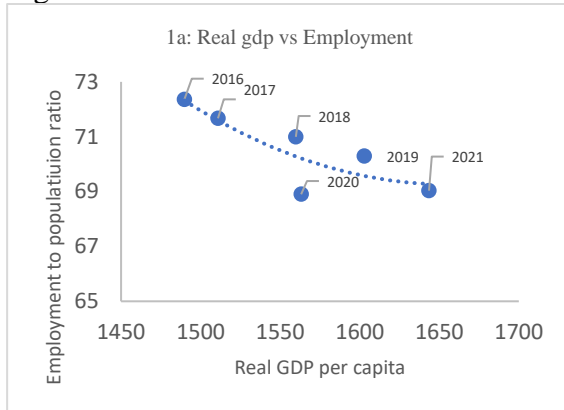


Figure 1d: Time (Growth) to Reach High Income Status

	INF	HC	ECT	GOV
INF	40(5)	39 (5.14)	38 (5.8)	39 (5.21)
HC		540 (36)	294 (0.54)	266 (0.74)
ECT			367 (0.54)	266 (0.74)
GOV				452 (0.44)
All				36 (5.7)

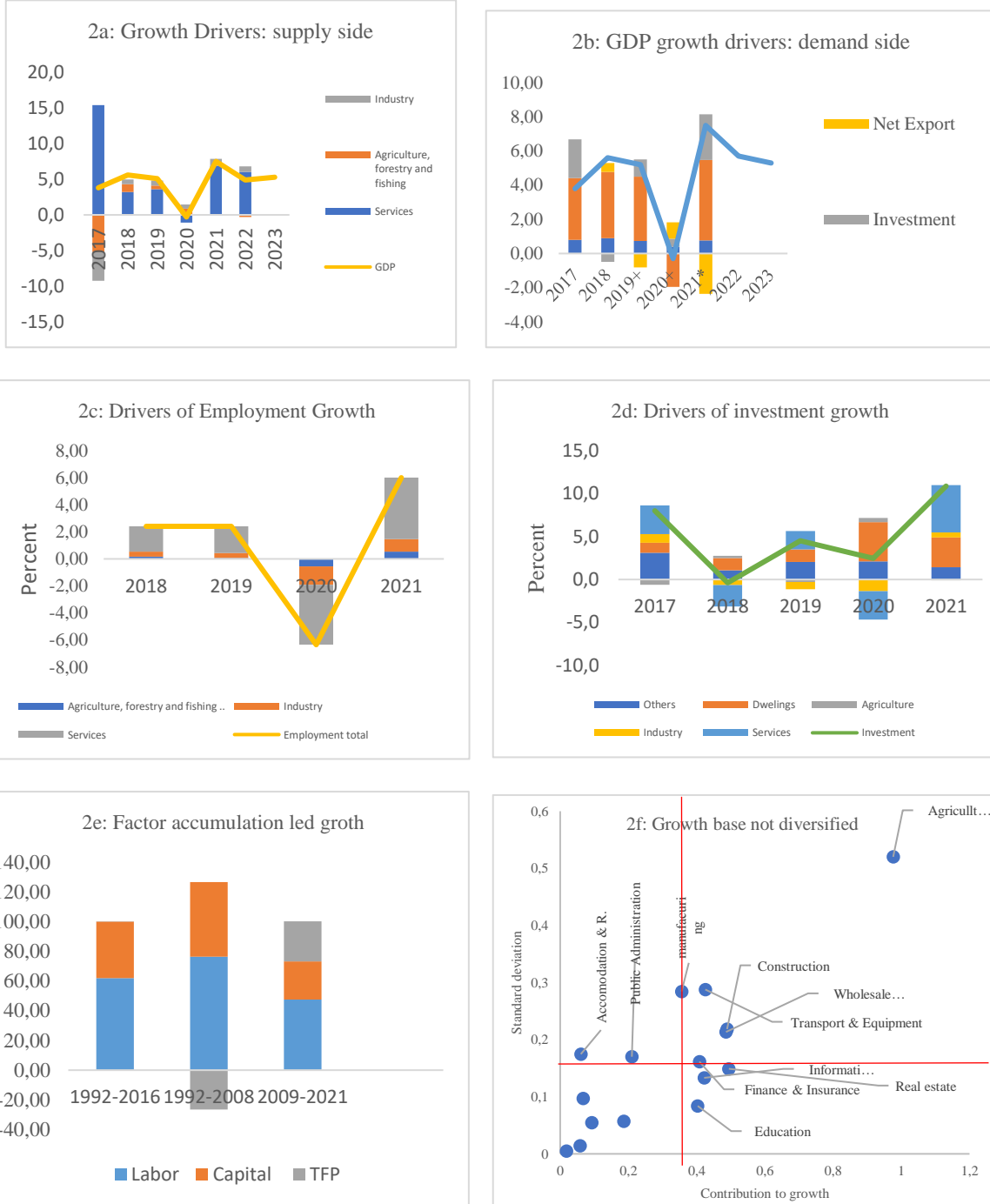
INF= infrastructure; HC= Human capital; ECT= economic transition;

GOV= Governance; & ALL= shock to all.

Source: Alemu. Z. (2022). Factors contributing to transition to a higher income the case of Kenya

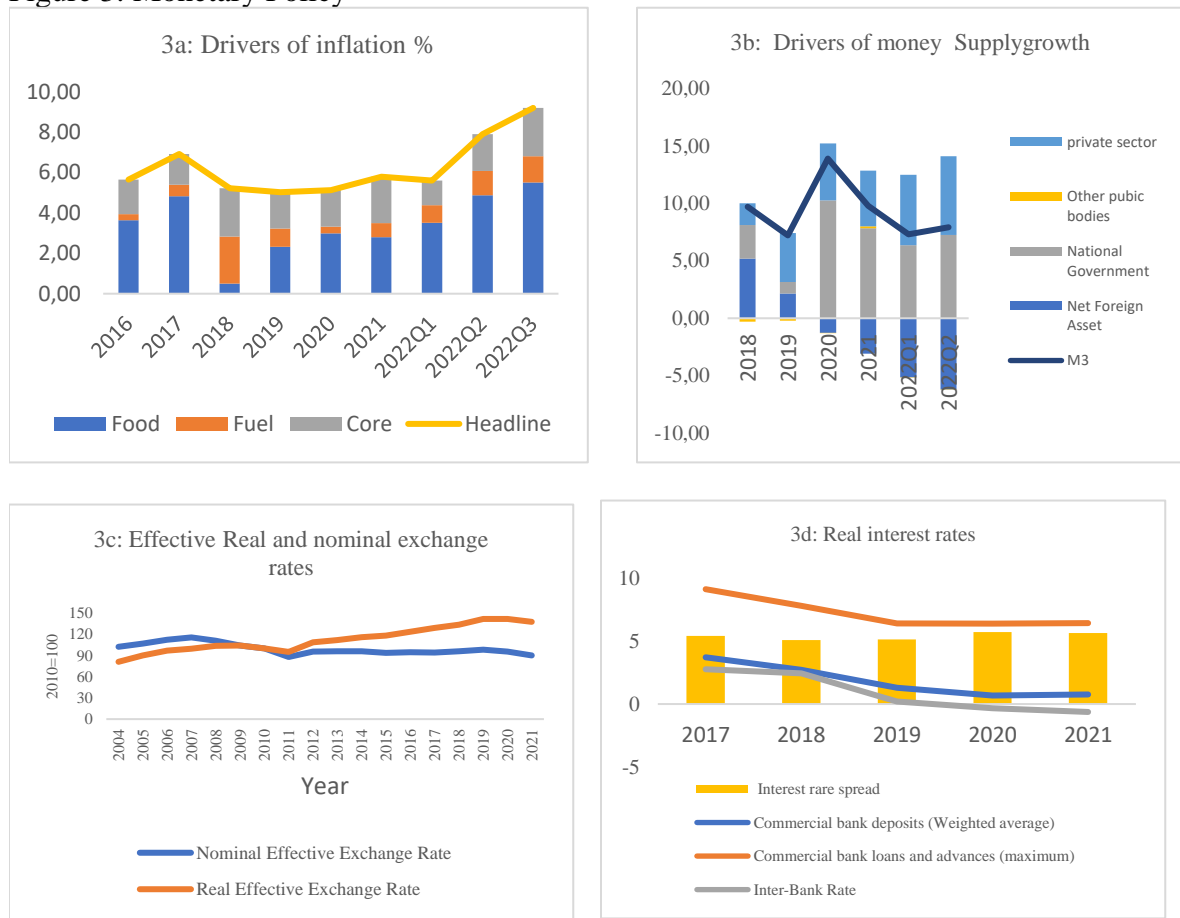
Source: Own computations based on data from AfDB, KNBS, WDI

Figure 2: Real GDP growth drivers – Growth decomposition



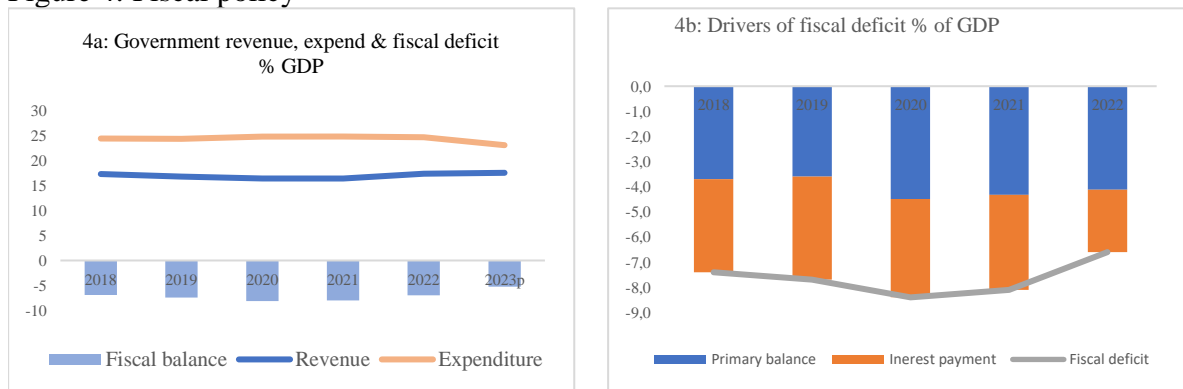
Source: Own computations based on data from various sources: AfDB, KNBS, WDI

Figure 3: Monetary Policy



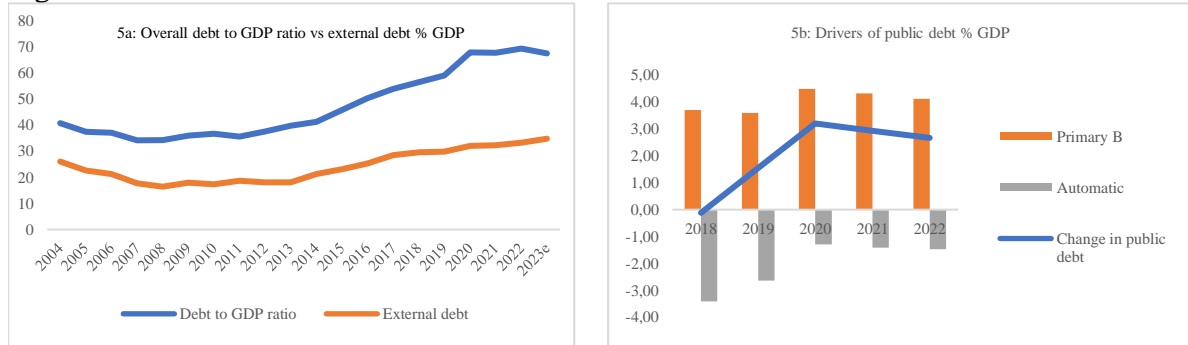
Source: Own computations based on KNBS, WDI and AfDB data

Figure 4: Fiscal policy



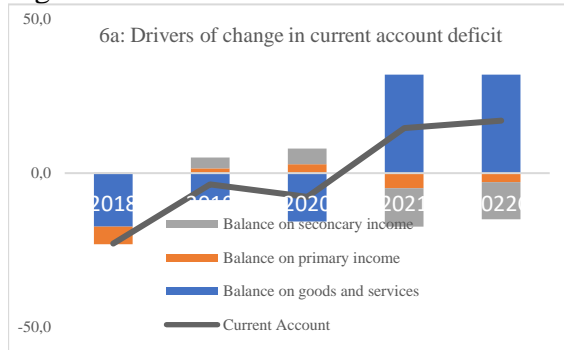
Source: Own computations based on data from AfDB, KNBS, WDI

Figure 5: Public debt



Source: Own computations based on data from AfDB, KNBS, WDI

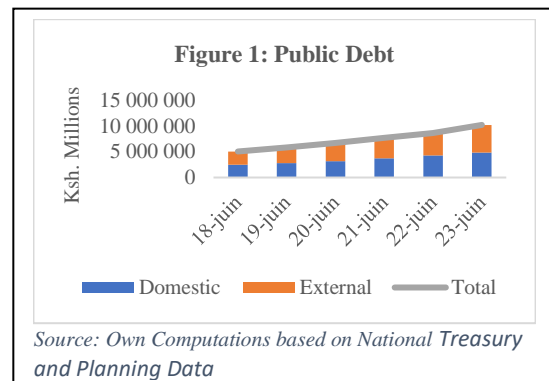
Figure 6: External sector



Source: Own computations based on data from AfDB, KNBS, WDI

Annex 9.2: Public Debt²

Portfolio: Public debt reached Ksh. 10.1 trillion (70.2% of GDP) as at end June 2023 compared with Ksh. 5.8 trillion (62% of GDP) in the corresponding month of 2019 (Fig., 1). Total debt is higher than the Ksh. 10 billion debt ceiling of Ksh. 10,000,000. Public debt is made up of external debt of Ksh. 5.4billion (53% of total debt) & domestic debt of Ksh. 4.8 billion (47% of total debt). External debt is made up of bilateral (24%), multilateral (51%), commercial Banks (25%) and suppliers' credit (1%).



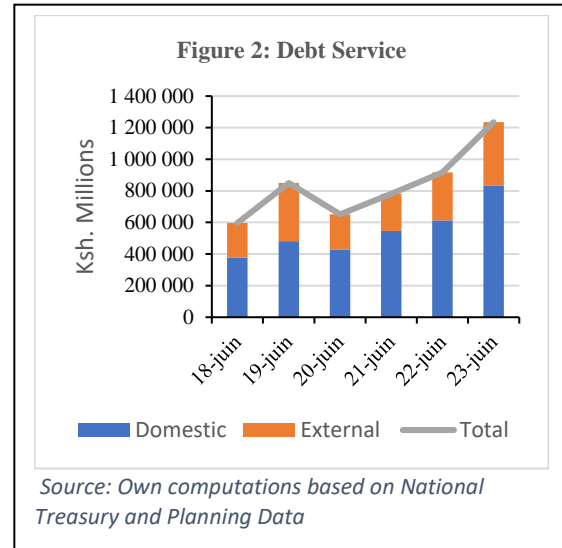
Source: Own Computations based on National Treasury and Planning Data

The shares of bilateral and commercial loans in total external loan have decreased while that of multilateral increased since June 2019. This could be attributed

² Public debt refers to total Public and Public Guaranteed Loans

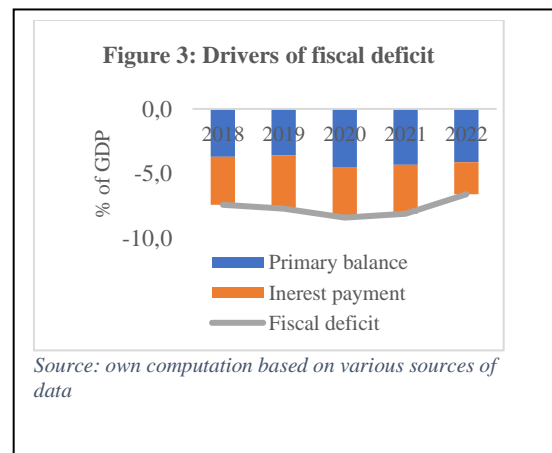
to the Medium-Term Debt Management Strategy. The strategy aims, among other things, shifting towards concessional external borrowing and lengthening of maturity structure of the domestic debt; scale down on use of commercial debt; minimizing refinancing risk by lengthening the Average Time to Maturity (ATM) for domestic and total debt; benchmarking the Treasury bond programme through medium to long term instruments as the main source of domestic financing; deepening the domestic financial market etc.

Drivers: Public debt accumulation is driven by primary balance, interest payments and exchange rate depreciation. The effect of the former has moderated in recent years thanks to the fiscal consolidation program anchored on a positive primary balance. However, the impact of the Debt Management Strategy in arresting debt accumulation has been limited. This is demonstrated by increase in total debt service payments³. Total debt service increased to Ksh. 1.2 trillion in June 2023 from Ksh. 850 billion in June 2019, a 41% increase (Fig. 2)⁴. It is driven, among other things, by an increase in interest payments and depreciation of the Kenyan Shillings. The share of interest payments in total debt service (principal plus interest) surged from 44% in June 2019 to 55% in June 2023. The weak Kenyan Shilling also played a part;



it depreciated by about 40% during the same period. Tight international financial market conditions due to shifts in monetary policy stances in advanced economies and downgrades of Kenyan sovereign credit by credit rating agencies were behind the recent surges in cost of borrowing (debt service payments). The Moody's, S&P and Fitch downgraded Kenya on solvency and liquidity grounds while according to the IMF, Kenya's debt carrying capacity diminished from strong in 2019 to medium 2020 through 2023 while risk of debt distress from moderate in 2019 to high from 2020 through 2023.

Increase in debt service continues to impact the fiscal space - interest payments accounts for about 38% of overall fiscal deficit (Fig 3) while primary deficit for the balance. The share of the latter to the overall fiscal deficit and by implication to debt accumulation has recently decreased thanks to the ongoing fiscal consolidation program. This suggests the need for having a prudent debt management strategy to reign in increasingly debt management driven debt accumulation. The impact debt service is exerting in government fiscal operations is evident from the ratio of debt service payments to ordinary revenue which has been on the rise since June



³ The share of domestic debt service in total debt service increased from 57% in 2019 to 67% in 2023 while that of external debt service declined from 43% to 33%. This could be attributed to the increase domestic financing of fiscal deficit due to worsening international financial market conditions.

⁴ The total public debt service is projected to increase to Ksh. 1,625,274 in June 2024 and Ksh. 1,899,715 million by end of June 2027.

2020. It increased from 41% in June 2020 to 52% in June 2023. Therefore, while ensuring fiscal sustainability by deepening the ongoing fiscal consolidation program (see annex 1.3b for Bank support) the Bank could scale up its support in the area of Debt Management. The Debt Management Office at the National Treasury and Planning has benefited from two Bank financed Technical Assistance projects namely Public Debt Management Support (PDMS) project and National Treasury Capacity Strengthening (NTCSP) Project.

Outlook: Public debt is projected to stabilize in the medium term owing to the continued implementation of the fiscal consolidation program. According to IMF’s 2021 DSA, public debt in present value terms is expected to decline to 60.0% and 57.8% of GDP in 2023 and 2024, respectively, and is projected to fall below the sustainable threshold of 55% by 2026. The IMF projects, debt sustainability would be challenged on solvency grounds by export as the PV of external debt to export is projected to remain above its sustainability threshold level of 180%; liquidity grounds as debt service to export and debt service to revenue ratios are projection to be higher than their respective sustainable threshold levels of 15% and 18%. Furthermore, projections indicate that overall debt (domestic and external) would be higher than the 55% debt sustainability threshold implying the need to arrest growth in the cost of domestic debt among other things by expanding the domestic debt market for government securities. Risks to the outlook could emanate from persistent global financial tightening. This could challenge debt sustainability by raising the adjustment cost of stabilizing debt.

Annex 10: Country Financing Parameters⁵ Matrix

Kenya: Country Financing Parameters Matrix (July 2020)

<i>Item</i>	<i>Parameter</i>	<i>Remarks/Explanation</i>
Counterpart Funding Limit on the proportion of individual project costs that the Bank may finance	Up to 100 percent	The Bank may finance up to 100 percent of the costs of individual projects, on case-by-case basis. In general, the Bank financing is expected to be below 100 percent to ensure GoK’s ownership and commitment to achieve the desired development impact of the projects. On the ADB window, the Bank may finance more than 90 percent of total project or program costs; and on the ADF window, the Bank may finance more than 90 percent of total project/program costs and more than 95 percent of the total cost of studies. The Bank may also finance 100 percent of projects aimed at policy reforms and capacity building.
Taxes and Duties Are there any taxes and duties that the Bank would not finance?	None	The Bank considers Kenyan tax system to be reasonable, and the taxes and duties not to constitute significantly high proportion of the project costs. In addition, none of Kenyan taxes and duties are in anyway specifically directed at the Bank-financed projects, XXXVII activities or expenses. If Kenya’s tax and customs regime changes significantly during project implementation, the CFP will be reviewed and adjusted accordingly.
Recurrent Cost Any limits that would apply to the overall amount of recurrent	No country level limit	The Bank may finance 100 percent of recurrent costs on a case-by-case basis. The recurrent costs should be temporary in nature and sustainable at the project/sector level in the

⁵ The Kenya Country Financing Parameter was approved by the VP/RDVP in July 2020.

expenditures that the Bank may finance		medium to long term. The Bank will continue to monitor the overall fiscal situation, and the government's continued demonstration to sound fiscal management, and its implications for the recurrent cost financing. In addition, the Bank will continue to calculate the estimated recurrent costs and clearly indicate ways and means of ensuring sustainable financing.
Local Currency Costs Are the requirements for Bank financing of local expenditures met, namely that: i. financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and ii. the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects.	Yes	Kenya meets requirements for local cost financing. The Bank can finance local costs in any proportions required by individual projects.
Provisional expenditures of infrastructure projects	Up to 100 percent	The Bank may finance provisional expenditures on income-generating socio-economic infrastructure projects up to 100% on a project/program upon government's request, and on a case-by-case basis for a period of up to 3 years.

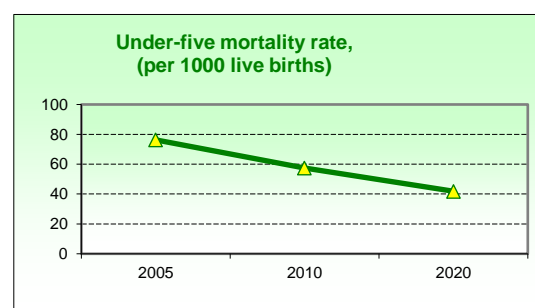
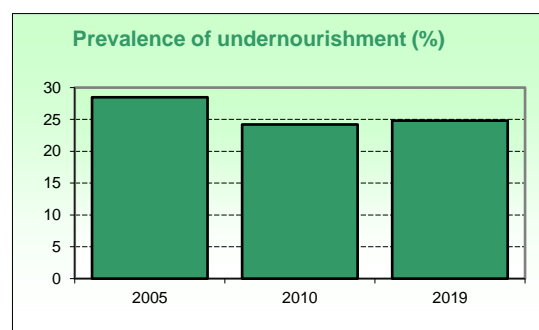
Annex 11: Progress towards SDGs

Goal 1: End poverty in all its forms everywhere

	2000 ¹	2010 ²	2021 ³
Proportion of population living below the international poverty line of US\$ 1.90 (PPP) per day	36.7	...	29.4
Proportion of population living below the national poverty line (%)	46.8	...	36.1
Employed population below the international poverty line of US\$1.90 per day, aged 15-24 (%)	45.7	43.0	34.6
Employed population below the international poverty line of US\$1.90 per day, aged 25 and over (%)	37.5	34.2	24.6

Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture

Prevalence of undernourishment (%)	28.5	22.2	26.9
Proportion of children moderately or severely stunted (%)	40.3	35.5	26.2
Agriculture orientation index for government expenditures	0.2	0.2	0.1
Total official flows for agriculture (Millions of Constant 2018 US\$)	44	138	666



Goal 3: Ensure healthy lives and promote well-being for all at all ages

Maternal mortality ratio	618	432	342
Proportion of births attended by skilled health personnel (%)	41.6	43.8	70.2
Under-five mortality rate (deaths per 1,000 live births)	76.3	57.4	41.9
Malaria incidence (per 1,000 population)	136.5	64.0	50.9

Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Proportion of children and young people at the end of primary achieving a minimum proficiency level in: Reading (%)	...	...	46.7
Proportion of children and young people at the end of primary achieving a minimum proficiency level in: Maths (%)	...	...	74.1
Gender parity index of trained teachers, primary (ratio)	1.0	1.0	...
Total official flows for scholarships (Millions of Constant 2018 US\$)	...	4	11

Goal 5: Achieve gender equality and empower all women and girls

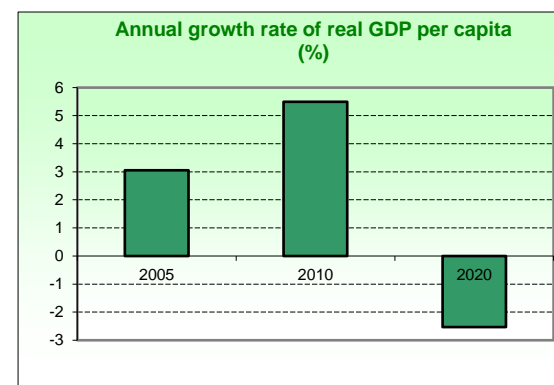
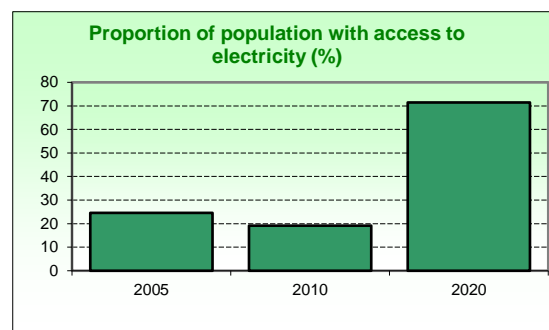
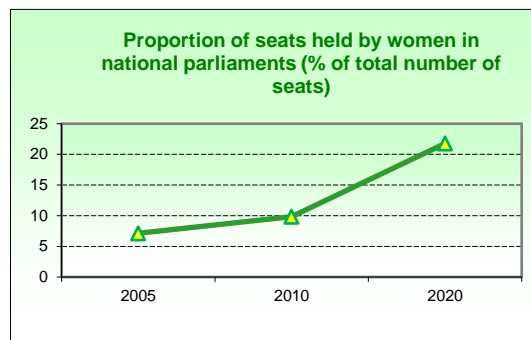
Proportion of seats held by women in national parliaments (% of total number of seats)	7.1	9.8	21.6
Proportion of women who make their own informed decisions regarding contraceptive use (% of women aged 15-49 years)	...	...	89.4
Proportion of women who make their own informed decisions regarding reproductive health care (% of women aged 15-49 years)	...	...	80.5

Goal 6. Ensure availability and sustainable management of water and sanitation for all

Proportion of population using safely managed drinking water services, (%)	...	...	...
Level of water stress: freshwater withdrawal as a proportion of available freshwater resources (%)	21.2	26.5	33.2
Total official development assistance for water supply and sanitation (Millions of Constant 2018 US\$)	49.2	162.4	196.2

Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all

Proportion of population with access to electricity (%)	24.6	19.2	71.4
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Proportion of population with primary reliance on clean fuels and technology (%)	5.0	7.0	19.0
Renewable energy share in the total final energy consumption (%)	81.3	76.5	68.1
Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all			
Annual growth rate of real GDP per capita (%)	3.1	5.5	-2.5
Unemployment rate, (aged 15-24) (%)	...	19.7	12.9
Unemployment rate, (aged 25 & over) (%)	...	6.9	3.4
Proportion of youth not in education, employment or training (%)	...	23	20

Sources : ADB Statistics Department Database;

United Nations Statistical Division, Online Database on Sustainable Development Goals (<https://unstats.un.org/sdgs/>).

Note : n.a. : Not Applicable ; ... : Data Not Available,

¹ Latest year available in the period 2000-2005; ² Latest year available in the period 2006-2010; ³ Latest year available in the period 2011-2021

Annex 12: Country Resilience and Fragility Assessment (CRFA)

1. Kenya Vulnerability and Resilience

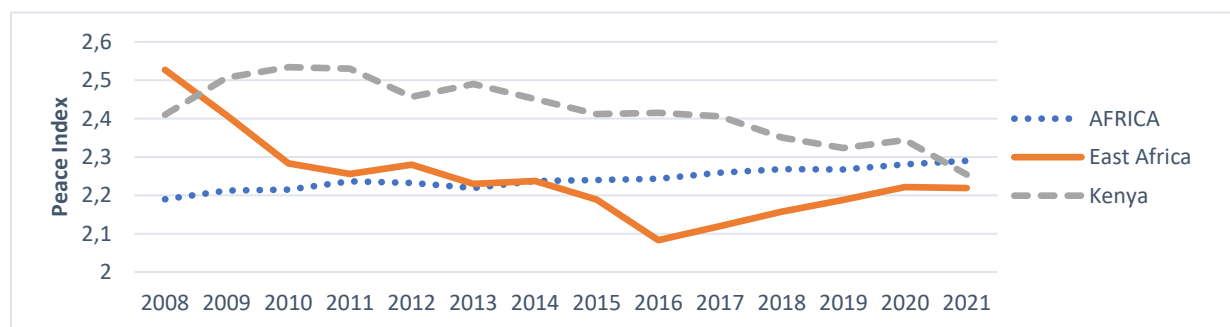
1.1. Sources of vulnerability

In Kenya, vulnerabilities as defined at community and national levels are triggered and sustained by factors such as climate change, extreme poverty and significant spillover effects of conflict and instability in its neighborhood. The opportunities for building resilience include measures that catalyze more private investment and coordinate interventions among government, DPs, humanitarian and peace actors.

Ecology, Environment and Natural Resources Vulnerabilities: Climate change poses significant challenge to Kenya's economy undermining productivity and livelihoods in critical sectors such as agriculture and tourism. In the first half of 2023, Kenya faced its worst drought situation in over 40 years with the ASAL regions as the worst hit. More than 4.2 million people representing 24% of the ASAL population faced high levels of acute food insecurity with about 2.7 million people confirmed to have experienced Crisis state and 785,000 people reached Emergency state. Climate change induced contestation over land and water resources, especially between herders and sedentary farmers and land tenure systems are among the factors associated with communal conflicts. Although successive governments have attempted to redress the issue of **land tenure** by giving customary systems a legal basis, colonial legacy of land distribution and ownership pattern remain problematic in Kenya resulting in protracted grievances.

Pressures arising from regional instabilities: Kenya has remained relatively peaceful and stable in the recent past. According to the 2022 Global Peace Index (GPI) by the Institute for Economics and Peace (IEP) which covers 163 independent states, Kenya is ranked number 120 globally. While the country maintains robust internal peace and security processes, climate vulnerabilities and regional factors are contributing to its lower peace index scores, which are gradually converging towards the average African score (see figure 2).⁶

Figure 1: Global Peace Index 2008 to 2021

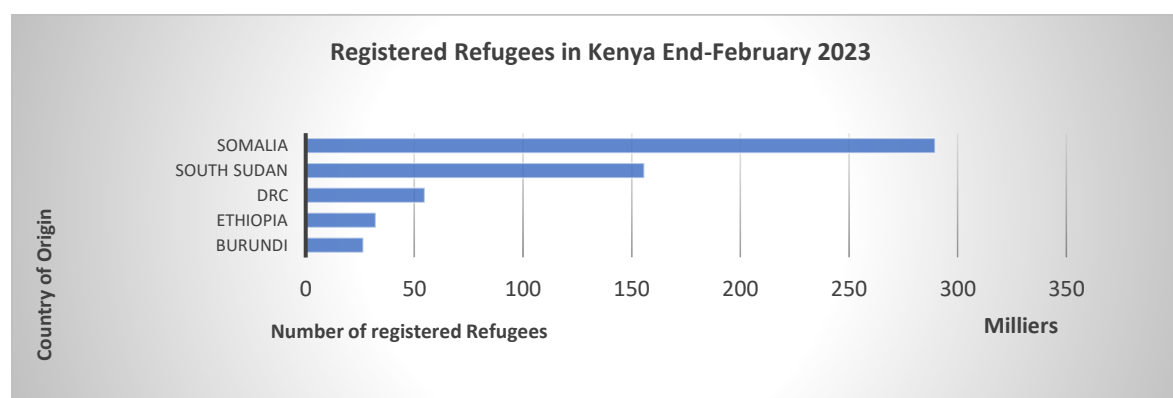


Source: Institute for Economics and Peace

Displaced Persons (Refugees and IDPs): Kenya hosts refugees from several countries in the sub-region despite the associated security and socio-economic challenges. According to latest statistics from UNHCR, the refugee and asylum-seeker population in Kenya stood at 580,792 persons as of 28 February 2023, which comprises 88% refugees and 12% asylum-seekers. Almost half of the refugees in Kenya (43%) reside in Dadaab as of 28 February 2023, while 41% reside in Kakuma, and 16% in urban areas (mainly Nairobi).

⁶ Institute for Economics & Peace. Global Peace Index 2022: Measuring Peace in a Complex World, Sydney, May 2022.

Figure 2 Registered Refugees in Kenya End-February 2023



Source: UNHCR

Social-Economic Vulnerabilities: The pace of decline in poverty and inequality has been slow mainly due to three factors: (a) economic growth has historically been experienced in capital intensive sectors such as transport, mining, and construction; (b) geographical element of economic growth, where rural areas have gained little compared to urban areas; and (c) low productivity in dominant sectors such as agriculture combined with increased vulnerability from climate change and other global shocks. According to the Kenya National Bureau of Statistics (KNBS), 17% of Kenyans live below 1.90 US dollar per day, with the gap between the rich and poor continuing to widen, especially in urban areas, where the Gini co-efficient is estimated at 0.59.

1.2. Opportunities for Building Resilience

Kenya's successes in attracting transformative private investments, neutrality in many regional cross-border conflicts, strong development partner presence and the regional integration have been important sources of resilience.

Kenya has enjoyed **reasonable level of private investment** in sectors of the economy that support community resilience. While Government's social safety nets programs are important sources of relief for many vulnerable communities, the magnitude of climate-induced vulnerabilities have proven to require much more than what governments can accommodate in its fiscal allocations. A sustainable approach to building resilience would require scaling-up private investment into climate related adaptation and mitigation.

Transformational investments at national and regional levels are sustainable and scalable solutions to many vulnerabilities faced by communities. Transformative investment in agriculture and transport infrastructure that offers support to multiple actors within many commodity value chains build interdependences that reenforce peace and coexistence, including in communities that would otherwise be in conflict. The design and implementation of such peace positive investments must be conflict sensitive and be premised on the Do No Harm principle.

Strong development partner presence and the opportunity to further mobilize support to tackle the vulnerabilities induced by climate change and regional conflicts. Already, the processes of integrating refugees in local host communities could be an entry point for many international development, humanitarian and peace actors.

Kenya has an **important role in the regional infrastructures for peace (I4P)**. In particular, its role in the Regional Security Cooperation (RSC) remains key in resolving legacy conflicts and build resilience against shocks. There is a great potential to reinforce system-wide coordination, collaboration and inter-operability of the regional Infrastructure for Peace (I4P). Moreover, Kenya is widely recognized as a neutral party in most of the cross-border conflicts in the region. This presents an opportunity for the country to maintain

leadership in peace mediation and peace diplomacy. Success in this front could contribute in lowering pressures faced by the country due to increased inflow of refugees.

Strong and Growing Digital Economy presents an opportunity for improved service delivery. The strong digital economy has been instrumental in driving financial inclusion. This has been achieved through the use of digital finance solutions such as M-PESA, Mula, PesaLink and Pesapal. The adoption of such innovations is facilitating transactions and spurring trade for corporations, small and medium enterprises (SME’s) and individuals. Progressive digitization is contributing to improved service delivery and enhancing access among remote and vulnerable populations.

Finally, **prioritizing a 'regional lens' in addressing the drivers of vulnerability and building resilience** remains key. On the basis of the regional nature of vulnerabilities faced by Kenya and its neighboring countries, and the wide capacity differences between countries, regional integration could be an important source of resilience. Such programs could maintain important community focus while aligning with the regional objectives of laying foundation for sustainable development. Collaboration and shared experiences in the implementation of regional projects result in larger benefits for countries with larger capacity deficiencies and peace as a global public good.

1.3. Strategic Approaches to Building Resilience

In the context of the above sources of vulnerability and opportunities for building resilience, the Kenya CSP 2024-2028 seeks to lift structural drivers of vulnerability and build resilience by supporting industrialization and private sector development through transformative investments in transport, agriculture, energy and social sectors. In this context, the Bank will work with Government to enhance capacity for effective service delivery and lay foundation for increased private sector participation in the economy. With a comparative advantage in infrastructure investments, the Bank’s integrated infrastructure development approach has become an effective means of building resilience in communities through the provision of critical social infrastructure alongside its conventional infrastructure investments in agriculture, energy and transport. The strategic pillars of the CSP and the underlying indicative operations prioritizes investments in transport projects linking vulnerable communities to markets and social services, agricultural projects targeted at building adaptive capacity of communities exposed to climate change, and water and sanitation projects dedicated at improving living conditions of both urban and rural communities.

2. Survey Results: CFRA

2.1. Inclusive Politics

C	Representation in the Political System			4.0
C	Political Participation			4.9
P	Corruption and Bribery			3.8
P	Political Instability			2.5



Kenya has a strong capacity of political participation due to the implementation of the Political Parties Act (PPA), which guarantees funding for political parties that receive at least 5% of the votes in a national election, which led to a strong political pluralism, a strong citizen engagement in political discourse and electoral process, and an excellent representation of regional representation in political system. However, the non-negligible decline of both the capacities of representation and political participation registered in 2021 compared to 2020 could be the result of the mere consideration of the proposal amendments to PP. While women are represented with 30.88% of the seats in the Senate and 21.71% of seats in the National Assembly after the 2017 parliamentary elections, the capacity of the representation has been weakening since 2019. Youth representation in political discussions is weak despite the provision

of the Article 100 of the Constitution which stipulates that the parliament shall promote the representation of women, youth, peoples of disabilities, and other minority groups in the parliament via legislative measures. For example, after the 2017 elections the proportion of youth seats is 0.57% in the National Assembly and 1.47% in the Senate. In the Corruption perception Index (CPI) 2021, Kenya is ranked 128 out of 180 countries from a rank of 124th in 2020. These statistics confirm a significant increase in pressures associated with corruption and bribery across the country. Urgent actions are needed to strengthen accountability and transparency mechanisms to enhance resilience. A low level of gridlock and brinkmanship among political actors has helped reduce the level of political instability in 2021 compared to 2020.

2.2. Security

C	Capacity of Policing Institutions			3.2
C	Capacity of Defense Institutions			2.7
P	Presence of Criminal Violence			2.5
P	Presence of Armed Conflict			3.7



The capacity of Kenya's policing institutions is moderately strong. The National Police Service maintains internal security. Because of terrorism activities which are the rise in the region and in the country, the government has initiated security measures and installed security systems to ensure safety at public places. Despite rampant corruption and the lack of resources, police forces are highly trusted to maintain law and order across the country. Kenya continues to play a major role in maintaining internal security. Kenya has maintained a relatively low defense expenditure of about 1.2% of the GDP since 2020. It has contributed 339 of uniformed personnel to UN peacekeeping missions. It has also contributed about 3,600 troops to the AU Mission AMISOM. A non-negligible contraction in the capacity of defense institutions could be the result of the slowdown in the country's economy from 10.1% of GDP annual growth rate in 2020 to 9.9% in 2021. Notwithstanding a noticeable progress in reducing pressures of armed conflict, the level of organized collective violence in the last five years has remained extremely high. Strengthening the capacity of security institutions will eliminate rising pressures associated with social violence deaths per capita and the prevalence of violent crime.

2.3. Justice









C	Independence of Judicial Institutions			5.2
C	Effectiveness of Judicial Institutions			3.8
P	Impunity of Senior Officials			1.8
P	Exclusion/Access to Justice			4.0



The capacity of independence of judicial institutions is excellent. The courts have been playing their constitutional role of checks and balances by nullifying laws that violate basic human rights and freedoms of Kenyans notwithstanding efforts from the executive and the legislative to limit the power of the judiciary. The lack of both human and financial resources has prevented the courts to achieve their full potential and absorb high pressures associated with the access to civil justice and legal services. The effectiveness of judicial institutions has been affected by systemic corruption and bribery.

Even though the capacity of the effectiveness of judicial institutions has remained strong in 2021, a steep decline in the quality of judicial processes and alternative dispute resolution in 2021 compared to 2020 is concerning. However, Kenyans generally have confidence in the capacity of the judiciary to enforce laws and continue to ensure checks and balances within the government. Despite the prevalence of corrupt practices in the public sector, public office holders are often held accountable for abuses of power. More efforts and support are needed to strengthen the capacity of the effectiveness of judicial institutions by increasing judicial budget per headcount and eliminate corruption and bribery in the justice system to enhance resilience.





2.4. Economic and Social Inclusiveness

C	Effectiveness of Economic Policies		 -0.2 ▼	4.5
C	Access to Public Services		 -0.2 ▼	4.4
P	Economic/Income Inequality		 +0.8 ▲	3.0
P	Poverty			3.5



Kenya has a somewhat strong economic management and an impressive business environment despite a low CPI score of 30/100 in 2021, a one-point drop from 2020. Kenya continues to earn investors' confidence because of fewer political instabilities. It has attracted foreign direct investments for infrastructure development. A significant contraction in the capacity of economic and social inclusiveness in 2021 could be the result of the contraction of the country's economy in 2020. The slowdown in its economy has led to a significant drop in the capacity of access to critical social services, including education, health, nutrition, and electricity. Rural populations fall behind their urban counterparts when it comes to electricity coverage. As of 2020, 93.99% of the population in urban areas has access to electricity compared to 62.67% in rural areas. Increasing levels of income inequality and income gap between of the top 10% of the population and the bottom 90%, and the shrinking of the middle class have contributed to ever-increasing high pressures of economic inequality. Pressures around poverty persist despite a relatively low rate of total unemployment (5.74%) in 2021.

2.5. Social Cohesion

C	Organization of Civil Society			3.4
C	Ease of Population Movement		 +0.2 ▲	4.7
P	Polarization Based on Group Identity			1.9
P	Youth and Gender Marginalization			2.1



The 2010 Constitution guarantees freedoms of expression (Article 33), of association (Article 36), of assembly, demonstration, picketing, and petition (Article 37), and of movement (Article 39). However, there have been reports of severe restrictions to these constitutional guaranteed rights and freedoms via the use of force and arbitrary arrests of anti-government peaceful protesters. A palpable example is the repression of protesters against the Covid-19 restrictions. Recent investments in physical infrastructure (i.e., roads, bridges, and railways) contributed significantly to an increase in the capacity of ease of population movement in 2021 compared to 2020. Nevertheless, thanks to a good capacity transport infrastructure, residents circulate freely across the country for interactions to promote social cohesion. The capacity of the civil society is moderately strong so as the vibrancy of the civil society. The government has managed to maintain pressures of regional marginalization based on group identity and gender inequality very low since 2020. A relatively low female unemployment rate of 6.09% compared to 5.40%

for males indicates that women are actively engaged in the workforce. Addressing pay and income gaps as well as opening space for more freedoms could enhance resilience.

2.6. Externalities/Regional Spill-over Effects

C	Resilience to Economic Shocks			
C	Regional Integration			4.8
P	Insecurity in Neighboring Countries			3.1
P	Transnational Crime			1.9



Kenya has built a strong capacity of resilience to economic shocks due to strong economic diversification. However, about 75% of its population are employed in the agricultural sector. Because of its strong annual economic growth, Kenya has earned a status of a lower middle-income country. It has maintained a strong capacity of regional integration. Besides being the effective center of economic, financial, and transport activities of East Africa, Kenya is a party to regional organizations, including but not limited to, the AU, the African, the Caribbean, and Pacific Group of States, the African Development Bank, the Commonwealth, the East African Community, the MINUSMA, the MONUSCO, the AU/UN Hybrid Operation in Darfur, and the UN Mission in the Republic of South Sudan. Averages of Covid-19 hazards, and health vulnerability in neighboring countries, prolonged regional instability, and insecurity resulting from the presence of al-Shabaab and other terrorist groups operating from Somalia are rising pressures. However, Kenya has made a significant improvement in reducing the pressure associated with regional insecurity in 2021 compared to 2020. Pressures of transnational crimes, such human trafficking and contraband have remained very low and unchanged since 2020. For a sustainable economic development, Kenya should continue to strengthen its regional cooperation on security and economic matters, maintain direct dialogue regularly with leaders in the region, strengthen the capacity of resilience to economic shocks by promoting women empowerment and pay equality.

2.7. Climate/Environmental Impacts

C	Environmental Policy			3.7
C	Emergency Preparedness			5.5
P	Vulnerability to Natural Disasters			3.9
P	Food Security and Nutrition			3.3



Kenya is vulnerable to soil erosion due to deforestation, water pollution from industrial waste, and poaching remain ongoing environmental challenges. Therefore, it has taken a proactive approach to build a resilience to climate impacts by signing major international environmental protection agreements and treaties, including but not limited to, the Vienna Convention for the Protection of the Ozone Layer, the United Nations on the Law of the Sea, the Kyoto Protocol, the Convention on Biodiversity, the United Nations Convention to Combat Desertification, the Endangered Species Treaty, the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes, and Their Disposal, the International Tropical Timber Agreement, the Comprehensive Nuclear Test Ban Treaty, the Ramsar Convention on Wetlands, and the Paris Climate Agreement. However, Kenya has not ratified any of these agreements. Kenya has also implemented many strategic plans, including the Kenya Vision 2030, which focuses on transforming the country into a newly industrializing, middle-income country and achieve a sustainable economic development by 2030. Although the Kenya's capacity of emergency preparedness is very strong,

a non-negligible decline recorded in 2021 compared to 2020 remains a source of concern. More efforts and support are needed to strengthen the capacities of environmental policy to help eliminate high pressures of crisis and natural disaster hazards, malnutrition and undernourishment, Covid-19 hazards, and water scarcity. Modernization and mechanization of agriculture will enhance food security and eradicate poverty. Protracted conflict in the Democratic Republic of the Congo, South Sudan, and conflict in the Northern Ethiopia, and other parts of the region has led to the flow of refugees into Kenya. Many residents have internally been displaced because of al-Shabaab attacks and previous electoral violence.

Annex 13: Country Fiduciary Risk Assessment (CFRA)

Executive Summary

The Kenya Vision 2030 aims to transform Kenya into a newly industrialized middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment. In order to meet the Government vision, a good PFM system is a prerequisite. A good PFM system promotes transparency, accountability, equity, good fiscal discipline and an efficient use of public resources for service delivery and economic development. Significant progress has been registered in the last few years in the Kenya’s PFM arena with all the key legislation being put in place. Even though IFMIS is not being used optimally, it has been rolled out to all key sectors, accounting standards use has been harmonized across all MDAs and now Government financial statements are being consolidated.

The overall fiduciary risk is substantial after taking into account the mitigation measures, which are being undertaken by the Government. The 2022 PEFA has indicated areas in which there has been improvements but other indicators as per what was reported during the 2017 PEFA report concluded that the overall PFM system performance has improved over the years. The report pointed areas of improvement including transparency in public finance, budget classification, timeliness of budget preparation, adoption of Treasury Single Account (TSA), adoption of IPSAS and improved financial reporting. The scrutiny of audit reports by the Parliament Accounts Committee (PAC) has also improved. Areas that were still noted as weak include management of public investments, revenue collection and inadequate reported information on service delivery units. The current PFM Reform Strategy is for the period 2018-2023. This strategy has identified eight priority results areas to focus on, progress in all these areas is commendable.

Kenya has progressively made some reforms aimed at improving public procurement to meet the principles of equity, transparency, and integrity with the enactment of Public Procurement and Asset Disposal Act (PPADA) 2015 as reported in the 2022 PEFA. The country has also recorded considerable progress from the time of the PEFA 2017 by which time the regulations were not in place. The new procurement law with the corresponding regulations which were promulgated in July 2020 has provided clarity in the institutional framework for management of public procurement functions, with provisions for enhancing transparency and accountability. The Act of 2015 and 2020 Regulations outline fixed asset disposal and transfer mechanisms with clear responsibilities of each officer involved in the process. In the current law public officials with the responsibility to initiate local purchase orders (LPOs) through IFMIS have no expenditure authorization powers and/or rights. This means that there are separate public officers responsible for raising LPOs and different officers responsible for approving and making payments. Likewise, public officials responsible for approving procurement tenders have no rights and powers to sign procurement contracts. This segregation of roles and duties ensures that no single person has the ability to carry out all the roles within the software.

Summary of Fiduciary Risk

Dimension	2023
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Budgeting	Moderate
Management of assets & liabilities	Moderate
Accounting, recording and reporting	Substantial
External scrutiny and audit	Substantial
Procurement	Substantial
Overall fiduciary risk	Substantial

Introduction

The current Country Fiduciary Risk Assessment (CFRA) 2023, is an update of the CFRA carried out in 2015 by DFID and the AfDB with an updated CFRA also prepared as an input to the Kenya CSP 2019-2021 and further updates in 2022. The preparation of the updated CFRA follows the Bank’s Country Fiduciary Risk Assessment guidelines of 2014. The updated assessment covers the main PFM components of the Government of the Republic of Kenya, namely Budget planning and execution, Treasury management, Accounting and Reporting, Internal Control, Procurement, Governance and External Audit. The assessment of the PFM systems is largely based on the results of Public Expenditure and Financial Accountability Assessment (PEFA) 2017 and 2022, CFRA 2015 and 2021 reports, the latest reports on the Public Finance Management Reform Program, and walk through tests conducted during discussions with Government Officials. Other documents used in the assessment are PEFA 2018 for six (6) pilot counties, the Kenyan Constitution of 2010, The World Bank CPIA and the AfDB CPIA of 2017, the Mo- Ibrahim Index of African Governance (2017), Corruption Perception Index (CPI), the Global Competitiveness Index (GCI) Report 2017, World Governance Indicators (WGI) of 2017.

2. Assessment of the Public Financial Management Systems

2.1 Budget Reliability

Budget reliability reflects the Government’s ability to maintain fiscal discipline while adhering to the approved budget. As per the 2022 PEFA report, aggregate expenditure outturn for the three financial years to 2022 were below approved budget and was between 85.4% and 87.2 % of the original budget. The assessment maintained the same score reported in 2017.

2.2 Transparency of public Finance

Progress in the development of meaningful public participation in the budget is encouraging. Public consultations during budget formulation have been increasing at both national and county level. Programme based budgets are being produced by all counties in compliance with the law and meeting the strategy targets and the second round of the 5-year County Integrated Development Plans (CIDP) are largely complete as well as the national Medium-Term Plan.

According to the 2022 PEFA report, transparency has improved with all budget information provided as required by the Kenya constitution. The executive government provided all the information required to the National Assembly on time with all the eight elements of budget information provided.

2.3 Management of Assets and Liabilities

According to the 2022 PEFA report, 99.5% of state-owned enterprises submitted their financial statements to the Office of the Auditor General within six months after the end of the fiscal year. Improvements are however required with the county governments as they still delay their submissions. All quantified

contingent liabilities of the Government have been reported in the public financial statements of the financial year 2020/2021.

2.4 Policy-based Fiscal Strategy and Budget

This indicator has not changed much over the years. The 2022 PEFA as was in the previous reports states that a medium-term perspective to budgeting is nominally in place. The annual budget preparation process appears to work well and continues to improve. The main element missing is a meaningful medium-term perspective facilitating strategic resource allocation decisions. The approved budget appears to be considered as a starting point for the year and not as a plan for the whole year. The priorities would seem to be: (i) to continue to strengthen macro-fiscal forecasting; and (ii) strengthen annual budgeting in terms of realism, efficiency, and effectiveness, perhaps through the introduction of periodic spending reviews outside the budget preparation calendar. The fiscal impact of proposed changes in expenditure policy is not prepared.

2.5 Predictability and control in budget execution

Budget execution refers to the implementation of activities in which parliament and county assemblies have done budget appropriation. Efficiency in budget utilization has improved only marginally and remains as work-in-progress; a good example is cash management, which has not been working effectively. Frequent cases of lack of liquidity have resulted into delayed disbursement of cash to MDAs and counties. Delays in the implementation of the single treasury account have also affected the advantage, which was to be gained of centralizing and minimizing idle cash balances. Commitment control is another issue that affects budget credibility with MDA's spending based on approved budgets. The exchequer releases do not always meet the approved budget provisions as they are based on available cash, raising the amounts of pending bills. The pending bills issue can be dealt with by ensuring that all spending commitments are processed through the IFMIS with MDA's requirements being entered based on cash availability. MDAs' work plans also need to be improved to be within budgets to improve on budget execution.

The PFM Act of 2012 requires each MDA to prepare a cash flow forecast, plan at the beginning of each year, and submit them to the National Treasury and the Controller of Budget. The National Treasury should then consolidate these forecasts and compare with annual expected revenue inflows. However, these forecasts have generally not been followed and in practice, budgets were executed in two equal quarters of the first half-year following which a supplementary budget was prepared. This has resulted into poor cash management with delays of cash releases to MDAs.

The PFM Act 2012 also provides for the establishment of a Treasury Single Account (TSA). Although the TSA has not been fully established, structures were being put in place through a decision by CBK management and just-in-time funding of MDAs payments accounts is already happening. Two legal impediments namely the constitutional role of the Controller of budget-who legally should approve all withdraws from the exchequer and revenue collections outside the consolidated fund have also slowed the establishment of the TSA.

The National Treasury is currently preparing a tool for more efficient cash planning with more automation of cash management with inflows and outflows and then establish monthly cash management limits. Introduction of Internet banking will also provide online and up-to-date information on MDAs cash balances and pending balances. Pending bills will also be eliminated by ensuring spending commitments are processed through IFMIS based on cash availability.

While staff list, personnel database and the payroll are not yet integrated, any changes in the personnel database are keyed into the HR system leading to direct changes in the payroll. Prior to running the current

monthly payroll, it is checked against the previous and changes made to it. Personnel records and payroll are updated at least every two months with these changes being restricted and an audit trail generated. The integrity of data is high but still there are weaknesses as highlighted by various OAG reports. While payroll is decentralized, the HR system is yet to be integrated with IFMIS.

There is segregation of duties throughout the expenditure cycle with the replacement of manual system with IFMIS being key. Expenditure commitment controls against budget are in existence but they are based on actual cash spending rather than projected cash availability, each accounting department of an MDA checks cash availability before making a payment. The PFM Act 2015 has also made payment rules and procedures clear with IFMIS rejecting any payment requests if they are not accompanied by Authority to incur expenditure against exchequer releases.

The Internal Audit Department is also operational covering all MDAs although capacity building strengthening is required to improve its quality of work. Although audit committees in MDAs had been established, they were not operational as they were not independent of the senior management of the respective MDAs. This has already been clarified by a Kenya Gazette notice of April 2016 with a pronouncement of members being drawn from outside the respective MDAs.

2.6 Accounting, recording and reporting

IFMIS is now linked to the Central Bank of Kenya (CBK) and suppliers are now being paid online with internet banking now operational. All bank reconciliations are now prepared on a monthly basis and approved before the 10th day of the following month. For easy of cash management, over 90% of the Government bank accounts are now opened and operated at the CBK although there remains a challenge of counties opening and operating bank accounts at Commercial Banks. These improvements have been noted due to among other things, the easy submission of bank statements due to the expansion of internet-based banking. The auto bank reconciliation module ensures daily reconciliations are possible. There remain balances of staff advances and imprests with delayed accountabilities despite clear rules on how long these advances should remain outstanding.

Financial data integrity has improved with password protection which prompts a change every three months with all changes on IFMIS having an audit trail.

The Government is up to date in financial reporting with the MDA's and country governments now in compliance with the preparation of financial statements in accordance with IPSAs cash accounting, consolidated GoK financial statements are now available. The Government is in the process of adopting accrual accounting. This will address all the information currently not included in the financial statements especially pending bills which are currently reported under notes to the financial statements.

MDA's are required to submit financial statements to the National Treasury (NT) within three months of the financial year (with the NT submitting to the Office of the Auditor General (OAG) within one month of receipt of the same). According to the OAG, MDA's are complying with these deadlines although there are many revisions. The financial statements for the financial year ending 30 June 2021 were submitted to the OAG on 30 October 2021, four months after the end of the financial year.

Among the biggest challenges identified was the weakness of cash management, including cash flow planning and forecasting, reforms which were brought into the revised strategy and are currently being implemented. The adoption of the Treasury Single Account (TSA) in September 2023 is expected to alleviate those weaknesses ensure there is real time payments and avoid cases of keeping idle cash in commercial bank. Pending bills remain an issue at both levels of government.

2.7 External Scrutiny and audit

MDAs financial statements are audited by the OAG every year in conformity with the Public Audit Act and the International Standards of Supreme Audit Institutions with National security institutions being audited periodically. The OAG is supposed to receive final FSs within three months of the closure of the financial year. This has not been achieved but improvements have been registered in the last two financial years (in 2021, they received four months after the end of the financial year). The OAG reports shows that financial statements presented to her office still has issues including inaccuracies, presentation and disclosure not confirming to IPSA's, unresolved prior issues, unsupported expenditures etc.

All Government of Kenya financial statements up to 30 June 2022 are up to date and audit reports have been completed and submitted to parliament for scrutiny and approval. Audit coverage is still below 90% for both central revenues and expenditures.

The 2015 Public Act has prescribed procedures on entry meetings, exit meetings and audit findings responses which has made the audit follow up mechanism more formalized. Audit findings has continued to recur in the following years and their follow up has been slow over previous audited periods. For the period under review (FYs2018/2019, 2019/2020, and 2020/2021), the Auditor-General's audit reports includes a section on follow-up of previous year's audit recommendations – this section is titled “unresolved prior year's audit issues”. The audited entities provide formal responses to audit findings. The audit reports for the last three completed fiscal years summarize management responses to audit findings. The reports from OAG indicate that some accounting officers do not fully address the issues raised.

The audit reports highlight material issues as well as weaknesses in systems and internal controls. According to the Auditor-General, for FY2020/2021, there were no material issues relating to effectiveness of internal controls, risk management and governance.

Challenges the OAG has been highlighting over the years include noncompliance to laws especially procurement ones, misuse of public funds, lack of supporting documents for expenditures and poor record keeping by the MDA's. The consolidated GoK financial statements were presented to the PAC seven months after receipt from the National Treasury.

Parliament Accounts Committee: There has been a lot of improvements in the clearance of audit reports by the PAC. All Government of Kenya financial statements up to 30 June 2022 are up to date and audit reports have been completed and submitted to parliament for scrutiny and approval. PAC has scrutinized and approved Government audit reports up to 30 June 2021 (although this had not been done by the time of the PEFA 2022). The Office of the Auditor General is liaising with PAC to ensure the audit reports for the year ending 30 June 2022 are discussed and approved before December 2023. Overall, audit laws have been strengthened over time and the OAG has increased his use of audit software's in his work with the audit exercise now being formalized and its coverage wide. The governance structure at the Office of the OAG has been strengthened with the creation of additional directorates to deal with emerging issues and quality aspects of produced audit reports. The citizens accountability audits have also been introduced to ensure that citizens are being involved in the audit process.

2.8 Main Laws, Proclamations & Regulations issued to improve Public Financial Management

The Government of Kenya has over the years enacted laws to improve the public financial management systems in the country. Key legislations include the Constitution of Kenya 2010, the Public Financial Management Act 2012, and the Public Audit Act 2015. These provide the framework for enacting subsidiary legislation most of which were identified under the fifth schedule of the constitution. These subsidiary legislations cover areas like public participation, revenue funds for counties, contingency funds, loans, guarantees, financial controls, accounts and audit of public entities and procurement of goods and

services. The public procurement and assets disposal Act 2015 has also been enacted in order to strengthen public assets management.

2.9 Credible program to improve the PFM system

Through the PFM Reform Strategy, the Government of Kenya has started wide ranging initiatives in order to improve the public financial management systems across the national and county governments. The current PFM Reform Strategy is for the period of 2018-2023.

The Public sector accounting standards board was set up with the adoption of the International Public Sector Accounting standards (IPSASs) cash basis of accounting for ministries and county annual financial reporting. The standard chart of accounts has been revised to provide for coding of projects and unified chart of accounts has been adopted. The electronic project management information system to better capture development partners funding and non-financial data has been introduced although it is yet to be linked to IFMIS.

On performance information for service delivery, the GoK has adopted a program-based budget structure including a five-year strategic plan. Tax administration has been modernised and an integrated tax administration system has been implemented at Kenya Revenue Authority (KRA). Procurement module has now been connected to IFMIS with the e-procurement now operational although there are still some pending issues to be dealt with.

The Government internal audit has been strengthened with the introduction of a training manual, the introduction of TEAMMATE software and Computer Aided Audit Techniques (CAAT).

2.10 Strengths and opportunities

Although with delays, key PFM legislations have been passed bringing a lot of clarity on all areas of PFM. IFMIS re-engineering and roll out has been done with focus on proper usage and sustainability, which enable the Government to strengthen controls. Mobilisation of revenue resources has improved significantly as well as success in preserving aggregate fiscal discipline. The Government has also been able to strategically allocate resources consistent with medium to long-term development goals instead of relying only on medium term plans. Overall and over time, service delivery has improved.

Key PFM challenges still persist including the mismatch between policy commitments and public spending, unpredictable availability and timing of budgetary funding, significant challenges in management of resources by various sectors and inadequate audit recommendations follow up.

2.11 Recent Development in Aid Coordination/harmonization and use of country systems

The Paris Declaration and the subsequent aid-effectiveness declarations encourage donors to increase the use of country systems that are of sufficient quality, and to work with partner countries to strengthen the PFM systems that are currently weak. Some of the elements of the country PFM systems are being used in implementing Bank-financed projects at the national and county levels.

2.12 Bank Group Strategy on PFM

The Bank, working with other development partners and national and county governments, will push the agenda for a coordinated approach in the implementation of the PFM reforms in the country. The main area of concern is managing and reporting the financial resources at the county levels, and the social sector (education and health). The Bank will work with the Government and other development partners to address

the identified issues. The Government has prepared a PFM Reform Strategy for 2018-2023 and the Bank continue the dialogue in filling the financing gap of implementing the proposed Strategy.

2.13 Potential Risks and mitigation measures

Human resource capacity is the main impediment in implementing the various PFM reforms and sustaining the results achieved through the PFM reforms. To mitigate the risk, the Bank will work with other development partners, and the National and County Governments to address the identified risk. The Bank's intervention could be in the area of capacity building in order to increase accountability and good governance. The specific areas of focus could be on improving the quality of PFM systems in general at all levels of the Government-National, County and Sectors; and specifically focusing on financial reporting, auditing, and corruption. Depending on the specific risk assessment of each future project, the Bank may include a component for building the financial management system of a project.

3. Procurement

3.1 Legislative and Regulatory Framework

Kenya has generally made progress in developing the legal and regulatory framework for public procurement. Following promulgation of the new constitution for Kenya in 2010, the country amended the procurement law to be in line with the new constitution. The Public Procurement and Asset Disposal Act (PPADA) 2015, which became effective in January 2016, describes the institutional framework, methods of procurement, procedures, rules, and ethical behavior for public sector procurement. All public entities are required to comply with this law when conducting procurement operations. The Act envisaged the Regulations to be finalised within one year from commencement to make some components of the law operational. However, the establishment of the corresponding regulations took longer than planned. The regulations have now been finalized and were promulgated in July 2020. Procurement of Public Private Partnerships is regulated through a separate law, Public Private Partnerships Act, 2013. In addition, the Supplies Practitioners Management Act (SPMA) of 2007 forms part of the legal framework to professionalize the procurement functions in the country. SPMA 2007 provides a framework for promoting integrity and professionalism in public procurement in the country through training and accrediting procurement professionals.

One of the key improvements made in the Legislative and Regulatory Framework during the 2014-2018 CSP period relates to transparency and accountability. The PPADA 2015 now requires all procuring entities to submit procurement data routinely, report all operational procurement information to the Public Procurement Regulatory Authority (PPRA), including information on contract awards, and publish their procurement plans. The new law has also provided for a framework for introduction of e-procurement, streamlined the selection process of consultancy services and expanded the range of procurement methods to include Two-Stage Tendering, Design Competition, Force Account and Electronic Reverse Auction in addition to the other methods which were earlier provided for (e.g. International competitive bidding, National competitive bidding, restricted tender, request for proposals, request for quotations and direct contracting). However, the PPADA still excludes classified procurements and disposals for National security organs and other procuring entities that deal with procurements of classified nature.

In addition, the Act aligns with the provisions of the Public Finance Management Act, 2012, which sets out framework for effective management of public finances. Thus, the procurement law now links procurement planning processes to the budget preparation process. The Act under Section 26 requires Procuring Entities to ensure that all procurement is done within budget through annual procurement plans. Section 44 of the Financial Regulations (2015) further reinforces this by requiring incorporation of procurement plans into cash flow forecasts prepared by MDA's. A strong linkage between procurement planning and the budget

preparation process provides assurance that funds will be used for the intended purpose, minimizing opportunities for diversion of resources, and enhancing likelihood of achievement of project objectives. The introduction of multi-year procurement plans also allows procurement processes to buttress implementation of projects under the MTEF framework thus allowing for more long-term cash flow forecasting.

Since the procurement regulations have now been operationalised, the aspects introduced by the new law to enhance transparency and accountability have now been effected and therefore the procurement legal framework is expected to provide adequate checks against malpractice. However, more needs to be done to redress the identified weaknesses in the regulatory framework and operations.

3.2 Institutional Framework and Management Capacity

The PPADA 2015 has reinforced the institutional framework established previously under PPDA 2005. The Act has made several material modifications of the national procurement system by first separating and clarifying the roles for policy and regulation. The responsibilities of the National Treasury include development of procurement policy as well as guidelines for the National and county governments, providing technical assistance on procurement and administering the scheme of service for procurement professionals in the public service. The Public Procurement Regulatory Authority (PPRA), which previously existed as the Public Procurement Oversight Authority (PPOA) under PPDA 2005, is the regulator of procurement in all public procuring entities. PPRA is responsible for monitoring the public procurement system to ensure compliance with the Act, setting, monitoring, and enforcing procurement standards including implementation of the preference and reservation schemes by procuring entities, as well as developing and managing the state portal on procurement and asset disposal and a database on various issues such as debarred entities and complaints. The PPADA has also retained the Public Procurement Administrative Review Board (PPARB). To mitigate involvement of oversight institutions in procurement transactions, PPADA 2015 has provided for establishment of a Public Procurement and Asset Disposal Services Agency (PPADSA) to be responsible for procurement of common user items for PEs at national level.

The Act has also modified the way procuring entities (PEs) manage public procurement. Under the Act, Accounting Officers or Chief Executive Officers of the PEs are primarily accountable for the procurement decisions within their organizations, with the Head of Procurement Function providing technical guidance. All PEs are supposed to have a Procurement Function with qualified professional staff, ad hoc tender Evaluation Committees as well as ad hoc Inspection and acceptance committees. The Act has abolished the permanent Tender and Procurement Committees, which adjudicated tender evaluations under the repealed PPDA 2005, thus eliminating administrative bottlenecks created by these committees in the procurement process. This has introduced flexibility in tender processing and established accountability for bid evaluations.

The Supplies Practitioners Management Act (SPMA) of 2007, on the other hand, established the Kenya Institute of Supplies Management (KISM) to promote professional standards through certification and licensing. KISM runs various professional courses and has an active program for continuous professional development. SPMA also established the Kenya Institute of Supplies Examination Board (KISEB) which administers exams for certification of procurement professionals.

One of the challenges identified previously was a lack of specialized procurement expertise in the procuring entities. The skills and competencies issue persists as exemplified in the 2015 Evaluation of Public Procurement in Kenya by the Ethics and Anticorruption Commission, (EACC). The evaluation revealed that there were several heads of procurement sections in PEs with only college level education and less than 5 years' experience, and some with "O" or "A" level education but having more than 11 years' experience.

The PPOA Annual Report for FY2014/2015 also cited inadequate procurement professionals as one of the common findings from procurement assessments in PEs. Considering that there were at that time an estimated 47,000 Procuring Entities (PEs), that included about 28,500 primary and secondary schools and 4,500 health facilities, the regulatory scope of PPOA, which has about 50 staff, is substantial. It was also noted that there was still no data available on the number of practitioners working in the public sector as procurement professionals. KISM has approximately 6000 practitioners working in both the public and private sectors. Low staffing levels at PPOA has an impact on its effectiveness to monitor compliance in all PEs and provide adequate capacity building.

The weaknesses in the institutional framework and management capacity have an impact on the ability of the national procurement framework to transparently monitor and ensure adherence to acceptable procurement methods.

3.3 Procurement Operations and Market Practices

The PPADA under Part IX prescribes open tendering as the default mode of procurement. The Act has also allowed for Sector-specific procuring and disposal agencies, consortium buying and use of procuring agents or asset disposal agents. It has expanded the scope of the law to better align procurement planning with the budget cycle and streamline contract administration.

The 2012 PEFA Report indicated that out of the 184 contracts reported to PPOA by the PEs, 68 percent (by number) was for national competitive bidding, 18 percent for international competitive bidding, 11 percent was for request for proposals, and 3 percent was for restricted tender. On the other hand, the 2017 PEFA reports that contracts awarded through open competition (including restricted tendering) during FY 2015/16 was close to 100% of the total value of contracts. Under the existing procurement framework, PEs are required to report to PPOA on procurements above KES 5million and on the use of direct procurement valued at over KES 0.5million. PPOA, through its audits and inspections, is also able to verify whether reporting requirements are met and has indicated that although the level of compliance with this reporting requirement is improving, a substantial number of MDAs have not complied. The PEFA Assessment report of 2017, pointed to better procurement performance, with the score for PI-24 (Procurement Performance Indicator). According to the assessment, 93.06% of procurements in FY 2015/16 were done through Open Tenders. In the 2017 PEFA, the indicators for public access to procurement information and Procurement complaints management met all the six respective dimensions.

However, the latest **2022 PEFA Report** released in May 2023 indicates that, PPOA still does not have a consolidated report published with this information therefore it was not possible to verify whether PEs that have awarded contracts by methods other than open competition, have provided the necessary justifications in accordance with the law. The PEFA Assessment of 2022 shows a deterioration in procurement performance with a score of the PI-24 as D+. The performance indicator (PI-24) of the PEFA has key dimensions namely procurement monitoring, transparency, openness, and competitiveness of methods applied, public access to information and management of complaints. The recent PEFA Report findings indicate that though an electronic data, the Public Procurement Information Portal (PPIP) has been established and is accessible, the procurement data was not comprehensive enough as not all contracts awarded by procuring entities for the FY2020/2021 had been published. On procurement methods data, the report establishes that it was not possible to determine the value of contracts awarded segregated by method as the data available was not complete and comprehensive.

The public access to procurement information is recoded as reliable and that the government met three of the six PEFA criteria (legal and regulatory framework for procurement, bidding opportunities and data on resolution of procurement complaints). The bidding opportunities and the data on resolution of complaints are published on the PPRA website as required by the law. However, the publishing of procurement plans

is lacking, and the current legal framework does not mandate such publication though this is under consideration as the revision of the Law is envisaged. The other area falling short according to the 2022 PEFA Report is the incomplete publication of data on contract awards and significant delays in the publication of annual procurement statistics coupled by lack of comprehensive statistical data. Improvements in availability of data on procurement, particularly on use of open competition, allows for better monitoring of procurement processes and enhances transparency and adherence to proper procurement methods and procedures, thus reducing exposure to corruption and inefficient processes.

The procurement complaints management is well established, and the complaints review body is reasonably independent it is not involved in the procurement transactions or process leading to the award of contracts. The Public Procurement Administrative Review Board (PPARB) are independent and the process for submission of complaints and resolution is clearly defined and publicly available. The body is empowered to suspend all procurement processes until further resolution under section 171 of the Act of 2025 which provides for 21 days for resolution. Sampled cases reported in the PEFA 2022 indicate that the 21 days resolution period stated in the law is being respected. The decisions made are binding by both parties to the complaint though the fees charged for submission of complaints appear prohibitive.

Generally, Kenya has a well-established private sector with considerable participation in competing for public sector procurement opportunities. However, no hard data was available from the GoK on the distribution of tenders in terms of enterprise type, volumes, and values. From studies by the Kenya Institute of Supplies Management (KISM), it is estimated that about 55% of the value of procurement occurs on larger infrastructure-based and project specific procurement while the balance is with Small and Micro Enterprises (SMEs), who are engaged mainly on the multiple small procurements that take place for consumable items. It is estimated that about 90% of the total number of small value transactions in a fiscal year are with the SME sector. Given that infrastructural procurement is lumped with other item procurements, it is difficult to estimate the competitiveness of the Kenyan private sector in public procurement, in terms of volumes and values of procured goods. Nevertheless, about 80% of the contracts under Bank-Financed projects procured through Open Competitive Bidding (OCB) with international advertising have been awarded to Kenyan firms which, represents about 20% of the total value of contracts awarded through OCB. Only about 28% of the goods procured through OCB are sourced locally. There are also sectoral variances in the nature, value and complexity of contracts that influences the nature of competition and procurement lead-time under Bank-financed projects. For instance, the agriculture and social sectors tend to have numerous low to medium-value goods and works contracts, with few consulting assignments and less technical complexity that is attractive to local suppliers, contractors, and experts. Large numbers of medium to high value works and studies, with moderate to high complexity, characterizes the water sector in Kenya. This typically attracts a mix of local and foreign contractors and consulting firms while the energy and transport sectors usually have a small number of high values, technically complex projects which predominantly attract foreign firms.

Despite having a vibrant competitive private sector, there are other constraints also which inhibit the private sector from accessing the market and these relate to serious capacities issues in core business areas. For instance, even though access to credit is relatively easy in Kenya, the private sector, particularly SMEs, is faced with lack of credit facilities including high interest rates applied by commercial Banks – an issue that has been exacerbated by the 2016 law capping interest rates. Recent PPOA reports have raised weaknesses in contract management in most PEs, which shows that, there is still a need to reinforce the capacity of staff in contract management, especially as it relates to large value and complex contracts. This is despite having provisions in the law and in the conditions of contracts in Standard Bidding Documents (SBDs) relating to procedures for acceptance of final products and issuance of amendments including change orders, as well as inspection and tests, which are generally consistent with international best practices (e.g. Sections 48, 150 and 154 of the PPADA 2015).

Another challenge facing suppliers and contractors is delayed payments that has led to increase in pending bills, some running over multiple financial years. The problem is also prevalent in the private sector where there are billions of Kenyan Shillings outstanding payments for goods delivered to large retailers, with some payments delayed for between 180 and 240 days. In response to this, the government has been working on regulations to introduce Prompt Payments for the Retail Trade Sector while for the public sector; government has also requested parliament to review the public Procurement laws to allow the government to pay suppliers within 60 days. The late payment challenge has affected performance of contractors and suppliers who end up suffering from the soaring debts and has negatively affected businesses and implementation of planned activities.

The risk posed by payment delays is that procurement processes may fail to obtain value for money in the end as contractors and suppliers' factor in costs resulting from perceived delayed payments by government when bidding.

3.4 Integrity and Transparency

Under the PPADA, PPRA has the mandate to inspect and audit procurement contracts, with powers to ensure compliance under Part IV (Sections 34-40). PPRA has been carrying out this function under PPDA 2005 and has published procurement review reports for various PEs on its website. However, PPRA is thinly staffed, with few technical officers to cope with the 42,000 procuring entities thus the need for strengthening of technical capacity. The PPRA predecessor (PPOA) last published the report for FY 2014/2015 in which it indicated that some of the challenges faced in carrying out compliance audits included access to Procure-2-Pay module, high employee turnover inadequate financing and loss of records. PPRA is equally mandated to submit comprehensive annual reports on the performance of the procurement system and the procurement reviews for PES are expected to be published the results of on its website.

The Procurement Law defines fraud and corruption in procurement and has a provision under Section 62 for bidders to make a declaration not to engage in corruption fraud, conflict of interest, and unethical behaviour. Section 41 specifies debarment by PPARB on the recommendation of a law enforcement organ with an investigative mandate. However, the provisions on fraud and corruption are not standardized across all standard bidding documents (SBDs). The Ethics and Anticorruption Commission, (EACC) is mandated by law to spearhead the anti-corruption efforts in the country, and to cooperate and partner with other agencies.

Fraud and corruption issues have had a considerable impact on procurement in Kenya. Many of the publicly reported cases of fraud and corruption seem to be perpetrated in procurement or contract payment processes through either conflict of interest, bribery, collusion and or coercion. The EACC evaluation of corruption in procurement indicates as some of the suppliers and procurement officers reported being aware of procurement decisions being influenced by external persons such as suppliers, politicians, and senior civil servants. The report also shows that some suppliers were able to access confidential information such as the PEs estimated prices and were aware of firms owned by public officers doing business with government. Most cases of corruption in procurement go unreported due to concerns by suppliers of losing business opportunities.

3.5 Procurement Risk Rating

According to the Bank's Fiduciary Risk Assessment 2015 and updated in 2021, the overall risk rating for procurement was 'substantial', with a 'neutral' trajectory of change. Despite some improvements, the procurement rating in this revised CFRA still remains "Substantial" and the areas of weakness are clear and need to be addressed:

- (i) The new procurement law has provided clarity in the institutional framework for management of public procurement functions, in particular regarding responsibility for policy, regulatory and qualification certification. However, the understaffing of the regulatory function, weaknesses in deployment of qualified and experienced procurement personnel in PEs and the influence external parties on procurement decisions undermine professionalism in the discharge of procurement functions and is likely exacerbate the current situation. The fiduciary risk posed by the Institutional Framework and Management Capacity is therefore also considered to be “substantial”.
- (ii) Kenya has an established private sector that generates considerable participation in competing for public sector procurement opportunities, particularly for standard, low and medium-value goods, works and services. While the fiduciary risk for such a competitive environment may be considered to be moderately low, sectoral differences in the nature, value and technical complexity of goods, works and services, would require additional data which is currently lacking. As such, it would be recommended that the additional fiduciary risk assessments be done at sector, project, and PE level in order to provide a project-specific risk profile for Procurement Operations and Market Practices.
- (iii) Despite having a robust legal and institutional anticorruption framework, Kenya’s public procurement is still affected considerably by corruption therefore, the fiduciary risk of the Integrity and Transparency framework in the country is “high” due to prevalence in reported malpractices.
- (iv) Despite considerable reform progress made over the years procurement performance of some key dimensions have deteriorated especially the failure to capture comprehensively procurement data on contract awards and ensure publication on the PPIP. This affects transparency and adherence to proper procurement methods and while exposing the processes to corruption.

Annex 14: Analytical work and technical assistance delivered from 2019 to 2023

#	Title	Status
1	Technical Assistance to the Presidential Delivery Unit - The Big Four	Completed 2019-2020)
2	Capacity building to Budget, fiscal and economic affairs (National Treasury) on budget planning & forecasting.	On-going
3	Supporting government policy, legal, regulatory and institutional reform agenda to improve Kenya's business environment	Undertaken
4	A study on governance	Completed 2019 - 2020
5	Impact Assessment of Investment in the Road sector	Undertaken
6	Guideline for Gender Mainstreaming in Transport Sector Projects	Undertaken
7	Transport Infrastructure Gap Assessment and Development of Transport Strategy	Completed 2020-2021
8	Capacity Assessment of the Domestic Construction Industry	Completed, 2021
9	Kenya Country Note of 2019, 2020, 2021, 2022 and 2023 African Economic Outlook	Completed
10	Country Resilience and Fragility Assessments (CRFA) – 2019, 2020, 2022	Completed
11	Occasional policy advice to government officials in the areas of Bank operations and dialogue around its budget support and COVID-19 policy responses	Completed, 2019-2023
12	Country Policy and Institutional Assessment and Country (CPIA) – 2020 and 2022	Completed
13	Training for Line Ministries, PIUs and NT on Social and Environment Safeguards	Completed, 2020
14	Civil Society Open Day	Completed 2020
15	Kenya Rural Transformation Centers Digital Platform - KRTC DP	Undertaken
16	Public Debt Management Support Project	Undertaken
17	Gender and Energy Country Brief	Completed, 2020-2021
18	Public Private Partnerships in Transmission Lines	On-going TA, 2020-2022
19	Fostering Kenya's Sustainable and Inclusive Growth Under Public Debt Constraint	Undertaken in 2022
20	Study on Export Diversification	Undertaken in 2023
21	Kenya Country Diagnostic Note (CDN)	Undertaken, 2023
22	Policy Note on Public Debt Dynamics	Completed in 2022
23	2022 Country Focus Report climate and just energy transition	Completed in 2022
24	2023 Country Focus Report on leverage private sector financing for climate and green growth	Completed in 2023
25	Mapping the private education sector in Africa to assess the level of investment readiness for non-sovereign operations	Completed in 2022
26	Human development in Kenya: A review of education, skills and employment	Completed in 2023
27	Kenyan Interest Rate Cap: What are the Economic Implications and Policy Options?	Completed in 2019
28	Tracer Study on Destination of Engineering Graduates from Public and Private Universities in Kenya	Completed in 2021
29	Building Pathways to Sustainable Growth: <i>Strengthening TVET and Productive Sector Linkages in Africa</i>	Completed in 2023

Annex 15a: Environment and Social Safeguards Performance

The overall environmental and social (E&S) safeguards compliance performance is considered as satisfactory. The submission of the periodic E&S safeguards implementation reports has since improved, especially for the projects in the water and road sector, partly due to the Bank provided close follow-up and tailored training to the respective PIUs. The timely delivery of the annual E&S safeguards compliance audits remains a challenge, as the majority of the projects didn't comply with this requirement. The main E&S issues observed were delayed compensation and resettlement of people affected by the projects which affected progress of works; and the ongoing Independent Recourse Mechanism (IRM) investigations 3 projects, 1 in the water and sanitation sector and 2 in the transport sector, also with complaints on compensation and resettlement. The Bank has discussed this with the GoK, to work out a solution to ensure that the delays are minimized or eradicated, at project preparation, by considering the adoption of alternative sources of financing for the RAP implementation cost, other than counterpart funding. The alternative financing sources under consideration are, including the resettlement and compensation costs in the total project cost; or seeking financing of the resettlement and compensation costs from alternative sources such as other DPs.

Annex 15b: Civil Society Engagement

The sphere of Civil Society Engagement is vibrant and well-organized, filled with interactions and activities involving international CSOs, CBOs, as well as regional and national CSOs operating across diverse sectors. These entities are often coordinated by various umbrella bodies. However, it's important to note that the space for civil society engagement is not without its challenges. These organizations often operate within certain constraints imposed by the government. This observation was made during the CSP preparation mission, where participating CSOs voiced concerns about the increasing restrictions they face in their operational environment. These limitations are reflected in Civicus' categorization of Kenya as an obstructed space.

The responsibility of regulating and facilitating the NGO sector in Kenya falls under the purview of the NGO Coordination Board, housed within the Ministry of Interior. The scope of the NGOs Co-ordination Board encompasses tasks such as registering, facilitating, and coordinating both national and international NGOs operating within Kenya. Additionally, it advises the government on the contributions of these NGOs to national development, offers policy guidelines to align their activities with national priorities, and analyzes the annual reports submitted by NGOs⁷. It's noteworthy that despite the prevailing challenges within the civic space, the government acknowledges the pivotal role played by CSOs in both community and national development. Furthermore, these organizations contribute significantly to the government's mandate of delivering public services. For instance, the cooperative partnership between the Garissa County government and World Vision exemplifies the collaboration between the government and CSOs, as they jointly work to provide essential water services and identify suitable locations for water projects in conjunction with other humanitarian-assistance CSOs⁸.

CSOs are indisputably key players in the development process. Their presence is instrumental in creating an environment where economic growth is advantageous for all sectors of society, and where considerations for social and environmental well-being are prioritized. CSOs contribute to this vision by advocating for

⁷ NGO Coordination Board Kenya, <https://ngobureau.go.ke/>

⁸ 2021 Civil Society Organization Sustainability index, <https://www.fhi360.org/sites/default/files/media/documents/csosi-africa-2021-report.pdf>

inclusive policies, conducting meticulous research, promoting accountability, and encouraging community engagement. These contributions greatly influence the success of endeavors aimed at achieving sustainable and equitable development through structural transformation. The significance of the role played by CSOS is recognized by the Bank, which has been consistently rolling out initiatives to seamlessly mainstream civil society engagement into its operations and policies. The Bank actively involves numerous civil society actors, who participate in the Bank's CSOs committee and the Bank's CSOs coalition on Climate Change.

A concern brought up by CSOs during the CSP preparation missions revolves around the frequency of the Bank's interaction with them. This aspect can be enhanced through the implementation of the new CSP by actively involving them in the project design phase. CSOs have encountered limited opportunities for project consultations. However, when granted the opportunity, they consistently raise pertinent issues pertaining to climate change and environmental safeguards. . It is worth highlighting that the Independent Review Mechanism (IRM) has registered more than four project requests from Kenya in August 2022 alone⁹.

It would be advantageous to engage with them during project designs and implementation to ensure concerns on climate change and environmental are comprehensively addressed within projects. Additionally, their engagement can be extended to include participation in CSOs open days, providing a means to keep them informed about the Bank's operations in Kenya. This multi-pronged approach not only enhances the Bank's relationship with CSOs but also fosters a more robust and inclusive project development process.

Annex 15c: ICT Sector in Kenya

Kenya boasts of a competitive ICT sector that is a regional hub in East Africa. Kenya performs well with better infrastructure to support ICT operations in areas such as value-added services (VAS), mobile money, and mobile banking as part of financial inclusion. ICT accounts for 7% of GDP and plans are under way to scale the digital economy services. Cognizant of the sectors importance, the Kenya government has increased ICT budget allocation to support the sectors inter-linkage initiatives to enhance productivity and value addition. Kenya's telecommunications sector has registered significant upward growth with high penetration of 3G and 4G coverage. Currently, the leading mobile providers Safaricom and Airtel are piloting the use 5G technology which is expected to enhance ICT access in Kenya. The use of online commercial services supported by ICT has increased with customer to business (C2B) and business to business (B2B) transactions reaching 85% of total online transactions. Going forward, policy reforms for robust ICT infrastructure development will scale up digital economy and narrow the current spatial digital divide. Under the current administration, digital economy under the ICT sector is identified as a pillar to enhance structural transformation to achieve economic development. To support these initiatives, several regulations and policies have been prepared and passed for use such as the Digital Economy Blueprint, the digital master plan and the national broadband strategy.

⁹ IRM Registered Requests 2022, <https://www.afdb.org/en/independent-review-mechanism/management-of-complaints/registered-requests>

Annex 15d: Natural Resources in Kenya

Kenya has a vast natural resource that include forests, land, and minerals. Kenya has a forest cover of 8% occupying 3611 hectares spread across the country. On average the forest has contributed about 2.4% of GDP. However, the sector has suffered from drought and deforestation that has reduced the forest cover. The marine and fisheries is another natural resource found in Kenya. The sector is a source of livelihood for the people at the coastal area and inland areas around Lake Victoria and Naivasha. Lack of established value chains have held back the sectors potential. There are significant opportunities to be explored that include the blue economy and use of value addition in the fish production. The energy sector is another area of natural resource in Kenya. Kenya has done well in the non-renewable energy with vast geothermal development that contribute to low carbon emission. The discovery of crude oil in 2012 has paved the way for exploration as process that is on-going. As of 2016, crude oil reserves in Kenya were estimated at 750 million barrels. Several successes have been recorded after the first petroleum discoveries in Turkana County in 2012. There are currently, twenty-three (23) international companies at various stages of exploration, with some of them at the preliminary stages of geological and geophysical data acquisition while others are carrying out exploratory drilling. The Government has plans to build a pipeline to connect the oil fields in Turkana and the Port of Lamu to facilitate export of crude oil. This pipeline will also be used to transport crude oil the Kenya Petroleum Refineries (KPRL) storage facility in Mombasa for processing and for shipment to international markets. There are also indications of gas resources Northern part of Kenya in Wajir county, and the appraisal drilling is ongoing and the findings are yet to establish the extent and commerciality of the resource.

Annex 15e: Fragility, Resilience and Security

Kenya's economy is facing a significant impact from climate change, particularly in critical sectors such as agriculture and tourism. These sectors play a vital role in contributing to the country's GDP and providing employment to a large portion of the population. However, the extreme weather conditions that have been experienced, such as droughts and floods, have been putting these sectors at risk. Hence, access to affordable electricity, tourism, and exports significantly contribute to Kenya's economy. In addition, the government's fiscal commitments to social safety nets have been affected, further exacerbating the community's socio-economic situation. Communities already suffering from COVID-19 and Russia's invasion of Ukraine are now dealing with additional difficulties because of five consecutive seasons of drought. Securing Kenya's economy for the future requires action on these challenges. Climate change poses a significant threat to Kenya's arid and semi-arid regions. Areas lacking adequate infrastructure for farming are particularly susceptible to water scarcity, pollution, and deforestation, which exacerbate their already dry conditions. Preserving the environment and forests is an indispensable requirement for the prosperity of the energy sector and the arid region. Kenya is essential in maintaining security in East Africa, but the country is experiencing significant obstacles impacting its national security. These challenges include violent extremism, piracy, human trafficking, and increased refugees from neighboring nations. Disputes over natural resources and community conflicts often arise due to these instabilities, worsening the already vulnerable situation in affected areas. Apart from environmental and climate issues, Kenya also deals with significant economic challenges affecting different sectors, such as farming, food production, economic inequalities, increasing costs of goods and services, and growing government debt and expenditure. Prompt and effective action is needed to address the challenges facing the economy's stability and the shilling's value. Ensuring a strong and secure economy depends on tackling these issues urgently.

Annex 15f: The Health Sector

Kenya’s epidemiological profile is typical of Sub-Saharan African countries; the main causes of morbidity and mortality are infectious and parasitic diseases such as malaria, TB, diarrheal diseases and acute respiratory infections. Three disease domains (communicable diseases, non-communicable diseases and violence/injuries) broadly continue to contribute to the high disease burden in the country¹⁰. The non-communicable diseases (NCDs) are emerging as a public health problem due to the change in socio-economic and lifestyle conditions. Determinants of poor health, such as tobacco use, obesity and other unhealthy behaviours, are becoming increasingly prevalent in Kenya and are contributing to the increased incidence of noncommunicable diseases. Despite recent progress made, the quality of health services in Kenya remains insufficient. The country has a total of 78,711 health workers for a population of 47.8 million giving a ratio of 16.5 health workers per 10,000 people against the WHO recommendation of 23 per 10,000. This means that the optimal number of health workers would be 109,940 and there is a shortfall of 31,229. Further, in Kenya, approximately only 25% of Kenyans have some form of health insurance with the majority of Kenyans (75%) ending up paying out-of-pocket¹¹. The poor availability and quality of infrastructure is another factor that is greatly affecting the provision of healthcare services¹². Despite the growth in the number of health facilities in the country, there are imbalances in their geographic distribution with the bed density in Kenya remaining significantly low at 14 beds per 10,000 population while health facility population levels are on average 2.2 health facilities per 10,000 population with great disparities in Counties.

The health financing system needs to be reformed so as to ensure financial risk protection for all in the face of the emerging “double disease” burden that requires increasingly expensive technologies for diagnosis and treatment. Human resources for health are crucial for health system reform and addressing this challenge is key in overcoming the increasing high mortality and morbidity in the country. Efforts should also made in ensuring that there is an even distribution of the workforce in the rural hard to reach areas to cater for Kenya’s poor and vulnerable populations through enabling incentives and improvement of work environments. The government of Kenya has made efforts to improve healthcare infrastructure, with increased investments in hospitals, clinics, and health centers, especially in underserved regions, and to equipping facilities with necessary medical equipment and supplies. Investment in health infrastructure remains crucial to improving access to quality healthcare, especially in remote regions. Moreover, ensuring the availability of necessary medical equipment and supplies is vital for effective service delivery. Fortunately, Kenya has already embraced digital health solutions, such as mobile health platforms and electronic health records, to enhance healthcare delivery, data management, and access to information.

Annex 16: Risks and Mitigation Measures for New CSP 2024-2028

Risks	Mitigation measures
<i>Macroeconomic factors:</i> Kenyan economy is exposed to international market price shocks, notably fuel, food, and other commodities prices which severe risks, as	Policy dialogue meetings will be organized, and the Bank will continue to work in close coordination with the IMF and other DPs to ensure that its operations are

¹⁰ According to the Kenya Health Policy (2014-2030), the 10 leading causes of death are as follows: perinatal conditions 9%, lower, 8% lower respiratory tract infections, respiratory tract infections 8%, tuberculosis 6%, diarrheal diseases 6%, malaria 5%, ischaemic heart disease 3%, cerebrovascular disease 3%, violence 2% and road traffic accidents 2%.

¹¹ K. H. Sector, “Study commissioned by the Embassy of the Kingdom of the Netherlands in Nairobi,” 2016.

¹² Nino Pkhikidze et. al. World Bank Blogs. How does infrastructure contribute to health service delivery in Kenya? February 2023.

evidenced by effect of Russia’s invasion of Ukraine and the COVID-19 pandemic. Domestic sources of macroeconomic risks are mostly related to a slowdown in growth.	embedded within the broader macro-fiscal dialogue with the government. Collaboration with other DPs will help mitigate the risk to the effective implementation of the Bank’s portfolio during the new CSP period.
Public institutional capacity: Some risk in the management of AfDB Group-financed operations relate to weak institutional capacity in government to manage of Bank-financed programs/projects across various line ministries. Also, there are transparency issues on procurement.	The Bank to expand Technical Assistance to scale up capacity-building efforts to sustain its work. The Bank to work with other DPs to ensure that institutional inefficiencies do not affect program/project implementation.
Fiduciary: Fiduciary risks exist in implementation of any of the Bank Group’s expected PFM programming.	Strengthening of PFM processes: through the Bank’s ongoing and anticipated institutional support projects, it shall continue to be a priority for effective service delivery. The Government of Kenya has committed itself to reinforcing its PFM systems, including through Bank-supported projects. Policy dialogue and technical support will be important avenues for mitigating these risks going forward.
Climate change, Environment and social safeguards related issues: Given the anticipated large and relatively complex Bank Group’s interventions during the next CSP period, there are project induced resettlement, environmental and social (E&S) safeguards risks. Climate change related factors such as droughts and floods could also affect Bank operations.	The Mitigation measures will consist of embedding climate change in all projects and dedicating more project resources to E&S safeguards supervision, particularly in congested project areas; strengthened supervision practices and systems; enhanced focus on citizen engagement; and working with experienced PIUs with demonstrated safeguards implementation capacity that can be shared, where necessary, with less experienced ones.

Annex 17: Matrix of Actions on IDEV Recommendations further CSP 2014-2023 Evaluation

MANAGEMENT ACTION RECORD	
IDEV’s Recommendation	Management Response
1) Recommendation 1: Adopt a holistic orientation in designing the Bank’s country strategy.	
The evaluation has revealed that the strategic objectives of job creation and industrialization, while ambitious, were not fully aligned with the actual support provided, which was limited in scale. Key points for consideration include:	<p>AGREED</p> <p>Industrialization is not among the proposed two priority areas of the new CSP 2024-2028, and job creation is not included in these priority areas. Actually, the new CSP 2024-2028 is anchored on two mutually reinforcing Priority Areas: (i) Boosting Private Sector – led growth through infrastructure development and policy reforms; and (ii) Human Capital development. The Bank’s support under the CSP 2024-2028 will selectively focus on 4 sectors: (i) transport, (ii) water and sanitation, and (iii) economic governance under Priority Area I, and (iv) skills development under Priority Area II.</p> <p>Action: The new CSP 2024-2028 and its Mid-Term Review (MTR) report will capitalize on achievements in the driving sectors of Kenya’s economy</p>

MANAGEMENT ACTION RECORD	
IDEV's Recommendation	Management Response
Focusing on the interventions and strategies in core sectors where progress has been considerable, such as infrastructure and private sector development.	(infrastructure development, private sector development, etc.). (ECCE – Dec 2023)
Linking skills development efforts more strongly to labor market (and stakeholder) requirements	<p>Action: Through TVET and Entrepreneurship Project, the Bank will conduct skills assessment and develop a national framework for linkages between industry and academia. The Bank will engage with the Government on the ongoing development of a national skills council and sector skills councils to further strengthen the linkages. (AHHD – Dec 2024)</p>
Pursuing the provision of knowledge support to help the GoK clarify and operationalize its strategies that the Bank aims to contribute towards	<p>The Bank is already generating knowledge and evidence-based policy advice in this respect through the publication of Country Diagnostic Notes, Annual Country Focus Reports, Country Notes for the Annual African Economic Outlook reports, Economic and Sector Work, Policy Notes (see Annex 17 of the new CSP). During the 2019-2023 period, the Bank has also implemented 7 technical assistance and institutional support projects that cover focus areas of the CSP 2019-2023 (see Annex 17 of the CSP 2019-2023 Completion Report).</p> <p>Action: The new CSP has taken into consideration and will pursue the provision of knowledge to help the GoK clarify and operationalize its strategies that the Bank aims to contribute to as per the indicative non-lending program for the period 2024-2026 (see Annex 2.3 of the new CSP 2024-2028). RDGE will monitor the implementation of this indicative non-lending program, and this will be reported during the MTR of the CSP in 2026 (RDGE – Dec 2023)</p>
Recommendation 2: Strengthen intersectoral coordination to obtain higher level development results more effectively and efficiently.	

MANAGEMENT ACTION RECORD	
IDEV's Recommendation	Management Response
<p>Socio-economic development, industrialization, skills development and job creation are fundamentally interconnected and span across multiple sectors. To enhance the Bank's effectiveness and efficiency, it is crucial to improve interaction and coordination with a comprehensive range of economic actors from all sectors, starting with relevant government and parastatal agencies. This coordination will benefit future programs. Key actions may include:</p> <p>Undertaking a detailed stakeholder mapping at sector level.</p>	<p>AGREED</p> <p>Actions: For operational and practical purposes, a detailed stakeholders mapping will be developed at sector/project design stage as appropriate. As much as possible, all the contributors to the project (such as financiers), regulators and targeted beneficiaries will be included in the mapping to create appropriate synergy and avoid duplication. RDGE will ensure the delivery of a detailed stakeholders mapping at each project design stage. (RDGE, ongoing).</p>
<p>Developing structured interactions around a clear agenda with a long-term perspective with all concerned ministries, private sector representatives, and CSOs.</p>	<p>A structured dialogue mechanism will be established among key stakeholders (ministries, private sector, CSO and financiers). Country and sector staff in RDGE participate in Sector Working Group, Heads of Commission and Mission meetings. This engagement will be enhanced to strengthen dialogue amongst all actors; e.g., the completion report and proposed pillars for the new Kenya CSP were presented to DPs for their buy-in and possible input/feedback. (RDGE, ongoing).</p>
<p>Recommendation 3: Develop a strategic dialogue with GOK, education providers (especially TVET institutions) and industry to catalyze private sector development and job creation.</p>	
<p>Dialogue with economic actors (GOK, education providers and industry), and at all stages of the operations, is essential for efficient skills development and job creation. The priority actions may include:</p> <p>Developing a strategic dialogue with GOK, education providers and industry around policy, legal, institutional, and regulatory reforms.</p>	<p>AGREED</p> <p>Actions: The Bank will continue to use the platforms of TVET youth employment sub-sector working group and Higher Education and Research sub-sector working group, and other dialogue platforms to strengthen policy and practice. The Bank will also continue support to the critical TVET agencies responsible for curriculum development, quality assurance, and qualifications standards, to strengthen quality in TVET. (AHHD, ongoing)</p>

MANAGEMENT ACTION RECORD	
IDEV's Recommendation	Management Response
<p>Engaging with GOK at high-level to find lasting solutions to persistent project implementation issues (such as counterpart funding, tax exemptions, and submission of legal opinion for loan agreements).</p>	<p>The recent country portfolio performance review has also revealed that start-up and implementation delays have been the key challenges to the Kenya portfolio.</p> <p>Action The Portfolio Improvement Plan is included in the new CSP (2024-2028) and will be updated annually to track progress. The Improvement Plan has included the issues identified by the evaluation and others, to be gradually tackled through (i) continuous dialogue with Government Senior Officers, (ii) using Bank financing for compensation payments to PAPs and (iii) regular capacity development. (RDGE, ongoing)</p>
<p>Undertaking studies on Kenyan labor market and its needs.</p>	<p>The Bank already undertook tracer studies for TVET and Higher Education, and supported the establishment of a database for TVET institutions to conduct their own tracer studies systematically.</p> <p>Action As part of the development of the new CSP, the Bank has already conducted a number of studies on skills development in Kenya which include tracer studies. The Bank will continue to strengthen labour market studies to support the ongoing and new skills development initiatives (AHHD – Dec 2024).</p>
<p>Recommendation 4: Integrate comprehensive progress towards higher level CSP outcomes within the Bank's results measurement system.</p>	
<p>To guide the Bank's action and measure its results in pillars of action, corresponding objectives need to be integrated within the Bank's country results measurement system in a holistic way. The key priority actions may address to:</p> <p>a) Establishing a comprehensive set of indicators and corresponding baseline covering the higher-level pillar related outcomes which are traceable to AfDB action.</p>	<p>AGREED</p> <p>Actions The Bank's measure of its higher outcomes indicators for the pillars and the corresponding objectives as well as CSP outcome indicators will be aligned to the Bank's Result Measurement Framework indicators and the upcoming Bank's results management framework under finalization process (RDGE/ECCE/ ECST by Q4 2024)</p> <p>ECST and ECCE will establish a comprehensive dataset of higher outcome indicators for RMCs within in the Bank's Africa Information Highway (AIH), from which the relevant and appropriate outcome indicators can be selected for AfDB action (ECST to upload dataset on AIH system by Q4 2025).</p>

MANAGEMENT ACTION RECORD	
IDEV's Recommendation	Management Response
b) Using existing statistical reporting systems and identifying proxies for the strategic results that the Bank intends to contribute towards.	The new CSP 2024-2028 and its MTR will identify strategic results that the Bank can achieve throughout the life of the CSP. The Bank will also rely on the national statistical system in performing the monitoring and evaluation of the new CSP 2024-2028 (ECCE, Dec 2023)
Recommendation 5: Review and redefine the Bank's approach to gender in Kenya	
Adopting a quota-based approach to gender – determining proportions of women who should benefit from support – has not proved sufficient to address gender gaps in Kenya. The priority actions here may include: (i) Identifying the structural causes of gender inequality in Kenya and their links with the various CSP pillars and sectors.	AGREED Actions: The Gender Analytical Note prepared alongside the CSP will help to (i) identify the structural causes of gender inequality in Kenya, and (ii) inform the operations and required actions for the period of the CSP. AHGC 1. will be responsible for monitoring the use of this Gender Analytical Note and the action will be continuous throughout the CSP period. (AHGC1, Dec 2025)
(ii) Undertaking gender analysis at sector level.	Development of Gender Profiles will routinely include in depth sectoral analysis for sectors identified in the CSP (AHGC.1, ongoing)
(iii) Determining a set of cross-cutting actions through which the AfDB will strive to address gender in a systematic and structured way.	The new CSP will pay particular attention to pillars of the Bank's Gender Strategy in force. These pillars are (i) Empowering women through access to finance and markets; (ii) Accelerating employability and job creation for women through skills enhancement; and (iii) Increasing women's access to social services through infrastructure (AHGC.1, Dec 2023)

Annex 18: Human Capital Development

1. Introduction

Kenya currently experiences multiple crises that affect the everyday lives and livelihoods of a large proportion of its population. These include the ongoing social and economic impacts of the COVID-19 pandemic, the worst drought in 40 years, a cost-of-living crisis, continued instability and conflict in the North and North-East and the hosting of over half a million refugees and asylum-seekers. These crises are against the backdrop of persistently high levels of informality in the labour market, which have been slowly increasing in recent years, as well as labour market disruptions caused by the rapid pace of technological change. Kenya's Fourth Medium Term Plan (MTP IV 2023-2027) makes it clear that there is a need to promote resilience to address the multiple crises Kenya faces.

About one quarter of the population continue to live in poverty and large inequalities persist. This is notwithstanding the poverty reduction gains Kenya has made; poverty rates (\$2.15 a day poverty line) have declined from 36.7 percent in 2005 to 26.5 percent in 2019. Despite the existence of policies and legislation promoting social inclusion in education, skills and lifelong learning, many vulnerable and disadvantaged groups do not yet have access to educational opportunities. Inequalities persist in relation to a range of factors, including age, gender, disability, geography, education level and income and employment status.

Kenya's human capital index is 0.55 meaning that a child born today can expect to attain 55% human capital (knowledge, skills and experience) by age 18 in order to create value in the economy. The untapped potential (45%) remains huge. The informal sector remains the largest contributor to employment accounting for 83.25% (15 million jobs) of employment. Wage employees account for 15.86% while self-employed and unpaid family workers account for less than one percent. This trend has been consistent over the last five years with only slight changes.

2. Economic and Labour Market Demand for Education and Skills

Youth unemployment in Kenya is not a new problem, but one that has persisted for decades, despite periods of sustained economic growth. Official youth unemployment rates were 12.8 percent in 2019, about 2.5 times higher than for the rest of the population. On the demand-side, the economy is not creating sufficient jobs in the formal sector to cater for the increasing number of young labour market entrants; every year up to one million more young people leave schools and enter the labour market. On the supply side, skills and training provision are inadequate. In terms of supply-demand mismatching, formal employers often find it hard to match the jobs they have to the available skills in the labour market. There have been many attempts over the last several decades to address the persistent issue of youth unemployment. Some of the lessons learned include engaging employers in defining the competencies taught; combining technical and life skills training with work experience.

The relatively low levels of official youth unemployment in Kenya are a function of a persistently large informal economy. About half (46%) of all young people in Kenya acquire their skills in the informal economy. Almost nine out of every ten employment opportunities are informal (and mostly in agriculture). Low productivity and decent work concerns characterise employment in the informal economy. The large number of workers in the informal (Jua Kali) sector mean that this should be a priority for productivity enhancing approaches, including the strengthening of technical, foundational and transversal skills. Current approaches to support the upskilling of workers in the informal economy, as well as recognition of prior learning are important, but urgently need scaling up given the size of the sector.

Kenya Vision 2030 recognizes the importance of addressing skills shortages, encouraging innovation and linking skills development to industry. **Five sectors are prioritised in the draft Medium-Term Plan (MTP) IV, 2023-2027, including: Agriculture; Micro small and medium enterprise (MSME) economy; Housing and settlements; Healthcare; and, Digital superhighway and the creative economy.** Additionally, the draft MTP IV highlights the following economic sectors as priorities for the 2023-2027 period: manufacturing; tourism; trade; business process outsourcing; financial services; oil, gas and mineral resources; and the blue economy. All these priority sectors require skills in relation to the sectors' demands. For the agricultural sector, skills gaps include agribusiness, value-addition, marketing, entrepreneurship, climate-smart approaches, and financial management. In real estates, there is a high demand of trained masons, scaffolders, surveyors, plumbers and painters, and certification of prior learning to improve wages. Most construction workers are informally trained and employed and those in the formal wage employment numbered only about 4,400 in 2020. The growing information and communication sector is in demand of digital skills. Kenya's youthful and growing creative economy which includes crafts, fashion design, performance arts, photography, visual art, film etc is in need of business and entrepreneurial skills.

The MSME economy offers most all new work opportunities for labour market entrants outside of smallholder agriculture. Out of the 19 million jobs in 2022, 16 million (84%) were in the informal sector, with the informal sector creating 702,000 new jobs in 2022 compared to 113,000 new jobs in the formal sector. There are an estimated 5 million informal sector enterprises. Informal sector enterprises operate in a low-skills equilibrium - where a large part of the economy has become adjusted to a low-skill level - so the demand for skills upgrading is suppressed. Among informal enterprises that do indicate a demand for skills, financial skills, record-keeping skills, marketing skills and managerial skills were prioritised. The top five skills demanded by informal employers from their entry-level employees are life skills, core values, social-emotional skills, technical skills, and literacy skills.

3. Education and Skills Supply

Pre-pandemic, Kenya had made rapid improvements in the education sector to 2019, both in terms of access and learning outcomes, but key challenges remain. Over the ten-year period, 2009-2019, the net enrolment rate in primary education increased from 87.5% to 92.5%, and there are fewer under- and over-age children in primary school. 50% of the 10.3m children in primary school (2021) are girls, and about three-quarters of all those that start primary complete it. The Government policy to ensure 100 percent transition of all pupils from primary to secondary education has led to an increase in the transition rate from primary to secondary school, as well as a significant increase in secondary enrolment (Form 1-4) from 2.7m in 2016 to 3.7m (51% female) in 2021. The downside of the increased transition is the overcrowding in schools. **Despite enrolment growth, about two million children and adolescents remain out of school.** About one million children of primary and lower-secondary age are not in school (780,000 primary age and 157,000 lower secondary age), while a further 950,000 upper-secondary age adolescents are not in school (UNESCO). **Inequalities of access that existed pre-pandemic have widened post-pandemic.** Children in arid and semi-arid lands (ASALs), as well as children from informal urban settlements are most affected.

The 2019 census report shows that there are about 4.6 million youth aged 18 to 22 years who are eligible for tertiary education as shown in table 2 above, representing 10% of the population. When the youth bracket is further expanded to 15 – 24-year-olds, the number increases to 9.7 million which is 20.4% of the population. From the census report, there were only about 500,000 learners in TVET in 2019 and 471,000 learners in universities. These figures are corroborated by the economic surveys which show TVET enrolment slightly above 500,000. The government is making strides to revitalize technical vocational education and training (TVET). The number of public and private TVET institutions has increased significantly from 1300 in 2016 to 2191 in 2019/2020. Similarly, enrollment in TVET grew by 19.7% from 359,852 in 2018 to 430,598 in 2019/2020. This is due to increased investments in TVET infrastructure,

trainers, capitation grants and HELB loans to TVET students. The government adopted competence-based education and training (CBET) to improve the relevance of TVET by focusing on practical training rather than theory-based training. More males (57.2%) access TVET than females (42.8%). Data from Kenya's 2020 economic survey however shows that the reverse is true for private TVET institutions, where more females (51.4%) access TVET compared to males (48.6%). This disparity could be due to the nature of courses offered in private TVET institutions.

There has been some growth (8%) in the overall enrolment in universities over the period 2017-22, but this has almost entirely been driven by an expansion of private, not public offerings. Over this five-year period 2017-22, enrolment in private universities expanded by 40% while enrolment in public universities remained almost stagnant. The average public university is about 4 times the size of the average private university. The higher education system in Kenya remains extremely unequal in spite of the availability of financial aid.

The rapid expansion of TVET institutions and the changing needs of the labour market continue to exert pressure for increased and improved infrastructure. Most tertiary education facilities do not have adequate infrastructure and equipment to support the teaching of the national competency-based curriculum. Other than a few exceptions of dual training pilots, there is currently very little industry participation in the development of TVC curriculum to make it demand driven. The Bank through the TVET Phase III project seeks to partly address this persistent gap through the development of a national framework for TVET-Industry linkages. There is a need for additional TVET trainers and university lecturers with the required skills for the new competence-based curriculum in order to ensure quality training. The need to embrace technology in education cannot be overemphasised.

Evidence - Decision-making regarding education, skills and employment policy and interventions is not yet adequately informed by evidence. This includes the availability, adequacy and usability of demand-side (labour market) and supply-side (education and skills providers) information, and the extent to which this is able to be used in decision making by policy makers, employers, parents and students. A Kenya Labour Market Information System (KLMIS) exists, however its demand side data is lacking up to date data from employers, and there is no skill anticipation component. Employers, for their part, are sceptical about giving to government more data than the absolute minimum, as many do not understand the purpose of the KLMIS, what the government will do with the data, or - crucially - how they will benefit.

Financing - Kenya's spending on education as a share of GDP is about 5.3% which is already above the recommended minimum of 4%. Nearly one quarter (25%) of government of Kenya's expenditure is attributed to the education sector. The introduction of capitation grants at the primary level (in 2003) and later at the secondary and TVET level, has contributed to improved access, but challenges remain. Capitation grant funding has been eroded through inflation (especially in 2021-22) and has not been sufficient to maintain quality educational provision. Additionally, indirect costs to schooling (e.g., uniforms, transportation, and lunches) still lead to drop out or under attendance. Although TVET financing has increased, expenditure on TVET is still low, averaging 4 – 5 percent of total education expenditure per annum. This compares to 13-17% for the university sub-sector and about 30% for the secondary sub-sector over the same period. The most significant ODA donors to vocational training in Kenya over the period 2016-20 include: the African Development Bank, the World Bank, Canada, Germany and the EU. China has also made significant contributions, but these are not recorded with OECD and so are hard to compare. Most (about 80%) support from DPs for TVET is through project-based support, as opposed to budget support.

Annex 19: Dynamics of Structural Transformation in Kenya

The slow pace of structural transformation is demonstrated among other things by the fact that (i) growth is coming from diversified but volatile sources (see Annex 9.1 Fig 2f); (ii) employment elasticity of growth i.e., the rate at which a 1% GDP growth translates into growth in employment has remained unchanged at 0.78% indicating the high potential to create more jobs for every unit increase in GDP through structural transformation among other things by investing in sectors with high employment creation potential; and (iii) Growth elasticity of poverty is low at 0.2% (i.e., the Kenyan economy grew on average by 5% while poverty declined by 1% annually) attributable among other things to high level of income inequality. This implies that for growth to result in significant reduction in poverty, structural transformation needs to be supported by reforms that promote income redistribution. Income inequality measured by Gini-coefficient has increased in recent years to 0.39 from 0.36. Empirical studies show that poverty reduction impact of growth is high in situations where income inequality is low.

Relatedly, manufacturing and exports which are part of the enablers of structural change have marginally improved due to structural challenges of the economy and vulnerability of external shocks. For example, manufacturing value added as a share of GDP reduced from 8.4% in 2018 to 7.5% in 2022 (WDI, 2023) due to global shocks such as COVID-19 and Russia's invasion of Ukraine that constrained supply chains as Kenya relies on imported factor inputs for the sub-sector. From a recent study by Ndong Ntah et al., 2023 using a computable general equilibrium (CGE) model to examine the impact of Russia's invasion of Ukraine find that Kenya is susceptible to shocks. In particular, the effect of Russia's invasion of Ukraine leads to a rise in import price thus, adversely lowering Kenya's GDP and household consumption. During the period of the ongoing war, the macroeconomic impacts are particularly driven by the fertilizer and fuel commodity prices changes. The effects are heterogeneous with rural households facing relatively higher food consumer price index (CPI) compared to their urban counterparts. Subsidizing fuel and fertilizer prices could dampen most of the adverse effects but come at considerable fiscal costs. The policy prescription are for the Government of Kenya to consider devising policies that strength intra-regional trade, diversify import origins, and improving agricultural productivity and energy efficiency.

Additionally, the level of export diversification has changed marginally from 0.68 in 2018 to 0.65 in 2022 (UNCTAD, 2023) on account of the above factors. The situation is compounded in both manufacturing value added and export diversification by the skills mismatch that labour market costs and productivity. Despite, the decline in manufacturing value added and marginal improvement in export diversification, efforts to support production have increased through investments in enablers such as energy, road infrastructure and human capital development. In a recent study Ndong Ntah and Nandelenga (2023) find that Kenyan export basket is more concentrated in a few basic products which are majorly agro based and low in technology content. Furthermore, the findings revealed a long-run relationship that influence export diversification. To mitigate these challenges and improve the pace for structural transformation the GoK to consider building infrastructure that supports stable macroeconomic environment and institutions. There is need to leverage on the current Africa Continental free trade area (AfCFTA) to improve export revenue, build resilience and enhance productivity across sectors.

Annex 20: Strengths, Opportunities, Challenges, and Weaknesses

Strengths	Weaknesses
<ul style="list-style-type: none"> • Commitment to implementation of the 2010 constitution and devolution, with the potential to tackle poverty and reduce regional disparities. • Demographic dividend - youthful population • Discoveries of oil, gas and other minerals, with the potential to boost Kenya's overall development. • Strategic geographic location, with access to the sea and competitive advantage in regional transport. 	<ul style="list-style-type: none"> • Slow pace of the structural transformation. • Vulnerability to natural (e.g., drought), manmade (e.g., health) and international financial market shocks. • Security remains an important driver of fragility. • Weak governance/institutions in fighting's against corruption.
Opportunities	Challenges
<ul style="list-style-type: none"> • Opportunities to benefit from the AfCFTA, • Financial and information technology hub for the East Africa Region. • Strong Civil Society Organization (CSO). • Growing markets and good business opportunities. 	<ul style="list-style-type: none"> • High poverty, unemployment and income inequality. • Large skills gap in middle-level technicians and artisans. • Deficient infrastructure contributing to high cost of doing business and impacting competitiveness. • Increasing gap between demand for and supply of housing caused by rapid urbanization. • High youth unemployment among the youth. • Gender inequality e.g., limited control over land and property. • Limited access to finance • High cost of finance

¹ Inflation reached 9.1% in July 2023.

² [PDF 10042023 - Kenya 2023 Country Diagnostic Note.pdf](#)

³ The preparation of MTP IV has been finalized and is expected to be launched soon

⁴ These include (i) Gender Strategy (2021-2025); (ii) Fragility and Resilience Strategy (2022-2026), (iii) the Bank's Strategy for Economic Governance in Africa (2021–2025), (iv) the Climate Change and Green Growth Action Plan (2021–2025), (v) the Strategy for the New Deal for Energy on Africa (2016–2025), (vi) Transport Strategic Plan (2022–2027),

⁵ More than half of the countries in East Africa are categorized by the African Development Bank as Transition States. These countries are exposed to significant internal and/or external pressures that often exceed their capacities to respond to, thereby creating risks of instability. Recent statistics from UNHCR show that the refugee and asylum-seeker population in Kenya stood at 580,792 persons as of 28 February 2023. Significant share of these refugees resides in northern parts of the country, among populations that are themselves vulnerable.

⁶ At standard error of 1.5 estimated for Kenya, the change is statistically not significant at acceptable level of significance.

⁷ Only four countries out of the 48 surveyed in Africa by CPI scored higher than 50 according to the 2022 edition of Transparency International's Corruption Perception Index.

⁸ Transparency International recommends that conviction and recovery of assets are key indicators of success of the ongoing anti-corruption efforts that landed public officials in jail on suspicion of breach of conflict of interest. This (if followed through) is expected to escalate successes in the fight against graft. The country has instituted legislation to criminalize corruption namely through the *Anti-Corruption and Economic Crimes Act 2003 and Penal Code; Bribery Act of 2016, Public Officers Ethics Act 2003, Public Procurement and Disposal Act* prohibits corruption in public procurement, *Finance Acts of various years, and Access to Information Act 2016*. In addition, Kenya

has shown great commitment by strengthening its institutions to fight corruption. The country has already established a multi-agency framework that brings together relevant law enforcement agencies in its fight against corruption. They include Asset Recovery Agency, directorate of Criminal Investigations; Ethics and Anti-Corruption Commission; Central Bank of Kenya; Financial Reporting Center; Kenya Revenue Authority; Directorate of Public Prosecution, and Office of Attorney General.

⁹ The following remain important sources of corruption in Kenya: Fund misappropriation, public procurement associated crimes, public service corruption, and corruption in land administration, corruption in customs administration.

¹⁰ Per capita income increased from \$1,465 in 2015 to \$2,007 in 2021, a 37% increase.

¹¹ The ‘Big Four Agenda’ (B4) is operational priority of the Third Medium Term Plan (MTP-III). The B4 agenda supports private sector led growth with focus, among others, on agricultural value addition (agro-processing) and Industrial Processing Zones (EPS). It is supported by sector strategies such as ‘The Agriculture Sector Transformation and Growth Strategy (ASTGS) (2019-2029)’, and vision 2030 manufacturing. The latter aims, in line with the MTP, increasing the contribution of manufacturing to GDP by at least 10% per annum. This is to be achieved, among others, by increasing local content of domestically manufactured goods, increasing the share of product in regional market from 7% to 15%. To achieve this the government targets the establishment of integrated steel mill, development of SME parks, Industrial Technology Parks, manufacturing clusters, etc.

¹² This is demonstrated by the decrease in the share of agriculture in total employment from 49% in 2000 to 35% in 2021 while that of services increasing from 40% to 58%. See Annex 13b for Bank supported reforms to enhance structural transformation.

¹³ We estimated employment elasticity of growth of 0.78 for Kenya. This means that the Kenyan economy must grow by 4.2% a year to create half a million jobs a year. If the existing employment elasticity can be increased to 1 through improved structural change, a lower GDP growth of about 3.2% would be sufficient to create half a million jobs a year while a more than 7% growth is needed to create one million jobs a year and reduce unemployment to less than 5%. See Alemu Z.G (2020). “Growth Drivers in Kenya: A Supply-Side Analysis, “Working Paper Series No 345, African Development Bank, Abidjan, Cote D’Ivoire.

¹⁴ According to a simulation exercise conducted, Kenya can avoid falling into a middle-income trap and move to high income status of \$12,535 by investing in infrastructure, economic transformation and improved governance. The result is reproduced in Annex 9, Figure 1d. At 2 standard deviation shock to three variables, Kenya can attain a high-income status in 36 years growing at a cumulative Average GDP growth rate of 5.5%. A growth higher than 5.5% could lower the transition time. Z. Alemu (2022). Factors contributing to a transition to higher income status, the case of Kenya. Not published.

¹⁵ The industrial sector is known for its demonstrably high labor productivity and job creation potential.

¹⁶ Low agricultural productivity has hampered increased production of food and quality raw materials. Labor productivity in the sector is about three (two) times lower than industry (services).

¹⁷ Limited access to finance is behind the inefficiency and wastage of scarce resources. Kenya is ranked low on the continent and globally in important governance indicators e.g., Transparency International’s Corruption Perception Index.

¹⁸ The year 2020 was excluded due to the lockdown. It impacted activities the services sector disproportionately.

¹⁹ According to data from the CBK, Kenya lost over \$345 million worth of foreign direct investment and other investments in the first quarter of 2023. A 34% drop compared with same period in 2022. This includes shifts in foreign investors equity investments from the Nairobi Securities Exchange. This could be attributed to tight international financial market conditions which has caused dollar shortage and cost of living related civil disobedience.

²⁰ The CBK cut the policy rate to 7% in 2020 from 9% in 2019 to stimulate the economy following COVID-19.

²¹ Growth in money supply (M3) was stable during the period. This could be attributed to the OMO. Money supply grew on average by 9% while credit to the national government and the private sector grew by 26% and 12% respectively. This is equivalent to 64% and 52% of the growth in money supply during the period respectively.

²² The interest rate hike also aimed at narrowing the interest rate differentials to reverse portfolio investment outflows. However, its effectiveness would depend on its impact on the high-risk premiums that global risk aversion sentiments have caused - a difficult call for a small economy such as Kenya. Therefore, Kenya should consider increasing its external position through concessional borrowing (e.g., budget support) to narrow the interest rate differentia.

²³ On the supply side, pressures on the exchange rate are assumed to recede. This is expected to suppress global risk averse sentiments, narrow the interest rate differentials, increase foreign exchange inflow, and reduce imported inflation. On the demand side, demand for foreign exchange is projected to be suppressed by pick up in global demand (in 2024), decline in oil prices, and improved public saving owing to the ongoing fiscal consolidation program. Regardless, monetary policy response is expected to be constrained by the narrowing policy space. The CBK should continue enhancing efficiency in monetary policy transmission and anchor inflation expectations.

²⁴ Interest payments accounted on average for about 48.6% of the fiscal deficit during the CSP period.

²⁵ The fiscal consolidation path was introduced in 2021. It is anchored on a positive primary balance. Several fiscal measures have been introduced since then to meet adjustment costs that new shocks entailed e.g., Russia's invasion of Ukraine and narrowing liquidity in the international financial market.

²⁶ The impact of Russia's invasion of Ukraine on Kenyan economy was large and it negatively affected both GoK revenue, household income elevating energy and food prices. The GoK subsidies on fuel mitigated food and energy prices with negative effects on fiscal side. The rural households are more affected relative to urban households (for details see Ndong Ntah et al., 2023).

²⁷ In 2020, Kenya benefited from budget support from the MDBs and the IMF. In 2021 and 2022 the additional costs of the shocks to the fiscus were financed by increases in revenue collection, the removal of tax cuts introduced in 2020, and revenue enhancement measures.

²⁸ Debt service payment accounts for significant percentage of total government expenditure and 45% of total revenue.

²⁹ See Annex 13c for Bank's supported policy reforms to improve fiscal sustainability.

³⁰ Due to an expected slowdown in monetary policy tightening in advanced economies.

³¹ This includes, among other things, a debt-ceilings (e.g., debt to GDP ratio threshold of 55%), the use of loans to finance development spending (PFM Act 2012), and many other rules introduced from time to time in the Medium-Term Debt Management Strategy (e.g., composition of the public debt restructure – concessional vs commercial, short-term vs long term, diversification of the foreign currency denominated external loan portfolio and domestic vs external loans).

³² While Fitch and S&P affirmed their ratings at B, Moody's downgraded its rating to B3 from B2. Fitch and S&P downgraded the outlook to negative from stable while Moody's affirmed the negative outlook.

³³ Kenya is in the process of securing international finance (budget support) from international financial institutions with important fiscal and balance of payment implications.

³⁴ They included the three-year rolling Medium Term Expenditure Framework (MTEF) to maintain aggregate fiscal discipline over the short term and address challenges in budgeting on an annual basis. And the Integrated Financial Management Information System (IFMIS), being rolled out at National and County levels, to enhance transparency and accountability.

³⁵ Export price indices are higher than import price indices in only 3 out of the 9 commodity group categories. Food alone accounts for 43% of total export while high valued manufactured imports e.g., non-food industrial supplies, fuel and machinery together account for 72% of total imports

³⁶ The REER appreciated between 2014 to 2018 caused by loss of competitiveness. This is true because the NEER was stable during the same period. $REER = P^d / (P^f * e)$ e.g., ksh/USD. See Annex 9 fig 3c.

³⁷ Kenyan exports remain concentrate in products and markets thus constraining trade revenue and exposing Kenya to global shocks. Building macroeconomic stability, human capital and strengthening institutions will enhance export diversification and accelerate achievements of the benefits of AfCFTA to Kenya (Ndong Ntah and Nandelenga, 2023).

³⁸ Kenya's export concentration is high in few countries e.g., Uganda (11.1% of total exports), Pakistan (8.7%), Netherlands (7.8%), United Arab Emirates (5.3%) and Tanzania (5.3%).

³⁹ Kenya officially launched implementation of the AfCFTA in August 2022.

⁴⁰ The MTP III evaluation report of 2022 provides an analysis of the implementation of the Third Medium-Term Plan for the period 2018-2022. This evaluation focus on the key targets set in the MTP III and tracks the progress to inform the MTP IV to be implemented from 2024-2028.

⁴¹ Kenya improved its ranking in the World Bank's Doing Business indicators successively from 61st in 2017 to 56th out of 190 countries in 2020. The Indicator was discontinued in 2020. Annex 1.3b gives summary of Bank supported policy reforms targeting private sector development in general and SMEs development in particular. The reforms have contributed to an increase in the investment/GDP ratio from 9.4% in 2019/20 to 14% in 2021/22 surpassing the 11.4% projected in 2021/22; and manufacturing value added reached KES 876.42 billion in 2021 up from KES 736.4 billion in 2019 and was on track to reach the target of KES 847 billion in 2022

⁴² The Big Four Agenda outlines for priority areas of MTP-III namely, food security, industrialization, affordable housing and universal health coverage.

⁴³ A capital Adequacy Ratio (CAR) of 18.9% against and Liquidity Ratio of 55% against statutory minimums of 14.5% and 20% respectively.

⁴⁴ A credit guarantee schemes to support MSMEs was established in December 2021. The scheme unlocked private sector credit worth Ksh2.11 billion.

⁴⁵ During the MTP-III period, the GoK constructed/rehabilitated 6,761km of roads, constructed 157.38 Km of Bypasses and 50.38 km missing link roads to decongest cities and urban areas, constructed 90.73 km of roads and 27km of Nairobi Express-Way.

⁴⁶ Energy average retail tariff and generation cost is high at KES 20.85/kWh and KES 9.82/kWh respectively. The government provided a tariff relief of 15% across all consumer categories in December 2021 through a subsidy support. It was introduced to protect domestic consumers from rising energy inflation in the global market.

⁴⁷ System losses continue to be a big challenge and has remained above 20% since December 2018 and climbed to 25.25% in first half of fiscal year 2020/21.

⁴⁸ This is largely attributed to geothermal (48%), hydro (26%), wind (14%) and solar (3%).

⁴⁹ Peak electric demand decreased to 1,765 MW in April 2020 on account of COVID-19 pandemic restriction.

⁵⁰ Of the 3601 MW generation capacity, off-grid generation accounted for only 23MW. Installed capacity by technology in 2022 comprises geothermal (28%), hydro (26%), wind (13%), solar (8%), fossil fuels (21%), and others 5%.

⁵¹ The Kenya Power and Lighting Corporation (KPLC) is among the state-owned organization expected to undergo restructuring to address fiscal risks. It is one of the conditions by the IMF for Kenya to obtain the \$2.3 billion loan facility.

⁵² The Fourth Medium-Term Plan

⁵³ Kenya's National Water Master Plan 2030 has the objective of improved water and sanitation availability and access to all Kenyans by 2030.

⁵⁴ Yield in agriculture is far below that of comparable African countries.

⁵⁵ They could be attributed to resource misallocations manifested, among others, in credit market frictions, inefficient assignment of in-kind fertilizer subsidies, misallocation of land, output price distortions, direct state intervention in markets, tariff and nontariff barriers, anticompetitive conducts, lack of market integration due to insufficient infrastructure, lacking advisory services for knowledge delivery, inadequate or unsuitable product/seed varieties.

⁵⁶ Total import dependency ratio declined from 18% in 2017 (drought year) to about 12.7% in 2021. Kenya's import dependency is high in fishery products (at 21.5%) followed by vegetables products (14.5%) and animal products (2.7%).

⁵⁷ The free trade area is expected to eliminate tariffs on most goods and increase trade in the region by 15-25% in the medium term. According to World Bank estimates, the AfCFTA could increase exports by 29% by 2035, increase real income by 7% and bringing 30 million people out of extreme poverty. See [The African Continental Free Trade Area \(worldbank.org\)](https://www.worldbank.org/).

⁵⁸ This compares data on rate of unemployment is under ILO's strict definition. It is obtained from the KNBS Labor Force Survey. The rate of unemployment under broad definition has however gives a different picture – it increased to 13.9% in 2022 from 13.3% in 2021 implying those unemployed but not seeking jobs (discouraged) has increased. The number of graduates without jobs has increased due to skills mismatch, and skill gaps in new and emerging sectors. The rate of unemployment doubled during the COVID-19 pandemic to 10.4% in 2020 but is gradually getting back to pre-covid period. The COVID-19 pandemic pushed close to 2m people below the poverty line causing an increase in the poverty headcount index to 41% in 2020.

⁵⁹ According to Kenya National Bureau of Statistics, youth unemployment is high which ever age group definition is used. For example, according to its Labor Force Survey, in 2022, youth unemployment of those aged 15 to 24 was estimated at 26.5% while that of aged 15-34 at 35.4%. This is high compared with the 2019 figure of 18.3% for aged 15-24 and 25.8% for aged 15-34.

⁶⁰ Rapid urbanisation is a key driver for poverty in urban areas. Poverty headcount in urban areas is estimated to have increased from 2.3 to 3.8 million in 2020.

⁶¹ According to the SDG report, Kenya is on track on climate change and improving on five other indicators including education. About half of the indicators including poverty, health and decent work stagnated.

⁶² In addition to those mentioned. The new administration plans to introduce a Ksh 50 billion collateral free cheap credit ‘Hustler Fund’ to support its fight against poverty, unemployment and income inequality. The fund is one of the important election promises by the President. If implemented successfully, it could go a long way in formalizing the informal sector and broadening economic transformation by, among others, creating wealth, casting the tax net wider and deepening financial inclusion.

⁶³ This is despite increase in the number of women in government since 2017 compared with 2013.

⁶⁴ They include the Convention on Elimination of All Forms of Discrimination Against Women (CEDAW), the Protocol to the African Charter on Human and People’s Rights on the Rights of Women in Africa (The Maputo Women Protocol), International Covenant on Economic, Social and Cultural Rights and East Africa Community (EAC) and The Beijing Declaration and Platform for Action, the African Union Solemn Declaration on Gender.

⁶⁵ They include a two-third rule (article 27 (8)) and affirmative action (article 27 (6)) of the 2010 constitution, National Gender Policy 2011,

⁶⁶ KNBS, Kenya Integrated Budget Household Survey 2015/16

⁶⁷ Extreme natural events have resulted in dismantling of family ties, child abandonment, school dropouts, and social tensions, especially among pastoralists because of conflict over water and pasture. Droughts could slash GDP growth by at least 1%.

⁶⁸ They include the 2010 Constitution of Kenya, Climate Change Act 2016, National Climate Change Action Plan I (NCCAP I) 2013-2017, National Climate Change Action Plan II (NCCAPII) 2018-2022, and Climate Finance Policy.

⁶⁹ Examples include Water Act 2016, Disaster Risk Financial Strategy 2018-2022, Kenya Climate Smart Agriculture Strategy 2017-2026).

⁷⁰ Kenya is committed to national and global targets of reliable, affordable, and clean energy. The share of renewable energy in the energy mix of Kenya increased from 79.3% in 2017/18 to 92.0% in 2019/20, largely attributed to increases in geothermal, wind and solar sources. Increased generation from geothermal has reduced fossil-based thermal generation by 11%, thereby reducing dependence on carbon-intensive energy sources.

⁷¹ Under economic pillars are tourism, agriculture and livestock, trade, manufacturing, Business Process Outsourcing (BPO), oil and gas and the blue economy. The social pillars included labor and employment, national values and ethics and disaster risk management. The political pillars included devolution and governance justice and the rule of law.

⁷² The MTP-IV is finalized. It is aligned to the New Government Manifesto, notably the 2022-2027 Bottom-up Economic Transformation Agenda (BETA).

⁷³ Increasing the contribution of manufacturing to GDP to 15% was one of the priorities of MTP-III. This target is not realized. The contribution of manufacturing rather decreased during the planning period due to among others the COVID-19 pandemic.

⁷⁴ The focus will center around water for irrigation to support private sector and value chain development especially in agriculture. The Government of Kenya through the 2022-2027 BETA has identified dams as a major source of water for irrigation.

⁷⁵ Global Entrepreneurship Index: <http://thegedi.org/global-entrepreneurship-and-development-index/>

⁷⁶ The rate is defined as the number of newly registered corporations per 1,000 working age population (ages of 15-64 years). The units of measurement for the rate are private, formal sector companies with limited liability: <https://data.worldbank.org/indicator/IC.BUS.NDNS.ZS?locations=KE>

⁷⁷ State of Skills in Kenya 1919-2019. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---ifp_skills/documents/genericdocument/wcms_742210.pdf

⁷⁸ The TVET enrollment is based on yearly figures which increased from 217,017 in 2020 to 297,505 in 2022. <https://www.treasury.go.ke/wp-content/uploads/2022/12/Education-Sector-Report.pdf>

⁷⁹ The expected results for each of the cross-cutting theme are as follows - **Gender:** the expected outcomes are narrow the gender gap index from 0.73 in 2022 to 0.80 in 2028, and youth unemployment to reduce from 35% in 2022 to 30% in 2028. **Private sector development:** The expected results are the time required to start a business to reduce from 7 days in 2019 to 4 days in 2028. **Climate change and environment:** The expected results are increase in GGI from 51.1 in 2022 to 53 in 2028, improve climate vulnerability index and readiness score from 0.51 to 0.45 in 2028. **Fragility (including security):** The expected results are to reduce Kenya’s fragile state index from 87.3 in 2023 to 80.0 in 2028. **Institutional Improvement:** The expected results are a reduction in fiscal deficit from 6.1% of GDP in 2024 to 3.4% in 2028 and tax revenue to increase from 13% in 2022 to 15% in 2028. **Digitization:** The expected results are ICT index to increase from 43.4 in 2022 to 47.0 in 2028.

⁸⁰ The CSP 2024-2028 envisages mainstreaming monitoring and evaluation in all projects and each project to have an average budget of UA 25,000 for monitoring and evaluation progress report.

⁸¹ IRM Registered Requests 2022, <https://www.afdb.org/en/independent-review-mechanism/management-of-complaints/registered-requests>