AFRICAN DEVELOPMENT BANK GROUP

KENYA

COUNTRY STRATEGY PAPER 2014-2018

EARC

February 2014

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NB: Unless otherwise indicated, all graphs, charts, etc. were provided by the Bank's Statistics Department.

CURRENCY EQUIVALENTS

February 2014

Foreign Currency		Kenya Shilling (Ksh.)
1 UA	=	132.30 Ksh.
1 USD	=	86.24 Ksh.

WEIGHTS AND MEASURES

Metric System

1 metric tonne	=	2,204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (”)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

FISCAL YEAR

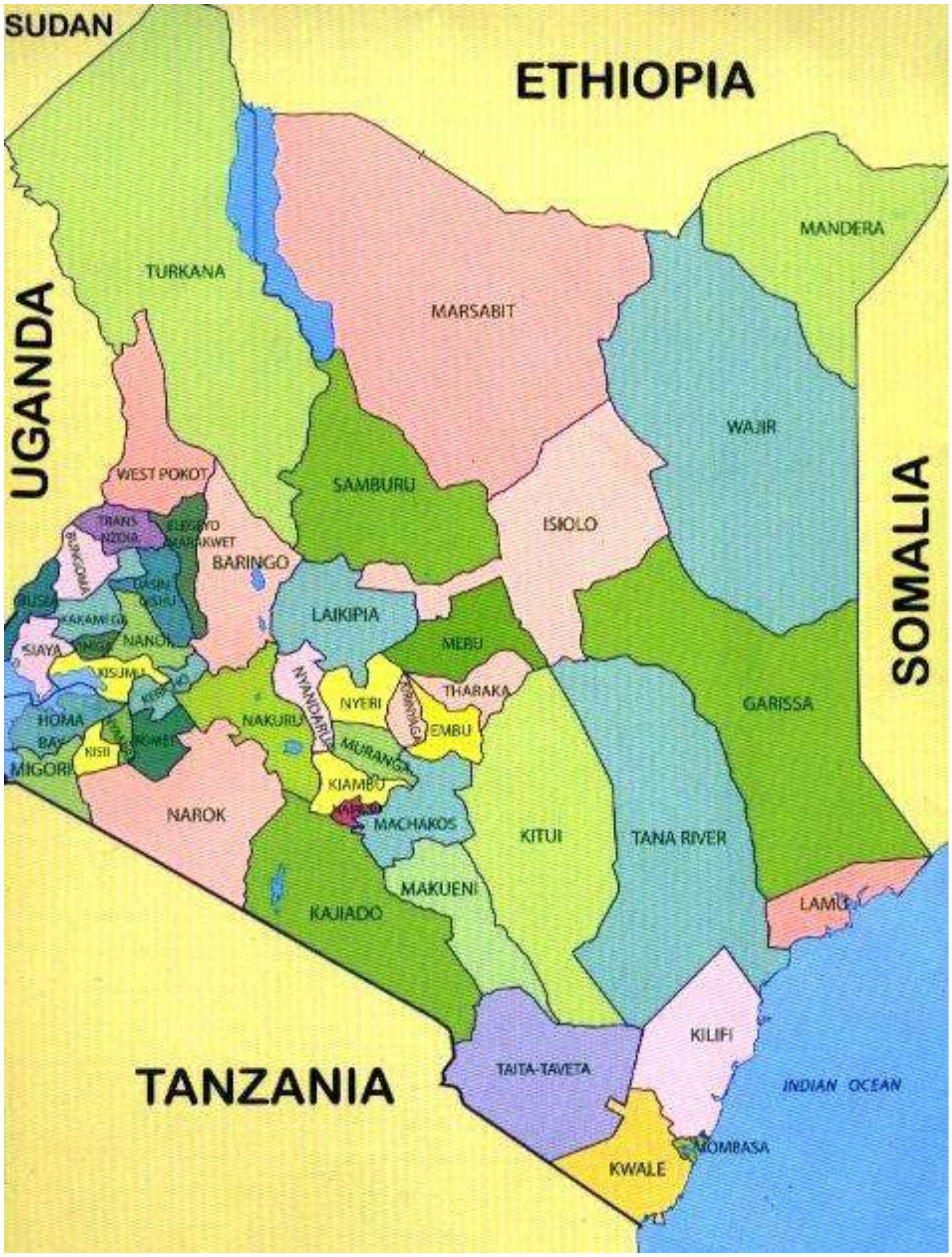
July 1 - June 30

ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
ADB	African Development Bank
AES	Aid Effectiveness Secretariat
AEG	Aid Effectiveness Group
ALSF	African Legal Support Facility
CBK	Central Bank of Kenya
CCVI	Climate Change Vulnerability Index
COMESA	Common Market for Eastern and Southern Africa
CORD	Coalition for Reforms and Democracy
CPIA	Country Policy and Institutional Assessment
CPIP	Country Portfolio Improvement Plan
CPPR	Country Portfolio Performance Review
CR	Completion Report
CSP	Country Strategy Paper
CT	Country Team
DFID	UK Department for International Development
DO	Development Objectives
DP	Development Partner
DPF	Development Partnership Forum
DPG	Development Partnership Group
DRC	Democratic Republic of Congo
EAPP	East African Power Pool
EAC	East African Community
EARC	East Africa Resource Center
EI	Extractive Industries
EIB	European Investment Bank
ESW	Economic and Sector Work
EU	European Union
FAPA	Fund for African Private Sector Assistance
FDA	French Development Agency
FDI	Foreign Direct Investment
FTA	Free Trade Area
FY	Fiscal Year
GCG	Government Coordination Group
GDP	Gross Domestic Product
GESIP	Green Economy Strategy and Implementation Plan
GHG	Greenhouse Gas
GoK	Government of Kenya
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
IAP	Indicative Assistance Program
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System

IGAD	Intergovernmental Authority on Development
ILO	International Labor Organization
IMF	International Monetary Fund
IP	Implementation Progress
ISP	Institutional Support Project
JICA	Japanese International Cooperation Agency
KIHBS	Kenya Integrated Household Budget Survey
KJAS	Kenya Joint Assistance Strategy
MDG	Millennium Development Goal
MOF	Ministry of Finance
MSME	Micro-Small and Medium Enterprises
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
MTR	Mid-term Review
ODA	Official Development Assistance
OPEV	Operation and Evaluation Department
PAR	Project Appraisal Report
PBA	Performance-based Allocation
PCR	Project Completion Report
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIU	Project Implementation Unit
PMU	Project Management Unit
PP	Problem Project
PPP	Potentially Problem Project
PRS	Poverty Reduction Strategy
RBF	Results Based Framework
REC	Regional Economic Community
RISP	Regional Integration Strategy Paper
SADC	Southern African Development Community
SIDA	Swedish International Development Agency
SLL	Sustainable Lending Limit
TVET	Technical Vocational Education and Training
UA	Unit of Account
UK	United Kingdom
UNDP	United Nations Development Program
UNFCCC	United Nations Framework Convention on Climate Change
UNEP	United Nations Environment Programme
USD	United Stated Dollar
USAID	United States Agency for International Development
WB	World Bank
WUA	Water Users Association
WWF	World Wildlife Fund

MAP OF KENYA
(47 Counties)



EXECUTIVE SUMMARY

1. Kenya is emerging and transforming politically and economically after 50 years of independence marked by mixed political and economic performance. The initial period of rapid growth to the mid-1970s was followed by a period of stagnation until the turn of the millennium, and then modest growth over the last decade. While Kenya has the potential to be one of Africa's best-performing economies, the country has been following, not spearheading, Africa's growth momentum: with around USD 840 (2012), Kenya's average per capita income is still only about half of Africa's average of USD 1,600. Africa's growth momentum has already propelled 22 economies above the USD 1,000 middle-income threshold, yet Kenya is only ranked 24th continent-wide and remains in the low income group, with almost half of the people living below the poverty line and high unemployment, especially among the youth.

2. The overarching challenge Kenya is facing today is to generate economic growth that is more inclusive in order to more effectively reduce poverty across the country. There is an urgent need to strengthen Kenya's private sector as the main engine of economic growth and to make this growth more inclusive than it has been, by generating employment opportunities, especially for the youth. To achieve this, it is necessary to stimulate private-sector activity through the establishment of a conducive business environment, while enhancing the skills of Kenya's workforce to respond to the demands of the emerging labour market of a transforming economy.

3. Despite persistent challenges, Kenya's prospects for success are promising: the country has the largest economy in East Africa, with a significant potential to further capitalize on regional markets and strengthen its position as the region's economic powerhouse. Moreover, the recent discovery of oil, gas and coal represents a great opportunity for Kenya's overall development, which may propel it to middle-income country status in the medium term. Also, Kenya is now implementing a devolved system of governance, instituted by the 2010 Constitution and rolled out in March 2013. The devolution offers an opportunity to reach out to the people and promote a more balanced socio-economic development across the country. Finally, Kenya in 2013 adopted its second five-year Medium Term Plan (MTP II 2013-17) to implement its 'Vision 2030', which represents a solid strategic framework to transform Kenya into a newly industrializing, middle-income country by 2030.

4. The Bank's Country Strategy Paper (CSP) 2014-18 for Kenya supports the country's ambitions and addresses its main developmental challenges by promoting job creation as the overarching objective. To achieve it, the CSP is articulated around the following two pillars: **(i) Enhancing physical infrastructure to unleash inclusive growth;** and **(ii) Developing skills for the emerging labour market of a transforming economy.** Building on past achievements and deepening gains, this CSP is a continuation of the CSP 2008-13 that focuses on growth, employment creation and infrastructure development. However, it is innovative in that it mainstreams newly-emerging themes, such as green and inclusive growth, as well as structural transformation. It also mainstreams gender equality. Furthermore, the CSP reinforces the positioning of the Bank as a convenor, knowledge-based institution and partner of choice of the government and other stakeholders. Although the Bank's contribution to the country's overall development financing is small, its support can be catalytic and transformative when financing is combined with knowledge and expertise. To this end, the Bank will increase efforts to carry out high-quality analytic work to underpin both its and the government's investments, and engage in partnerships with Development Partners and the private sector to leverage funding, rather than acting as a sole financier. A mid-term review is foreseen for 2016 to assess progress made in the implementation of the CSP, program resources that become available to Kenya under ADF-14 and, if necessary, to adjust the strategy's focus for the remaining period.

I. INTRODUCTION

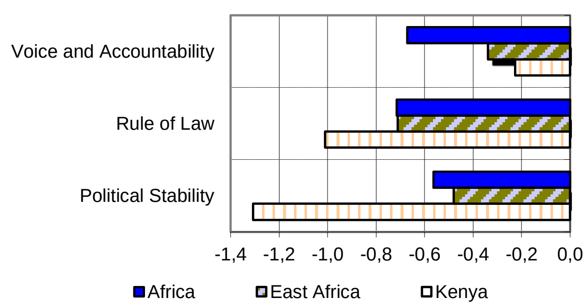
1. **The Bank's Country Strategy Paper (CSP) 2014-18 for Kenya was prepared at a time when the country had concluded a peaceful political transition, launched the second National Medium Term Plan (MTP II) 2013-17, embarked on a comprehensive devolution process and discovered oil, gas and coal deposits. It also comes after the Bank launched its Ten Year Strategy (TYS) 2013-22 for Africa, Private Sector Strategy 2013-17, and Gender Strategy 2014-18.** Kenya concluded a peaceful political transition following the National and County elections held in March 2013 and subsequently started to implement a devolved system of governance. Recent discoveries of natural resource deposits, notably in the petroleum sector, may have the potential to boost the country's socio-economic development and reduce poverty in the long run. Also, the Government of Kenya (GoK), in 2013, launched the second in a series of 5-year national MTPs for the period 2013-17, aimed at elevating the country to a middle-income country by 2030. However, Kenya is grappling with high unemployment especially among the youth, poverty and inequality, and faces a large skills gap of its workforce as well as inadequate infrastructure. This CSP comes at an opportune time for the Bank to assist Kenya address some of these critical challenges and realize its aspirations. It builds on the achievements of the 2008-13 CSP and deepens the gains from on-going support. At the same time, the CSP 2014-18 is innovative in terms of proposed modes of engagement, financing mechanisms, analytical underpinning and strategic selectivity. It also mainstreams the TYS's key objectives of inclusive and green growth as well as gender equality, promotes structural transformation, and aligns its two strategic pillars to the TYS's core operational priority areas of infrastructure and skills development.

II. COUNTRY CONTEXT AND PROSPECTS

II.1 Political Context

2. **Kenya concluded a peaceful transition following the March 2013 elections. However, more effort is needed to improve governance.** The 2013 elections and smooth change of government was a positive departure from the December 2007 elections, which resulted in widespread violence, fuelled by ethnical issues. Political reforms in recent years and the peaceful transition in 2013 have rebuilt the country's political momentum and led to the establishment of a leaner government[1]. However, compared to the rest of Africa, Kenya scores poorly in terms of rule of law and political stability, but relatively well in terms of voice and accountability (Graph 1). Similarly, Kenya scored 53.6 out of 100 points in the 2013 Mo Ibrahim Index of African Governance, slightly above the continental average of 51.6, and was ranked 21st out of 52 countries. The relatively low scores are mainly attributable to poor performance in 'participation and human rights', dropping from 58 in 2006 to 50.7 in 2013; and 'safety and rule of law', deteriorating from 52 to 47.6 over the same period. Kenya faces security challenges arising from political instability in neighbouring South Sudan and Somalia, in particular terrorist activities carried out by groups such as Al-Shabab. The recruitment of young Kenyans into terrorist groups arises primarily from limited economic opportunities and unemployment. With regard to Transparency International's Corruption Perceptions Index, Kenya slightly improved from 147th out of 180 countries in 2008, to 136th out of 177 countries in 2013, but remains at the lower end of the scale.

Graph 1: Political Context, 2012
Score -4.0 (worst) to 2.5 (best)



3. Kenya's relatively weak governance scores are mainly the result of the previous constitution, which made few provisions for political participation, constricted human rights, weakened the

judiciary and legislative arms of government, and centralized power in the hands of a small elite. The 2010 constitution addresses these shortcomings by dividing central power between the Executive, Legislature and Judiciary and instituting a devolved system of governance (Box 1). The decentralized government structure is expected to improve Kenya's governance indicators over the medium-term, provided that: the 2010 constitution is effectively implemented; the judiciary is fully independent; the GoK increases efforts to fight corruption; and stability and security is consolidated[2].

Box 1: The 2010 Constitution. Kenya's new constitution was enacted in August 2010 replacing the previous one that had been in place since the country's independence in 1963. It provides for a shift in governance, with legislative and executive responsibilities shared between the National and 47 County governments. The latter, elected in March 2013, have assemblies to adopt local laws with an executive that handles the planning and implementation of its programs. At the central level, the executive is autonomous from the legislature, and for the first time, the entire administration is drawn from outside the legislature. The legislature has moved from one to two chambers with a 350-member national assembly and a 68-member senate. The latter is charged with the responsibility of protecting the devolved structures. The judiciary has also gone through a series of reforms, including competitive appointment of all senior judges, vetting of judges and magistrates in office in 2010, and the introduction of a Supreme Court. Several Constitutional Commissions have been set up to provide checks and balances on the executive and the legislature. The responsibilities at central and County level are as follows:

National government	County government
• Foreign relations • Language policy • Defence and Security • Judicial Services • National planning • Monetary policy • Population/statistics • National transport and standards • Environment • Referral health services and policy • Agriculture, health, energy, tourism policy • Higher education	• Agriculture production • County health services • Control of pollution • Cultural activities • County transport: roads, ferries, harbours, • Water • Animal control and welfare • Trade development and regulation • County planning and development • Pre-primary education and village polytechnics • County public works • Community mobilization

The 2010 constitution stipulates that an amount equivalent to at least 15% of the last audited revenue shall be allocated to the 47 Counties in the national budget. County governments may borrow only if the National government guarantees the loan. The 2012 Public Financial Management Act allows grants to be channelled directly to County governments.

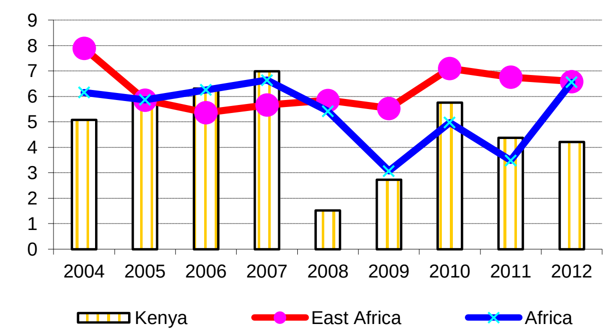
4. **The devolution process is underway but faces challenges.** Devolution effectively commenced in March 2013 with the election of the County governments. The Fiscal Year (FY) 2013/14 total budget of Ksh 1.6 trillion (USD 18.8bn) is the first budget to implement the devolution process, from which an amount of Ksh. 210bn (USD 2.4bn) has been set aside for the 47 Counties. This amount has been distributed to the Counties on the basis of a revenue sharing formula, which takes into account their heterogeneity[3]. The top 10 Counties, which are home to 37% of the population, received 32% of the total County envelope, representing a fair distribution to the highly populated areas. Key milestones in implementing the devolution process include the preparation of County budgets and Investment and Development Plans 2013-17 (IDPs), the establishment of various County departments and the recruitment of public service personnel. Main challenges to the implementation of the devolution process to date include human capacity constraints and large budget deficits, as the funding requirements of many IDPs exceed the transfers received from the central government. The deficits might be mitigated by raising local taxes, to which the Counties are entitled to by the constitution. However, with the exception of property and entertainment taxes, other local taxes require authorization by Parliament.

II.2 Economic Context

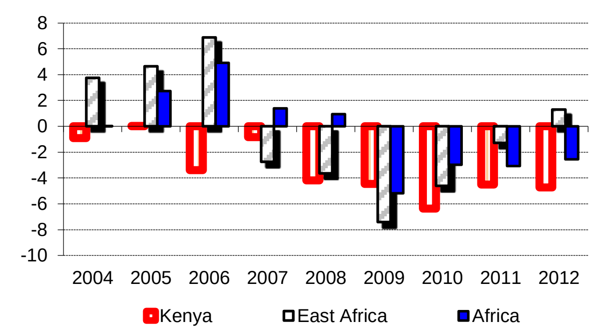
5. **Kenya's GDP growth in recent years was moderate, remaining below the average of East African countries.** Kenya's economy is service-based, with a relatively small industrial sector: in 2013, agriculture contributed 20.7% of real GDP, the industrial sector 15.9% (of which

manufacturing contributed only 9.5%), and services 63.4%. With regard to recent growth performance, GDP grew by an annual average of 3.7% over the last 5 years (Graph 2), with agriculture growing by only 0.6% and the industrial and services sectors by 4.0% and 4.5%, respectively. The short-term outlook is positive, with projected GDP growth of around 6-6.5% over the next three years, mainly driven by higher private-sector investments and increased exports. Services, especially finance and ICT, and construction, are expected to be the key drivers of GDP growth. The discovery of oil, gas and coal in 2012 might have the potential to boost Kenya's overall socio-economic development, but exact deposit quantities as well as fiscal and economic impacts are yet to be fully estimated[4]. The main challenges for the emerging extractive sectors include out-dated legislation, limited capacity for negotiating exploration contracts, and potential conflict over management of resources between National and County governments[5]. The GoK is aware of these challenges and has taken measures to address them, including a review of legislation and renegotiation of contracts, and expressed its intention to sign up to the Extractive Industry Transparency Initiative (EITI).

Graph 2: Real GDP Growth (%)



Graph 3: Fiscal Balance (% of GDP)



6. **The GoK has implemented sound macroeconomic policies in recent years, resulting in robust macroeconomic fundamentals[6].** A prudent fiscal stance has kept the budget deficit at an average of 4.9% of GDP during the last 5 years, albeit performing below its East African neighbours (Graph 3). The deficit is projected to narrow to below 4% in the short term, mainly on account of continued fiscal discipline and increased revenue from improved tax collection under the Public Financial Management (PFM) Act 2012 and the Value Added Tax (VAT) Act 2013, while rationalising recurrent expenditure. Kenya's tax revenue to GDP ratio of about 20% in recent years has been high by regional standards, compared to Tanzania's 18% and notably, Uganda's 13%.

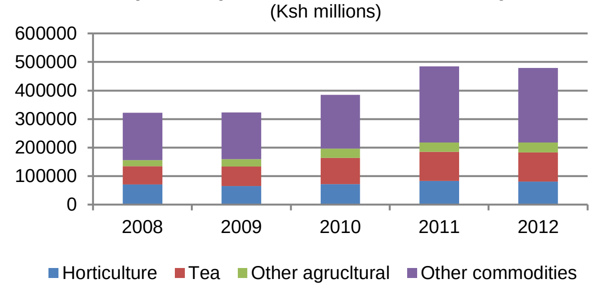
7. **The Central Bank of Kenya (CBK) has generally pursued a prudent monetary policy stance since 2008.** However, the efforts did not prevent serious spikes in inflation, particularly in FY 2011/12 when it averaged 16%, up from 6.9% in the previous FY, due largely to the record depreciation of the Kenyan Shilling from Ksh 83/USD in mid-2011 to 107/USD in November 2011. To control inflation, the CBK started to pursue a tight monetary policy, which has helped to contain inflation at around 5% to date, a level it envisages to maintain in the short term. CBK has eased its monetary policy stance since July 2012, reducing the central bank rate from 18% in June 2012 to 8.5% in January 2014.

8. **Despite the global financial crisis of 2008, the public debt-to-GDP ratio has remained below 50% over most of the last five years. Public debt slightly increased recently to finance expenditure in support of the devolution process.** The last WB/IMF Debt Sustainability Analysis completed in April 2013 indicates that Kenya continues to face a low risk of external debt distress. All external debt indicators remain well below the debt burden thresholds under the baseline scenario, and no thresholds are breached under any of the standard stress tests. However, the public debt-to-GDP ratio which stood at a low 43% in 2012 rose to 53.2% in October 2013, mainly driven by increased domestic debt to finance expenditure related

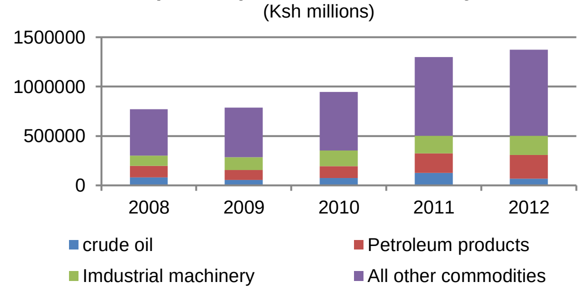
to the devolved government structure. With a view to raising debt internationally to avoid crowding out the private sector, the GoK plans to issue a USD 2.0bn sovereign bond in February/March 2014. The 6th and final review (September/October 2013) of the IMF's three-year Extended Credit Facility (ECF) arrangement, approved in January 2011, concluded that Kenya's macroeconomic conditions have continued to improve in the wake of the far-reaching reforms. The IMF recommended to pursue policies to reduce Kenya's vulnerability to external shocks and implement a prudent debt policy.

9. **The strong structural imbalance of Kenya's exports and imports makes the country vulnerable to exogenous shocks and represents a significant risk to macroeconomic stability.** Over the last five years, both exports and imports have registered a continued upward trend (Graphs 4 and 5). During that period, exports averaged 27% of GDP with almost half going to Africa. Imports averaged 46% of GDP, mainly originating from India, United Arab Emirates and China. Hence, Kenya's trade balance deficit remains large. The current account deficit has been cushioned by strongly rising remittances, which more than doubled from USD 611m in 2008 to USD 1,267m during the year to October 2013. Kenya's FDI remains behind its neighbours although investment levels have increased in recent years, from USD 605m in 2009 to an estimated USD 994m in FY 2012/13[7]. FDI is projected to increase to USD 1,234m in FY 2013/14, mainly due to investment from the BRICS, especially India and China in emerging extractive industries.

Graph 4: Exports values over the last 5 years
(Ksh millions)



Graph 5: Import values over the 5 years
(Ksh millions)



10. **Performance in Economic and Financial Governance has been mixed in recent years.** The overall average of Kenya's PEFA indicators has remained at the same rather low level of about 2 on a scale of 1-4 (4 being the highest score; Annex 7). The last PEFA undertaken in 2012 found that progress was made in revenue collection, debt management and procurement. External scrutiny and audit also improved but remained at a low level. A clear deterioration was observed in accounting, recording and reporting, mainly due to accounts processed outside the Integrated Financial Management Information System (IFMIS). Kenya's CPIA scores have remained above 4 in recent years, with the overall score rising slightly from 4.17 in 2008 to 4.39 in 2013 (Annex 7). Macroeconomic management, financial sector development, regional integration and equity of public resource use have consistently scored above 4. However, before increasing slightly to 3.76 and 3.83 in 2012 and 2013, respectively, public sector management consistently scored poorly at around 3.6 during 2008-11, mainly due to low enforcement of property rights and issues of transparency, accountability and corruption. Recognizing these weaknesses, the GoK in 2012 adopted a PFM Act and developed the Strategy for PFM Reforms 2013-18 to strengthen oversight functions, budgeting and auditing processes. The GoK also re-launched the IFMIS to strengthen reporting.[8]

11. **Despite Kenya's challenging business environment, the private sector is vibrant. Kenya is considered a promising place to do business, with growing markets and good opportunities.** The country's private sector contributes to 97% of GDP and provides 80% of formal employment. It is composed of a formal sector which is relatively healthy and productive, and dominated by large businesses (notably, ICT, tourism and finance); and a large yet

unproductive informal small business sector that employs almost nine out of ten private sector workers (Figure 1). Developing skills of MSMEs to increase their productivity would significantly boost Kenya's GDP, thereby generating employment opportunities. Greater integration of informal businesses into the formal sector would enhance their credit access, which would not only reinforce the positive output and employment effects, but also increase the already commendable tax revenue-to-GDP ratio.

12. While considered vibrant, there are several challenges that prevent Kenya's private sector from reaching its full potential. The overarching issues are the infrastructure deficits, corruption, an unfavourable regulatory environment and a lack of trained workforce[9]. This is corroborated by the World Bank's Ease of Doing Business Indicators 2014 (Table 1), which show a deterioration of most indicators since 2008 with the exception of 'getting credit'.[10] Compared to other countries in the region, Kenya's latest overall ranking at 129th places it behind Rwanda (32nd) but ahead of Uganda (132nd) and Tanzania (145th). However, despite its challenging business environment, Kenya has been increasingly attractive for investors, as evidenced by the strong increase in the number of registered companies, from 166,793 in 2008 to 225,048 in 2011. This suggests a significant potential for even higher investments if the business environment were more conducive. Also, despite the challenging business environment, Kenya has become more competitive as suggested by the country's improved ranking in the World Economic Forum's Global Competitiveness Index (GCI), from 106 out of 144 in 2012/13 to 96 in 2013/14, mainly on the back of greater confidence in institutions and innovative capacity, with high company spending on research and development, and well developed financial markets. On the downside, Kenya's competitiveness is held back by poor infrastructure, high prevalence of communicable diseases and security challenges.

Figure 1: Kenya's formal and informal sectors

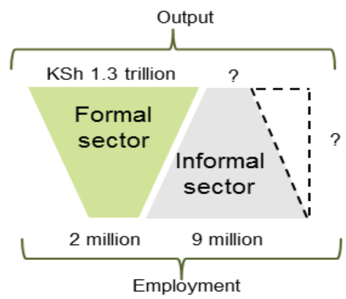


Table 1: Kenya Doing Business Ranking

Item	2008	2013	2014
Number of countries surveyed	178	185	189
Starting a business	112	126	134
Dealing with construction permits	9	45	47
Getting electricity	n.a.	162	166
Registering property	114	161	163
Getting credit	13	12	13
Protecting investors	83	100	98
Paying taxes	154	164	166
Trading across borders	148	148	156
Enforcing contracts	107	149	151
Resolving insolvency	76	100	123
Overall Ease of Doing Business	**72**	**122**	**129**

Source: World Bank Doing Business Surveys

13. **Kenya's banking sector is the most developed in the region.** Although the number of commercial banks has remained at 43 since 2008, a number of initiatives, including the rapid expansion of money transfer through telephones and electronic mobile banking services, raised the quality of financial services and expanded access. The M-PESA mobile phone-based payment system is a home-made, world-class Kenyan innovation, which is now being considered for implementation by various countries worldwide. Similarly, the M-KESHO banking and M-SHWARI lending services provide opportunities to the poor to save and borrow as little as USD 1.20 at any point in time. According to the Kenya FinAccess Survey 2013, financial exclusion dropped from 32.7% in 2009 to 25.4% in 2013, and access to formal banking increased from 40.5% to 65.9% in the same period. However, as indicated in the World Economic Forum's 2013 Global Gender Gap Report, only 39% of women have an account in a formal financial institution, compared to 46% of men. Kenya ranks fairly well in Africa in terms of loan access, venture capital availability and financing through the equity market. Yet, a lack of collateral often prevents small businesses from accessing credit.

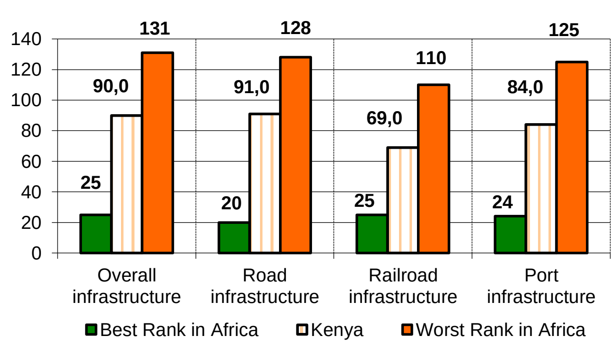
14. **Kenya remains a strong proponent of regional integration but non-tariff barriers to trade and infrastructure deficits pose challenges to fully exploiting the opportunities regional markets offer[11].** Kenya is the gateway to East Africa and remains the largest economy

in the EAC, with an estimated GDP of about USD 43.6bn in FY 2012/13, compared to USD 21.5bn and USD 30.3bn for Uganda and Tanzania respectively. Kenya's neighbours are important trading partners with the EAC, accounting for 26% of its exports. Kenya's regional competitive advantages lie mainly in transport (Kenya Airways is the leading regional airline), telecommunication and financial services. Kenyan businesses benefit from liberalized rules on movement of services, and have taken advantage of the political stabilization in South Sudan. The discovery of commercially viable oil in the region is likely to fuel additional demand and opportunities for Kenyan businesses. The country has been a proactive proponent of East African regional integration and is a member of the EAC, COMESA and IGAD. The EAC common market is now in force, and a Free Trade Area (FTA) is being negotiated with members of the Tripartite Arrangement comprising the EAC, COMESA and SADC. Despite the elimination of tariffs, technical barriers to trade such as those concerned with plant and animal health remain, though good progress is being made in agreeing on common standards for EAC states. Police roadblocks and multiple weighbridges continue to slow the traffic flow and create bribery and corruption opportunities. Lengthy and non-harmonised border processes and poor infrastructure at border posts also pose challenges. To address these issues, Kenya is participating in EAC mechanisms to resolve the non-tariff barriers.

15. **Kenya's infrastructure connectivity with its neighbours is improving but remains under considerable pressure.** Kenya is devoting substantial resources to improve transport links with its neighbours. For example, in March 2012, the Heads of States of Kenya, Sudan, and Ethiopia launched the USD 29.24bn Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) Corridor Project, with Kenya contributing about USD 3.6bn. Also, Kenya agreed to contribute to the funding of a new USD 1bn highway from Eldoret to Juba (South Sudan). The Mombasa Port has been dredged, new berths completed and a modern petroleum terminal is planned. Mombasa port, the second-largest in Sub-Saharan Africa after Durban, is a cause of a considerable cost and delay. For example, containers spend an average of 217 hours at Mombasa port, compared to only 25 hours to be trucked from the port to Nairobi. The Northern Corridor, which runs from Mombasa to the Ugandan border, is in good condition but is heavily congested. Other important international links, such as the roads to South Sudan and Ethiopia, are in poor condition. The rail, which runs from Mombasa to Uganda, is used for only 6% of shipments on the Northern Corridor. Poor track conditions leads to frequent delays and speed restrictions, which has made rail unattractive for transporters. Nairobi's Jomo Kenyatta International Airport is undergoing expansion but will require additional investments in view of the fire of August 2013 that destroyed arrival and departure terminals.

16. **Infrastructure investments have the potential to help transform the economy, but costs remain high[12].** Kenya's infrastructure remains insufficiently developed (Graph 6) despite the fact that over the last five years, nearly 27% of the national budget has been allocated to transport, energy, water and sanitation, and environment-related infrastructure. MTP II estimates Kenya's infrastructure spending needs at about USD 4bn/year, which is among the highest in Africa. While there is heavy reliance on road transport, the 160,886-km network with only 7% paved, is not economically sustainable as it carries 90% of freight and passengers. The total length of paved roads per 10,000 inhabitants in Kenya is 2.19km, which is less than the EAC member countries' average of 2.53km. A Road Maintenance Levy Fund, established in 1994, created a secure, sustainable source of financing. However, due to road network expansion and increased maintenance cost, there is a need to

Graph 6: Infrastructure Index, 2011



broaden the source of funding. Diversification to foster resilience in the transport system is necessary through increased use of water- and rail-based transport. The transport system needs to be made environmentally sustainable, foster equity and assure economic efficiency. In the context of increasing urbanization, mass transport systems in major cities and towns should be developed to meet an increasing commuter demand.

17. **Kenya's 1,690 MW installed electricity generation capacity is not sufficient for projected economic growth, while access to water for irrigation and industry remains low.** Kenya's power tariff remains comparatively high at USc 18.7/kw (Ethiopia USc 3/kw, Tanzania USc 9/kw). In 2012, 18% of the population had access to electricity in Kenya, compared to 14.8% in Tanzania and 23% in Ethiopia. With over 80% of power generation coming from hydro and thermal, electricity supply is vulnerable to climate variations and fuel price fluctuations. In rural areas, only 5% of the population have access to electricity, while urban areas experience frequent outages. Efforts have been made to boost availability through imports from regional surplus states like Ethiopia, diversification of generation sources, and modernization of transmission and distribution systems to assure usage efficiency and reliability in supply. Key infrastructure investments have been made to reinforce Kenya's position in the regional power market by connecting Kenya to Ethiopia, Uganda and, in the future, Tanzania. The regional transmission lines will place Kenya in position to benefit from the East African Power Pool.

18. **Kenya is classified as a chronically water-scarce country with only 15% of its available water resources developed. Household access to safe water, notably in rural areas, remains low.** Despite improvements in recent years, only 70.5% of urban households and 49.2% of rural households have access to safe water (2012). Kenya's annual water replenishment rate is low, 647m^3 per capita compared to Tanzania (2,696m^3) and Uganda (2,940m^3). Infrastructure for surface-water storage has decreased from 11.4m^3 per capita in 1960 to 5.3m^3 in 2012, due to population growth and loss of infrastructure through climate change events. For example, El Niño floods in 1997-98 destroyed and damaged water infrastructure valued at USD 0.8bn, of which only 0.12bn was replaced. Low water storage volumes means low water security for irrigation, hydropower and domestic supply, with rural inhabitants typically hit the hardest. Low access to water also has significant gender implications as many women spend a significant amount of time to fetch water, which prevents them from engaging in productive or educational activities.

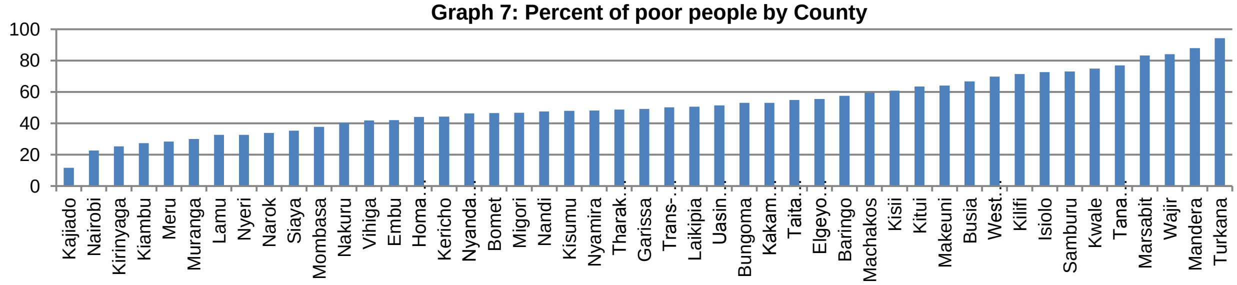
19. **Agriculture has a significant potential for growth, value addition and structural transformation but suffers from high transport and energy costs.** Kenya's agricultural sector has a huge potential for food processing as well as cattle rearing because of the vast unoccupied land and the lengthy experience in animal husbandry. About 45% (6.5m) of the employed working-age population (14.3m) are engaged in small-scale family farming. About 58% of family farm workers are women, albeit their control over land and property is limited. Only 2% (0.29m) of Kenya's employed working-age population have modern, formal wage jobs in the agricultural sector. About 91% of Kenya's agricultural exports are in raw or semi-processed form, resulting in huge export earning losses because of low value addition. Family farming is characterized by low productivity due to inadequate rural infrastructure, notably rural roads and irrigation, low absorption of modern technology, inappropriate legal and regulatory frameworks, absence of a coherent land policy, and a domestic market ill-equipped to take advantage of export markets. In response, the GoK has launched an initiative to harness water resources in arid and semi-arid regions (ASAL) to irrigate additional 1m acres and develop 2.4bn m^3 of multi-purpose water storage facilities by 2018. The GoK is also reviewing the land policy to improve utilization.

II.3 Social Context and Cross-Cutting Themes

20. **Social indicators have improved but poverty and inequality remain high.** Kenya has seen improvements in some social indicators and MDGs in recent years. Notably, infant mortality

decreased from 58 per 1000 live births in 2008 to 52 in 2011, under-five mortality decreased to 74 per 1000 live births, and the transition rate from primary to secondary education increased from 64.1% to 73.3% over the same period. However, significant challenges persist. The country's HDI remains low: in 2012, Kenya was ranked 145^{th} out of 186 countries, with an HDI index of only 0.519 (yet above Sub Saharan Africa's score of 0.475). Maternal mortality increased from 414 to 488 during 2008-11, compared to the MDG target of 147 per 100,000 births. This is largely attributed to poor access to functional health facilities in rural areas, high malaria prevalence, high fertility, HIV/AIDs, and high cost of maternal health care. To address these issues, the GoK has introduced free maternal health care services and provided free anti-retroviral drugs to prevent perinatal transmission of HIV/AIDS virus. Further, access to health facilities and medication is also free for children under five. Kenya has achieved MDG 2 (universal primary education) and MDG 6 (progress in combating HIV/AIDS), is likely to achieve goal 8 on global partnership, but is off track for attaining the other MDGs (Annex 4). Kenya's level of poverty is estimated at 46% with a higher prevalence in the rural areas (49.1%) compared to urban areas (33.7%), and wide variations across Counties (Graph 7)[13]. Women, single-headed households and pastoralists are more likely to be poor.

Graph 7: Percent of poor people by County



Source: Kenya Integrated Household Budget Survey

21. **Kenya's economic growth has not been sufficiently inclusive.** Although Kenya has experienced economic growth over the last decade, it has not been sufficiently inclusive as evidenced by persistent high levels of poverty and regional disparities (Graph 7), limited access to basic services, inequality and unemployment, with youth, women and other vulnerable groups particularly hard-hit[14]. The country's Gini coefficient of 47.7 compares less favourably to the other main economies in the region: e.g., Ethiopia 29.8, Tanzania 37.6 and Uganda 44.3. The lack of inclusion is mainly attributed to the skewed distribution of income and property; past resource allocation policies which intermittently neglected certain regions; and the concentration of productive economic activity within a small formal sector employing relatively small numbers of people but accounting for large economic returns and incomes. Therefore, pro-poor growth strategies and pro-active labour market policies, such as skills development for the youth, and increased participation of women in productive activities and decision making processes, are required to make growth more inclusive and effectively fight poverty. With the devolution process, resource allocation has been reorganized, which is expected to tackle the marginalization of certain regions in the past.

22. **Skills development has the potential to significantly improve the employability of the Kenyan workforce, especially of the youth and women.** About two-thirds of Kenya's population is of working age and 12.7% of them are unemployed. About 80% of Kenya's unemployed are between 15 and 34 years of age. The highest unemployment rates are for people around 20 years old, at 35%[15]. Unemployment is almost entirely an urban phenomenon, with no significant difference by gender (Kenya's 2013 Labour Force Participation Gender Gap Index, GGI, is relatively high with 0.86, compared to the global average of 0.68; and the Estimated Earned Income GGI stood at 0.65, compared to the global average of 0.53), while *under*-employment, i.e. people working below their productive level, is more prevalent in rural areas. Unemployment rates are low in the rural areas because most of those without other jobs work on family farms. Improving informal sector productivity and the quality of jobs could make an

important contribution to employment generation. Major challenges to youth employment in Kenya are the skills mismatch and inadequate training for mid-level technicians and artisans in current and emerging labour markets, in particular in infrastructure (e.g., roads, water, energy, agriculture, ICT)[16]. With an estimated gap of about 30,000 engineers, 90,000 technicians and 400,000 artisans, the shortage of mid-level technicians and artisans is hampering the country's economic growth prospects. The Kenya Engineers Registration Board estimated the ratio of engineers, technicians and artisans required by the country to achieve middle-income status at 1:12:60. However, Kenya's ratio was estimated at only 1:3:13 (2012).

23. The skills gap is compounded by weak linkages between the private sector and technical and vocational education and training (TVET) curricula, resulting in a mismatch between the supply of and the demand for skills. Therefore, the maximum impact in terms of employment generation can be achieved by developing the skills and experience of mid-level technicians and artisans, and by strengthening the linkages between TVET and the private sector. According to the 2009 national census, there are over 8m Kenyans aged between 17 and 24 years eligible for training in tertiary institutions at mid-level technical and artisanal levels. Equipping the youth with relevant skills and experience is expected to significantly improve their employability in Kenya and the region. Gender parity in TVET would significantly enhance the access of women to formal employment. With a young population and about 800,000 people entering the workforce every year, Kenya could reap a substantial demographic dividend, but there could also be considerable stress if employment opportunities are not commensurate with expectations.

Box 2: Kenya is urbanizing rapidly. Kenya is still predominately rural with more than 2 out 3 Kenyans living in the countryside, but urbanizing rapidly. The nexus of job generation is increasingly in towns and cities. Kenya has experienced rapid urbanization with more than 30% of its population living in urban centres, compared to 16% 20 years ago. It is projected that by 2033, 50% of the population will be residing in urban areas. While urbanization presents an opportunity for higher economic growth, it also puts pressure on cities to provide jobs, housing, etc., to mitigate urban poverty. This requires the adoption of inclusive growth and proactive labour market policies, mobilization of investment, good governance and human capital development.

24. The GoK has identified youth employment as a priority and has taken a number of measures to curb youth unemployment: the Kenya 2013 TVET Act, approved by Parliament in March 2013, defines the technical and legislative framework for TVET. The Act aims to strengthen the relevance and quality of TVET and its linkages with the industry. In addition, a TVET authority is currently being set up to oversee assessments and the accreditation of TVET institutions, in cooperation with the private sector. The Ministry of Education, Science and Technology oversees the establishment, management and coordination of TVET institutions, including funding through annual development grants. Furthermore, the Public Procurement Act 2013 aims to award 30% of all national procurement contracts to youth and women, including TVET graduates. The GoK has committed Ksh. 6bn 'UWEZO Fund' to support youth and women with interest-free loans as start-up capital for SMEs. However, these initiatives require capacity building in tendering processes, especially for the women and youth in rural areas.

25. **While gender equality and empowerment have received increased attention in recent years, challenges persist.** Kenya's Gender Inequality Index (GII) remains at a relatively elevated level of 0.608 (2012), mainly due to the high maternal mortality rate, low share of parliamentary seats held by women (9.8% in 2012), and a relatively low participation of women in university education (43% in 2012). As confirmed by the 2013 GGI, there are significant gender gaps in enrolment in tertiary education (0.70), despite perfect gender parity in primary education enrolment (1.01). Other challenges include cultural practices that limit women's control over land and property, and gender-based violence. However, progress towards gender equality has been made in recent years, including the introduction of a one-third gender rule in the 2010 constitution, which guarantees women employment in public services; adoption of a

National Gender and Development Policy in 2011 (which, however, remains to be revised to more effectively respond to gender empowerment issues); creation of 47 special seats for women in the National Assembly elected in March 2013; establishment of a Women Enterprise Fund by the GoK with allocations increasing yearly; and the enactment of laws to eliminate harmful practices against women and to increase access to land by women.

26. **Kenya is vulnerable to climate change and environmental degradation, necessitating a transition to a Green Economy.** At 61.53m tons of carbon dioxide equivalent (MtCO2e), greenhouse gas (GHG) emissions in Kenya are negligible compared to global levels. However, the country is highly vulnerable to climate change. Kenya faces the risk of a drop in annual precipitation and extreme weather patterns, predominantly via severe drought, which caused food insecurity and occasionally led to famine in arid and semi-arid regions.[17] Land degradation driven by overgrazing, deforestation and extensive use of biomass as an energy source is exacerbating the impacts of climate change. Approximately 42% of Kenya's GDP and 70% of employment is derived from natural resource-based sectors, including agriculture, water, energy, forestry and tourism. While climate change will impact all sectors, agriculture, which is mainly rain-fed, stands apart as highly vulnerable to shifting rain patterns and droughts.

27. The GoK recognizes that the transition to a Green Economy represents a strategic opportunity to foster sustained economic growth, reduce environmental degradation including the impacts of climate change, create jobs and promote inclusive growth. Kenya ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1994 and submitted its first national communication to the UNFCCC in 2002. Kenya is currently taking a number of mitigation and adaptation measures to transition to a Green Economy, including the promotion of green infrastructure to achieve energy security and increase competitiveness through efficient resource use and to reduce GHG emissions through increased renewable energy use; reforestation of degraded forests; bus rapid transit with light rail systems; building resilience of vulnerable communities and ecosystems against climate change impacts through use of irrigation systems and diversifying sources of livelihoods by promoting value addition; and the development of a robust policy and institution framework to guide implementation (National Climate Change Response Strategy and Climate Change Action Plan). Currently, the Bank is also supporting the GoK in preparing a Green Economy Strategy and Implementation Plan (GESIP) to guide the transition process to a green, low-carbon, climate-resilient economy[18]. The Climate Change Factsheet for Kenya is presented in Annex 11.

28. **While Kenya is not classified by the Bank as a 'Fragile State', the country exhibits some fragile characteristics.** As demonstrated in section II.1, Kenya has made considerable progress in recent years towards a politically stable, democratic country with the enactment of the new constitution in August 2010, conclusion of a peaceful political transition following the March 2013 elections, and the launch of a devolved system of governance in the same month. However, Kenya exhibits some fragile characteristics (which have been discussed in detail in previous sections of this document), most importantly the high level of poverty and regional disparities as well as high youth unemployment, which, if not effectively addressed, might pose threats to the country's overall stability. There is, hence, a strong need to create economic opportunities for the disadvantaged groups of society, in particular the youth, to avoid conflict and violence in the future. Other factors of fragility include terrorist activities and ethnic tensions compounded with a post-colonial land allocation that left certain communities feeling dispossessed and created long-standing sources of unrest.

III. STRATEGIC OPTIONS

III.1 Country Strategic Framework

29. **Vision 2030.** Kenya's long-term development blueprint, Vision 2030, aims to transform the country into a newly industrializing, middle-income country that provides a high quality of life

to all citizens by 2030. The vision is grounded on three pillars: an economic pillar which aims at economic growth of 10% per annum; a social pillar which seeks just, cohesive and equitable social development in a clean and secured environment; and a political pillar which aims to install an issue-based, people-centred, result-oriented and accountable political system that respects rule of law and protects the rights and freedoms of every Kenyan. The pillars are anchored on infrastructure development, public sector reform and macroeconomic stability.

30. **The Vision is to be implemented through successive five-year Medium Term Plans.** The implementation of the first Medium Term Plan (MTP I) 2008-12 realized mixed results with moderate growth averaging 3.7%, but with positive results in the social and political pillars. The MTP II 2013-17 aims at a high-growth trajectory, reaching 10% in 2017/18. Its priority areas include infrastructure development to enhance competitiveness; investing in irrigation and mechanized agriculture to enhance food security; support to value addition; poverty reduction and social protection; skills development; governance and public financial management reforms; transparency and accountability in the EI; promoting national unity and identity; and improving security. Specifically, the GoK intends to expand, develop, and modernize roads, rail, ports and other transport infrastructure. The cost of infrastructure projects under the MTP II is estimated at Ksh 245.63 trillion (USD 2.89 trillion). The GoK prepared policies for roads and transport, energy, agriculture and skills development to support the implementation of the MTP II.

III.2 Aid Coordination, Alignment and Harmonization Mechanisms

31. Kenya's current aid coordination and harmonization architecture (Box 3) was established in 2011, taking into account new developments arising from the 3rd and 4th high-level meetings on aid effectiveness held in Accra, Ghana (September 2008) and Busan, South Korea (November 2011). EARC participates at all levels of aid coordination and chairs the DP's working Group on Education, and co-chairs the AEG with the National Treasury, which has allowed the Bank to engage in a close dialogue with the GoK and DPs. EARC also participates in several SWGs, including on roads, water and sanitation, energy, and public finance management. EARC also hosts the Kenya EI Secretariat established in 2013, which has the potential to be scaled-up to a regional secretariat for East Africa, and even for Africa as a whole. Both multilateral and bilateral DPs have shown commitment to supporting the EI Secretariat. As regards development cooperation under Kenya's devolved government structure, the GoK in June 2013 started preparing guidelines defining cooperation modalities between DPs and County governments. They are expected to clarify the criteria and mechanisms for providing loans and grants to Counties and how to implement cross-County operations.

> **Box 3: Aid Coordination.** Since 2011, the Development Partnership Forum (DPF), the DPs Consultative Group (DPG), the GoK Coordinating Group (GCG), the Aid Effectiveness Group (AEG), and the Aid Effectiveness Secretariat (AES) were established besides the Sector Working Groups (SWGs). The apex aid coordination body is the DPF attended by heads of diplomatic missions and aid agencies, and heads of government departments. It meets twice a year to discuss key policy issues, and agrees on a set of deliverables over the subsequent six months. The DPG, comprising heads of diplomatic missions and aid agencies, and the GCG, comprising the heads of government departments, meet separately every month. The AEG coordinates the dialogue between the DPG and the GCG; monitors and reports on the progress of agreed deliverables and the global aid effectiveness objectives, and provides advisory support to the SWGs. The AES established at the National Treasury is the AEG's secretariat.

III.3 Strengths and Opportunities; Weaknesses and Challenges

32. **Kenya's strengths and opportunities are numerous, but so are its weaknesses and challenges. The overarching strategic challenge facing the country today is to create employment opportunities for its continuously growing labour force, notably the youth.** Other main challenges are to reduce the large skills gap; develop the infrastructure; strengthen the country's position as gateway to East Africa and beyond and capitalize on regional markets and opportunities; ensure a transparent management of the EI sectors; successfully implement

the devolution process; and address persistent gender inequality. The strengths, opportunities, weaknesses and challenges, which have been discussed in detail in previous sections of this document, are summarized in Box 4.

Box 4: Main Strengths, Opportunities, Weaknesses and Challenges

Strengths and Opportunities

i. **2010 constitution and devolution**, with the potential to tackle poverty across the country and reduce regional disparities.
ii. **Recent discoveries of oil, gas and other minerals**, with the potential to boost Kenya's overall development.
iii. **Vibrant private sector**, with growing markets and good business opportunities.
iv. **Sound macroeconomic policies**, resulting in robust macroeconomic fundamentals.
v. **Renewed political momentum**, created by the peaceful political transition.
vi. **Strategic geographic location**, with access to the sea and competitive advantage in regional transport.

Weaknesses and Challenges

i. **High poverty and unemployment**, particularly among the youth.
ii. **Large skills gap**, notably of middle-level technicians and artisans.
iii. **Inadequate infrastructure**, implying high cost of production, thereby undermining competitiveness.
iv. **Rapid urbanization**, implying the urgent need to create job opportunities in cities, notably for the youth.
v. **Vulnerability to climate change**, notably droughts in the Arid and Semi-Arid Lands (ASALs).
vi. **Persistent gender inequality,** including limited control over land and property.

III.4 Country Portfolio Performance Review and Bank Positioning

33. **Country Portfolio Performance Review: cumulative commitment and sectorial distribution.** Since 1967, total Bank lending to Kenya in terms of loans and grant approvals amounts to UA 2.1bn. As of 31 December 2013, the Bank's active public sector portfolio in Kenya 28 operations, totalling UA 1,235.0m (Annex 5). The average project size is UA 44.1m. The portfolio is distributed as follows: Transport 41%; Energy 26%; Water and Sanitation 18%; Agriculture 8%; and Human Capital Development 7%. The average age of the portfolio is 3.5 years, with a cumulative disbursement rate of 30.9%. The private sector portfolio comprises 13 operations worth UA 253.5m (Annex 6), including 4 national (UA 130m) and 9 regional operations (UA 123.5m). The national private sector portfolio includes one equity investment to a commercial bank specialized in microfinance; senior and subordinated debts to two renewable energy projects (Thermal and Wind Power plants); and a guarantee to support women entrepreneurs.

34. **Overall, portfolio performance is satisfactory.** EARC has taken several initiatives towards improving the portfolio's performance including improved project design, timely preparation of procurement plans, and training on procurement and disbursement rules. The dashboard on key portfolio performance indicators shows significant improvements as a result of these efforts (Table 2). All relevant indicators show a positive trend except the number of ageing projects, which stands at 1 against 0 in September 2011. However, the concerned project is closing in June 2014. In addition, there is a need to further improve on disbursement processes and flows on both the Bank and GoK sides.

Table 2: Portfolio performance

Indicator	Dec. 2013	Sep. 2011	Perf. Ind.
Average project size (UA m)	44.1	38.2	
Ageing projects (#)	1	0	
Average age (years)	3.5	4.0	
Overall disbursement Rate (%)	30.9	26.4	
Commitments at risk (%)	0	18	
Projects at risk (%)	0	21	
Projects with signature delays (#)	0	0	
Time between approval and entry into force (months)	7.6	8.0	
Projects with delays in 1st disburs.	0	4	
Slowly disbursing projects (#)	3	5	
Projects not supervised for more than 6 months (#)	0	2	
Average Overall Performance Rating	**2.6**	**2.4**	

35. **Country Portfolio Improvement Plan (CPIP).** In June 2013, the Bank and the GoK organized a joint workshop to review the performance of the Bank-financed public sector

projects in Kenya. The Bank and the GoK representatives from the National Treasury, line ministries and project implementation teams assessed the performance in relation to the remedial actions proposed in 2011 CPIP. Participants agreed that generally, the measures implemented and the initiatives taken by the Bank and the GoK since the opening of the EARC in January 2012 have made a difference in resolving issues affecting the portfolio. The portfolio has benefitted from improved Bank presence in Kenya and strong GoK ownership, spurred by continuous interaction, hands-on training and assistance provided by the EARC. Initiatives taken by the GoK include the restructuring of non-performing projects within the framework of the new cancellation policy. The application of a readiness filter by the Bank has reduced start-up delays for new operations. The 2013 CPIP outlines the following key challenges and recommendations: (i) capacity challenges at Project Implementation Team (PIT) members and the National Treasury level: the Bank is scaling up efforts to improve capacity in procurement (with particular emphasis on contract management) for PIT members, disbursement processing, monitoring and evaluation; (ii) delay in releasing counterpart funding: the GoK will ensure that counterpart funding for on-going projects is prioritized during budget implementation. Senior Officials and Finance Officers in the line Ministries will be sensitized on the necessity to prioritize donor funded projects during budget preparation and execution; and (iii) slow disbursement processes: the Bank and GoK will critically review their processes with a view to removing the steps that do not add value while ensuring that fiduciary controls are not affected. In addition, the Bank will strengthen the disbursement capacity of EARC. The CPPR exercise also benefitted from OPEV's evaluation of the Bank's last three CSPs for Kenya, covering the period of 2002 to 2012, which highlighted a number of implementation challenges: (i) complex funds flow arrangements used by the GoK for donor funded projects; (ii) constrained disbursement capacity of the EARC; (iii) delays in the finalization of Resettlement Action Plans and compensation of Project Affected Persons; and (iv) delays in the release of Counterpart Funds. Annex 9 explains in detail how these issues have been addressed. The Country Portfolio Improvement Plan (CPIP) is presented in Annex 8.

36. **Bank Positioning.** In terms of portfolio size, the Bank, the World Bank, the EU and the UN family have a strong presence in Kenya. The Bank has the second-largest portfolio (USD 1.8bn), after the World Bank (USD 2.8bn). Both Banks invest mainly in roads and energy, where the Bank has developed a comparative advantage. Main bilateral donors are the UK, France, China, Germany, Japan, Canada, Finland, Norway, Sweden and USAID. China is the largest bilateral DP, focusing on infrastructure. Although infrastructure is covered by the main DPs, support in the sector is still insufficient relative to the cost of infrastructure development identified in the MTP II, estimated at USD 2.89 trillion. In terms of sector presence, the World Bank leads with 15 sectors, followed by the Bank with 11 and EU with 8 (Annex 2). The GoK encourages DPs to limit themselves to 3-4 sectors. The Bank is the main DP intervening in higher education and skills development (TIVET) and has a strong comparative advantage based on its experience in Kenya. The quality of the portfolio and the presence of EARC position the Bank as a partner of choice in Kenya for these sectors.

37. **What makes the Bank different?** Four key factors differentiate the Bank from most DPs in Kenya. First is its growing role as a regionally focused organization, both at institutional level with EARC maintaining a close dialogue with regional institutions, as well as operational level through its regional portfolio. Second, the Bank is increasingly assuming the role of a convener, connector and catalyst, leveraging financial resources and acting less as a sole financier. The USD 787m Lake Turkana Wind Power Plant approved in March 2013 is a good example of EARC acting as a connector and catalyst, bringing together the GoK and private-sector financiers, where the Bank with a comparatively small contribution of USD 135m leveraged a large amount of additional financial resources through a PPP and PRG. Third, the Bank has been the lead proponent in the use of country systems (and is currently using national audit and procurement institutions), which is consistent with the Bank's vision of strengthening national

institutions to deliver on their mandate. Fourth, the Bank through a wide range of recent analytic work (IV.1) is increasingly becoming a leader in championing evidence-based policy dialogue.

III.5 Key Findings of the CSP 2008-13 Completion Report

38. The current CSP, approved by the Boards in November 2008, was articulated around two pillars: **(i) Supporting Infrastructure Development for Enhanced Growth;** and **(ii) Enhancing Employment Opportunities for Poverty Reduction.**[19] To achieve the CSP's objectives of generating growth and employment, the strategy's indicative lending program 2008-12 foresaw 10 investment projects plus lines of credit in six different sectors and thematic areas, and 10 non-lending activities. The key findings from the CSP Completion Report (CR) are that the Bank's contribution under Pillar 1 was strong in infrastructure (e.g., improved conditions of roads and water/sanitation supply) and in building the capacity of targeted financial institutions. All projects programmed under this pillar were implemented and the majority of the expected results achieved. However, under Pillar 2, achievements in terms of employment creation were below expectations, mainly due to delayed project implementation. The major reason for this was poor project design, which necessitated restructuring, scaling down of the project scope and re-approval. Furthermore, changes to the country allocation affected the execution of the agreed lending program. The reduction in the allocation in 2009 led to the removal of certain projects in the lending program, which were not put back when the allocation was revised upwards in 2010. This has affected the Results-Based Framework (RBF), with some outputs and outcomes being orphaned.

III.6 Lessons Learned

39. This CSP is informed by findings from the Bank's Operations Evaluation Department's (OPEV) evaluation of the Bank's previous three CSPs for Kenya, covering the period 2002-13 (Annex 9). Other lessons are drawn from the recent CPPRs (III.4) and the Completion Report for the current CSP 2008-13 (III.5). The key lessons are summarized in Box 5.

Box 5: Key lessons

Key lessons from OPEV Evaluation

i. **Ensure selectivity in areas where the Bank has a comparative advantage,** particularly in infrastructure where the Bank has made a significant contribution to the country's overall development goals.
ii. **Mobilize additional funding,** especially leveraging resources for large investments.
iii. **Ensure sustainability of investments,** notably in infrastructure, by paying more attention to policy and regulatory reforms (e.g., tariff reforms).
iv. **Strengthen capacity building and analytic work,** by investing additional resources for analytical and advisory work.
v. **Mainstream cross cutting issues in project design,** especially governance and gender equality.
vi. **Develop a strategy to reduce project implementation delays,** in collaboration with GOK and DPs,

Other lessons

vii. A strong IOP needs to be developed to allow for a quick Bank response to GoK funding requests/priorities, while maintaining sector focus and selectivity.
viii. To further improve the portfolio the Bank will monitor performance more rigorously, notably through more frequent project supervisions.
ix. Bank projects should be designed to have a stronger 'multi-purpose' character, along the lines of the Thwake Dam project (providing electricity, irrigation and urban water supply).
x. They should also be designed in a more inclusive manner and create livelihood opportunities for communities living in proximity through project by-products, enhanced connectivity and direct-use applications.

IV. BANK GROUP STRATEGY 2014-18

IV.1 Rationale and Strategic Selectivity

40. **Kenya's strengths, opportunities, weaknesses and challenges are numerous and complex. Given the Bank's limited resource envelope vis-à-vis the country's overall needs and objectives, a well-focused and selective response is needed.** To put the CSP's strategic

and operational choices on a rational basis, a set of selectivity criteria has been developed (discussed in detail in other sections of this document). The most important criteria are consultations with the GoK and country stakeholders on priority areas for Bank support (Annex 10), and alignment to the country's strategic framework (section III.1). The GoK clearly communicated to the Bank that job creation, notably for the youth, is the country's top priority, and made a strong case for continuity of Bank support in the infrastructure sector and to develop the skills of Kenya's workforce to meet the demands of a transforming economy. Bank support to the devolution process and the emerging EI sectors was also extensively discussed with the GoK. However, the authorities underscored that they would use domestic resources or grant financing in these areas. Another key criterion is alignment to the Bank's TYS 2013-22, notably its twin objectives of inclusive and green growth, which have been mainstreamed in the CSP. Other criteria are complementarity and synergies of Bank assistance with those of other DP's (III.4), lessons from the Bank's previous CSPs (III.5/.6), as well as its comparative advantage (III.4). Finally, the CSP is underpinned by a wide range of analytic work recently undertaken by the Bank and other DPs[20]. Representing an innovation, EARC in 2013 prepared 8 Analytical Briefs to reinforce the CSP. While their findings are summarized in Box 6, the Briefs are posted at: http://baobab.afdb.org/orvpdept/earc/KenyaCSP/SitePages/AnalyticalBriefs.aspx

41. **CSP Objective and Strategic Pillars.** The CSP 2014-18 will address Kenya's overarching strategic challenge to generate employment, particularly for the youth and women. To achieve this, the Bank will apply a two-pronged approach: promote private-sector activity and job creation through investments in physical infrastructure; and develop skills to improve the employability of the Kenyan workforce, notably the youth and women. The CSP is articulated around the following 2 Pillars: **(i) Enhancing physical infrastructure to unleash inclusive growth;** and **(ii) Developing skills for the emerging labour market of a transforming economy.** As a general principle, all new Bank investments will aim to generate employment, notably for the youth and women; 'crowd-in' the private sector; promote regional integration; and mainstream gender.

Box 6: Key messages from the 8 Analytical Briefs underpinning the CSP

State of the Private Sector	Regional Integration	Public Finance Mgmt.	Devolution
• Private sector is vibrant and attracting FDI. • Cost of energy and transport are key binding constraints. • Provide better linkages between formal and informal segments of the private sector.	• Kenya is the economic powerhouse in the region. • Kenya should lead in further regional integration. • Deepen investment in regional infrastructure, including transport.	• Strong revenue mobilization but weak budget execution. • Overall, PEFA scores remain relatively weak. • Take advantage of the devolution process to address PFM challenges.	• Devolution process presents a great opportunity to improve service delivery. • Streamline the transfer of roles to devolved levels of government. • Focus on issue-based politics and streamline electoral processes.
Extractive Industry	**Green Growth**	**Inclusive growth**	**State of Infrastructure**
• The recent discovery of oil and gas may provide a great opportunity to boost Kenya's development if properly managed. • Support initiatives to review legislation and contracts that govern the extractive sector. • Support accreditation to the EITI.	• Kenya is highly vulnerable to climate change/variability. • Kenya's economy relies heavily on sectors which are sensitive to climatic shocks (agriculture). • Institutional Climate Change setup in Kenya is robust.	• Regional and personal disparities persist. • Address equity in distribution of resources across regions, age and gender. • Promote youth employment to enhance inclusive growth.	• High cost of energy and transport persists. • Distribution of infrastructure facilities is not commensurate with centres of economic activity. • Provide balanced investment between regional, national and County infrastructure investments.

STRATEGIC PILLAR I
Enhancing physical infrastructure to unleash inclusive growth

42. The main objective of the Bank's Assistance Strategy under Pillar I is to create job opportunities by establishing a more conducive environment for the private sector through investments in physical infrastructure. Specifically, Bank investments in energy, transport and water will increase access to more affordable and reliable electricity, improve transport connectivity, decrease transport cost and time, and enhance access to more reliable water supply. At enterprise level, this will boost private-sector activity, increase productivity, stimulate structural transformation, and generate employment, thereby promoting gender-balanced inclusiveness. At the same time, households and vulnerable groups will benefit from improved infrastructure, which further strengthens inclusiveness. Both men and women in urban and rural areas will benefit from improved access through the automation of household chores and informal businesses. The infrastructure projects will connect centres of production to markets, thereby unlocking economic potential and increasing employment opportunities. Priority will be given to investments that promote regional integration through enhanced connectivity, notably cross-border linkages, transport corridors and regional power pools. The Bank will attempt to strike a balance between regional, national and County-level infrastructure investments. The proposed projects will be designed to maximize youth employment by making them labour-intensive during implementation, and by training the youth to undertake light construction and maintenance work upon completion. The projects will generate additional benefits and create livelihood opportunities for local communities living in proximity through by-products, for example, the use of hot water from geothermal installations, or increased economic activity around highways through access roads.

43. To promote Kenya's transition to a Green Economy, the new infrastructure projects will be designed to minimize their ecological/GHG footprint by: promoting clean and sustainable energy solutions; mainstreaming climate mitigation and adaptation measures in projects; strengthening resilience to climate change and economic shocks; and contributing to more efficient management of Kenya's natural assets. In addition, 'soft' issues, notably related to governance, in the respective infrastructure sub-sectors will be addressed by including training, short and long-term technical assistance, and analytic work as specific components in project design. Among others, this would focus on policy and regulatory reforms; fiduciary issues (financial management and procurement, and the regular preparation and dissemination of reports, such as accounting and financial reports); operating procedures of relevant sector ministries/agencies to make them more responsive, transparent and accountable to stakeholders; and the inclusion of governance indicators in the projects (Annex 9). Furthermore, to ensure the projects' sustainability, specific components will be incorporated in their design, notably to strengthen the capacity of relevant sector ministries/agencies for planning and management of maintenance contracts; train communities located within the proximity of the projects in preserving road networks as well as water and energy facilities and their fixtures; undertake analytical work on policy reforms (e.g., tariff reforms, cost-recovery mechanisms) and the management of One-Stop-Border-Posts, OSBP (Annex 9). The projects will also mainstream gender by systematically undertaking gender analysis during the preparation of each new operation to ensure that it fosters gender equality; incorporating components in project design to improve the capacity of sector ministries/agencies for mainstreaming gender; and inclusion of sex-disaggregated and gender relevant indicators in project RBFs (Annex 9). By proactively engaging in co-financing arrangements with other DPs and encouraging PPPs, the Bank will leverage funding and 'crowd-in' the private sector. The following paragraphs describe the CSP's expected outcomes under Strategic Pillar I.

CSP Outcome 1: Improved access to more reliable electricity supply at lower cost

44. Bank investments in the energy sector will aim to reduce the cost of electricity and make supply more reliable and accessible, thereby supporting the MTP II objectives to increase rural and urban access rates by 50% and reduce the cost of electricity by 50% by 2018. Specifically, the new energy projects will focus on geothermal generation and regional, national and rural transmission lines. Geothermal projects will reduce carbon emissions and dependence on fossil fuel imports, thereby enhancing climatic and economic resilience. Additionally, Bank support will include direct-use applications[21] as components in geothermal projects to benefit the surrounding businesses and communities. Transmission lines will expand power networks and improve business and household access to electricity. At a regional level, improved connectivity to cheaper power sources (e.g., from Ethiopia and RDC through the East African Power Pool) will strengthen Kenya's positioning as a regional energy trader. Furthermore, more accessible and affordable energy will reduce deforestation pressure as more Kenyans will switch from wood fuel to alternative energy sources.

CSP Outcome 2: Improved transport connectivity at lower cost and travel time

45. Bank investments in the transport sector will aim to increase national and regional connectivity and reduce transport cost and travel time, thereby supporting the MTP II objectives to reduce travel cost by 25%, travel time by 25-33%, and increase the classified road network in good condition from 75% to 80% by 2018. Specifically, new transport projects will focus on highways and rural feeder roads. Priority will be given to those that connect centres of production to markets, both national and regional, including transport corridors to boost regional integration and trade. The design of new highway projects will integrate the construction of feeder roads to connect local communities and small farms, thereby improving their productivity, generating employment and further promoting inclusiveness. Since women constitute the largest workforce on smallholder farms, they will particularly benefit. The projects will be designed to maximize employment generation and aim at gender parity by deploying gender responsive and labour-intensive methods on ancillary works or part of the main project activities, which need not be undertaken by mechanized means. Basic skills training will be integrated in the projects to generate employment during and after project completion. The projects will also be designed to withstand adverse weather conditions, notably floods, thereby enhancing economic, social and climate resilience.

CSP Outcome 3: Enhanced access to more reliable water supply and improved sanitation

46. Bank investments in the water sector will aim to increase water supply and improve sanitation, notably for industrial use and household consumption, and also for irrigation in arid and semi-arid areas, thereby enhancing food security. This will support the MTP II objective to improve water supply across the country and the ASAL initiative (paragraph 19). Specifically, the new projects will focus on constructing large multi-purpose surface water storage facilities. Additionally, the projects will also generate hydro-power. Improved water supply to businesses in up-coming towns and cities (such as Konza 'Techno City') will increase productivity, output and generate urban employment opportunities. Enhanced water supply for irrigation will boost agricultural productivity and generate rural employment opportunities. The projects will be particularly gender-responsive as most smallholder farm workers are women. They will also strengthen economic, social and climate resilience through a more effective and sustainable management of Kenya's water resources and mitigate the impact of drought as water supply will be more reliable, irrespective of the seasons. Furthermore, hydropower will help reduce the emission of GHG. Enhancing the spatial distribution of water storage facilities will increase Kenya's reliance on its own water resources.

STRATEGIC PILLAR II
Developing skills for the emerging labour markets of a transforming economy

47. The main objective of the Bank's Assistance Strategy under Pillar II is to develop skills of the Kenyan workforce, notably the youth (at least half of which are women), to improve their employability and build their capacities to start own businesses. Improved skills will enable them to engage in more sophisticated, higher value-added economic activities, thereby contributing to structural transformation. Specifically, new Bank interventions under this Pillar will prioritize support to Technical Vocational Education and Training (TVET) in order to develop mid-level skills of technicians and artisans for current and emerging labour markets in both Kenya and the region, in line with the GoK's TVET strategy. Enrolment in TVET mainly targets post primary and secondary school graduates between 15 and 30 years old. The TVET will include apprenticeship programs and trainings focused on developing skills needed in infrastructure (roads, energy, water and ICT), where the skills mismatch is most pressing. Skills development programs will target the youth and persons living with disability, ensuring that at least 50% of all persons trained are women, thereby fostering gender equality and inclusiveness. TVET programs will also foster inclusiveness by enhancing the access of girls and women to science and technology subjects through incentives and other affirmative actions.

48. The Bank under Pillar II will also support the GoK to develop a National Sustainability Strategy with a special focus on preventive maintenance of education facilities and continued training of existing TVET tutors. The Bank's new project will be aligned to the GoK's 2014-17 National Education Sector Plan, TVET investment priorities, and the 2013 TVET Act, to ensure project ownership and continued support of project activities by the GoK. The projects will incorporate measures to ensure the proper maintenance of buildings constructed and equipment procured (Annex 9). To strengthen governance in the education sector, the Bank will support capacity building of tertiary institutions in financial management and procurement as part of the project management component activities (Annex 9). In collaboration with other DPs, the Bank will also explore options to support relevant trainings in education services planning and management for County, sub-County and school level education management teams. The following paragraphs describe the CSP's expected outcomes under Strategic Pillar II.

CSP Outcome 4: Improved access to emerging technology-based labour markets

49. Bank investments in this area will aim at skills development of mid-level technicians, notably in the above-mentioned infrastructure sectors. This will support the MTP II objective to increase the number of mid-level technicians by 50% in 2018. The apprenticeships programs will adopt a PPP approach to establish linkages between trainees and enterprises, to ensure that the training actually responds to the needs of the emerging labour market. Apprenticeship programs will include sensitization in green technologies and environmental awareness. Bank support in this area will complement the Bank's on-going projects in TVET and Higher Education Science and Technology. To support the GoK's initiatives in establishing enterprise funds, youth and women will be trained in entrepreneurial skills. They will also be sensitized in the new public procurement rules and regulations to benefit from the GoK's affirmative action of allocating 30% of state contracts to youth and women.

CSP Outcome 5: Improved access to lower skill, labour-intensive sectors

50. Bank investments in this area will aim at skills development of the under-educated youth for employment in lower skill, labour-intensive sectors. Skills development will focus on artisan level activities, notably in the above-mentioned infrastructure sectors (e.g., operation and maintenance of plants and equipment; laying and maintenance of cobblestones; tree planting). This will support the MTP II objective to increase the number of artisans by 50% in 2018. Bank projects in this area will include apprenticeship programs and training of out-of-school youth, mainly in slums and rural areas. They will be implemented for both national initiatives and

specific County-based institutions. The apprenticeship programs and training will take into account the GoK's policy of the One-Third Gender Rule, but aim at gender parity, to ensure that young females, especially from slums and rural areas, are targeted. The low-level skills training under Pillar II will complement the training provided by the infrastructure projects under Pillar I.

51. **Bank support from the private-sector window.** As a key principle, the Bank's support from the private-sector window will be complementary to its support from the public-sector window. The Bank will provide lines of credit, equity or guarantees to commercial banks and financial intermediaries for onward lending to MSMEs. This will be combined with Bank interventions funded under the FAPA to address capacity constraints and financial knowledge gaps. Financial support to MSMEs will promote technology transfer, which, coupled with transfer of knowledge and expertise, will enable them to engage in more productive economic activities ('value-chain development'), thereby contributing to the structural transformation of the Kenyan economy. Furthermore, as part of the Bank's local currency initiative, and the mandate to develop African capital markets, the Bank will seek to issue bonds in the domestic market to meet specific financing needs of identified projects. The Bank will also assist in the development of diaspora bonds notably through credit enhancement (e.g. guarantees). This will deepen and expand local financial markets and also contribute to the development of the capital market. Moreover, the Bank will support PPPs to complement public-sector financing especially of large infrastructure investments ('additionality'). Finally, the Bank through financial intermediaries or borrowers will provide private companies with financing supported by technical assistance grants.

IV.2 Indicative Bank Assistance Program and Results

52. Table 3 presents the Bank's Indicative Assistance Program (IAP) for Kenya during the first three years of the CSP. The IAP includes national and regional investment projects to be funded under ADF-13 (2014-16). The RBF in Annex 1 presents the results expected from the CSP by mid-term in 2016 and completion in 2018, including both new projects of the IAP and those carried over from previous CSPs. As an innovation, the RBF mainstreams green, inclusive, gender-disaggregated and youth employment indicators under each Pillar. The CSP mid-term review in 2016 will assess implementation progress, allocate resources that become available to Kenya under ADF-14 and, if necessary, adjust the strategy's focus for the remaining period.

Table 3: Indicative Bank Assistance Program 2014-16

Board Approval (year)	ADF-13 amount (UA million)	Projects
Strategic Pillar I – Enhancing physical infrastructure to unleash inclusive growth		
2014	90	Energy: Menengai Geothermal (PRG) and Steam Gathering – UA 27m Energy: Kenya-Tanzania Interconnection – UA 13® Roads: Mombasa-Mariakani (40 km) – UA 50m
2015	70	Roads: A1 Isebania-Ahero and Arterial roads – UA 70m®
2016	150	Roads: Lamu Port-South Sudan Corridor and Rumuruti-Maralal – UA 60m Energy: National Transmission (Rural Access) – UA 50m Water: Thwake Dam (Phase II) – UA 40m
Strategic Pillar II – Developing skills for an emerging labour market of a transforming economy		
2014	40	TIVET II – UA 40m
2016	25	East Africa Centre of Excellence® – UA 25m
Total	375	

® Regional project (amount indicated represents share to be contributed from Kenya's national ADF-13 country allocation).

53. **Non-lending/cross-cutting activities.** As a general principle, the Bank's non-lending activities in terms of ESW will focus on the sectors targeted by the CSP to ensure overall selectivity of the Bank's engagement in Kenya. Specifically, a study is envisaged for 2014 to assess the implications of the 2010 Constitution on Kenya's water sector and to explore options for establishing an effective institutional framework. In addition, a National Infrastructure

Flagship Study is planned for 2014 to analyse options for mass transport systems and Lake Victoria marine transport. To strengthen governance, the Bank in collaboration with other DPs will undertake a Fiduciary Risk Assessment to inform capacity building of oversight institutions (e.g., Anti-Corruption Commission; National Audit Office). This will complement the Bank's measures to tackle sector-governance issues through its projects (Annex 9). The Bank will also support the revision of the 2011 National Gender and Development Policy and explore options to finance analytical work on gender equality (e.g., a Country Gender Assessment or update the 2007 Country Gender Profile). Gender audits in the infrastructure sectors will strengthen gender mainstreaming and complement capacity building activities. In 2016, the Bank foresees to undertake a tracer study on TVET graduates to assess which types of skills facilitate the transition from TVET to the labour market The Bank will also continue on-going non-lending activities in other areas of high priority for Kenya[22]. All non-lending activities are sought to be financed from Trust Funds and carried out in close collaboration with the GoK, DPs, academia, national and regional think tanks, etc.

IV.3 Financing the CSP

54. **Financing from the Bank's Public Sector Window (ADF).** Bank lending to Kenya during the CSP period will be supported by the ADF-13 (2014-16) and the first two years (2017-18) of ADF-14 (2017-19). Assuming continuity in the Bank's performance-based country allocation (PBA) for Kenya[23], the country's overall available resource envelope (excluding funds from the Bank's regional envelope) over the CSP 2014-18 period would total about UA 600m, including UA 360m from ADF-13 (III.5) and UA 240m from ADF-14. The lending amount programmed for the ADF-13 period 2014-16 includes the contribution from Kenya's PBA to regional projects, but excludes projects potentially funded from the Bank's private-sector window. Analytic work will be financed from Trust Funds. To maximize potential ADF financing for Kenya, the Bank will also explore ways of restructuring poorly-performing operations in the portfolio or cancelling them, to use freed-up resources for existing or new investments.

55. **Financing from the Bank's Private Sector Window (ADB).** Funding from the ADB window is predicated on Kenya's performance measured by the Bank's country risk rating framework. Given the improved political and socio-economic outlook, the Bank in June 2013 updated Kenya's risk profile from 4- to 3- (on a scale from 1 to 10). Consequently, Kenya's Sustainable Lending Limit (SLL) increased by 71% from UA 31m to 53m per year. It should be noted, that resources available within the SLL were front loaded for 3 years for the Lake Turkana Wind Power Project, approved in April 2013. Consequently, additional Bank support to Kenya's private sector will be subject to availability of resources within the SLL. Furthermore, the Bank's recently revised credit policy for non-concessional borrowing allows the GoK to access sovereign-guaranteed loans from the ADB window.

56. **Mobilizing additional funding.** Although the Bank's contribution to Kenya's overall development financing is small in relation to the country's needs, its support can be catalytic and help mobilize funding in addition to its own resources from the ADF and ADB windows. To this end, EARC will continue to play a strong role as a convenor, connector and catalyst to bring potential financiers together. The Bank will partner with other DPs and the private sector to leverage funding, notably through co-financing, Trust Funds (e.g., climate investment funds, global environmental fund, governance trust funds), PPPs and partial risk and partial credit guarantees (PRGs and PCGs), Kenya Shilling-based bonds, and through the Africa50 Fund. Over the last five years, Kenya has been successful in mobilizing domestic resources by issuing infrastructure bonds. During the CSP period, the Bank will work with the GoK to deepen this source of funds. The Bank will also advise the GoK to source funds from Diaspora bonds and syndicated loans from foreign and domestic commercial banks.

57. **Bank financing at national and County-level.** The 2010 constitution stipulates that only the National government can borrow from external partners, and that loans to County governments

will have to be guaranteed by the National government. All loans from the ADF and ADB windows will seek to satisfy this constitutional provision, by dealing with the County governments through the National government.

IV.4 CSP Monitoring and Evaluation

58. CSP implementation progress will be monitored and evaluated on the basis of the RBF (Annex 1). The RBF is aligned to the MTP II monitoring framework, including outcomes and outputs. Reporting on the various results will be coordinated with the GoK's Monitoring and Evaluation Directorate in the Ministry of Devolution and Planning. Annual CPPRs will guide the Bank in undertaking revisions to operations and implementation of programmed activities. The CSP mid-term review in 2016 and the CSP CR in 2018 will assess results achieved at mid-term and completion of the strategy.

IV.5 Country Dialogue

59. The Bank will continue its dialogue with the GoK on portfolio performance, areas of poor performance under the CPIA, 'soft issues' (notably governance), and gender equality, in the sectors covered by the CSP. It will also advocate for Kenya to adopt principles of transparency and accountability in the extractive sectors, and continue to engage jointly with the GoK and DPs to support the country in preparing a Green Economy Strategy and Implementation Plan (GESIP).

IV.6 Potential Risks and Mitigation Measures

Security risk	
Medium probability of risk occurrence • Security challenges resulting in the inability of the Bank to implement projects in certain affected locations. This mainly applies to banditry and terrorist activities in the northern and eastern parts of the country, which border Somalia and Ethiopia.	*Mitigation measures (expected impact: high)* • GoK has augmented its anti-terrorism activities and tightened security in problematic regions. • Bank support will boost youth employment, thereby preventing engagement in risky behaviours and erosion of social cohesion.
Fiduciary Risk	
Medium probability of risk occurrence • Potential for failure of the devolution process. • Relevant PFM diagnostics indicate medium fiduciary risk.	*Mitigation measures (expected impact: high)* • The National Transition Authority addresses challenges arising from the devolution process. • Strong DP support to the devolution process. • GoK has taken measures to address fiduciary issues (2012 PFM Act; etc.). • Bank to undertake Fiduciary Risk Assessment in collaboration with other DPs
Vulnerability to external shocks, including climate change	
Medium probability of risk occurrence • Global economic shocks, including increase in the oil price, straining the fiscal and external balance. • Impacts of climate change.	*Mitigation Measures* • IMF ECF cushions the economy against external price shocks. • Kenya has a strong strategic framework to transition to a Green Economy, supported by the Bank.

V. CONCLUSIONS AND RECOMMENDATIONS

60. In 2013, Kenya adopted its second five-year Medium Term Plan (MTP II 2013-17) to implement its 'Vision 2030', aimed at transforming the country into a newly industrializing, middle-income country by 2030. This CSP proposes to support the country's ambitions by enhancing its physical infrastructure to unleash inclusive growth, and developing skills for the emerging labour market of a transforming economy. The Boards of Executive Directors are invited to consider and approve the CSP 2014-18 for Kenya.

ENDNOTES

1 The new government reduced the number of ministries to 18, down from 40 under the previous government.

2 EARC Analytical Brief 'Political Economy and Devolution Policy in Kenya', 2013.

3 The amount of USD 2.4bn is shared among the Counties on the basis of their respective population (45%), poverty index (20%), land area (8%) and fiscal responsibility (2%). 25% was distributed to Counties in equal (i.e. 47) shares.

4 Tullow Oil discovered commercially viable oil reserves in 2012. Oil exploitation is expected to start in 6-7 years.

5 EARC Analytical Brief 'Kenya's Extractive Sector', 2013.

6 Bank Group Study on Domestic Resource Mobilization in EAC Countries, 2010; IMF and GoK reports.

7 In FY 2013/14, Uganda's FDI is projected at USD 1.06bn; Ethiopia's at 1.4bn; and Tanzania's at 2.28bn.

8 EARC Analytical Brief 'Public Finance Management in Kenya', 2013.

9 EARC Analytical Brief 'Kenya's Private Sector', 2013.

10 However, small businesses (MSMEs) are facing difficulties to access credit mainly due to lack of collateral.

11 EARC Analytical Brief 'A National Regional Integration Strategy for Kenya', 2013.

12 EARC Analytical Brief 'Kenya's Infrastructure Sector', 2013.

13 In this context, poverty is defined on the basis of the Cost-of-Basic Needs (CBN) method.

14 EARC Analytical Brief 'Inclusive Growth in Kenya', 2013.

15 UNDP Discussion Paper 'Kenya's Youth Employment Challenge', 2013.

16 Bank Group Study on Youth Unemployment in Kenya, 2012.

17 Some of Kenya's arid and semi-arid Counties incurred famine in 2011 and 2014, affecting 4m and 1.7m people, respectively.

18 EARC Analytical Brief 'Green Growth in Kenya', 2013.

19 During the mid-term review in 2010, the CSP's period was extended by 1 year from 2012 to 2013. The total resource envelope allocated to Kenya under ADF-11 (2008-10) amounted to about UA 355m and UA 361m under ADF-12 (2011-13).

20 Analytic work from DP notably includes USAID's Inclusive Growth Diagnostic 2013, which identifies infrastructure bottlenecks as key impediments to private investment and economic growth, in particular energy.

21 Such as greenhouse heating or crop drying, space heating, milk pasteurization, drying organic materials (seaweed, grass, etc.), or improved water supply through small-scale pipelines.

22 EARC in 2013 established the Multi-Donor Stakeholders Secretariat for the Extractive Sector, which is a Bank-led initiative to address the issue of inadequate information about the sector. Through the Secretariat, the Bank complements its current assistance provided by the ALSF in reviewing EI legislation. DfID and Ausaid have pledged funds to support the activities of the Secretariat.

23 As an outcome of the ADF-13 negotiations, country PBA allocations, including Kenya's, might decrease.

ANNEX 1: CSP Results-Based Framework

Country Development Goals (MTP II)	Issues and Constraints	Final Outcomes (2018)	Final Outputs (2018)	Mid-term Outcomes (2016)	Mid-term Outputs (2016)	Bank Interventions (On-going and Indicative)
Strategic Pillar I – Enhancing physical infrastructure to unleash inclusive growth						
Energy						
Increased supply of low-cost and green electricity.	• High cost of rural electricity • Inadequate skills and tools for planning of energy needs	• National access rates will reach 44% from 32% in 2016. • 1152 MW added to the National Grid. • Increase in rural electricity penetration from the current 5% to 40%. • Supply of electricity to an additional 1,000,000 households, at least 30% female headed; and 550,000 small scale enterprise jobs created, at least 30% for women and 50% for youth. • Reduction in losses to 15.4%. • Reduction in average kWh cost to 6.5 cents. • Reduce CO^2 emissions by 5.59 million tons. •	• Construction of 862 km 132 kV lines; six substation bays and construction of eight new 132/33 kV substations completed. • Construction of 1,068 km of high-voltage direct current (HVDC) 500 kV transmission lines between Ethiopia and Kenya, and associated AC/DC converter stations at Suswa with a power transfer capacity of up to 2,000 MW. • 123 Geothermal wells drilled. • Production of steam rises to 41.7 million of tones of steam annually. • 120 persons trained on drilling, and 20 on procurement/finance (at least 50% of which are women). 50,000 trees planted at geothermal sites and along transmission lines. • Gender audit conducted and technical assistance provided.	• National access rates reach 32% from 18% in 2012. • 690MW added to the National Grid. • Supply of electricity to an additional 200,000 households, at least 30% female headed; and 250,000 new small scale enterprise jobs created, at least 30% for women and 50% for youth. • Reduction in losses from 16.3% in 2013 to 15.7%. • Reduction in average kWh cost from 16 cents (USD) in 2013 to 9 cents. • Reduce CO^2 emissions by 2.79 million tons.	• Construction of 431 km 132 kV lines; extension of six substation bays; and construction of eight new 132/33 kV substations completed. • 132 km of 400 kV line constructed and Upgraded (NELSAP). • 1 transformer stations constructed and upgraded (NELSAP). • 83 Geothermal wells drilled. • Begin production of 27.8 million of tones of steam annually. • 60 persons trained in drilling technologies, 6 on geoscience and 10 on donor procurement/finance (at least 50% of trainees will be women). • 10,000 trees planted at geothermal sites and along transmission lines. • Gender audit conducted and strategy to build capacity in place	**Ongoing** • Kenya Power Transmission System project. • NBI-NELSAP Interconnection Project (DRC/Burundi/Kenya/ Rwanda/Uganda) • Ethiopia-Kenya Power Interconnection Project. • Menengai Geothermal Development. • Turkana Windmill Project. • Nairobi Mombasa Transmission Line **Indicative Bank Assistance Program 2014-16** • Menengai Geothermal (PRG) and Steam Gathering • Kenya Tanzania Interconnection • National Transmission (Rural Access)
Transport						
National road network in good condition and cost of transport and travel time reduced.	• Huge maintenance backlog. • Inadequate road linkage to neighboring countries. • Poor traffic management and enforcement of traffic laws.	• Cargo increased by 1 million tons between Mombasa and Kampala and to 1 million tons between Nairobi and Addis Ababa. • Average transport cost further reduced by 25% from 2016 levels. • Travel time between Nairobi and Malaba further reduced by 15%; by 15% between Nairobi and Addis Ababa; 10% between Mombasa and Arusha; 15% through Isebania; • Trade with Tanzania through the Holili border to grow to 1.0 million tons/annum • Tonnage of agricultural product from Eldoret increase by 30% • Contribute to reduction of CO^2 emissions by 14 million tons annually in Nairobi. • 2 million additional people with access to social amenities/ markets; 5000 persons trained in low skills technologies and employed in the projects; about 500 youth trained on artisan skills (at least 50% women).	• 73 km Timboroa-Eldoret road in good condition. • 390 km Merille River-Moyale road in good condition • 89 km Mwatate-Taveta road and 12 km Taveta By-pass in good condition. • 50 km Mombasa-Mariakani; 70 km Isebania-Ahero road with two market structures and one-stop border post; and 45 km Kitale-Kapchorwa roads completed and in good condition. • 70 km Lamu-Southern Sudan (Rumuruti-Maralal) Road completed. • 26 km non-motorized transport system completed in Nairobi. • 30 km of complementary access roads constructed. • 50,000 trees planted along roads constructed annually. • Gender audit conducted and technical assistance provided.	• Cargo increased between Mombasa and Kampala by 500 tons from 5.83 million tons in 2013and from 0 to 500 tons between Nairobi and Addis Ababa. • Average transport cost from Mombasa to Kampala reduced by 25%, from USD 0.195 per ton/km in 2013 and by 25% from 0.4 in 2011 to 0.32 per vehicle km between Mombasa and Moyale. • Travel time reduced by 33% to 12 hours between Nairobi and Addis Ababa; and 33% between Mombasa and Arusha from 18 hrs in 2013. • Tonnage of agricultural product transported from Eldoret increase by 15% from 0.2 million in 2013 • 500,000 additional people with access to social amenities/markets; • 3000 persons trained in low skills technologies and employed in the projects, 50% will be women • About 300 youth trained on artisan skill (at least 50% women).	• 73 km Timboroa-Eldoret road completed • 390 km Merille River-Moyale road completed • 89 km Mwatate-Taveta road and 12 km Taveta bypass completed. • Construction of: 50-km Mombasa-Mariakani; 70 km Isebania-Ahero road with two market structures and 45 km Kitale-Kapchorwa roads commenced. • 785 km Lamu-Southern Sudan Road Feasibility Study, ESIA and detailed design completed • JKIA temporary terminal and new Runway study completed. • 15 km non-motorized transport system completed in Nairobi. • 15 km of complementary access roads constructed. • 20,000 trees planted along roads constructed annually. • CO^2 emission study for Outer Ring road section completed. • Gender audit conducted and strategy to build capacity in place.	**Ongoing** • Timboroa-Eldoret Road • Mombasa-Nairobi-Addis Corridor II (Multinational) • Mombasa-Nairobi-Addis Corridor III (Multinational) • Taveta-Holili-Arusha road (Multinational) • Outer Ring Road • JKIA Runway **Indicative Bank Assistance Program 2014-16** • Mombasa-Mariakani Road • A1 Isebania-Ahero and Arterial roads • Lamu Port-South Sudan Corridor and Rumuruti Maralal

Country Development Goals (MTP II)	Issues and Constraints	Final Outcomes (2018)	Final Outputs (2018)	Mid-term Outcomes (2016)	Mid-term Outputs (2016)	Bank Interventions (On-going and Indicative)
Water and Sanitation						
Improved access to safe water and enhanced capacity for water resource management. Improved sanitation/hygiene. Improved livelihoods for vulnerable groups	• Inadequate investment in provision of water and sanitation. • Weak capacity for management of water facilities within the urban, peri-urban and rural areas. • Lack of resilience to climate shocks. • High rural-urban migration leading to poor sanitation in urban areas. • Frequent breakage of sewer systems due to increased discharge to fixed systems. • Low farm productivity. • Lack of off-farm economic activities. • Poor marketing facilities. • Prevalence of livestock diseases. • Limited extension services.	• 4.3 million more people access safe water (overall access 67%) • 50% reduction in incidence of water-borne diseases. • 5% reduction in no of people affected annually by drought and flooding. • Increased sanitation coverage to 52 %. • Reduced sewerage network blockages by 80% and increased flow to treatment plants. • Average agricultural Income increased to Ksh 153,000 per year. • 5000 ha of irrigated land added. • Irrigation of 40,000 hectares of land with employment opportunities for 200,000 youth, 30% female. • 36 % increase in beef and milk production from 2013 levels. • 50 % decrease in epizootic disease incidences & 25 % in young stock mortalities in districts in ASALs • Forest cover increased to 15%.	• Construct 1,500 km of new water supply systems utilising electricity/solar power for pumping • 500 officials water sector trained and sensitized on sector reforms (50% women) • 400 women trained in simplified book-keeping. • 1,378 MCM water storage dam constructed. • 5000 people trained in low skill technologies (50% youth, 50% women) employed during construction of water systems. • 60,000 trees planted along water pipelines and constructed dams. • Sewer network extended by 150 km in targeted areas • Reinforced capacities of 10 decentralized entities (including water services boards) to manage sanitation facilities. • 80,000 farmers trained, 50% female and 50% youth. • 16,000 ha reforested, 5,000 ha fuel wood plantations and 1,500 ha tea established to fill gaps in the buffer zone. • 200,000 trees planted in all project sites. • Gender audit conducted and technical assistance provided.	• 62% households have access to safe water up from 57 % in 2013. • Revenue collection efficiency at 90% vs. 60% in 2013. • Unaccounted-for water reduced from 70% in 2013 to 35%. • Sanitation coverage increased from 48 % in 2013 to 50 %. • Reduced sewerage network blockages by 50% and increased flow to treatment plants. • Average agriculture income increased from about Ksh 25,000 to Ksh 50,000 per year. • Additional 2000 ha of land irrigated. • Irrigation of 20,000 hectares of land with employment opportunities for 50,000 youth, 30% female. • Improved scheme management through formation empowering of 4WUAs. • Milk and beef production increased by 25 % from the 2012 levels. • Forest cover increased to 13%.	• 8 boreholes, 21 km transmission main and 100 public fountains constructed. • 2 out of 5 water towers protected. • 200 women trained in simplified book-keeping. • 2,000 people trained in low skill technologies (50% youth; 50% women) and employed during construction of water systems. • 30,000 trees planted along water pipelines and constructed dams. • Construct sanitation facilities in 150 public institutions • 100 Public and communal latrines constructed in low-income areas • 40,000 farmers trained, 50% female, and 50% youth. • 5 WUA members and 5 farmer's schemes established. • 8000 ha reforested, 2,500 ha fuel wood plantations and 800 ha tea established to fill gaps in the buffer zone. • 100,000 trees planted in all project sites. • Gender audit conducted and strategy to build capacity in place.	**Ongoing** • Lake Victoria water and sanitation Programme (Regional) • Nairobi River Basin Restoration. • Scaling up Rainwater management. • Small Towns Water Supply and Sanitation Project • Water and Sanitation (Thwake Dam Phase I) • Water Services Boards • Small Scale horticulture Development. • Horn of Africa Kenya Component Phase I. • Green Zones Development Support Project. **Indicative Bank Assistance Program 2014-16** • Thwake Dam (Phase II)
Strategic Pillar II – Developing skills for the emerging labour market of a transforming economy						
Education						
Increased youth employability	• Skills mismatch with Private Sector/industry demand.	• 90% of trained youth and women are successfully employed.	• 4,000 Youth trained in middle level skills and entrepreneurship (50% women). • 3000 youth trained in low skill labor intensive works (50% women) • 1000 women trained in entrepreneurship skills • 200 youth trained in green technologies (e.g. Solar) and 50% are women.	• 90% of trained Youth and women are successfully employed.	• 2,000 Youth trained in middle level skills and entrepreneurship (30% women). • 500 Youth trained in low skill labor-intensive works (50% women) • 200 women trained in entrepreneurship skills • 100 Youth trained in green technologies (e.g. solar) and 50% are women.	**Ongoing** • TIVET • HEST **Indicative Bank Assistance Program 2014-16** • TIVET II • East Africa Centre of Excellence

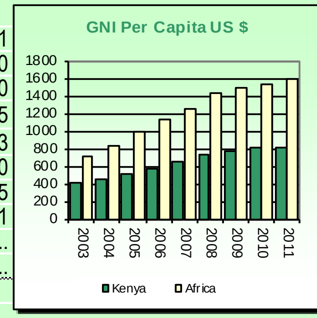
ANNEX 2: Sectors/Thematic Areas of Intervention by Development Partners

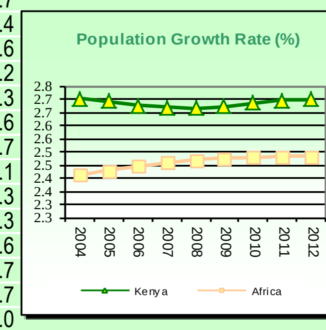
	DP/ Sec	IDA	Sida	DANIDA	Japan	Italy	Belgium	KFW	China	EDF	ADB	GIZ	AFB	Finland	Netherlands	USAID	DFID	CIDA	BADEA	EIB	Kuwait	OPEC	Spain	Saudi Arabia	BCM	Switzerland	Abu Dhabi	GEFT	India	Total
1	Tou																													0
2	Agric	X	X		X			X		X	X	X				X														8
3	Man	X			X																									2
4	ICT	X																												1
5	PFM	X	X	X		X				X	X	X	X	X		X	X	X												12
6	EaT				X		X	X			X					X					X	X								7
7	Hea	X		X	X	X		X			X	X			X	X			X		X	X		X	X					16
8	EWS	X	X	X	X	X		X		X	X	X	X	X		X			X		X	X				X		X		17
9	LYH	X		X		X			X	X	X				X															7
10	PUH	X	X			X		X		X			X																	6
11	GJL	X		X						X		X				X														5
12	Tra					X				X	X						X		X				X							6
13	SPB		X																											1
14	PSR	X		X	X		X		X																					5
15	Ener	X			X		X		X		X		X						X	X		X	X	X					X	12
16	Roa	X			X			X	X	X	X		X						X		X	X		X			X			12
17	Trans	X			X						X																			3
18	NMD	X																												1
19	STI								X		X				X															3
20	Lan	X	X																											2
Total		15	6	6	9	6	3	6	5	8	11	5	5	2	3	6	2	1	5	1	4	5	2	3	1	1	1	1	1	

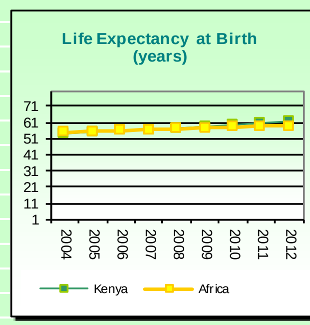
Sectors: **Tou**-Tourism, **Agri**-Agriculture, **Tr**a-Trade, **Man**-Manufacturing**, ICT**-Information, Communication and Technology, **PFM**-Public Financial Management, **EaT**-Education and Training, **Hea**-Health, **EWS-**Environment, Water and Sanitation, **LYH**-Labor, Youth and Human Resources**, PUH-**Population, Urbanisation and Housing, **GJL**-Governance, Justice and Legal Reforms, **SPB**-Security, Peace Building and Conflict Management, **PSR**-Public Sector Reforms, **Ener**-Energy, **Roa**-Roads, **Trans**-Transport, **NMD**-Nairobi Metropolitan Development, **STI-**Science Technology and Innovation, **Lan**-Lands

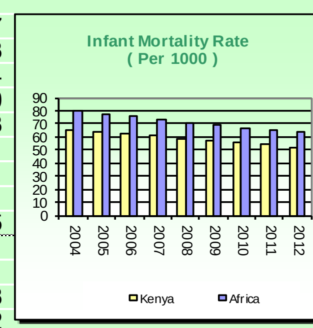
ANNEX 3A: Selected Social Indicators

	Year	Kenya	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)	2011	580	30,323	98,458	35,811
Total Population (millions)	2012	43.2	1,070.1	0.0	0.0
Urban Population (% of Total)	2012	24.4	40.8	47.1	78.0
Population Density (per Km²)	2012	71.7	34.5	69.8	23.5
GNI per Capita (US $)	2012	840.0	1 604	3 795	37 653
Labor Force Participation - Total (%)	2012	36.6	37.8	68.7	72.0
Labor Force Participation - Female (%)	2012	46.3	42.5	38.9	44.5
Gender -Related Development Index Value	2007-2011	0.538	0.525	0.694	0.911
Human Develop. Index (Rank among 186 countries	2012	145	...	...	...
Popul. Living Below $ 1.25 a Day (% of Populatio	2009-2011	46.0	40.0	20.6	...
Demographic Indicators					
Population Growth Rate - Total (%)	2012	2.7	2.3	1.3	0.3
Population Growth Rate - Urban (%)	2012	4.4	3.4	2.6	0.7
Population < 15 years (%)	2012	42.4	40.0	28.5	16.4
Population >= 65 years (%)	2012	2.6	3.6	6.0	16.6
Dependency Ratio (%)	2012	82.1	77.3	52.6	49.2
Sex Ratio (per 100 female)	2012	99.6	100.0	103.3	94.3
Female Population 15-49 years (% of total populatic	2012	24.2	49.8	53.3	45.6
Life Expectancy at Birth - Total (years)	2012	61.1	58.1	68.2	77.7
Life Expectancy at Birth - Female (years)	2012	62.9	59.1	70.1	81.1
Crude Birth Rate (per 1,000)	2012	35.5	33.3	21.4	11.3
Crude Death Rate (per 1,000)	2012	8.5	10.9	7.6	10.3
Infant Mortality Rate (per 1,000)	2011	52.0	71.4	40.9	5.6
Child Mortality Rate (per 1,000)	2011	74.0	111.3	57.7	6.7
Total Fertility Rate (per woman)	2012	4.5	4.2	2.6	1.7
Maternal Mortality Rate (per 100,000)	2006-2010	488.0	415.3	240.0	16.0
Women Using Contraception (%)	2012	49.6	34.5	62.4	71.4
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004-2010	13.9	49.2	103.7	291.9
Nurses (per 100,000 people)*	2004-2009	118.0	133.0	168.7	734.3
Births attended by Trained Health Personnel (%)	2006-2010	43.8	53.7	64.3	...
Access to Safe Water (% of Population)	2011	60.9	67.8	86.5	99.1
Access to Health Services (% of Population)	2000	77.0	65.2	80.0	100.0
Access to Sanitation (% of Population)	2011	29.4	40.2	56.8	96.1
Percent. of Adults (aged 15-49) Living with HIV/AID	2011	6.2	4.6	0.9	0.5
Incidence of Tuberculosis (per 100,000)	2011	288.0	234.6	146.0	23.0
Child Immunization Against Tuberculosis (%)	2011	92.0	81.6	83.9	95.4
Child Immunization Against Measles (%)	2011	87.0	76.5	83.7	93.5
Underweight Children (% of children under 5 years	2006-2011	16.4	19.8	17.0	1.4
Daily Calorie Supply per Capita	2009	2 092	2 481	2 675	3 285
Public Expenditure on Health (as % of GDP)	2010-2011	1.8	5.9	2.9	7.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2009-2012	113.3	107.0	107.8	102.7
Primary School - Female	2009-2012	112.0	103.1	106.2	102.3
Secondary School - Total	2009-2012	60.2	46.3	66.4	100.4
Secondary School - Female	2009-2012	57.1	41.9	65.1	100.0
Primary School Female Teaching Staff (% of Total)	2009-2012	43.9	39.2	58.6	81.3
Adult literacy Rate - Total (%)	2007	72.2	71.5	80.2	...
Adult literacy Rate - Male (%)	2007	78.1	78.4	85.9	...
Adult literacy Rate - Female (%)	2007	66.9	64.9	74.8	...
Percentage of GDP Spent on Education	2008-2010	6.7	5.3	4.5	5.5
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2011	9.7	7.6	10.7	10.8
Annual Rate of Deforestation (%)	2000-2009	0.5	0.6	0.4	-0.2
Forest (As % of Land Area)	2011	6.1	23.0	28.7	40.4
Per Capita CO2 Emissions (metric tons)	2009	0.3	1.2	3.0	11.6









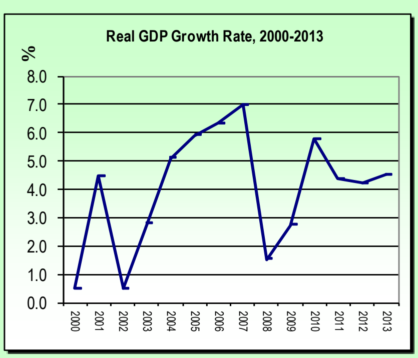
Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators; last update : october 2013

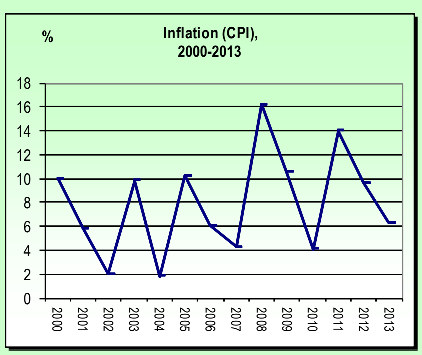
UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.

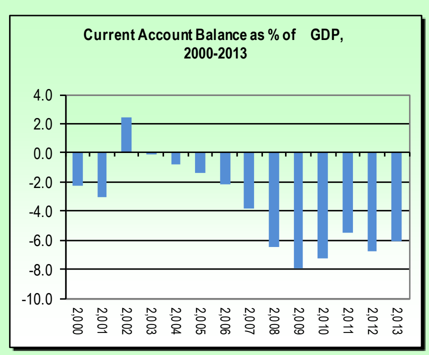
Note : n.a. : Not Applicable ; … : Data Not Available.

ANNEX 3B: Selected Macroeconomic Indicators

Indicators	Unit	2000	2008	2009	2010	2011	2012	2013 (e)
National Accounts								
GNI at Current Prices	Million US $	13,127	28,457	30,781	32,815	34,120	...	...
GNI per Capita	US$	420	740	780	810	820	840	...
GDP at Current Prices	Million US $	12,316	30,462	30,649	32,194	34,036	40,707	43,660
GDP at 2000 Constant prices	Million US $	12,316	17,083	17,550	18,562	19,374	20,191	20,871
Real GDP Growth Rate	%	0.5	1.5	2.7	5.8	4.4	4.2	6.0
Real per Capita GDP Growth Rate	%	-2.0	-1.0	0.1	3.1	1.7	1.5	1.8
Gross Domestic Investment	% GDP	18.0	20.1	20.1	20.8	21.6	19.9	19.7
Public Investment	% GDP	4.7	5.6	5.0	5.9	5.8	4.2	4.1
Private Investment	% GDP	13.3	14.5	15.0	14.9	15.8	15.7	15.6
Gross National Savings	% GDP	15.7	12.8	13.8	15.0	9.6	13.8	13.4
Prices and Money								
Inflation (CPI)	%	10.0	16.2	10.5	4.1	14.0	9.6	5.0
Exchange Rate (Annual Average)	local currency/US$	76.2	69.2	77.4	79.2	88.8	84.5	...
Monetary Growth (M2)	%	-8.2	8.7	25.1	22.6	18.1	...	...
Money and Quasi Money as % of GDP	%	31.7	36.3	40.4	46.1	45.9	...	...
Government Finance								
Total Revenue and Grants	% GDP	20.1	23.2	23.3	23.1	24.7	25.7	25.1
Total Expenditure and Net Lending	% GDP	19.3	27.4	27.8	29.5	29.2	30.5	28.6
Overall Deficit (-) / Surplus (+)	% GDP	0.8	-4.2	-4.5	-6.4	-4.5	-4.7	-3.5
External Sector								
Exports Volume Growth (Goods)	%	-4.9	5.2	-4.7	4.0	-5.3	4.7	7.1
Imports Volume Growth (Goods)	%	6.8	1.5	18.6	5.4	2.4	5.9	5.6
Terms of Trade Growth	%	0.2	-7.6	15.6	1.7	10.2	-3.6	-3.2
Current Account Balance	Million US $	-275	-1,982	-2,431	-2,345	-1,876	-2,738	-2,695
Current Account Balance	% GDP	-2.2	-6.5	-7.9	-7.3	-5.5	-6.7	-6.1
External Reserves	months of imports	2.9	2.8	4.1	3.9	3.2	4.0	...
Debt and Financial Flows								
Debt Service	% exports	27.2	4.1	4.6	4.4	3.8	5.5	6.0
External Debt	% GDP	41.0	21.4	23.3	24.1	25.3	25.5	27.2
Net Total Financial Flows	Million US $	862	1,385	2,460	1,700	3,305	...	...
Net Official Development Assistance	Million US $	513	1,366	1,776	1,629	2,474	...	...
Net Foreign Direct Investment	Million US $	111	96	116	178	335	...	...







Source : AfDB Statistics Department; IMF: World Economic Outlook, October 2012 and International Financial Statistics, October 2012;
AfDB Statistics Department: Development Data Portal Database, March 2013. United Nations: OECD, Reporting System Division.

Notes: ... Data Not Available (e) Estimations

Last Update: May 2013

ANNEX 4: Progress Towards MDGs

Goal/Target for 1990 - 2015	Key Indicators	Baseline 1990	Latest	Target 2015	Current Status on MDG
1. **Eradicate Extreme Poverty and Hunger.**	The proportion of population below USD 1.0 per day (%)	43.3	46 (2005/6)	21.7	
	Share of the poorest quintile in national consumption (%)	4.8	4.6 (2005)	9.6	Unlikely to be met
	Prevalence of underweight in under-fives (%)	22	16.2 (2011)	11	
	Prevalence of stunting in under-fives (%)	6.17	5.0 (2003)	3.09	
	Prevalence of wasting in under-fives (%)	22.5	19.0 (2003)	11.05	
2. **Achieve Universal Primary Education.**	Net enrolment rate in primary education (%)	80.0	95.7 (2011)	100	Achieved
	% pupils starting grade 1 who reach grade 5	43.2	74.6 (2011)	100	
3. **Promote Gender Equality & Women Empowerment**	Ratio of girls to boys in primary, secondary and tertiary education (%)	Primary 94.9	Primary 98 (2011)	100	On track
		Sec. 74.9	Sec. 86 (2011)	100	
		Public universities 36.1 (1995)	Public universities 68 (2011)	100	
4. **Reducing Child Mortality**	Under-five mortality rate (per 1000 births)	98.9	74 (2011)	33	Unlikely to be met
	Infant mortality rate (per 1000 births)	67.7	52 (2011)	-	
	Measles vaccine (%)	48	80 (2012)	100	
5. **Improve Maternal Mortality**	Maternal mortality ratio (per 100,000)	590	488 (2012)	147	Unlikely to be met
	Proportion of delivery by skilled health personnel (% of births)	44	43.8 (2012)	100	
6. **Combat HIV/AIDS**	HIV prevalence among 15-24 year-old pregnant women (%)	15.6% (1999)	5.6 (2012)		Achieved
	Condom use rate of the contraceptive prevalence rate (%)	26.9% (1989)			
7. **Ensure Environmental Sustainability**	Proportion of population with sustainable access to an improved water source	48	57 (2012)	74	Tentative
	Proportion of population with access to improved sanitation	84	48 (2012)		
8.**Global Partnership for Development**	Debt service as a percentage of exports of goods and services		10.53 (2003)		Tentative
	PCs in use per 1,000 people and internet users per 1,000 population;		4.4 (2011)		
	Telephone lines and cellular subscribers per 1,000 population		6.8 (2011)		

ANNEX 5: Public Sector Portfolio Status (as at 31 December 2013)

Project Name	Approval Date	Signature	Entry Into Force	Effec. For 1st Disb	Net Commit. (UAm)	Disb. Ratio (%)*	Closing Date	Project age	Performance Status**
Green Zones Developmemt Support Project	12Oct05	30Nov05	27Feb06	16Mar06	25.0	95.9	30Jun14	8.3	Satisf
Kimira- Oluch Smallholder Farm Improvement Project (Loan)	31May06	14Jul06	21Sep06	20Oct06	23.0	89.6	30Sep14	7.7	Satisf
Kimira- Oluch Smallholder Farm Improvement Project (Grant)	31May06	14Jul06	14Jul06	6Nov06	1.2	91.2	30Sep14		
Small-Scale Horticulture Development Project	05Sep07	26Nov07	13Mar08	20May08	17.0	60.9	31Dec14	6.4	Satisf
Multinational - Drought Resilience and Sustainable Livelihood	19Dec12	27Feb13	05May13	14Aug13	37.4	0.5	30Jun18	1.0	N/A
Agric. Sub Total					103.6	54.3		5.9	
Mombassa Nairobi Transmission Line	06May09	04Jun09	22Jan10	23Jan10	50.0	46.1	30Jun15	4.7	Satisf
NELSAP	16Jun10	20Sep10	26Jul11	23Jan12	39.8	16.5	31Dec14	3.6	Satisf
Kenya Elec Transmission Project	06Dec10	23Mar11	14Dec11	14May12	46.7	20.3	30Jun15	3.1	Satisf
Menengai Geothermal Development project (ADF Loan)	14Dec11	12Mar12	10Jul12	10Jul12	80.0	37.3	31Dec17	2.1	Satisf
Menengai Geothermal Development project (SREP Grant)	14Dec11	12Mar12	10Jul12	10Jul12	4.9	0.0	31Dec17		
Menengai Geothermal Development project (SREP Loan)	14Dec11	12Mar12	12Mar12	10Jul12	11.4	8.6	31Dec17		
Multinational - Ethiopia /Kenya Power Interconnexion project	19Sep12	6Dec12	01Mar13	26Sep13	75.0	0.0	1Jan18	1.3	N/A
Lake Turkana Wind Power PRG	2Oct13	Not Yet	Not Yet	Not Yet	17.5				
Power Sub Total					325.2	27.9		3.0	
Community Empowerment and Institutional Support Project (CEISP)	17Dec07	23Feb09	02Jul09	02Jul09	17.0	47.2	30Jun15	6.1	Satisf
Technical Industrial Vocational and Entrepreneurship Training (TIVET)	16Dec08	23Feb09	07Apr09	15May09	25.0	45.9	31Dec14	5.1	Satisf
Multinational - Support to African Virtual University (Phase 2)	16Dec11	24Jan12	24Jan12	14Feb12	10.0	40.4	30Jun17	2.1	Satisf
Support to Enhancement of Quality and Relevance in HEST	14Nov12	6Dec12	19Feb13	19Feb13	28.0	0.0	30Jun18	1.1	N/A
Social. Sub Total					80.0	45.3		3.6	
Arusha- Namanga-Athi River Road Developm	13Dec06	08Feb07	30Apr07	04Jan08	49.2	90.1	30Nov14	7.2	Satisf
Mombasa-Nairobi-Addis Corridor II	01Jul09	11Dec09	2Apr10	6Apr11	125.0	36.9	31Dec15	4.6	Satisf
Timboroa - Eldoret Road Project	24Nov10	23Mar11	20Jul11	6Jan12	35.0	48.1	29Feb16	3.1	Satisf
Mombasa-Nairobi-Addis Corridor III	30Nov11	12Mar12	29Jun12	17Sep12	120.0	13.7	31Dec17	2.1	Satisf
Multinational Holili-Taveta Voi Road	16Apr13	15Jul13	18Oct13	18Oct13	75.0	0.0	31Dec18	0.7	N/A
Emergency Assistance to mitigate the damages of the Aug 2013 inferno at JKIA	30Sep13	25Oct13	25Oct13	Not Yet	0.7	0.0	31Dec14	0.3	N/A
JKIA Emergency Interim Terminal Construction Project	23Oct13	24Dec13	24Dec13	24Dec13	17.8	0.0	31Dec14	0.2	N/A
Nairobi Outer Ring Road Improvement Project (Loan)	13Nov13	Not Yet	Not Yet	Not Yet	77.0	0.0	Not Yet		
Nairobi Outer Ring Road Improvement Project (Grant)	13Nov13	Not Yet	Not Yet	Not Yet	0.6	0.0	Not Yet		
Transport Total					500.3	30.5		2.6	
Water Services Boards Support Project	21Nov07	26Nov07	18Nov08	12Mar09	35.2	63.7	30Jun14	6.2	Satisf
Water Services Boards Support Project (RWSSI)	5Dec07	24Jun08	24Jun08	12Mar09	10.1	68.1	30Jun14		
Integrated Land & Water Management (AWTF)	13Jan09	27Aug09	15Jun10	15Jun10	1.7	99.8	30Dec13	5.0	Satisf
Small Towns Water and Sanitation	03Nov09	05Apr10	14May10	21Jan11	70.0	27.3	31Dec14	4.2	Satisf
Nairobi River Basin Restoration	06Dec10	23Mar11	9Dec11	09Dec11	35.0	24.9	31Dec15	3.1	Satisf
Lake Victoria Water and Sanitation Programme (Regional*)	17Dec10	04Apr11	04Apr11	23Nov11	10.4	6.0	31Dec15	3.1	Satisf
Scaling-up Rainwater Management	05Jul12	07Dec12	07Dec12	27Mar13	0.6	29.0	7Dec15	1.5	N/A
Thwake Multipurpose Dam Development Program - Phase I (Loan)	30Oct13	Not Yet	Not Yet	Not Yet	61.7	0.0	Not Yet	0.2	N/A
Thwake Multipurpose Dam Development Program - Phase I (Grant)	30Oct13	Not Yet	Not Yet	Not Yet	1.2	0.0	Not Yet		
WSS Sub Total					225.9	36.4		3.3	
Grand Total					**1,235.0**	**33.2**		**3.5**	

Source: SAP PS Module, EARC, Dec 2013
Note: * Unsigned loans/grants not included in the denominator; ** PP = Problematic Project, PPP = Potentially Problematic Project

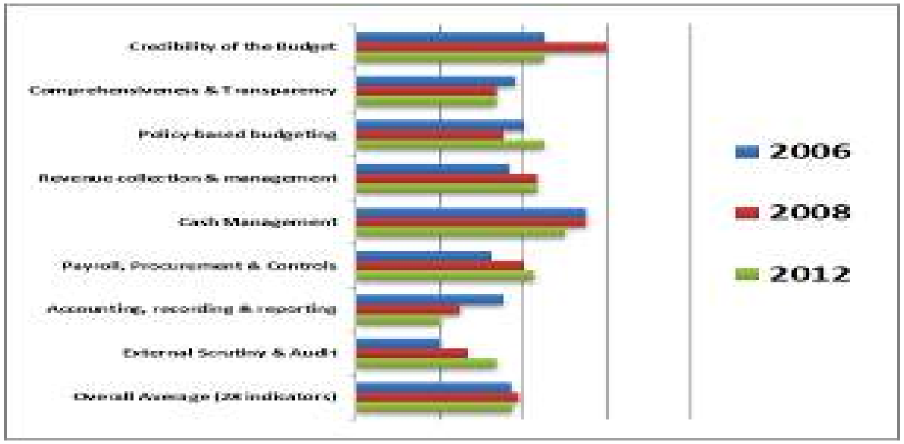
ANNEX 6: Private Sector Portfolio Status (as at 31 December 2013)

	Project Type	Product Type	Amount (USD)	UA	Status	Date
APPROVED PROJECTS						
Kenya-specific						
K-Rep	Financial Services	Equity	7.0	4.7	Approved	2009
Thika Power Plant	Energy	Debt	28.1	18.9	Approved	2011
GOWE	Financial Services	Guaranty	10.0	6.8	Approved	2005
Lake Turkana Wind Power	Energy	Debt	150.3	99.6	Approved	2013
		Total Kenya-specific	195.4	130.0		
Regional based in Nairobi						
EASSy	Telecommunications	Debt	14.5	9.8	Approved	2007
PTA Bank	Financial Services	Debt	50.0	33.8	Approved	2008
PTA Bank	Financial Services	Equity	6.8	4.6	Approved	2008
Shelter Afrique	Financial Services	Debt	30.0	20.3	Approved	2009
Shelter Afrique	Financial Services	Equity	7.5	5.1	Approved	2009
Catalyst Fund	Industry and Services	Private Equity	15.0	10.1	Approved	2010
Rift Valley Railways	Transport	Debt	32.0	21.6	Approved	2011
ATI	Financial Services	Equity	15.0	10.1	Approved	2012
ZEP-RE	Financial Services	Equity	12.0	8.1	Approved	2011
		Total Regional based in Nairobi	182.8	123.5		
		TOTAL APPROVED	227.9	153.9		

ANNEX 7: CPIA Scores 2008-13 and PEFA Indicators 2012

		African Development Bank - Country Policy and Institutional Assessment														*African Development Bank - Governance Rating*					
		A. Economic Management				**B. Structural Policies**				**C. Policies for Social Inclusion / Equity**							**Governance Rating : Public Sector Management and Institutions**				
		1	**2**	**3**		**4**	**5**	**6**		**7**	**8**	**9**	**10**	**11**			**1**	**2**	**3**	**4**	**5**
	CPIA Score	**Monetary Policy**	**Fiscal Policy**	**Debt Policy**	**Average**	**Regional Integration and trade**	**Financial Sector**	**Business Regulatory Environment**	**Average**	**Gender Equality**	**Equity of Public Resource Use**	**Building Human Resources**	**Social Protection and Labor**	**Environmental Policy and Regulations**	**Average**	**AfDB GR Score**	**Property Rights and Rule Based Governance**	**Quality of Budgetary and Financial Managmt.**	**Efficiency of Revenue Mobilization**	**Quality of Public Administration**	**Transparency, Accountability and Corruption in Pub. Sector**
2008	**4.17**	4.50	4.50	4.00	4.33	4.00	4.50	4.00	4.17	4.00	4.50	4.00	4.00	3.50	4.00	**3.60**	3.00	3.50	4.50	4.00	3.00
2009	**4.20**	4.00	4.50	4.00	4.17	4.50	4.50	4.00	4.33	4.00	4.50	4.00	4.00	4.00	4.10	**3.50**	3.00	3.50	4.50	3.50	3.00
2010	**4.20**	4.00	4.50	4.00	4.17	4.50	4.50	4.00	4.33	4.00	4.50	4.00	4.00	4.00	4.10	**3.60**	3.00	3.50	4.50	4.00	3.00
2011	**4.29**	4.00	4.50	4.50	4.33	4.50	4.50	4.00	4.33	4.00	5.00	4.00	4.00	4.00	4.20	**3.60**	3.00	3.50	4.50	4.00	3.00
2012	**4.30**	4.00	4.50	4.50	4.33	4.50	4.67	4.00	4.39	4.17	4.67	4.00	4.00	4.00	4.17	**3.76**	3.25	3.88	4.50	4.00	3.17
2013	**4.39**	4.50	4.50	4.50	4.50	4.30	5.00	3.40	4.28	4.50	4.70	4.20	4.60	4.00	4.39	**3.83**	3.50	4.10	4.50	3.90	3.20

PEFA Indicators 2012



ANNEX 8: Country Portfolio Improvement Plan

Issue	Required Action to resolve the issue/problem	Implementing Authority	Measurable Indicator	Baseline (June 2013)	Target	Time frame
Project Design	Continuous application of readiness filter for new projects under preparation for approval (detailed design complete, site identification, Tender documents advance contracting when applicable)	GoK/ AfDB(EARC)	Delay from approval to 1st disb. (months)	9	7	Continuous
Delay in Procurement	Timely and realistic preparation of procurement plans	GoK(PIT)/AfDB (EARC)	Adherence to timelines in the implementation of procurement plans (%)	TBC	95%	June 2014
Weak Contract Management	Rigorous enforcement of contractual obligations	GoK(PIT)	Timely completion of contracts signed through closer monitoring of activities	TBC	95%	June 2014
Disbursement and Financial Management	Design and Implementation of invoices tracking system embedded in the e-PROMIS	GoK (ERD)	Delay from invoice acceptance and submission to AfDB (days)	TBC	14	June 2014
	Improve on disbursement capacity at Bank level	AfDB (EARC)	Processing time of Disbursement applications(with no issue) submitted to the Bank	TBC	21	December 2014
	EAs/ Project Implementing Teams to submit quarterly Justification of RFs	GoK(PIT)	Projects submitting quarterly justifications of RF	0%	95%	Quarterly
Counterpart Funding	Prioritize Counterpart funding for on-going projects during budget implementation	GoK (Implementing Ministries)	Number of projects which experience delay in counterpart funding	3	0	June 2014
Capacity Building	Organize relevant training session for PIT members (including training on procurement, disbursement, contract management, monitoring evaluation)	GoK (ERD); and AfDB (EARC)	Number of group training sessions organized	-	4	June 2014
Audit	Ensure timely submission of annual audit reports for of active projects	GoK (KENAO)/EA (Project implementing teams)	Percentage of Annual Audit reports submitted on time (%)	72%	90	June 2014
Withholding Tax	Liaise with the relevant GoK agencies to resolve the withholding tax issue	GoK (ERD)	Withholding tax issue resolved for all projects	No	Yes	June 2014
Monitoring and Evaluation	Reconstruct baseline data for projects without baseline data and sharpen data collection tools to collect key data	GoK (PITs)	Percentage of projects with baseline data reconstructed (%)	TBC	90	June 2014
	Regular review of project performance : Regularly submit quarterly progress to the Bank with copy to Treasury and the relevant PS	GoK(PITs)	Percentage of Projects submitting regularly their QPR (%)	TBC	90	June 2014

ANNEX 9: OPEV Evaluation of Previous Bank CSPs 2002-13

To inform the Bank's CSP 2014-18 for Kenya, EARC in January 2013 requested OPEV to carry out an evaluation of the Bank's last three CSPs for Kenya, covering the period 2002-12. The evaluation was conducted throughout 2013, in close collaboration with EARC. The final Evaluation Report was submitted by OPEV to ORQR/EARC in December 2013. Initial findings and the recommendations of the draft Evaluation Report were incorporated in the CSP 2014-18, which EARC finalized in October 2013.

The key findings and recommendations from the evaluation were shared with the GoK and other country stakeholders during a workshop in December 2013, held in Nairobi. Upon availability of the final Evaluation Report in late December 2013, EARC worked closely with ORQR and OPEV in preparing the Management's Response to the evaluation, which was presented by EARC at the CODE meeting of 28th February 2014. The Management Response document (ADB/BD/WP/2014/05/Add.1; ADF/BD/WP/2014/05/Add.1) recapitulates OPEV's findings and recommendations, and explains in detail how these have been taken into account in the Kenya CSP 2014-18.

During the CODE meeting of 28th February 2014, some Committee members pointed to a number of specific topics, requesting Management to ensure that the latter are addressed in greater detail in the CSP document:

A. Project Sustainability.
B. Sector Governance.
C. Mainstreaming Gender.
D. Project Implementation.

These topics are discussed in the following.

A. Project Sustainability

A.1 Transport

The GoK in 1999 established through an Act of Parliament, the Kenya Roads Board (KRB), with a specific mandate to oversee the development and maintenance of the country's road network. KRB's sole source of funding is a fuel levy, which has grown fourfold since 2000 with annual collections reaching Ksh. 22.5 billion in 2013. GoK has also initiated other measures to improve the sustainability of road investments, notably the use of performance based contracting, whereby newly constructed or rehabilitated roads are placed under a long term maintenance scheme, and outsourced to a private contractor, with payments based on service delivery. Weighbridge operations on core networks are also outsourced to the private sector so as to enhance efficiency in the regulation of axle loading on the roads. The GoK has started to introduce road tolling of heavily trafficked highways, such as the Nairobi-Thika Highway. A PPP framework has also been adopted to lay ground for private sector participation in road development and maintenance.

Despite these measures, some challenges continue to undermine the sustainability of investments in the transport sector, as highlighted by OPEV evaluation. Key among these are: funding shortfalls which has resulted in a maintenance backlog estimated at about 20-30%; overloading, notably on major highways; inadequate institutional capacity for road maintenance, especially for the newly established devolved agencies; and continued lack of road safety. In recognition of these challenges, the GoK is considering a further increase in the fuel levy to generate additional revenue required to reduce the road maintenance backlog; and to create an enabling environment for the private sector participation under PPP arrangements. Furthermore, KRB and the National Treasury are planning to float an infrastructure bond to mobilize additional funding for road construction and maintenance.

The Bank supports the GoK in the above-mentioned initiatives by financing capacity building for planning and management of maintenance contracts as well as technical assistance aimed at enhancing implementation capacity of road sector agencies. This has been done by incorporating specific components in transport projects, for example in the Taveta-Mwatate Road and Nairobi Outer Ring Road projects, both approved by the Boards in 2013. The Bank has also assisted the GoK in establishing a road safety unit within the Kenya National Highways Authority (KeNHA) to mainstream good road safety practices in road projects.

For its new operations, the Bank will incorporate specific components geared towards ensuring sustainability, such as: the training of communities located within the proximity of the projects in preserving the road network and its fixtures; capacity building in implementing agencies; and analytical work on policy reforms, e.g. the management of One Stop Border Posts (OSBP); and other general technical assistance. The Bank will also assist the GoK on PPP arrangements for road tolling.

A.2 Water and Sanitation

To ensure sustainability of investments in the water and sanitation sector, the GoK has undertaken various reforms since the enactment of the Water Act 2002. These include: separation of water resources management and development from service provision; separation of policy from regulation; decentralization of service provision; and establishment of new institutions such as the Water Services Regulatory Board (WASREB) whose mandate is to set rules and enforce standards. The WASREB is also mandated to undertake tariff reviews to ensure cost-recovery. The WASREB in 2010 increased water tariffs for urban utilities to enable the service providers meet the infrastructure maintenance costs. It has also promoted the commercialization of water service delivery by enabling private operators to manage the urban water utilities. The Ministry of Environment Water and Natural Resources (MEWNR) has since 2008 undertaken pilot projects to test pre-paid water debit cards, and has provided grants to enable the distribution of water to informal settlements which do not conform to municipal planning standards. To align the country’s water sector policy with the requirements of the new constitution, the MEWNR has in 2012, developed a National Water Policy, which safeguards the autonomy of institutions, guaranteeing separation of policy, regulatory functions and service provision. Furthermore, the MEWNR has supported the WASREB in the implementation of corporate governance guidelines in the sector institutions, and the development of guidelines for the clustering of water service providers to ensure only economically viable water services providers are licensed. The MEWNR has also increased budget allocations to cover maintenance of water infrastructure, including ring fencing of water revenues.

Despite these reforms, the sector, as pointed out by OPEV, continues to face challenges which undermine the sustainability of investments. The challenges include: inadequate capacity of the new institutions to effectively implement their mandate; poor governance in the sector institutions manifested by unaccounted for water; economically unviable water service providers; and inadequate financing of maintenance activities exacerbated by an ageing and dilapidated water and sanitation infrastructure. Policy and regulatory issues that remain to be addressed are: ring fencing the sector revenues (water abstraction fees and water user fees) through provisions in relevant laws such as the

Urban Areas and Cities Act 2012. Also, the new institutional architecture of the water sector needs to be adjusted to reflect the Kenya's devolved system of governance.

Bank assistance in the water and sanitation sector in recent years has included technical assistance and provision of equipment to the new institutions. Support focused on: improving the billing and accounting systems; corporate governance; training and provision of equipment; and undertaking tariff reviews, all which are geared at ensuring sustainability. Bank support has been provided through the Rift Valley Water Supply and Sanitation project, Water Services Boards Support project, Small Towns and Rural Water Supply and Sanitation Project and the Nairobi Rivers Basin Rehabilitation and Restoration program, and the Sewerage Improvement project.

For its new operations, Bank support will continue to include institutional support with long-term technical assistance to address policy and regulatory reforms. Efforts will be made to enhance the capacity of the institutions with a view to putting in place robust and comprehensive planning processes that will ensure sustainability of the investments. Furthermore, capacity building components will be integrated in project design (e.g. in the Thwake multi-purpose water development program), aiming at effective utility management, thereby contributing to the long-term sustainability of the water and sanitation infrastructure. As recommended by OPEV, Bank support in the sector will also include ESW to assist the country in coherent investment planning in order to deliver sustainable infrastructure for effective water and sanitation services in the 47 counties.

A.3 Energy

In the past, the GoK took several steps to enhance the sustainability of the sector by separating generation, transmission and distribution functions. Hence, three independent companies were established: Kenya Generation Company (KenGen); Kenya Power and Light Company (KPLC); and Kenya Electricity Transmission Company (KETRACo). The private sector participates in electricity generation through various IPPs and through shareholding in KenGen. The private sector participates as well as in power transmission and distribution through partial ownership of KPLC. Also, the GoK in 2006 introduced the Energy Act, which consolidated the various laws governing the energy sector. The Act also established the legal framework for power purchase agreements.

Despite these measures, sustainability of investments in the energy sector continues to face several challenges, notably, the high investment costs required to satisfy the growing electricity demand in the country. The development of power generation and the expansion of the transmission systems are not adequately funded. In addition, the renewable energy sources like geothermal require substantial investment at exploration and drilling stages.

In order to address the above challenges, the Bank is currently providing concessional funding (e.g. Menengai Geothermal Project) to facilitate private sector participation in downstream investment by mitigating risks associated with the availability of steam. The Bank also provided private sector financing for Turkana Wind Project and provided the Partial Risk Guarantee (PRG) promoting the private sector involvement in the energy sector. Other projects being funded by the Bank through its public sector window are: the Transmission System Improvement, Nairobi-Mombasa, Lessos-Tororo (part of the regional NELSAP project) and Ethiopia-Kenya Electricity high way projects. The Bank supports regional interconnection projects (e.g. the Kenya-Ethiopia interconnection) with the aim of reducing energy tariffs through the importation of electricity from lower tariff countries and improvement of supply security. As observed by OPEV, the Bank support has ensured sustainability of investments in the energy sector and created private sector confidence in investing in the energy sector. This has expanded the Bank's role as a catalyst for leveraging funding through PPPs.

Going forward, the Bank will continue to strengthen the sustainability of investments in the energy sector by crowding in private sector investments through the provision of lending to PPS and IPPs, and the deployment of PRG and PCG instruments. As highlighted by OPEV, sustainability issues will be looked at more critically at project design, appraisal and implementation stages.

A.4 Education

There is little evidence that the GoK through the Ministry of Education Science and Technology (MOEST) has taken specific measures in the past to ensure the sustainability of investment in the education sector. Given the relatively small donor support in the sector, the sustainability of these investments is highly dependent on GoK's own resources. The GoK has continued to provide annual grants to each public primary and secondary school as well as development grants to tertiary education institutions. The annual grants are based on the 'free' primary education and day secondary education policies of 2005 and 2011, respectively. Each primary and secondary school student receives a capitation grant of approximately Ksh. 3,000 and 10,000, respectively. The grants target an estimated 9.2 million students in primary schools and 2.1 million students in secondary schools. The grants are mainly utilized at the school level for basic infrastructure expansion, recruitment of support staff and education resources materials such as laboratory equipment and the books.

The main challenge to ensure the sustainability of investments in the education sector is the absence of a policy and guidelines on preventive maintenance for buildings and equipment and the lack of measures to ensure continuity in the trainings. As OPEV correctly pointed out, the sustainability of Bank projects in the education sector depends on the GoK's financial ability to support the improved facilities funded by the Bank. Part of the GoK's annual education grants to schools could be used to support maintenance of buildings and equipment if a policy on the same were in place and enforced. In addition, part of this grant could be utilized to scale up training. The Bank's projects in the education sector are well aligned to the GoK's/MOEST's policies, strategies and priorities and enjoy their full ownership. This will increase the likelihood that counterpart funds during project implementation and continued funding beyond the project period will be made available by the government, thereby ensuring the projects' sustainability at national and decentralized levels.

Going forward, the Bank under the proposed TVET project Phase II will support the MOEST to develop a National Sustainability Strategy which will include a preventive maintenance policy for buildings and equipment as well as measures to support continued training of existing TVET tutors beyond the project. The project will explore with Government, specific counterpart funds to support training. The new TVET act, now allows the Higher Education Loans Board (HELB) to support training in TVET institutions. This will be implemented progressively as the HELB mobilizes additional resources. The development of that strategy will be part of the project activities under the management component. The TVET project Phase II will be aligned to the upcoming 2014-17 National Education Sector Plan's TVET investment priorities and the 2013 TVET Act to ensure project ownership and continued support of the project activities by the GoK. During appraisal, the project will also take into account a requirement by the target institutions to demonstrate measures that will be taken to ensure the buildings and equipment procured are maintained.

B. Sector Governance

B.1 Transport

The GoK in recent years continued to address transport sector governance issues by taking various actions that include: the outsourcing of weighbridge management and operations to the private sector; setting up of independent tender committees within each road authorities to oversee procurement processes and to ensure that the process are consistent with best international practices; training of staff from all road authorities on procurement, financial management, and in contract management, so as to address fiduciary issues; separation of the role of Engineer and Employer in civil works contracts to avoid conflict of interests; and integrating Technical and Value for Money audit services as components in road projects to ensure value for money to the road users and the Government.

Despite these measures, some governance issues in the transport sector persist including: lack of clarity in division of responsibility amongst transport related institutions; weak accounting systems and record management coupled with lengthy procedures for payments; inadequate stakeholder participation in decision making, inappropriateness and ineffectiveness of the institutions in the sector; and absence of proper complaint mechanism.

The Bank has assisted GoK's efforts to improve governance in the sector by providing finance for recruitment of Procurement and Financial Management Specialists for KeNHA and professional training to all road authorities in procurement and financial management. The Bank has also introduced Value for Money audits, in addition to the technical audits, for all Bank road projects approved by the Board since 2011. The Bank is also under discussion with KeNHA to reduce non value adding steps in the payment processes.

Going forward, the Bank through its new projects in the transport sector, will: strengthen road authorities and streamline their operating procedures to make them more responsive, transparent and accountable to stakeholders; increase donor coordination in the sector to spearhead the adoption of common reporting and monitoring systems by all DPs active in the sector; improve implementation capacity by providing support to the newly created National Construction Authority alongside other non-executive agencies and professional associations within a broader strategy for industry development; support the regular preparation and dissemination of reports (such as accounting and financial reports, asset inventories, annual reports) to foster institutional integrity; strengthen proper complaint redress mechanisms specifically dealing with safeguard issues such as compensation to Project Affected Persons; and, include transport governance indicators in road projects.

B.2 Water and Sanitation

In recent years, the MEWNR has on several levels strengthened its relations with the National Treasury through the MTEF process, which resulted in increasing budgets for water, sanitation and water resources development in the national budget. In 2013, the MEWNR upgraded its IFMIS system, which improved governance in the sector, reduced fiduciary risks and contributed to a better tracking of water sector funds and disbursement across the ministry. Also, following the adoption of the 2010 constitution, the MEWNR is in the process of realigning the Water Act 2002 to the constitution.

Despite the measures taken in recent years, outstanding governance issues and challenges in the water and sanitation sector highlighted by OPEV include: perceived high levels of corruption in the procurement of infrastructure; outstanding settlement of disagreements between the newly empowered County governments and the water service providers, which may result in legal disputes; and delays in the provision of new infrastructure.

The Bank has taken several steps in the past to improve governance in Kenya's water and sanitation sector. At corporate level, the Bank in November 2013 set up a regional coordination committee for rural water supply and sanitation for the rural sub-sector across Africa, including Kenya, which brings together governments of regional member countries and leading donors to share information on finance to the sub-sector. This high level approach to information sharing and strategizing is intended to equip Kenya's MEWNR to be better placed to influence rural water supply and sanitation during the budgeting process. At the project level, the Bank has since 2008 supported WASREB in its oversight role of water services institutions to stimulate the adoption and implementation of transparency and participation as guiding principles. The Bank has also supported WASREB in the preparation of annual tariff reviews and performance monitoring exercises, providing the basis for sustainability of the water sector institutions and the flow of finances needed for the continuous operational and maintenance requirements.

Going forward, the Bank will continue to strengthen governance in the water and sanitation sector through its projects as well as complementary measures. Specifically, the Thwake multi-purpose water development program Phase 1 (approved by the Boards in October 2013) will provide a complaint redress mechanism for the compensation and relocation activities to mitigate the potential disputes. Phase 2 of the Thwake program (to be prepared in 2015), will contribute to improved governance by defining the allocation of water storage based on technical criteria, thus minimizing the potential for ad hoc and uncontrolled release of reservoir water by one ministry or another. The Bank is also strengthening the project management capacity of Executing Agency of Thwake program phase 1 and 2 by providing technical assistance.

B.3 Energy

The Ministry of Energy and Petroleum (MoEP) is the ministry in charge of the energy sector within the Government of Kenya (GoK). Since the late 90s, the GoK has restructured the country's energy sector with the objective to separate the policy function from regulatory and commercial functions, and introduced a commercial relationship between the sector utilities. KENGEN and KPLC are each majority owned by GoK and operate on commercial basis. KETRACO, a 100% stated owned company, was created later than the distribution and generation companies and as such, is still in the process of fully developing its capacity as a transmission line owner and operator. A number of the projects that were started by KPLC ended up being transferred to KETRACO once the unbundling was completed and KPLC was no longer in charge of the power transmission lines. However, having the institutional memory and know-how, KPLC was more capable of running these projects than the newly created KETRACO. This represented a challenge at the institutional level as financing partners of projects with the MoEP needed to ensure the adequate mitigation of this challenge. Similarly, as evidence of Kenya's important geothermal resources increased, the GoK decided to set up the Geothermal Development Company (GDC) to be solely responsible for geothermal development in Kenya. KENGEN, the entity responsible for power generation, had been in charge of geothermal development to in Kenya.

The Bank helped to address this challenge by requesting that KPLC and KETRACO sign a Memorandum of understanding to ensure that KPLC would provide KETRACO with experienced project managers who would handle the projects as well as train KETRACO's engineers to ensure the necessary knowledge transfer for KETRACO's long term success. Moreover, through the project's resources, the Bank has provided significant funds for capacity building and skills development to both KETRACO and GDC. These trainings include in house and international training. The Bank has also financed a Transaction advisor to help GDC with its first major transaction, the Menengai 400 MW project, also financed by the Bank. Since the Bank's involvement with GDC, GDC's competence in the sector has now been recognized and actors in the energy sector have embraced the idea, started by the Bank, of making Kenya a center of excellence for geothermal development due to its experience in the sector as well as its important geothermal resources. Through the Bank's support GDC has successfully received officials from neighborhood countries interested in geothermal power development.

In the future, the Bank will continue to strengthen governance in the energy sector through its projects as well as complementary measures such as potential ESWs. An area that will be explored is the direct-use benefits that could be derived from the steam of geothermal projects to benefit the communities around the projects. Moreover, the Bank will continue its support to the different utility companies and has already discussed with KETRACO, KPLC and the Ministry of Energy to ensure that the existing operations and maintenance agreements between the two utility companies are fully executed as transmission lines financed by the Bank will soon come on board. KPLC's experience will be necessary for the proper operating of these lines during a given time as KETRACO takes over once the required capacity if fully built.

B.4 Education

In recent years, the MOEST has implemented reforms to institutionalize good governance, notably the Education Sector Governance and Accountability Action Plan 2007; Code of Conduct for teachers; and the Service charters of the Education sector. Other measures taken include, 'No group' impress (previously, the Ministry issued cash imprests to a 'group' of MOEST staff for workshops and trainings which implied there was not a specific staff held accountable to justify the funds), opening of bank accounts by vendors and staff for payments, no cash payment to training venues, roll-out of IFMIS at Ministry and County level to improve financial reporting and introduction of the Central Bank of Kenya G-pay system. In the context on the on-going devolution, financial and procurement management was decentralized to the school level. Guidelines, manuals, circulars and handbooks were developed. Education Boards and School Committees at the county, sub-county school and institutional level were set-up, which clearly define governance and accountability roles.

Despite these measures, issues of governance and accountability remain substantial in the sector. The key outstanding issues are: weak internal controls; inadequate external and internal audit; need to revise the Governance and Accountability Action Plan (GAAP); and weak oversight over flow of funds at national and decentralized levels. To strengthen governance in the sector, the MOEST needs to take the following measures: revise and disseminate procurement and financial management procedures manuals to each school and education county board; strengthen school audit units; configure IFMIS and budgeting to support projects financial reporting; support independent oversight on funds disbursement to schools; strengthen education sub-county and county financial management capacity; and carry out training of school management based on the manuals.

The Bank has not intervened with specific activities to address governance issues in the education sector in the past. However, the Bank periodically carries out financial management assessments and trainings for project accountants. This has strengthened MOEST's systems specifically in regard to records management and proper reconciliations of Bank project funds. However, as noted above, financial governance issues still need to be addressed.

Going forward, through the proposed TVET project Phase II, the Bank will consider supporting capacity building of tertiary institutions in financial management and procurement as part of project activities under the project management component. In collaboration with other DPs, the Bank will also explore options through Trust Funds to support relevant trainings in education services planning and management for county, sub-county and school level education management teams including communities to enhance efficiency utilization of resources, value for money and facilitate voice and accountability in the education sector.

C. Mainstreaming Gender

The Ministry of Devolution and Planning is the anchor for the GoK's efforts to promote gender equality and women's empowerment in Kenya. The Ministry, through the Department of Gender, is responsible for the promotion of gender mainstreaming in the national development process and across all ministries, departments and agencies, as well as the formulation and implementation of national policy and strategic frameworks for gender equality. In addition, Kenya's 2010 constitution and the MTP II make provisions for affirmative action to promote gender equality and women's empowerment in the country.

GoK in recent years has taken several steps towards enhancing gender equality. These include: the effective coordination of gender mainstreaming across ministries; appointment of Gender Focal Persons at ministries and parastatals to champion the gender equality agenda; inclusion of gender mainstreaming as a deliverable in the performance contracts of Cabinet Secretaries effective 2013; and revision of procurement laws in 2013 to earmark 30% of government procurement to women, youth and persons with disabilities. Furthermore, since 2013, maternal and child health services supervised by trained health workers has been "free" in all public medical facilities. A bursary scheme to support highly talented girls from poor families and the Women's Enterprise Fund were established in 2013. Staff of various ministries have received training on gender mainstreaming and some ministries have developed gender mainstreaming guidelines. To improve women's access to higher education, females are considered to join university with two points less than the minimum entry points.

Despite these measures, challenges with regard to gender mainstreaming persist. For example, the National Gender and Development Policy of 2011 remains to be revised and effectively implemented, and systems to monitor compliance need to be put in place, especially in light of the devolved government structure. Similarly, there is no coherent national strategy to engage men on gender equality and women's empowerment issues. Also, the collection of sex-disaggregated data at national and lower levels needs to be enhanced. Many sector ministries have developed monitoring and evaluation frameworks for their work on gender, but the unavailability of gender-disaggregated data has been a challenge. Furthermore, capacity for gender mainstreaming remains uneven across sector ministries and constitutes one of the major challenges to successful gender mainstreaming.

In the past, the Bank has supported the GoK in several ways to improve gender mainstreaming. At the operational level, various Bank funded projects have included training of project staff on gender mainstreaming. Some projects supported the development of gender mainstreaming strategies, for example in the water sector. Bank operations in the social sector have included community level activities such as gender sensitization of community and traditional leaders, leadership training for women amongst others to enhance their participation in local level decision-making. With regards to analytical work, the Bank supported the preparation of a Country Gender Profile for Kenya in 2007, which needs to be updated. At the strategic level, the Bank supported the formulation of the Implementation Plan for the National Commission for Gender Strategy in 2011.

Going forward, in close alignment with its new Bank Gender Strategy 2014-18 ‘Investing in Gender Equality for Africa’s Transformation’, the Bank will take various measures to mainstream gender equality. In doing so, OPEV’s observation that there is less evidence in the consistent mainstreaming of gender in operational components, will be taken into account. Specific measures will include the integration of gender-specific components in all new projects; inclusion of dedicated gender equality or women’s empowerment activities and budget for new projects; and systematic gender analysis during the preparation of new projects to determine expected impacts/benefits on women. To improve local capacity for gender mainstreaming, staff from executing agencies and project management teams will be trained on gender issues specific to their projects. The Bank will explore options to finance analytical work on gender equality, e.g. a Country Gender Assessment or update the 2007 Country Gender Profile. The Bank will also explore financing opportunities to support capacity building in gender mainstreaming across key sector ministries and at the county level.

In terms of process, project screening processes will be strengthened to make them more gender sensitive. All preparation and appraisal missions for new projects will include a Gender Specialist. The CSP mid-term review and completion report teams will also include Gender Experts. Review of Project Concept Notes and Project Appraisal Reports at various levels including Country Teams, will be undertaken with gender filters and check lists, by sector, to ensure effective gender mainstreaming. Project Task Managers will be trained in gender mainstreaming and will also be required to report on gender equality outputs and outcomes in their projects as part of the wider EARC Quarterly outcomes reporting.

D. Project Implementation

The OPEV evaluation flagged four main issues that continue to affect project implementation. Most of these issues had already been discussed with the GoK during the CPPR process.

- **Complex flow of funds used by the GoK for donor funded projects.** The Bank and GoK have agreed to critically review the disbursement processes and take streamlining measures where possible without necessarily jeopardizing the fiduciary control measures. In addition while the Bank is working on implementing the e-disbursement as part of the SAP functional upgrade, an interim tracking system will be establish to allow monitoring of payments under processing.

- **Need for additional staff to process disbursement requests and conduct capacity building in Kenya and regionally.** The Bank has already taken measures to reinforce the disbursement staff capacity in EARC with the recruitment of a temporary staff. Furthermore, it is planned that one additional permanent staff will be deployed to EARC in the course of the year 2014.

- **Delays in the release of counterpart funding.** The Bank and GoK have agreed that donor funded projects should be prioritized during budget preparation and execution. Senior Officials and Finance Officers in the line Ministries will be sensitized on this issue during the quarterly Progress Review meetings organized by the National Treasury. The Bank (EARC) will also regularly follow-up closely with the respective line Ministries to ensure that counterpart funding in being released on time.

- **Delays in finalizing Resettlement Action Plans and Compensation of Project Affected Persons.** The issue which is now resolved has affected mainly the Arusha Namanga Athi River Road Project OSBP construction (where finalization of the RAP was dependent of the design studies financed by JICA) and the Mombasa Nairobi Transmission Line. For new operations approved since 2012, the Bank has systematically ensured that design studies and finalization of RAP are done at early stages of projects preparation as prior actions, and compensation is done in sections but prior to commencement of work on each section. As a result newly approved projects do no more have compensation delays except in cases of litigation.

ANNNEX 10: Summary of Findings from Stakeholder Consultations

Government Authorities

- Continue investing in transport, energy and water infrastructure.
- Need to balance between regional, national and country level investments.
- Address unemployment through skills development.
- Encourage ownership at the highest level to ensure timely implementation of projects.
- PPPs and PRGs are welcome ways of crowding in the private sector to invest in high cost projects like rail and geothermal energy.

Development Partners

- Need to focus on climate change and gradual transition to green growth.
- Need for collaboration in program identification and implementation.
- The Bank group should continue with investment in infrastructure, especially roads and energy.
- Bank Group should be more explicit on PPP interventions and gender mainstreaming.
- Bank Group should be selective on national and devolved public financial management.
- Debt, absorption of the budget and population growth are challenges.

Private Sector

- Selection of the infrastructure pillar is commendable. This is the binding constraint to private sector investment.
- Need to provide technical support and capacity building for value chain/value addition.
- Emphasize inclusive growth by engaging MSMEs.
- Security is a major challenge and the bank may consider investing in it.
- Human capital development is critical for service delivery.
- Bank should consider investing in PPP projects
- Consider direct support to the private sector.
- Bank should consider interventions to reduce the cost of credit.

Civil Society Organizations

- Bank interventions in infrastructure are commendable and should continue.
- In agriculture, emphasis should be on value addition. Need to provide technical support and capacity building for value chain.
- Bank should engage more in knowledge products.
- Bank should consider support security related operations.
- Bank Group should support soft infrastructure including regulatory reforms and PFM reforms at the County level.
- Bank should help deepen access to the regional markets.
- Bank should focus on employment generation particularly for the youth.
- Interventions should lead to inclusive growth.
- Bank should draw on south-south success stories.

ANNEX 11: Climate Fact Sheet

General Climate Context of the Country. Kenya is located on latitude 5^{o} 30'' N and 4^{o} 30'' S and longitude 33^{o} 50'' E and 41^{o} 50''E. Its total area is 587,000 km^2 of which 576,076 km^2 (or 57.6m ha) is land mass and the remaining 11,230 km^2 is covered by water bodies. The country has a mean annual average rainfall of about 500 mm, which varies between 250 mm in the arid and semi-arid lands (ASALs) to 2,000 mm in the high mountain ecosystems. About 66% of the country receives less than 500 mm of rainfall annually. Like the rest of Eastern Africa, mean temperature in Kenya varies with elevation. The presence of large water bodies such as the Indian Ocean to the east and Lake Victoria to the west as well as high mountains such as Mt. Kenya induces localised climatic patterns.

Recent Climate Trends and Future Scenarios. From the early 1960s, Kenya has experienced generally increasing temperature trends over vast areas. Over the inland areas, the trends in both minimum (night/early morning) and maximum (daytime) temperatures depict a *general warming* (increasing) trend with time. However, the increase in the minimum temperatures is steeper than in maximum temperatures. The areas near large water bodies particularly the coastal strip indicate a different pattern. One such study suggests that compared to the 1961-1990 average: The mean annual temperature will increase by between 0.8 - 0.9 °C across the country by the year 2030 and from 1.5 to 1.6 °C by the year 2050 for the IPCC mid-range emission scenario, while annual rainfall will change from 7.0 - 9.7 % and 13.3 - 18.8 % for 2030 and 2050 respectively. Observed increase in temperature will enhance evapotranspiration, resulting in significant reduction in water resources availability. Areas that are projected to have increased rainfall (most parts of Kenya) may not necessarily have surplus water, as evapotranspiration rates and water conservation practices will be significant factors in the water balance of those areas and hence determine water availability.

Trends in Extreme Weather Scenarios. More than 70% of natural disasters in Kenya are related to extreme climate events, which are also key causal factors for some emergencies that lead to disasters. Kenya has suffered from periodic droughts throughout its recorded history, but their magnitude and severity has increased in the recent past. Severe drought episodes were experienced in 2001, 2003, 2006, 2009 and 2011. In common with the rest of the Horn of Africa, drought is an inherent part of life in the arid and semi-arid lands (ASALs) of Kenya, and it is in these regions where the worst impacts of drought are felt. Pastoralist communities remain the most chronically food insecure groups in the country experiencing consistently high malnutrition rates that are habitually above international emergency thresholds during droughts. In addition to droughts, major floods periodically afflict the Winam Gulf of Lake Victoria, the Lower Tana River basin and the coastal regions. Extreme rainfall in the East African region in general is strongly linked to the El Niño-Southern Oscillation (ENSO). However, it is currently not clear whether a relationship exists between both El Niño and wet periods (floods) or La Niña events and prolonged drought over the Greater Horn of Africa.

Country's Vulnerability. The most vulnerable sectors, and therefore, priority sectors for resilience actions are agriculture; environment, water and sanitation; tourism; infrastructure (energy and transport); manufacturing; population, urbanisation and housing; and health. The cumulative impact of climate change and climate variability on these sectors is enormous. The overall impact of the 2008-2011 drought for instance, is estimated at KSh968.6 billion (USD 12.1 billion), and was predicted to have caused a slowing down in the growth of the country's economy by an average of 2.8 per cent per year during that period. A Stockholm Institute of Environment (SEI)'s study, *the Economic Impacts of Climate Change in Kenya*, estimates the cumulative effect of droughts and floods to be about 5 to 10% of the country's gross domestic product (GDP).

Country's Climate Change Strategy. Kenya's National Climate Change Response Strategy (NCCRS) (GoK, 2010) and its National Climate Change Action Plan (NCCAP) (GoK, 2013) are the country's main guides in climate change response. The NCCR's vision is a *prosperous and climate change-resilient Kenya*, while that of the NCCAP is *a low carbon climate resilient development pathway*. The NCCAP in particular, is aligned to the country's long-term development blueprint, Vision 2030, and aims to ensure that the Vision 2030 goals are met through actions that address both sustainable development and climate change. Both the NCCRS and NCCAP build on and are aligned with sectorial strategies, plans and policies. A number of the energy sector's low-carbon and climate-resilient actions in the Action Plan are derived from the Updated Least-Cost Power Development Plan (ULCPDP) and the draft Energy Policy 2012; those in the transport sector from the Integrated National Transport Policy 2010; for the agriculture sector, from the Agricultural Sector Development Strategy 2010-2020; and for the forestry sector, from the Kenya Forestry Master Plan 1995-2020, among others.

Country's Mitigation Policy. Kenya's mitigation policy is well illustrated in the National Climate Change Action Plan. The livestock, agriculture and forestry sectors are the largest GHG emitters in Kenya, accounting for approximately 67% of emissions in 2010 and 40% in 2030. Energy demand was the next largest sector, accounting for about 14% of emissions in 2010, followed by transportation at about 10%. At 61.53m tons of carbon dioxide equivalent (MtCO2e) (or 1.54 metric tons of carbon dioxide equivalent per capita) in 2010 according to a GHG inventory computed for the NCCAP, GHG emissions in Kenya are negligible in comparison to global levels. The Action Plan takes cognizance of the country's low levels of emissions. However, it also acknowledges that the country's *"growing population and economy coupled with urbanisation have the potential to increase future GHG emissions."* For instance, using historic estimates, energy sector emissions increased by 50% between 1994 and 2005, and these are likely to continue in the future in realising the Vision 2030. On the basis of these sectorial emissions, Kenya has prioritised six low-carbon or green actions that it intends to implement. The six priority low-carbon actions have a combined greenhouse abatement potential of 67 MtCO2e, representing three-quarters of the total mitigation potential identified in the low-carbon analysis. They are:

Table 1: Priority low carbon actions in the NCCAP

Low Carbon Action	Mitigation/Abatement Potential in MtCO2e
Restoration of degraded forests on degraded lands	32.6
Reforestation of degraded forests	6.1
Agroforestry	4.1
Expansion of geothermal power	14.1
Improved wood and charcoal cook-stoves and liquid propane gas (LPG) cook stoves	7.3
Bus rapid transit with light rail corridors in Nairobi	2.8
Total	67

Country's Adaptation Policy. The following are the priority adaptations in the current draft of the NAP.

Table 2: Key Priority Adaptation Actions

Environment, Water and Sanitation	Undertake climate vulnerability & risk assessment on ecosystems and provide guidance on relevant adaptation actions Integrate ecosystem-based approach to policies and programs. Appraise alternative water supply and demand management options and develop a coordinated water management plan at national and county levels meeting the needs of all water users (including trans-boundary). Mainstream disaster risk reduction measures in water sector planning and service delivery.
Agriculture, Livestock and Fisheries	Risk and vulnerability assessments of the value chain (inputs, technologies, extension services, marketing)

	Promote sharing/up-scaling of coping mechanisms (risk sharing/transfer mechanisms) for production systems and climate resilient species Strengthen monitoring capacity and capability to prevent overfishing and unauthorized exploitation in the exclusive economic zones (EEZ)
Tourism	Risk and vulnerability assessments of the tourism value chain to inform appropriate adaptation measures
Health	Undertake climate vulnerability and risk assessment of the impacts of climate change and climate variability on health, provide guidance to the relevant ministries and to health practitioners. Identify potential policy/legal barriers and where necessary, amend or introduce new legislation to facilitate successful delivery of disease control and prevention programmes
Energy	Develop and implement an energy generation mix plan that increases the resilience of the current and future energy mix to the impacts of extreme events and peak demands

Institutional Framework and Actors. The Ministry of Environment, Water and Natural Resources is the GoK's lead environment agency. The Ministry is also the national focal point for the UNFCCC. Within the Ministry are several departments and agencies with specific roles in climate change matters. The Climate Change Secretariat, which was created in the last half of 2010 as a recommendation of the National Climate Change Response Strategy (NCCRS), provides technical support to climate change activities including the implementation of the NCCRS and its recently launched Action Plan.

Institutional Strengthening. In general, the creation of the National Climate Change Secretariat (NCCS) in the Ministry of Environment, Water and Natural Resources in the last half of 2010 has bolstered the GoK's coordination and management of climate-change activities. However, several challenges that peg climate change governance by the ministry and other government institutions still remain. These include inadequate technical experts in all institutions including the NCCS; conflicting or non-existing mandates across several institutions; and lack of an overarching coordination institution, among other challenges. The latter role was somewhat played by the now-defunct Office of the Prime Minister (OPM) in the previous dispensation. Inadequate technical experts and conflicting or non-existing mandates across several institutions are partly responsible for a loss of institutional memory and duplication of programmes and projects. As a solution, the National Climate Change Action Plan proposes the establishment of a National Climate Change Council with a mandate for providing legislative and policy direction, supervision, oversight and guidance across all levels of government. Strengthening of existing institutions including the NCCRS are also priority actions in the National Climate Change Action Plan, and are therefore opportunities for engagement between the GoK and its development partners such as the African Development Bank (AfDB).