Inception Report
Development Finance Assessment (DFA) for Transformation of Kenya

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Submitted by:

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1.0 BACKGROUND

1.1 Introduction:

In 2015, the world embarked on the 2030 Agenda for Sustainable Development in pursuance of ambitious goals for social and economic development, and environmental sustainability. This is a complicated and multi-faceted endeavor to achieve the Sustainable Development Goals (SDGs)[1]. Financing stands out as a critical enabler for realizing these goals as espoused by the Addis Ababa Action Agenda (AAAA)[2] which established a framework for financing the 2030 Agenda. The AAAA highlighted the complexity, variety of resources, myriad of private and public stakeholders and foreign and domestic partnerships required to have financing that would be sustainable. The AAAA puts a nationally-owned Integrated National Financing Framework (INFF) as pivotal to garnering sustainable financing needed to achieve the 2030 Agenda.

The Kenya Vision 2030, launched in June 2008, is the long-term development blueprint for the country. The aim of *the Vision* is to create "a globally competitive and prosperous country with a high quality of life by 2030". It aims to transform Kenya into "a newly-industrialising, middle-income country providing a high quality of life to all its citizens in a clean and secure environment"[3]. The Vision is being implemented through successive five-year Medium Term Plans (MTPs) and county integrated development plans (CIDPs). The country is currently implementing the Third MTP which prioritizes policies, programmes and projects which will support the implementation of the "Big Four" initiatives namely: raising the share of manufacturing sector to 15 per cent of GDP; ensure food security and improved nutrition; achieve Universal Health Coverage; and affordable housing. The implementation of the "Big Four" initiatives are expected to contribute to broad based inclusive sustainable economic growth, faster job creation and reduction of poverty and inequality[4].

Kenya has made a commitment to implement the Sustainable Development Goals (SDGs). It has integrated SDGs with baseline indicators into national and subnational planning, including the MTP III 2018-2022 and the County Integrated Development Plans (CIDPs) for 2018-2022, and has institutionalized roles and responsibilities for the implementation of these SDG-aligned development plans. In addition, it has prepared and presented two Voluntary National Reviews (VNRs) to the United Nations High-level Political Forum (HLPF) on Sustainable Development in 2017 and 2020, reporting progress made in the creation of an enabling environment for the SDGs implementation, and progress on all the 17 Goals since 2017, as well as identifying challenges and sharing the best practices in the country with the international community.

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1 Transforming our World: the 2030 Agenda for Sustainable Development - https://sdgs.un.org/2030agenda

2 Addis Ababa Action Agenda of the Third International Conference on Financing for Development - https://sustainabledevelopment.un.org/frameworks/addisababaactionagenda

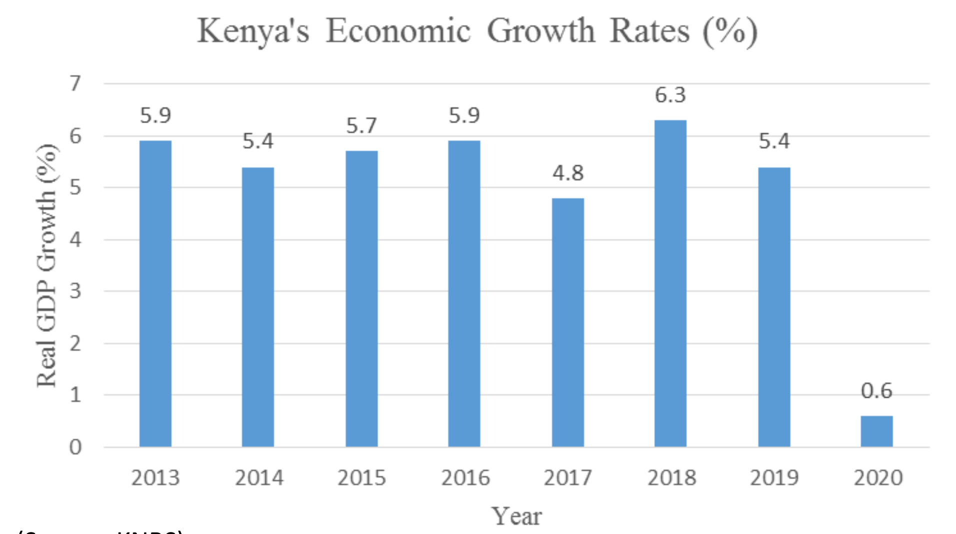
3 The Kenya Vision 2030

4 The Third Medium Term Plan of Kenya Vision 2030 2018 - 2022

1.2 Social, Economic and Environmental Context

1.2.1 Socio-Economic Context:

Before the COVOID-19 outbreak, Kenya's economy was strong and resilient, with broad based economic growth for 2018 and 2019 averaging 5.9 percent. The country recorded GDP growth rates of between 4.8 percent and 6.3 percent over the period 2013 to 2019 as shown in the following chart. Per capita income rose from Ksh113,539 in 2013 to Ksh209,783 in 2019 translating to a compounded annual growth rate of 11.5 percent. This enabled the generation of around 827,000 jobs per year during the period, up from 656,500 jobs in the previous period (2008 – 2012)[5].



(Source: KNBS)

From 2013, the Government has implemented several reforms, aimed at fostering a conducive business environment that creates the foundation to attract investments, accelerate economic growth, and create employment. As a result, Kenya was ranked 56th globally in the World Bank's Ease of Doing Business 2019 report, having risen 80 places since 2014 – one of the most improved countries in Africa and globally. It was ranked 3rd in Sub Saharan Africa, 1st globally on protecting minority interests and 4th in getting credit[6].

[5] Budget Policy Statement 2021

[6] Republic of Kenya: Ease of Doing Business – Reform Milestones 2014-2020 (November 2020)

In 2020, the Kenyan economy was adversely affected by the outbreak of the COVID-19 Pandemic and the swift containment measures, which have not only disrupted the normal lives and livelihoods, but also to a greater extent businesses and economic activities. As a result, the country's economy is estimated to have slowed down to around 0.6 percent in 2020 from a growth of 5.4 percent in 2019[7].

While the pandemic has slowed down Kenya's GDP growth, public debt has been increasing. Before the pandemic, Kenya's debt to GDP ratio was 62 percent (2019). The impact of the crisis has led to increased government borrowing to debt to GDP ratio of 68.6 percent in 2020 and over 69 percent in the next financial year[8], placing Kenya at a higher risk of debt distress. This is likely to have a significant impact on the private sector's performance, particularly in relation to commercial borrowing and investor confidence in the economy[9].

The government has taken various fiscal measures to mitigate the pandemic impact. These include FY2019/20 supplementary budget reallocation of an earmarked Ksh40 billion budget (0.4% of GDP) to the health sector, social protection and funds for expediting payments of arrears to businesses. This was followed by a Ksh56.6 million (0.5% of GDP) economic stimulus package in the FY2020/21 budget that included a new youth employment scheme, provision of credit guarantees, fast-tracking payment of VAT refunds and other government obligations, increased funding for cash transfers, and several other initiatives. Starting April 2020, the standard VAT rate was reduced from 16 to 14 percent; the personal income tax top rate and the standard corporate income tax rate were reduced from 30 to 25 percent; and the turnover tax on small businesses was reduced from 3 to 1 percent. These relief measures have been compressing the already limited fiscal space, and diverting financing resources from development projects towards tackling COVID-19[10].

However, year-on-year overall inflation rate remained low, stable and within the Government target range of 5+/-2.5 percent since end 2017, demonstrating prudent monetary policies. The inflation rate stood at 5.7 percent in January 2021 from 5.8 percent in January 2020. The low inflation was supported by a reduction in food prices and muted demand pressures[11].

To mitigate the impact of COVID-19, Kenya has prioritized several initiatives, anchored on Kenya's Vision 2030 and selected based on their implementation readiness, ability to fuel rapid economic recovery in the short term, and / or lay foundational groundwork for medium to long term economic recovery, and those that will create a significant number of jobs especially for the youth. These include: managing Kenya's macro-fiscal capacity through strengthening fiscal consolidation, public private partnership framework and enhancing investor engagement; strengthening Kenya's productivity and competitiveness; improving business environment and supporting Micro, Small and Medium Enterprises (MSMEs); transforming public service delivery; strengthening social services; and implementing cross cutting initiatives to strengthen accountability measures across all government functions[12].

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7 Republic of Kenya: Budget Policy Statement 2021

8 2021 Budget Policy Statement

9 Republic of Kenya: Rebuilding the Kenya Economy Post-COVID-19, 2020

10 IMF Extended Credit Facility 2021

11 Republic of Kenya: Budget Policy Statement 2021

12 Republic of Kenya: Rebuilding the Kenya Economy Post-COVID-19, 2020

The economic growth is projected to bounce back to 7.0 percent in 2021 reflecting recovery due to reopening after the closure associated with the Covid-19 Pandemic. This also in part reflects the lower base in 2020 when most service sectors especially accommodation and restaurant, education as well transport services contracted in second and third quarters of 2020 with huge margins[13]. However, delayed availability of vaccines, and prolonged social distancing and other needed COVID-19 countermeasures, could undermine the projected recovery in economic activity[14].

Life expectancy at birth has improved from 56.6 years in 1999 to 66.7 year in 2019. The Human Development Index (HDI) (a composite index based on the quality of life, education and income) was 0.601 in 2019, with Kenya ranked 142, ahead of its peers in the region. Gender Inequality Index (GII) was 0.518, with Kenya ranked 126th globally.

On the achievement of SDGs, Kenya is ranked 118/165 globally with a country score of 60.6, above the regional average of 51.9. Only Goal 13 on Climate Change and its Impacts is listed as being on track. This is followed by goals 1 ((No poverty), 3 (Good health and wellbeing), 5 (Gender equality), 7 (Access to energy), 8 (Decent work and economic growth), and 9 (Industry, innovation and infrastructure) which are listed as moderately improving. The worst performing are goals 14 (Life below water) and 15 (Life on land) which are listed as decreasing[15]. Therefore, although Kenya has made progress in the achievement of SDGs, more needs to be done to meet the targets. The following are examples of specific indicators.

Poverty levels in Kenya decreased from 46.6 percent in 2005 to 36.1 percent in 2015. Achievement of SDG 2 is far from being achieved with prevalence of moderate to severe food insecurity being 56.5 per cent while the prevalence of severe food insecurity being 19.1 per cent in 2016. The arid and semi-arid lands bore the brunt of food insecurity[16].There has been a marked improvement in key health indicators except for maternal health. Neonatal, Infant and Under Five mortality rates reduced from 33 to 22, 77 to 39 and 115 to 52 deaths per 1000 live births respectively between 2003 and 2015. However, Maternal Mortality Rate reduced from 506 and 520 in 2003 and 2008 respectively to 362 in 2015, a change which is not statistically significant to conclude that there was any improvement. The Total Fertility Rate reduced from 7.8 in 1979 to 3.9 in 2014[17]. The current level of access to clean water in Kenya is estimated at a national average of 64% for water, 26% for sanitation in urban areas and the annual water per capita is less than 500 cubic metres, making the country a severe water stress nation according to the UN global scale on water security which stipulates a minimum of 1000 cubic metres per person per year[18]. Neonatal and Under Five Mortality rates at 12 and 25 per 1000 live births respectively, and Maternal Mortality Rate of 70 per 100,000 live births. On access to energy, Kenya has dramatically increased electricity access over the last few years, from 2.3 million connections in 2013 to 8.2 million by the end of April 2021 thereby achieving electricity access rate of over 75 percent[19]. The proportion of people living within 2km distance from an all season road increased from 61.4 percent in 2016 to 69 percent

13 2021 Budget Policy Statement

14World Bank Press Release November 25, 2020 - Kenya's GDP Contracts Under Weight of COVID-19, Impacting Lives and Livelihoods

15 Jeffrey Sachs et al, SDG Report 2021

16 Republic of Kenya: Second Voluntary National Review on the Implementation of the Sustainable Development Goals June, 2020

17 Kenya Demographic and Health Survey 2015/16

18 Minister of Water, Sanitation and Irrigation Address during the World Water Day 2021

19 COMESA June 2 2021 (https://www.comesa.int/kenya-lauded-for-achieving-75-electricity-access-rate/)

in 2019[20]. Mobile phone subscriptions increased from 41 million in 2017 to 62 million in 2021, while internet subscriptions increased from 31 million to 43.7 million over the same period[21].

On Goal 16 on strong institutions, the Kenya National Commission on Human Rights was in 2019 accredited as an 'A' status national human rights institution by the Global Alliance for National Human Rights Institutions[22]. The total government revenue as a proportion of GDP decreased from 18.3 percent in the FY2018/19 to 16.6 percent in the FY2020/21[23]. The proportion of domestic budget funded by domestic taxes decreased from 45.1 per cent 2017 to 40.4 per cent in 2019. The FDI as a proportion of total domestic budget increased from 5.1 percent in 2017 to 5.3 percent in 2019**.** The Volume of remittances as a proportion of total GDP increased from 2.49 percent in 2017 to 2.97 percent in 2019. Debt service as a proportion of exports of goods and services rose dramatically from 9.9 percent in 2017 to 30.2 percent in 2019[24].

The Kenya National Bureau of Statistics (KNBS) is the principal agency of the Government for collecting, analysing and disseminating statistical data in Kenya. The Statistics Act (2006) was amended in 2019 to align it with the Constitution of Kenya and it complies with the Fundamental Principles of Official Statistics. The KNBS has a strategic plan for the period 2018-2022 which is fully funded by the government and donors. Kenya conducted population and housing census in 2019. The one before that was done in 2009. Birth registration increased from 60.9 percent in 2017 to 75.7 while death registration increased from 41.2 percent to 43 percent over the same period[25].

1.2.2 Environmental Context:

Kenya ratified the United Nations Paris Climate Change Agreement in December 2016 signifying its strong commitment to the global efforts to address climate change. Other initiatives include:

- National Climate Change Action Plan I and II (NCCAP I 2013-2017 and NCCAP II 2018 – 2022) anchored in the Climate Change Act 2016 aims at mainstreaming of climate change actions in development planning, budgeting and implementation processes.
- Climate Change Act, 2016 whose implementation commenced in May 2016 and aims to strengthen climate change governance and coordination structures.
- The draft National Policy on Climate Finance aims to establish the institutional framework for mobilization and management of climate finance.
- Green Economy Strategy and Implementation Plan (GESIP 2016 - 2030) was launched in July 2017 and aims at providing guidance to all development actors to adopt pathways with higher green growth, cleaner environment and higher productivity relative to the business as usual growth scenario.

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20 Second Kenya NVR Report 2020
21 Communications Authority of Kenya
22 Second Kenya NVR Report 2020
23 2021 Budget Policy Statement
24 Second NVR Report 2020
25 ibid

- County and Sectoral Climate Change Policies and Initiatives: Several Counties and sectors have taken actions such as development and legislation of county and sectoral climate change Policies and Bills to address climate change.

Projects and programmes 2018 – 2022 include:

- Climate Change Governance and Coordination Programme aims at enhancing governance, coordination and financing of climate change related activities in all sectors of the economy.
- Promote Environmental Diplomacy: Kenya will continue to play a critical role in shaping global environmental agenda, particularly on climate change and sustainable development.
- Capacity Building and Public Awareness Programme: The programme will strengthen both institutional and human capacity towards enhancing access to timely and accurate information on climate change.
- Other projects and programmes include: Green Growth and Employment Programme (GGEP); Switch Africa Green (SAG) Project; Green Innovations and Technologies Programme; and the Green Economy Transition at Local Level.

Policy, Legal and Institutional Reforms include developing **s**ubsidiary legislation and roadmap for the implementation of the Climate Change Act, 2016; harmonization of sectoral policies and laws to integrate climate change; developing and implement climate change mainstreaming guidelines and indicators; and developing regulations governing the incentives for the promotion of climate change initiatives by private entities.

1.3 Rationale for DFA

Given the context above, it is crucial for Kenya to establish an Integrated National Financing Framework (INFF) with holistic, foresighted and risk-informed planning and financing strategies for its sustainable recovery and development priorities at both national and subnational levels. This Development Finance Assessment project, as a solid assessment of the financing landscape and relevant policy and institutional framework and capacity at national and subnational levels, is part of the joint efforts of the UN Country Team in Kenya to support the country in putting in place such an INFF. The goal will be to provide solutions to and recommendations on strengthening the financing system in Kenya to not only use existing financial resources more effectively and efficiently but also mobilize additional financing for achieving the SDGs.

2.0 DFA Objectives, Methodology, Expected Results and Work Plan

This DFA's objectives and expected results are dictated by the terms of reference (ToR) and the Consultants' understanding for doing the job. Both are discussed in turns below. A DFA is the assessment and diagnosis phase of elaborating an INFF.

2.1 DFA Objectives and Expected Results:

2.1.1 DFA Objectives:

We understand the objective of this assignment is to support the National Treasury and Planning (TNT&P) to elaborate a Development Finance Assessment to develop a Development Finance Assessment (DFA) as a critical step for developing an Integrated National Financing Framework for Kenya's financing needs and financing landscape as well as a macroeconomic framework to guide its short, medium, and long-term resource mobilization efforts in line with Government of Kenya's (GOK) domestic and external financing strategies. The assignment is being undertaken by two experts (international and national consultants) who will engage in an assessment and diagnosis of Kenya's current social, economic and environmental context, financing needs and landscape, INFF structure and process as well as a road-map to establish an INFF. The work will involve desk review of the literature, studies, surveys and reports; information and data gathering from secondary sources including publications by the Government of Kenya (GoK), United Nations, International Finance Institutions (IFIs), Development Partners (DPs), Partner and Peer Countries (PPCs) and academia, among others; interviews and focused-group discussions with stakeholders; and report writing and presentations.

The INFF Technical Committee will be steering the process under the overall guidance of the Cabinet Secretary, TNT&P which is in charge of steering implementation of the Medium Term Plans and Kenya Vision 2030. Inputs will also be provided through interviews meetings and focused groups meetings by the SDG Partners Platform, Parliament, private sector and Development Partners Coordination Group (DPCG) among other stakeholders. The assignment involves three deliverables: (i) Inception Report, (ii) draft DFA, (iii) a revised draft DFA following comments and then validation of a final DFA.

2.1.2 Expected Results of the Kenya DFA:

We note that the assignment envisages the following results:

(a) **Inception phase:** Support mapping of existing knowledge, policies, and stakeholders – compile existing assessments and diagnostic exercises to create *a first snapshot of financing needs and identify major trends in the financing landscape*. Using the global and UNDP's DFA methodology and available secondary information, establish information gap relating to the building blocks of an INFF. This inception report is conducted internally by the UNDP and Technical Committee before consultants are hired to embark on the elaboration of the

(b) Development Finance Assessment (DFA) report. Support to collect and analyze data for a comprehensive and in-depth assessment of the public and private financing landscape, financing policies, institutional structures, and opportunities to build a more integrated approach to financing the sustainable development priorities in Kenya. The analytical framework will be in relation to the 4 INFF building blocks and is outlined below in detail. This assessment process will bring together government officials, private sector and other stakeholders to facilitate discussion on how to operationalize a more integrated approach to financing development priorities through an INFF. The national consultant will work with the international consultant for the core delivery of this assessment process: *a Development Finance Assessment (DFA) report, concluding with an INFF Roadmap which lays out the steps that will be taken subsequently to operationalize an INFF in Kenya.*

(c) INFF Road Map: Based on the DFA elaborate a Road Map for implementation by facilitating working sessions with stakeholders to build consensus on the Operational Plan to implement the INFF Road Map.

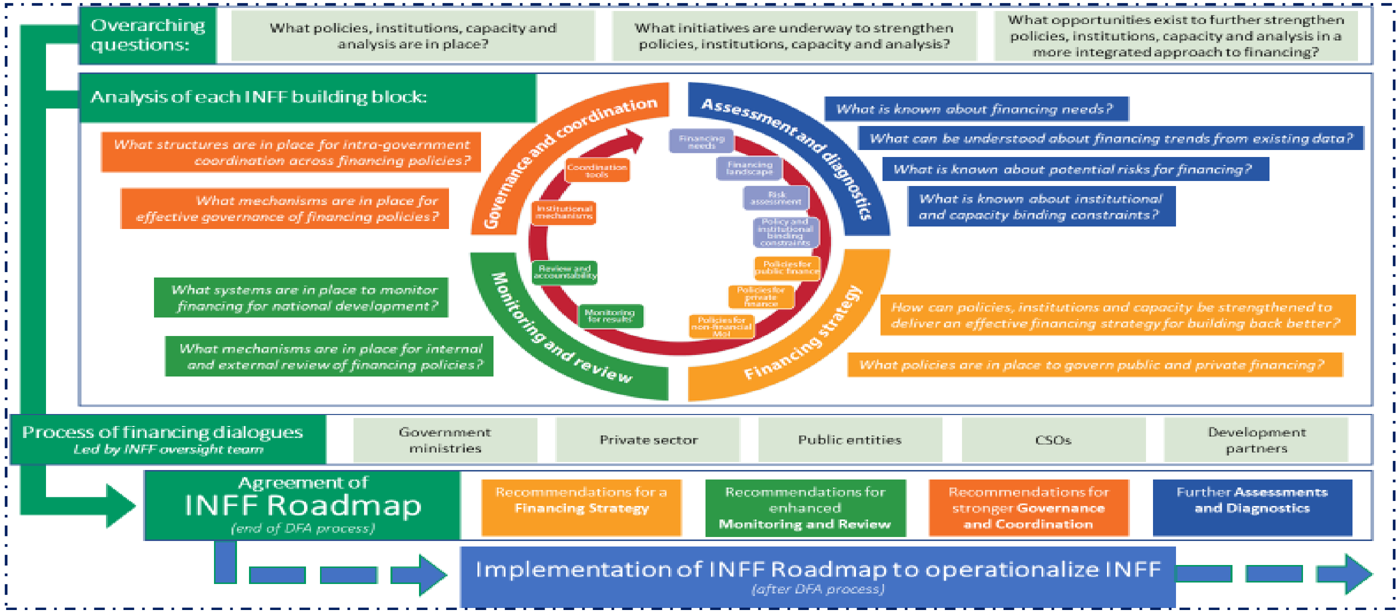
Refined Financing Strategy: Provide technical support in the development/refining of a long-term financing strategy to enable Kenya to achieve the second building block of the INFF, based on the existing financing strategy of the MTP III and other relevant government policies. The strategy should match financing policy actions across public and private finance to priorities in the MTP III bearing in mind sustainability and impacts on Macroeconomic Framework and debt sustainability guidelines. The consultant will identify and collate information on known or potential risks that could affect the need for, or availability of, financing for sustainable development. The strategy should also cater to a risk assessment and scenarios that can affect financing needs and availability, drawing from available literature and analysis. The strategy should reflect an analysis and synthesis from stakeholder interviews of the strengths and opportunities to strengthen national and subnational institutions' capacity to effectively deliver public and private financing policies.

2.2 Methodology, INFF and DFA Framework Overview and Preliminary Findings:

2.2.1 DFA Framework Overview:

A DFA is the assessment and diagnosis phase that leads to an INFF which is a national government planning tool that amalgamates assessments and analyses for funding national development plans to attain the national priorities and Sustainable Development Goals (SDGs). The Inter-Agency Task Force (IATF) for Financing Development developed INFF which has three phases consisting of an inception, development and implementation of the INFF (Figure 2). The Inception Report provides an initial scoping analysis work on the political, social and economic context, mapping of stakeholders, institutions and propose structures for overseeing and undertaking the INFF. The UNDP has developed tools for conducting the inception Phase referred to as a Development Finance Assessment (DFA) Guidebook.

Figure 2: The INFF Framework:



Source: *Development Financing-IATF*

2.2.2 Kenya's DFA and INFF Framework (Proposed):

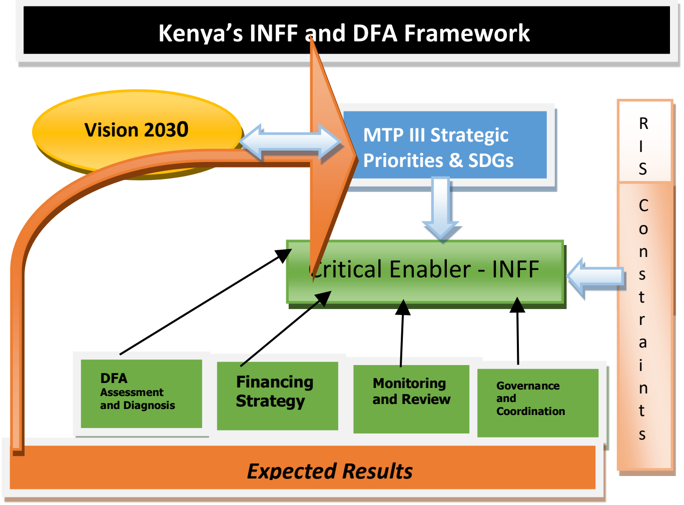
The proposed Kenya INFF Framework is a product of a juxtaposition of the IATF's INFF Development Finance which details Kenya's financial system. The proposed Kenya's INFF Framework given above depicts the flow of the narrative presented below. This framework enthrones clarity for results giving the direction and desired sustainable development outcomes that Kenya wants to achieve with regard to Vision 2030 and international Agenda 2030 and in the MTP IIII.

A. Vision 2030:

The Vision 2030 expresses Kenya's aspirations to progress from a low-middle income country (LMIC) "to transform Kenya into a newly industrializing, globally competitive, and prosperous high middle-income country with a high quality of life for all citizens by 2030". In income per capita terms, this represents almost a doubling in 10 years from USD 1,875 in 2020 to USD 4,036 by 2030. The Vision provides these long-term results that serve as targets for monitoring achievements. The Vision is implemented through medium-term plans that guide the development agenda - the first covered the period 2008-2012, the Second went from 2013 to 2017, and the current one was launched on 23rd November 2018 and goes from 2018 to

2022. This confirms the linkage of the Vision 2030 to the MTP III, which in turn is linked to the medium term expenditure framework (MTEF); and, in turn, the MTEF informs the annual fiscal budget.

Figure 3: Kenya's INFF and DFA Framework:



Source: DFA Consultants

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B. Medium Term Plan III:

The Long Term Vision 2030 is being implemented through Medium-Term Plans I, II, III. The current MTP III is intended to complete any unfinished business under MTP II, while continuing on the journey to the timeline of Vision 2030. The MTP II is anchored on four main results: i) Increasing the manufacturing share of GDP from 9.2% to 15 % largely driven by agro-processing to at least 50% of total agricultural output; ii) Building 500,000 units of affordable houses in five years across the country; iii) Enhancing Food and Nutrition Security (FNS) through construction of large-scale multi-purpose and smaller dams for irrigation projects, food storage facilities and strengthen initiatives on high impact nutrition; and, iv) Achieving 100% universal health coverage. These interventions and the domestication of the SDGs in the national plan, which has been already been attained, are intended to ensure inclusive growth and the socio-economic results.

The MTP III policy reform agenda is comprehensive and transformative switching establishing a strong industrial base and building on gains registered in the services such as tourism. The critical enablers include productivity gains spurred by investments in infrastructure, aviation, rail and seaports as well as expanding the fiber optic highway and renewable energy. In ICT, the e-Government will cover the entire public sector and establishment of innovation parks and STEM education programmes. The land reforms will benefit from spatial mapping, value index and information system. Public sector reforms highlight One-Stop Huduma Centers and National Capacity Building Framework to support the decentralization of public serves across the country.

The MTP III has the following macroeconomic targets underpinning the economic transformation pillar geared towards diversification of the domestic production base, higher employment and inclusive growth: increase real GDP annual growth from 5.9% in FY 2018/19 to 7% annually to 2022; increase savings ratio to GDP from 18.8% to 23.2%; Increase Investments ratio to GDP from 24.4% to 27.2%; and, increase the formal sector employment ratio from 13% to 40% resulting in 6.5 million new jobs, over the plan period.

The social and political transformation pillars of the MTP III are also specified, with goals to eradicate extreme poverty and malnutrition, improve the quality and expand access to education and health, build capable and accountable public institutions, ensure continued citizen participation and engagement in development strategies, continue international development cooperation, and ensuring security and safety, as well as justice, law and order. On top of the strategic interventions under the three pillars, the MTP III includes (3) thematic priority areas namely, HIV/AIDS, Climate Change and Disaster Risk Management.

This DFA does the assessment and diagnosis phase of the INFF and anticipates a platform to integrate the implementation of the MTP III with regard to these reforms across sectors, stakeholders - domestic and external; public, private and civil society; and, Government and development partners (DPs). The DFA will also enable the monitoring of the SDGs as Kenya's targets are fully domesticated in the MTP III, 2018-2022, to be achieved as the goals of Vision 2030 are attained. The details are presented on Table 1. The next two stage are the MTEF and fiscal budget which are analyzed under public finance in the chapter on DFA Analytical Framework.

However, the MTP III acknowledges that the funding challenge remains and herein lies the value addition of the INFF. The MTP III does not present a holistic financing strategy however, it highlights financing challenges and options on a topical basis throughout the document. Overall, the plan posits "Inadequate financing and high capital investment requirements" and "Inadequate access to affordable long term financing for industrial enterprises and MSMEs", and seeks to develop PPP models for infrastructure financing, establishment of an Export/ Import Financing Bank, infrastructure financing from the local capital markets, and climate finance and disaster risk financing as well as financing strategies for each of the economic sectors notably heath, education and social sector with close collaboration with DPs. The sector priorities and targets associated with the financing needs are also detailed on Table 1 below.

Table 1: Linking Goals/Priorities for Vision 2030 and MTP III to SDGS:

Vision 2030 Pillars	MTPIII Sector / Subsector	MTPIII Strategy	SDGS
(1) **Economic Pillar: Maintain and sustain economic growth of 10% p.a. for most of the next 20 years.**	**Agriculture and Livestock**	• **I**rrigate 1.2 million acres and expand the area under crop production. • Subsidize 200,000 MT of assorted fertilizer annually under the fertilizer cost reduction programme. • Expand the Strategic Food Reserve Trust Fund to include additional food stuffs. • Establish livestock disease free zones and strategic feed reserves built to improve availability of fodder in ASAL areas during drought through stocking one (1) million bales of hay and 100 MT of pasture seeds..	1,2,3,4 ,6, 7,10, 11, 17
	Manufacturing	• Improve Kenya's ranking in the Ease of Doing Business Indicator from position 80 to at least 45 out of the 189 countries • Kenya improved its ranking to 61 in 2018 from 80 in 2017 • Based on 10 sub-indices (starting business, construction permits, getting electricity, registering property, paying taxes, getting credit, protecting investors among others) • Improve Kenya's Global Competiveness index from position 91 to 85 out of 137 countries. • 3,850 new manufacturing enterprises created through industrial financing and other incentives. • Increase Export earnings from textiles and apparel production from Ksh.80 billion in 2017 to Ksh.200 billion by 2022. • Establish Special Economic Zones at Dongo Kundu, Athi River & Naivasha	

Vision 2030 Pillars	MTPIII Sector / Subsector	MTPIII Strategy	SDGS
	Tourism	• Tourism arrivals to increase from 1.3 million in 2016 to 2.5 million by 2022. • In 2018, the country registered 2.02 million arrivals • Tourism earnings to increase from Kshs.99.7 billion to Ksh.175 billion • In 2018, earnings was Kshs.157 billion • Bed-nights by domestic tourist to increase from 3.5 million to 6.5 million.In 2018 bed-nights by resident was 4.5 million	
	Trade	• Whole sale hubs and Tier 1 retail markets will be constructed to facilitate trade. In addition, a National Commodities Exchange and Export Credit Guarantee Scheme will be established and operationalized. θBPO/ITES • The Konza Technopolis City will be established as a smart sustainable city and innovation ecosystem. • One (1) million on-line jobs will be created under the Ajira Programme. θFinancial Services • The Nairobi International Financial Centre will be established and made fully operational as a major regional Hub. • Establishment of a Financial Services Authority.	
	Oil, Gas and Other Minerals	• Implementation of the Early Oil Pilot Scheme • Exported 200,000 barrels of crude oil worth Kshs. 1.2 billion in August 2019 • Construction of 840km Lokichar-Lamu crude oil pipeline and commercialization of the oil and gas discoveries. • Enhancing storage capacity of petroleum products from 989,000 m3 to1,222,000 m3. • Development of 20,000MT bulk LPG import handling facility at Mombasa • Carrying out aerial geophysical surveys to establish areas of mineralization. • Establishment of Internationally Accredited Mineral Certification Laboratory.	
	Blue Economy	• Establishment of a national fishing fleet and fishing ports. • Fish production to increase from 128,649 metric tonnes in 2016 to 304,000 metric tonnes annually. • Jobs to be created under the Vijana Baharia Programme - ship building and repairs industry	
(2) Social Pillar:	**Health**	*Universal Health Coverage*	**1,2,3,**

Vision 2030 Pillars	MTPIII Sector / Subsector	MTPIII Strategy	SDGS
A just and cohesive society enjoying equitable social development in a clean and secure environment		• Expansion of social health protection schemes to cover harmonized benefit package to targeted populations and ensure that 51.6 million Kenyans have access to NHIF by 2022. • Implementation of Linda Mama Project to cover 1.36 million mothers and babies • Establishment of 10 new referral hospitals and 4 Cancer Centres. • Expansion of Managed Equipment Services to 120 hospitals by 2022. •	**4,6,7, 10,11, 17,18**
	Population, Housing and Urbanization	• Deliver 500,000 low cost affordable housing units. • Establishment of a National Housing Development Fund to finance low cost housing and associated social and physical infrastructure. • Development of urban mass transport infrastructure and solid waste management infrastructure in cities and urban centres.	
	Education and Training	• Achievement of 100 % Universal Secondary Education • Improving the teacher-pupil ratio from 1:45 to 1:30 in both primary and post primary institutions; • Implementation of Competence Based Curriculum (CBC) • Development of TVET infrastructure and equipment; • Increasing access to education and training for learners with Special Need and Disability • Expanding the Digital Literacy Programme in order to Integrate ICT into teaching, learning and training.	
	Sports, Culture and the Arts	• Construct six (6) national stadia and rehabilitate 30 county stadia to international standards. • Expansion of Kenya Film School to promote indigenous creativity.	

Vision 2030 Pillars	MTPIII Sector / Subsector	MTPIII Strategy	SDGS
		• Establishment of County Heritage Centres and Community Cultural Centres in all counties. • Establishment of a Presidential Library & new 27 County Libraries	
	Environment, Water, Sanitation and Regional Development	• Rehabilitation and protection of the five (5) water towers. • Increase country's Tree Cover from 6.9 %t to 10% • Completion of on-going water projects in urban and rural areas to increase the number of people connected to safe piped water from 3.6 million to 9 million. • Proportion of people with access to potable water to increase from 60 % to 80 % by 2022, focusing on slums and arid areas. • Increasing the Land under irrigation by 518,000 acres • Undertake Land reclamation and rehabilitation of 60,000Ha prone to landslides, floods & heavy soil loss	
	Gender, Youth and Vulnerable Groups	• Women Enterprise Fund loan disbursement to increase from a cumulative Ksh10.4 billion to Ksh.25.7 billion targeting 2,157,653 beneficiaries by 2022. • Inua Jamii programme for the elderly to be scaled up from 810,000 to 1,800,000 beneficiaries • Youth Enterprise Development Fund to disburse 20.7 billion and cover 454,000 youths by 2022 • Uwezo Fund scaled up by Ksh.2.5 billion to cover additional 500,000 beneficiaries by 2022 • Implementation of the National Development Fund for Persons With Disability and cash transfer to support orphan children • Increase the coverage of Free Sanity Towels to all public schools	

Vision 2030 Pillars	MTPIII Sector / Subsector	MTPIII Strategy	SDGS
		• Number of women trained on entrepreneurship skills to increase from 956,493 to 1,632,806.	
(3) Political Pillar: An issue-based people-centred, result-oriented and accountable democratic political system	**Devolution**	• Continue strengthening policy, legal and institutional frameworks.	1,2,3,4,8,10, 13,15,17
	Governance and Rule of Law	• Implementing mechanisms for whistle blower protection, streamlining asset tracking and recovery of corruptly acquired assets. • Providing legal aid to 200,000 vulnerable members of society.	

Source: MTP III *(2018-2022)*

Critical Enabler – Development Finance Assessment The DFA is the most involving aspect is the INFF Analytical framework involving assessment and diagnosis of financing trends, demand and supply, integrating planning and financing, public-private partnerships, monitoring and review, and accountability and transparency. DFA process brings together public and private actors to accelerate Kenya's sustainable development through a strategic process, the INFF process is expected to build a wide constituency for reform - thereby building momentum for accelerating progress in reaching MPT III and SDG targets. DFA also identifies and help to link financing sources with expected results and promotes more integrated and comprehensive planning and budgeting. It stands to inform budget allocations through a more clustered approach to achieving multiple objectives, prioritize policy and fiscal reforms, and enhance resource mobilization efforts through improved resource efficiency and fiduciary management. The DFA seeks to support cooperation and coordination among different areas of government —ministries, regulatory bodies, and other relevant public actors—and facilitate dialogue with development partners, private sector and other stakeholders. The Road-Map seeks to strengthen planning and financing link, improve multi-stakeholder dialogues; effectively managing finance for results; and, solutions and reforms for mobilizing domestic and external resources.

The approach to this DFA Report involves an aggregation of a spectrum of existing studies, assessments and analyses from the Government of Kenya (GoK), UN Agencies, International Financial Institutions (IFIs), non-government organizations (NGOs) and other international agencies on specific aspects of sustainable development, financing and policy and institutional context. Value added from this Report is derived in collating these works building on synergies and ironing contradictions, manage financial and non-financial risks, set a big picture focus through the lens of an integrated national financing framework to evolve priorities for government for financing the country's short-term goal of Economic Recovery Programme and the medium-term Third National Development Plan, 2018/18-2022/23, towards achieving the Vision 2030 and the SDGs Agenda 2030 while facilitating implementation oversight at the highest levels of Government. The Report sets the analytical baseline for an integrated national financing framework, provides recommendations on key policies on financial management, governance and institutional structures for managing development financing strategies. It is forward looking by positing a roadmap for INFF preparation, governance structure with institutional roles and responsibilities, an INFF coordination framework, and actionable implementation plan that the GoK and its partners can pursue in a coordinated way to elaborate and strengthen the INFF.

The ultimate aim of the DFA is to build towards the establishment of an INFF for Kenya. A number of countries have conducted either a DFA of a fully-fledged INFF and they include Sierra Leone, The Gambia, Uganda, Thailand, Vietnam, and Timor Leste. This DFA stands to benefit from these experiences as well as the personal experiences of the Consultants in this regard.

Practically the flow starts from a national vision with time horizon of 15 years or more, implemented through a series of medium term development plans of 5 years each which is narrowed into a rolling over Medium Term Expenditure Framework (MTEF) that matches investment to financing, and then implemented through the annual fiscal budget. The planning and financing nexus is realized through linking the Vision 2030 and SDGs 2030 and the domesticated SDGs 2030 to the MTP III, operationalized through a MTEF which identifies the financing envelop and implemented through the annual fiscal budget which is funded (Table 1).

The focus of a DFA is on development financing; consequently, the relevant results are defined by SDG 17 as detailed on Table 2. Overall, it defines revenue performance in the national fiscal budget, debt, investment flows, financial inclusion and institutions related to financing and statistics. Table 2 will be populated during the analysis phase.

Table 2: SDG Financing Performance indicators

L#	SDGI official code (2017)	Indicators	Baseline value		Progress value	Progress year	Data Source
GOAL 17. STRENGTHEN THE MEANS OF IMPLEMENTATION AND REVITALIZE THE GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT							
17.1 Strengthen domestic resource mobilzation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection							
103	17.1.1	Total government revenue as a proportion of GDP, by source	Total revenue as a proportion of GDP: …... (tax+ non-tax + grant)	2016	Total revenue as proportion of GDP: ….. (tax + non-tax + grant)	2017/18	NTN&P

104	17.1.2	Proportion of domestic budget funded by domestic taxes	…..%	2016/17	…..		
17.3 Mobilize additional financial resources for developing countries from multiple sources							
105	17.3.1	Foreign direct investment (FDI), official development assistance (ODA) and South-South Cooperation as a proportion of total domestic budget		2016			NTN&P
17.4 Assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress							
106	17.4.1	Debt service as a proportion of exports of goods and services/ (external debt in nominal terms)/ Proxy		2016		2018	NTN&P
17.8 Fully operationalize the technology bank and science, technology and innovation capacity-building mechanism for least developed countries by 2017 and enhance the use of enabling technology, in particular information and communications technology							
107	17.8.1	Proportion (%) of Households with internet access/Proxy		2013-2014			KBS
17.11 Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries’ share of global exports by 2020							

108	17.11.1	Developing countries and least developed countries share of global exports/(Export goods and services in USD million /proxy	Kenya exports total ……% of GDP	2016		NTN&P
17.18 By 2020, enhance capacity-building support to developing countries, including for least developed countries and small island developing States, to increase significantly the availability of high-quality, timely and reliable data disaggregated by income, gender, age, race, ethnicity, migratory status, disability, geographic location and other characteristics relevant in national contexts						
109	17.18.2	Number of countries that have national statistical legislation that complies with the Fundamental Principles of Official Statistics	Kenya Bureau of Statistics’ legal framework is aligned to international standards			KBS
110	17.18.3	Number of countries with a national statistical plan that is fully funded and under implementation, by source of funding	Kenya Bureau of Statistics has a 5-year strategic plan - National Strategy for Development of Statistics, third generation. Its implementation is funded by GoK and DPs			KBS
17.19 By 2030, build on existing initiatives to develop measurements of progress on sustainable development that complement gross domestic product, and support statistical capacity-building in developing countries						
111	17.19.2	Proportion of countries that have conducted at least one population and housing census in the last 10 years; and have achieved 100% birth registration and 80% death registration	In ….. a population and housing census was conducted			KBS

2.2.3 Assessment and Diagnosis

DFA analytical framework involves evidenced-based assessment and diagnosis of development financing covering financing needs including cost of investment estimates, financing landscape – domestic and external, public and private, financial and non-financial risks and policy and institutional binding constraints. An analysis of financing needs and landscape is standard practice in development financing, while the window of opportunity to discuss risks and constraints must be assessed throughout the development financing system. A variety of tools for the diagnostic phase have been developed by stakeholder institutions such as IMF's Tax Administration Diagnostic Tool (TADAT) and World Bank's Public Expenditure and Financial Accountability (PEFA). Consistent with the INFF integration process, an eclectic approach will be used here to derive maximum efficacy from these tools mindful of internal consistency within each of them.

A. Financing Needs:

Financing needs assessment estimates the cost of the MTP III which constitutes the demand for development financing, while the financing flows or landscape constitutes the supply side. Government's financing needs are expressed in the short term -1 year- through the national fiscal budget, in the medium-term expenditure framework (MTEF) - 3 years - and long-term national planning horizon – 5 years. These three spending frameworks operate as a continuum to link attaining the Vision 2030 and the country's Sustainable Development Agenda 2030 and 17 SDGs to the annual fiscal budget for implementation. While the main analytical framework will consider all three, the main focus is national plan and national budget. While bringing to the fore the pertinent INFF issues on financing needs largely dominated by flows and in the short term, expenses to mitigate the Covid-19 recession.

This financing needs assessment is focused on the 5-year MTP III in terms of the cost of, and investment required for, its implementation. The financing needs pertain to funding Kenya's SDG compliant MTP III and using its costing and required investment as the basis for identifying financing needs. Kenya's investment policy guided by seven core principles focused openness and transparency, inclusivity, sustainable development, economic diversification, domestic empowerment, global integration and investor centeredness. Total investment is estimated to rise from 19.7%% of gross domestic product (GDP) in 2017/18 (base year) and rising by annual average rate of 1.14% of GDP to 25.4% in 2022/23[26]. The MTP III recognized a constrained fiscal space against this level of financing needs and therefore envisaged an expanded leverage on the private sector especially, investments through Public Private Partnerships (PPPs). To implement this strategy, a High Speed PPP Unit will be established to attract and engage the private sector on implementation of projects under the "Big Four": increasing manufacturing, affordable housing, Food and Nutrition Security (FNS) and 100% universal health coverage.

[26] MTP III, p.12

The trajectory of investment under the MTP III was interrupted by the desire to combat the effects of the Covid-19 pandemic which struck Kenya on 12 March, 2020[27]. Table 2 below summarizes the scope and impact of the health on mortality. The macroeconomic impact was high on economic growth. The impact was pervasive hitting hard human capital development and setting back the poverty reduction gains made in the past decades. Most profoundly, the pandemic has set back progress on the trajectory to achieve the results of MTP III and SDGS by 2030. Attaining these targets by that timeline rests squarely on a V-shaped recovery and building back better to the pre-Covid-19 growth rates.

In line with global economic contraction of 3.8% in 2020 from a growth of 2.9% in 2019, Kenya's economy also dipped by 5.5% in the second quarter of 2020 and 1.1% in the third quarter, albeit registering a marginal growth of 0.6% for the whole year. The assessment done by the UNDP's Policy Brief, 4/2020, rated the adverse impact to be high on Tourism, Manufacturing, Health and Agriculture; moderate on Wholesale and Retail Trade and Finance and Insurance; and, low on Construction. Estimates are hard to come by however, the GoK's initial response package under Economic Stimulus Programme, 2020, planned to spend Ksh 53.7 billion shillings ($503 million) on a stimulus package to support businesses with credit guarantees, loans to small businesses and support tourism facilities.

Furthermore, the Government 2021/22 budget is centered around a bigger package titled the Post Covid-19 Economic Recovery Strategy (ERS) to mitigate against the long term adverse socio-economic impact of the coronavirus pandemic to build back better the economy on a steady and sustainable growth trajectory. The policies of the ERS are refocused on the "Big Four" of the MTP III. Kenyan Treasury officials are basing their debt-restructuring plans on the expectation of a bounce back from the effects of Covid-19 on tourism and commodity exports.

Table 2: Covid-19 Update, 3 July, 2021		Table 3: Macroeconomic Impact of Covid-19	
Description	Number	Sector	Impact
Cumulative Tests	1,978,155	Tourism, Manufacturing, Health, Agriculture	High
Total Confirmed Cases	185,591	Wholesale & Retail Trade, Finance & Insurance	Moderate
Total Recoveries	126,956	Construction	Low
Cumulative Fatalities	3,671		

Source: Ministry of Health, Kenya   Source: UNDP Policy Brief, Issue 4/2020, April 2020

Although the budget deficit is predicted to widen to 8.7% of GDP, the government will have to borrow more. Government debt is expected to exceed 60% of GDP, a global standard, and debt-servicing to take up to 27% of state revenue over the next three years, more than a quarter is deemed to be high. The NTN&P plans to raise at least KSh124bn (US$1.24bn) by June 2022 on the Eurobond market. This move is part of a planned debt restructuring of around KSh350bn ($3.5bn) of principal repayments. The Treasury is making the size of the Eurobond contingent on the financing received from the Bretton Woods Institutions and African Development (AfDB). In April 2021, the authorities and IMF have agreed on an

[27] Ministry of Health website: https://www.health.go.ke/first-case-of-coronavirus-disease-confirmed-in-kenya/

Extended Credit Facility (ECF) with resources amounting to USD 2.34 billion. It is recognized that domestic financing efforts would also be required and already fuel duty has increased by KSh8 per litre. All indications are that more would be required.

In light of the foregoing, the impact of the corona virus pandemic has taken center of the national policy and development agenda with a focus on combating the health emergency and digging out the recession it has ushered. Therefore, indications from the IMF and national estimates suggest that recovery to pre-Covid-19 economic would be realized not earlier than 2023. This means that any medium term financing strategy must be buoyed by efforts in the economic recovery programmes ensuring as far as possible, a V-shaped recovery out the adverse socio-economic malaise. Consequently, a major preliminary finding of this DFA is that the Covid-19 response constitutes the current priority of the policy makers while anticipating a return to development trajectories projected by the MTP III.

Other Preliminary Findings:

Other preliminary findings highlight the following issues that would be expanded with more evidence during the analysis phases:

(a) The country has done much to promote private sector growth by being one of the leaders in Africa on the international doing business and competitiveness index, among others. Against the priority focus on a private sector-led economy under the MTP III, the National Investment Policy, Investment Code, trends in FDI, portfolio investment, domestic private sector investment, and private sector financing, inter alia, will be assessed with a focus on scaling up the role of the private sector in Kenyan economy.

(b) The assessments under DFAs go beyond sector specifics to policy priorities and financing options, medium-to long-term perspectives, and addressing risks and sustainability. Thus, the selected performance targets should proffer as much information as possible in terms of these integration issues. Integration in the macroeconomic framework for policy purposes requires the estimation of the annual budget deficit and investment gap in the MTEF are such critical balances to arrive at financing needs, each explained by a variety of variables. For example, the fiscal deficit is estimated to decline further from -7.8% of GDP in FY 2020 to -8.7% in FY 2021, while the pandemic is still on-going. Already, the country's Covid-19 response entailed a fiscal and monetary stimulus that occasioned higher spending under the ERP than previously projected on health, social safety nets, food self-sufficiency and protect jobs through support for businesses as well as liquidity for the financial sector. Notably, the ERP also introduced heightened coordination across sectors to engender a quick economic rebound for effective response to Covid-19 and its consequences. This feature of the ERP priorities is consistent with the expected benefits of the INFF and may be sustained on the platform.

2.2.4 Financing Landscape:

Figure 4 below which will form the narrative here, presents a Schematic view of Sources of Finance for Sustainable Development depicting domestic and foreign sources, institutions, agents and tools that constitute the financing landscape. It brings to the fore domestic policy and institutions, international and regional institutions engulfing Government, domestic banks, financial institutions and capital markets; public-private partnerships, private institutional investors, international financial institutions (IFIs) and regional financial institutions.

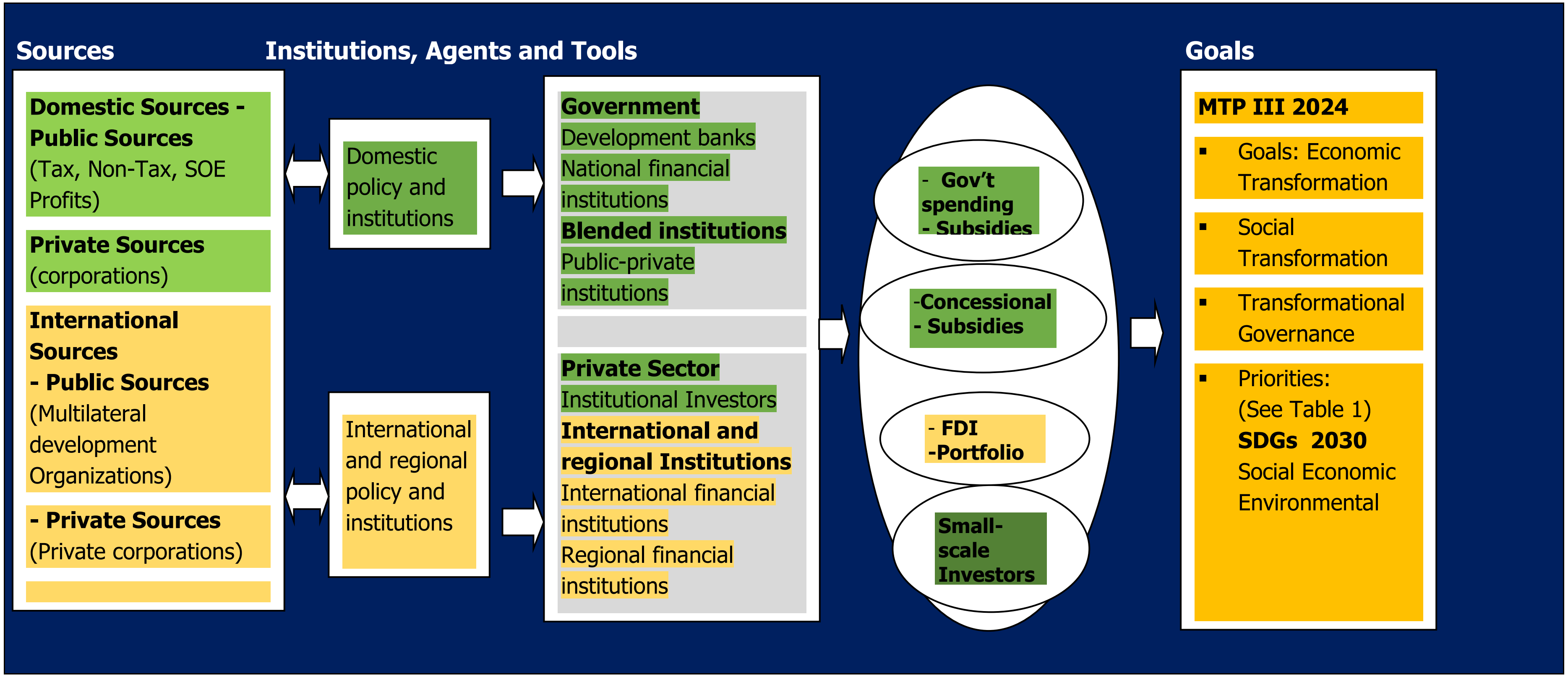
The fiscal tools of sourcing finance involve the fiscal budget, subsidies to attract investors, Government guarantees and concessions. Foreign flows are enabled by foreign direct and portfolio investments and Eurobond subscriptions as well as small-scale investors that are the backbone of small and medium enterprises seen as the engines of job creation under the MTP III. The narrative of the assignment will follow this schematic diagram (Figure 4) in elaborating Kenya's financing landscape. The domestic financing narrative will be driven by the quest for financial deepening or development predicated on depth, access and efficiency of money and capital markets.

On this basis, Kenya's external financing landscape will involve exploring sources, institutions, agents and tools as well as data and data sources. Significantly, the external flows pertain to the public sector, private sector, civil society, and other financing flows such as remittances and philanthropy, and would therefore serve as a guideline in the narrative on external financing. Domestic financing flows will cover tax, non-tax, bank and non-bank borrowing, SOE profits, direct and portfolio investment in public-private partnerships and small and medium enterprises. While National Treasury serves the institution with overall policy responsibility and can provide the requisite data, other main institutions involved are the Central Bank of Kenya (CBK), the Kenya Revenue Authority (KRA) and the Kenya Capital Markets Authority (KCMA).

The current context of the financing landscape in most countries including Kenya is dominated by the Covid-19 response received mostly from international financial institutions (IFIs) in quick disbursing resources, external debt relief and minimal domestic tax efforts. The UN family, IMF, World Bank and African Development Bank (AfDB) are together the development partners (DPs) providing resources, technical assistance and operational guidance as well as critical diagnosis for policy solutions for recovering from the Covid-119 towards refocusing on the MTP III targets and the SDGs. Bilateral DPs, notably China, have been approached for debt relief in accordance with the G20-led globally agreed responses to the recession caused by the pandemic. A recent Economic Update by the World Bank posits that Key priorities going forward post-Covid-19 include: "(i) improving the government's expenditure allocation, financial management and revenue mobilization; (ii) strengthening the resilience of the health system and preparing for administration of a vaccine; (iii) reducing learning losses (targeting the most vulnerable), improving skills and strengthening accountability in education; and (iv) expanding the flagship social safety net program, building adaptive systems to respond quickly to shocks, improving poverty targeting of safety net programs, and scaling up the use of digital payments"[28]. The focus of this DFA is on the number (i) imperative.

[28]Kenya Economic Update, Rising Above the Waves, World Bank Group, 2021

Figure 4: A Schematic View of Sources of Financing for Sustainable Development:



Source: Adapted from Financing for Transformation by UN Economic and Social Commission for Asia and Pacific

This DFA is the one the precursors to establishing an INFF platform that brings the strands of post Covid-19 financing and spending priorities into a holistic financing strategy. The IFI facilities already rolled out in many countries are presented in Table 2. As published, the IFIs Covid-19 financing for Kenya stands at USD 3.3 billion with the IMF contributing 71%, from an EFC which is a standard balance of payments and budget facility; World

Bank 23% and AfDB 6%. It is notable that the IFIs particularly the IMF, has a fast relief facility which is highly concessionary that low income countries can access but Kenya is not eligible as a middle income country. ECF still qualifies as non-commercial lending[29].

Table 2: External Financing under Covid-19 from International Financial Institutions

#	Institution	#	Facility	USD (Billion)
1.0	International Monetary Fund	**1.1**	Extended Credit Facility (ECF)	2.340
2.0	World Bank	**2.1**	Fast-track package: COVID-19 (Corona virus) Emergency Health Support	0.750
3.0	African Development Bank	**3.1**	Covid-19 Response Facility	0.222 (Euro 188 million)
	Total			**3.312**

Source: Economic Recovery Plan (ERP).

Financing flows to fund the MTP III involves domestic – revenue and loans, and external – foreign direct investment (FDI), portfolio, net loans, grants and remittances as well as climate finance. This assessment will delve into all these financial flows while putting an accent on domestic resource mobilization for two reasons. Taxation is in the control of Kenyan Authorities and the external financing environment is difficult characterized by a global recession and political nationalism while private capital flows in Africa remains low for a myriad of investor perceptions reflected in international doing business and competitiveness indexes. Albeit it is imperative that for Kenya to achieve the investment levels needed under the MTP III, the country must consolidate efforts to break out of this African mold to attract more foreign private capital inflows.

Kenya has done much on tax effort to register a tax-to-GDP ratio of 15-17.5% in the past five years to 2019/20. However, this is still below the average ratio of 20-25% achieved by most upper middle-income countries, a status the country has as a target in the MTP III. A medium-term revenue mobilization strategy was elaborated, and risk tested fiscal outlook is presented in the Article IV Consultations and both would be reviewed. Given the greater share of private investment required to implement the national plan, a diagnosis of policy and programme efforts to raise the country's investment and savings level based on inclusive financial deepening is therefore pivotal in the assessment of financing flows. Domestic investors rely on local financial markets while foreign direct and portfolio investors also largely fulfill working capital needs from the same sources to hedge against currency exchange rate and other country risks. The actual financing flows on Kenya's financing landscape for the MTP III will be assessed in a holistic approach are summarized in the Financing Flows (Table 3). A synopsis on each financing flow given on the table will pursued during the analysis.

[29] The ECF carries a zero interest rate at least through June 2021, with a grace period of 5½ years, and a final maturity of 10 years. Source - IMF website: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/04/Extended-Credit-Facility

Table 3: Preliminary Finding on Financing Flows Landscape

#	Financing flows	Comments on Trends
1.0	Total Revenue	Consistent growth over two decades, reached a plateau, moderately accelerating still below Upper Middle income country levels
1.1	Tax revenue	Dominant source of financing – 15-17.5% of GDP, Effective tax administration – consolidation and medium term strategies - DRM strategy, MTRS
1.2	Taxes by type	Sustained growth in direct taxes; review constraints to growth in indirect taxes
1.3	Taxes by size of accounts	Review tax administration approach to medium and small tax payers
1.4	Taxes by sector	Sector Analysis of tax premium and discount sectors to arrive at binding constraints to be relaxed for optimal growth to achieve tax potential
1.5	Non-tax revenue	Around 4% of GDP, potential for growth
2.0	Domestic debt	Slow growth in financial savings – assessment on depth, access and efficiency for more savings and inclusive financial sector – Review SMSE access to financial services to promote widespread job creation and reduce poverty
2.1	Domestic public debt	Spectrum of government debt instruments; consistency with the private sector-led growth strategy
2.2	Domestic private debt	Sector review of constraints to access to credit
3.0	Foreign direct investment	Last PCF census in 2017, dated; investor perception surveys, corporate social responsibility
3.1	Portfolio Investment	Last PCF census in 2017, dated; investor perception surveys
4.0	Foreign debt	Accounts for most recent investments, constraint – DSA Assessment, debt distress level
4.1	Foreign public debt	Fiscal rule – Concessional terms; Kenya's nominal debt levels (including guarantees) rising; DSA - debt distress risk
4.2	Foreign private debt	Accounts for most investments in private sector – volatility of short term capital a major financial stability risks – Asian financial crisis
5.0	Foreign transfers (grants)	Consistently below 5% of GDP and declining; sources – ODA, NGOs, Philanthropy
6.0	Remittances	Data delineation a challenge, tied to growth in external aggregate demand, strength of family ties with Diaspora; size and attitude of Diaspora towards present regime
7.0	Innovative financing	Climate/Green Financing

Sources: IMF Articles IV and ECF Facility; UNDP Reports, World Bank Recent Economic Update, January 2021; NTN&P, KRA, KNBS, among others.

External financing which was already declining has now been largely devoted to climbing out the hole created by the Covid-19 rather than buttressing the growth trajectory that would increase the prospects of achieving the goals of the MTP III and SDGs in 2030. The World Bank's Recent Economic Report surmised that the fiscal space has narrowed while the deficit widened and partly funded by an increased public sector borrowing that moved the risk rating of debt distress from "low" to "moderate". Going forward, the financial landscape presents vulnerabilities with dampened recourse to domestic resource mobilization as poverty increased and unemployment occasioned by business closures particularly in services sector. The INFF will consolidate the priorities to fashion a financial flows landscape that would return the country back to its long-term sustainable development financing trajectory to meet the MTP III and SDG development results.

2.2.5 Financial and Non-Financial Risks:

The Covid-19 health emergency is a test case of how risks to development financing strategies and flows can be preempted by unforeseen circumstances with a potential to derail both. In response to the Covid-19 pandemic heath emergency, the Kenyan Government proposed a recovery response stimulus and an Economic Recovery Programme (ERP) that spelled out funding needs to minimize the socio-economic dislocations and build back better to the economic and financial performance trajectories under the MTP III.

In the context of INFFs, such risk assessments aim to bring risk-informed perspectives to financing policy decision-making, with a view to help policy makers better understand, manage and address risks to a country's ability to sustainably finance, and ultimately achieve, national development objectives. Risk analysis involves identifying events that hinder optimal results in sustainable development financing, preferably treating them before they occur[30]. A risk likelihood and impact matrix will be designed to prioritize on risk treatment. Risks must be exposed with regard to not only fiduciary risks under assessments and diagnosis but also savings leakages under the financing strategy, accountability under monitoring and corruption risks under governance and coordination mechanisms. As already starkly brought home by the Covid-19 pandemic, an appreciation and rating of non-financial risks largely gleaned from the history of development finance in Kenya, in which case a pandemic is rare but health emergencies are not. The effects of Covid-19 touched directly or reverberated on virtually every source of development finance. Risk analysis under the INFF enriches the strategic policy options for raising and sustaining development finance.

2.2.6 Policy, Institutional and Capacity-Binding Constraints:

Like risks analysis, identifying and relaxing economic policy, institutional and capacity constraints to financing national sustainable development priorities optimizes outcomes. A typical policy constraint to development financing is the policy stance on tax exemptions which reduce revenue intake or the absence of a holistic public investment programme (PIP) which facilitates costing the development plan and makes explicit the role of Government in the national plan in policy and institutional terms. Those policy, institutional and capacity constraints with the largest effects on sustainable financing outcomes will be identified for policy action while analyzing the desirability of doing so.

[30] Risk is defined here as the probability of an event (or hazard) occurring and its negative consequences, and a shock like the Covid-19 pandemic is the manifestation of such event;

2.3 Refining Financing Strategy:

The financing strategy would spell out the need to ensure adequate financial resources for investments in sustainable development among other things, through (a) strengthening domestic resource mobilization by improving tax collection and the efficiency of public spending and by strengthening systems to harness domestic savings for investment: (b) the full implementation by developed countries of ODA commitments in line with the agreed formula and timetable; and (c) the mobilization of additional financial resources from multiple sources and maximizing climate and innovative financing.

The financing strategy provides a basis of GoK to activate policies and instruments "to mobilise, invest and influence public and private financing from both domestic and international sources"[31]. Under the Financing strategy, it is intended to integrate three sets of policies, between the NST-1 priorities and financing policies including funding the investments in the plan, public and private policies, and collaboration across Government and partners. Currently, there is no single document that spells the financing strategy of GoK but reflected in a myriad of documents including sources related to the NST-1, budgeting, revenue collection, public debt, public entities and development cooperation policy documents. This INFF intends to provide a holistic and internally consistent policy document drawing on and integrating the key policies in all the areas with policy documents while indicating gaps.

2.3.1 Policy Mapping, Stakeholders, Targets and Instruments:

The main INFF stakeholders are presented on Table 4, while national stakeholders with direct reference to the implementation are listed in the MTP III. Table 4 provides information on policy cycles, stakeholders, targets and instrument which the INFF would integrate through a holistic financing strategy supported by coordination, monitoring and review mechanisms.

[31] Development Assessment Guidebook, Version 3.0;

Table 4: Policy Mapping and Stakeholders

Policy Areas	Key stakeholders to consult	Policy document	Country assessments and capacity development
Budgeting	NTN&P, Kenya Revenue Authority (KRA), main spending ministries, private sector associations, NGOs in fiscal management space, IMF, UNICEF	National Budget statements, and estimates, Finance Laws, MTEF,	UNDP Budgeting for the SDGs; Public expenditure and financial accountability (PEFA); IMF Public Investment Management Assessment; Public expenditure reviews by World Bank and others; IMF Article IV staff reports; and World Bank Public investment management reports
Revenue	NT&P, KRA, main non-tax collecting agencies, IMF	National budget statement and Estimates; Future medium-term revenue strategy and Kenya Revenue Authority domestic resource mobilization strategic plan (2019-2024).	
Public and private debt	NT&P, Central Bank of Kenya (CBK), Major Banks, Capital markets regulator and main players,	Regular reports on Debt Sustainability Analysis and recent update June 2020;Ten Year Capital Market Development Master plan (2018-2028); Financial Sector Development Strategy (2018/19-2023/24); Ejo Heza Saving Scheme; A comprehensive Financial Inclusion Strategy under elaboration conducted by the National Bank of Kenya; and, The Kenya Green Fund (FONERWA); Study on developing solutions for boosting domestic savings.	Periodic Finscope Surveys, Monetary Policy Committee Statements
Public entities	NTN&P, Major public entities, World Bank	A landscape survey on blended finance, and a feasibility study on establishing a centralized facility to support projects using blended financing approaches; Draft business plan and capitalization strategy for catalytic Green Investment Facility.	
Development corporation	NTN&P, IFIs, Major DP, NGOs (Kenya Civil Society Platform), private sector association (PSF and chambers of commerce),	National Strategy for Transformation, 2017 – 2024; A landscape survey on blended finance, and a feasibility study on establishing a centralized facility to support projects using blended financing approaches.	Annual External Development Finance Report & Development Performance Assessment reports; 2019 Kenya Voluntary National

Policy Areas	Key stakeholders to consult	Policy document	Country assessments and capacity development
			Review (VNR) Report
Public and Private Partnerships(PPPs)	NTN&P, IFIs, Kenya Development Board (RDB) MTP III (2017-2024),	The PPP legal and Institutional Framework or Strategy	

Source: INFF Consultants;

Main Preliminary Findings. An overarching holistic financing strategy for mobilizing, channeling and investing the resources needed to achieve the results of Vision 2050 does not exist but may be derived from a variety of sources. The INFF will add value by elaborating and administering such a single source document. This should be incorporated in the national planning document and includes the contributions that all resources (public and private, domestic and international) can make to sustainable development outcomes..

3.0 MONITORING, REVIEW AND ACCOUNTABILITY

The existing monitoring systems with regard financing of the fiscal budget, MTEF and MTP III will be reviewed and consolidated, in line with IATF guidance, to allow stakeholders of the INFF to regularly review how financing needs, trends, risks and constraints are evolving and manage better changing circumstances. The system will include methodologies to monitor performance of public and private financing policies[32]. The monitoring systems will serve as a veritable tool to engender stronger accountability around financing policies and closer and effective scrutiny by the Authorities in charge of INFF governance and coordination.

The robustness of the monitoring system will rest on availability of reliable and timely data derived from, and feeding into, management structures within government and engagement with non-state stakeholders. There are three key elements in INFF monitoring: tracking financing flows, policy implementation, and sustainable development progress. Monitoring is an indispensable tool for effective management of an INFF[33]. *However, the 90 days slated for this assignment may not give enough time to articulate a fully-fledged monitoring framework that integrates available systems but would stop at the current context of monitoring systems and spelling out what needs to be done to integrate them.*

3.1 The Data Sources and Availability:

(a) **Financing flows data:** Analysis of financing flows has been undertaken from the country perspective; thus, national data sources were preferred over international data sets, where adequate coverage and metadata were provided. All financing data and analysis are in constant 2015 Kenya Francs (FWR), unless otherwise specified. Data from international sources reported in US$ have been converted into constant FWR using annual average exchange rates, following normal practice.

(b) **Domestic Public Finance:** Domestic public finance refers to government resources that originate domestically. It covers government revenue (excluding any grants received, to avoid double-counting with international resources) and government borrowing from domestic sources (i.e., domestic financing). Data was sourced will sourced from the NTN&P.

(c) **Domestic Private Finance:** Domestic private finance refers to investment by the domestic private sector in the country. Data are based on private gross fixed capital formation (GFCF), with FDI deducted in order to obtain estimates for domestic private investment alone.

(d) **International Public Finance:** International public finance includes official development assistance (ODA), other official flows (OOFs) and government borrowing from international sources – sourced from OECD DAC data. Government borrowing refers to lending received or guaranteed by GoR from bilateral and multilateral institutions and private entities – also sourced from international sources.

[32] Development Finance Assessment Guidebook, Version 3.0
[33] Ibid

(e) **International Private Finance:** International private finance includes FDI, portfolio equity, private borrowing from international sources and remittances. FDI data shall be based on national sources (NTN&P or BOP – NBR). Remittances data is sourced from the NBR. Portfolio equity data is sourced from the World Bank. Private borrowing from international sources refers to commercial debt (both long- and short-term) and is based on international data from the World Bank's International Debt Statistics for all countries.

Table 5: Domestic and External Flows Dataset, Data Source, Institution Providing Data and Year Type: Table 5: Domestic and External Flows Dataset, Data Source, Institution Providing Data and Year Type:

Dataset	Data Source	Institution Providing Data	Year Type
Domestic Development Finance to the Public Sector			
Tax and non-tax revenue	Kenya Revenue Authority (KRA)	TNT&P[34]	GoK fiscal year
Profits of State-Owned Enterprises (SOE)		TNT&P	GoK fiscal year
Bank Financing	Central Bank of Kenya (CBK)	TNT&P	GoK fiscal year
Non-Bank Financing	CBK	TNT&P	
External Development Finance to Civil Society			
Non-Government Organizations (NGOs)		TNT&P	
Domestic Development Finance to the Private Sector			
Bank Financing	CBK	TNT&P	GoK fiscal year
Non-Bank Financing	CBK	TNT&P	GoK fiscal year
Micro-finance	CBK	TNT&P	GoK fiscal year
Domestic private direct investment	Capital Market Authority (CMA)	TNT&P	GoK fiscal year
Domestic private portfolio investment	CMA	TNT&P	GoK fiscal year
External Development Finance to the Public Sector			
ODA from Bilateral DPs, Multilateral DPs, UN Agencies	Development Assistance Database (DAD)	TNT&P	GoK fiscal year
Emerging partner flows* from China, India, BADEA, KFAED, SFD, and OFID	Debt Management and Financial Analysis System (DMFAS)	TNT&P	GoK fiscal year
Finance from other international organizations (Bloomberg Philanthropies; GAVI, the Vaccine Alliance; Green Climate Fund (GCF); Howard G. Buffett Foundation)	Records of multiple GoK institutions ???	Ministry of Agriculture (MINAGRI), Ministry of Infrastructure and Transport??	GoK fiscal year
External Development Finance to Civil Society			

[34]The National Treasury and Planning

Dataset	Data Source	Institution Providing Data	Year Type
Finance from international organizations to INGOs in Kenya	INGO Database	?	GoK fiscal year
External Development Finance to the Private Sector			
Foreign private investment (FPI) inflows	Foreign Private Capital Flows survey	NBSK, CBK	Calendar year
Finance from DFIs and other IFIs	Institution records or institution website	DFIs & IFIs	GoK fiscal year
Finance from Bilateral DPs	DP records	DPs	GoK fiscal year
Other Financial Flows			
Remittances	CBK records	CBK	GoK fiscal year

Source: DFA Consultants;

Main Preliminary Finding: Existing monitoring frameworks are related to the fiscal budget and national plan, there is need for an integrated monitoring framework that consolidates specifically financing needs and flows predicated on the details obtained from the INNF Assessment and Diagnosis study and spending through the budget, MTEF and MTP III.

4.0 MONITORING AND GOVERNANCE

The Governance and coordination structure would be a vehicle for promoting public private collaboration whereby the private sector would be engaged have utilize existing national institutional mechanisms while ensuring the full participation of private sector, civil society and development partners. A prominent role is reserved for the apex body (NTN&P) responsible for the national development to coordinate and oversee the INFF. The INFF would have a body consistent with the integration goals matched by stakeholder (institutional) representation. In line with these criteria, the National Steering Committee (MTP III and Vision 2030) will have the overall guidance of the INFF supported by the INFF Technical Committee. The SDG Taskforce and the Development Partners Coordination Group (DPCG) will also make contributions to management of the INFF. The structure and coordination mechanisms for the Kenya INFF is shown in the figure 5 below:

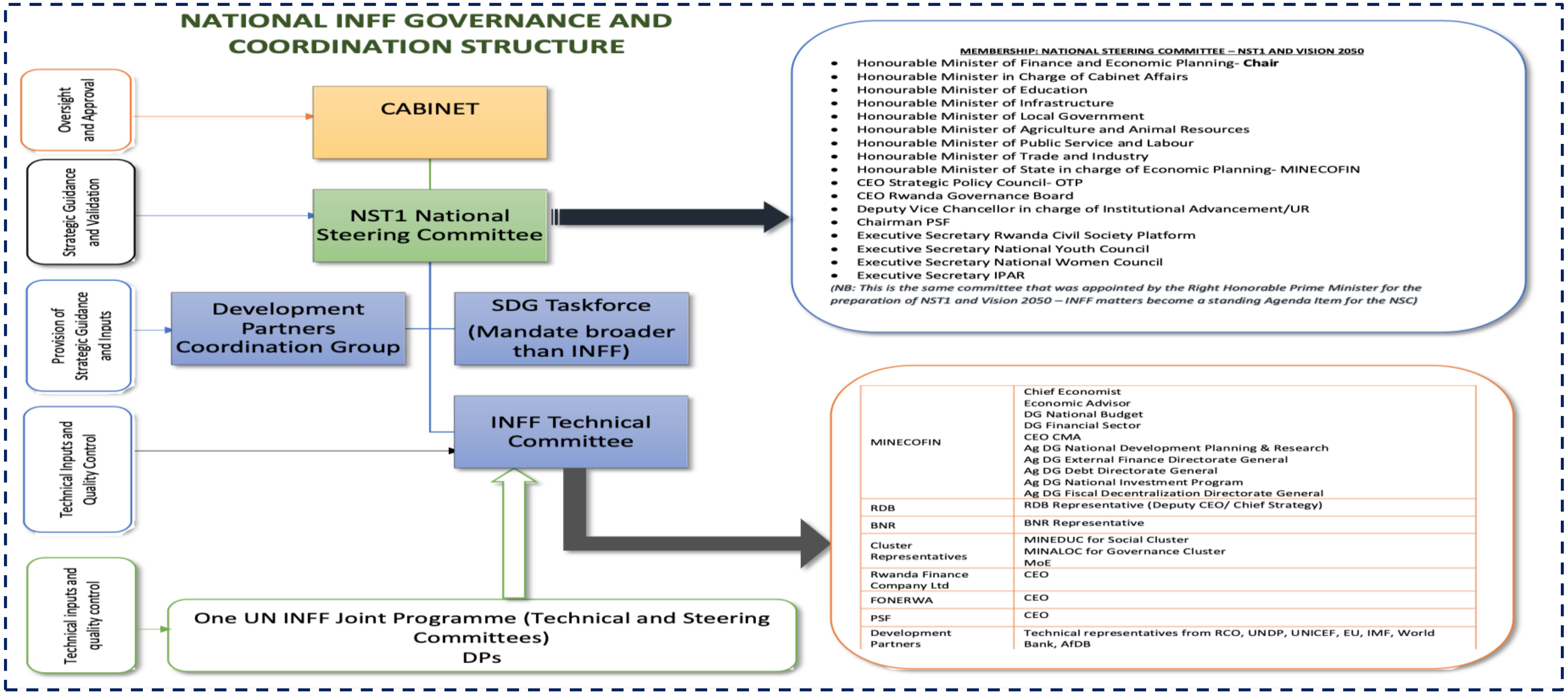
The membership of the Steering Committee may be drawn from Kenya's SDG Partners Platform.

Table 6: Kenya's SDG's Partners Platform

Entities	Implementing partners	Investing Partners
FAO	Council of Governors COG	IOM Development Fund
ILO	NDOC	SIDA
IOM	National Drought Management Authority (NDMA)	USAID
UNAIDS	W VISION	NON CORE FUNDS
UNDP	MODA	DFID
UNFPA	Ministry of Environment and Forestry	Core funds
UNHCR	Ministry of Development and Planning MODP	EU ECHO
UNICEF	National Bureau of Statistics KNBS	EU EC
UNIDO	Ministry of Health MOH	Government of Japan
WFP	Ministry of Industry, Trade and Cooperative (M0ITC)	CERF FUNDS
WHO		

The Governance Structure of Rwanda (Figure 5) is attached for inspiration to arrive at one for Kenya. In terms of the DFA process, this ought to have been in place before the hiring of Consultants as per the Road Map in the next Chapter.

Figure 5: National INFF Governance and Coordination Structure



Source: NTN&P and UNDP Kenya;

5.0 EXPECTED RESULTS OF KENYA'S INFF

The expected benefits of the Kenya's INFF are largely derived from the global frameworks and the particular context of this country developed in the concept note by NT&P and tied to the ToR of this assignment. Countries have shown to have results specific to their context, which makes these benefits not to be a one size fits all. Consequently, the listed expected benefits may prove to be the minimum results to be derived from an INFF by Kenya.

The expected benefits of Kenya's INFF include:

(a) A more holistic development financing strategy - Optimizes the mobilization of resources based on an integrated development financing landscape to enable "more strategic decision-making processes around optimizing the mobilization and use of different financing resources and generate a clear set of recommendations for linking policies and regulations more explicitly to Kenya's long-term development objectives"[35]. It is veritable tool to address risks and constraints such as the Covid-19 pandemic through strategic decision-making by the Authorities and private sector actors. It enables the maximization of synergies and minimize duplication efforts among various interventions;

(b) Facilitating Public and Private financing decision Making and Prioritization - INFF provides a wide umbrella covering all major stakeholders to the reform efforts for sustainable financing to accelerate Kenya's sustainable development through a strategic process by building momentum for accelerating progress in reaching NST 1 and SDG targets. It enables a strategic approach to tying scare resources available to priority investments;

(c) Helps link financing sources with real expected results and promotes more integrated and comprehensive planning and budgeting; and

(d) Supports cooperation and coordination among different areas of government —ministries, regulatory bodies, and other relevant public actors—and facilitate dialogue with development partners, private sector and other stakeholders.

[35] Ministry of Finance and Economic Planning, Concept Note for Preparation of Kenya's Integrated National Financing Framework, INFF, August 2020;

6.0 INFF ROAD MAP

The INFF and DFA Guidebook proposed critical steps in the INFF Road Map. Accordingly, we introduce a draft Road Map used by countries with activities that ought to be covered by the time Consultants are hired. All actions on the Road Map subsequent to the hiring of Consultants would emanate from the DFA report.

Table 7: Roadmap for INFF Preparation

	Activity	**Sub Activity**	**May 2021**	**June 2021**	**July 2021**	**Aug 2021**	**Sep 2021**	**Oct 2021**
1		Mobilization of Financial Resources to undertake the INFF						
		Recruitment of the technical Advisor to coordinate the preparation of DFA and INFF						
	Human & Financial Resource Readiness, Coordination Framework	Recruitment of Consultants to facilitate in the preparation of DFA and INFF						
2		Approval of the Concept note – entailing the roadmap & coordination framework						
4	Assessment of Available Information& missing gaps	Detailed Stock taking/mapping exercise						
5	Development Finance Assessment (DFA) and Integrated National Financing Framework, INFF preparation	Detailed roadmap of activities and timelines to be agreed with Consultant(s) as informed by the results of stock taking						

7.0 WORK PLAN

The consultancy will be expected to deliver the following outputs: an Inception Report and Work Plan; a Development Finance Assessment (DFA) report; a Refined Financing Strategy; an Operational Plan for the INFF; and Validation and Ownership.

#	Phase | Activity	Deliverable	Months	1				2				3			
			Days	1	2	3	4	1	2	3	4	1	2	3	4
1	Rapid Review and Inception Reporting	Inception Report (Initial Findings, final methodology and final Work Plan)	10		*										
2	INFF Assessment and Diagnosis	INFF Assessment and Diagnostic Report	20					*							
3	Elaboration of Kenya's Development Finance Strategy	A Draft Development Finance Strategy for Kenya	20									*			
4	Elaboration of the INFF Roadmap and Operational Plan and Validation of the Final Report	INFF Roadmap and Operational Plan	10											*	
		Final Assignment Report	5												*
	Total		**65**												

6.1 Risks to Conducting the Assignment:

We have identified two risk factors which can affect the work flow and reports from this assignment:

(a) **The duration of the assignment:** The ninety (90) days as the prescribed duration of this assignment when viewed against the scope of assignment may not be enough. The DFA Guidebook suggests ninety (90) days for a DFA; for example, Rwanda is conducting an INFF over 90 days. An INFF would have to cover the same ground as DFA (inception phase) and move further to an INFF development phase which this assignment is intended to do. The DFA aspect, largely covered under the assessment part of the work would probably take 90 days, ***which means that additional 20 days may be required***.

(b) **Individual and focused-group meetings:** In the best of times, access to data and critical meetings is difficult in assignments of this nature. The current COVID-19 and mitigation measures have changed priorities and availability of critical stakeholders for consultations. We have made the assumption that the consultants will be facilitated for the timely access throughout the assignment.