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STRATEGY
2017-2021

Kenya

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Kenya

CONTENTS

1. KEY FACTORS FOR THE STRATEGY 4

1.1. SUMMARY OF SUSTAINABLE DEVELOPMENT ISSUES 5

Political context 5
Macroeconomic context 5
Main development issues 7

1.2. THE COUNTRY'S DEVELOPMENT STRATEGY 8

1.3. OVERVIEW OF DEVELOPMENT ASSISTANCE 9

Official Development Assistance 9
Donor strategy 9

1.4. FRANCE'S STRATEGY 10

2. REVIEW OF AFD'S ACTIVITY IN KENYA (2008-2016) 11

2.1. QUANTITATIVE REVIEW 12

2.2. QUALITATIVE ASSESSMENT 13

3. AFD'S STRATEGY FOR OPERATIONS IN KENYA (2017-2021) 14

3.1. LOGICAL FRAMEWORK 15

3.2. PRIORITY AREAS OF OPERATION 15

Strategic orientations 15
Objectives and activities 15
Cross-cutting objectives 18
Partnerships and knowledge production 18

4. FINANCIAL PERSPECTIVES AND OPERATING METHODS 19

4.1. INDICATIVE FINANCIAL PROGRAMMING 20

4.2. INTERVENTION METHODS 20

5. MONITORING METHODS 21

By sector 22
In terms of climate co-benefits 22

ABBREVIATIONS AND ACRONYMS 23

KEY FACTORS FOR THE STRATEGY

1.1. SUMMARY OF SUSTAINABLE DEVELOPMENT ISSUES

The Republic of Kenya covers an area of 580,367 km^2, with a population estimated at 45 million persons, and has been independent since 12 December 1963. The density of 75 persons/km^2, which is above the Sub-Saharan African average of 42, does, however, mask strong territorial disparities. The northern part of the country is almost entirely a desert area, while the regions in the centre and around Lake Victoria are very densely populated. Kenya has a very diverse population made up of over 40 ethnic groups, the main ones being the Kikuyu (22%), Luhya (14%), Luo (13%), Kalenjin (12%) and Kamba (11%). Kenya is characterised by a religious plurality, with 44% Protestants, 33% Catholics, 11% Muslims and 10% animists. The country has a 530 km-long coastline along the Indian Ocean in the east and borders Ethiopia, Somalia, Southern Sudan, Tanzania and Uganda. The territory is marked by the savannah plains, the Great Rift Valley, Lakes Victoria and Turkana, and by Mount Kenya, which peaks at an altitude of 5,199 metres.

Political context

A democracy vulnerable to political crises. Between 1963 and 2003, the political regime was marked by the domination of the single party, Kenya Africa National Union (KANU), the political emanation of a coalition between Kikuyu, Kalenjin and Kamba. With the successive mandates of Jomo Kenyatta (1963-1978) and Daniel Arap Moi (1978-2003), the Kenyan Republic was headed for 40 years by two presidents solely from this coalition, representing 45% of the population. Despite the introduction of a multi-party system in 1992, a political changeover only came about in 2003, with the victory of Mwai Kibaki, supported by the National Rainbow Coalition (NARC). As head of a new coalition, the president renewed ties with the international community, which were previously strained due to problems of governance. He did not, however, manage to reduce the strong political tensions fuelled by the exploitation of ethnic diversity.

While elections in Kenya have always been moments which crystallise latent tensions,[1] the presidential elections in December 2007 marked a breaking point. The *in extremis* victory of the outgoing president Kibaki, amid suspicions of electoral irregularities, an excessive decentralisation of power and the exacerbation of ethnic lines, caused serious violence leaving over 1,200 people dead and 500,000 people displaced. A way out of the country's longest political crisis was found, under the aegis of the African Union and the mediation of the former Secretary-General of the United Nations, Kofi Annan: this solution confirmed the formation of a government of national unity under the presidency of Mr. Kibaki, with Mr. Odinga, the head of the opposition party Orange Democratic Movement (ODM), as Prime Minister.

In 2010, the adoption by referendum of a new constitution maintained the presidential regime, but marked the establishment of a more decentralised system with the institutionalisation, *via* devolution, of a central government combined with 47 local governments (Counties). The institutional reform included the creation of the Supreme Court, the introduction of the Senate,[2] and the establishment of checks and balances in terms of governance.[3] The elections in March 2013 took place in a calmer environment and gave victory to Uhuru Kenyatta right from the first round, with 50.3% of votes. The absence of post-election violence marked the deepening of the democratic system, but Kenya's political landscape remains conflictual, as shown by the tensions during pre-election and election periods.[4]

Key regional role. Kenya is faced with a particularly unstable sub-regional environment due to the structural fragility of two neighbouring countries. For example, the political instability in Southern Sudan and the presence of the *Al-Shabab* Islamist militia in Somalia have caused a massive influx of refugees, including over 250,000 Somalis. The direct intervention of Kenyan military forces in the context of the fight against terrorism in Somalia has led to the occurrence of major terrorist acts on its soil[5] and a risk of permanent attacks by *Al-Shabab*. The Government's involvement in resolving the conflict in Southern Sudan illustrates the central role that the country aims to play in the region.

Kenya's regional ambitions are all the greater given the fact that its diplomatic and political influence does not measure up to its economic, financial and commercial weight. The country accounts for some 30% of the GDP of the East African Community (EAC) and 50% of capital. It is also the only middle-income country in the region. Despite this position as East Africa's leading economy, the country's capacity as a driving force remains limited, as shown by the non-ratification of the Economic Partnership Agreements (EPA) between the EAC and European Union (EU), mainly due to opposition from the Tanzanian government.

Macroeconomic context

Dynamic economic growth. Over the past two decades, Kenya's economy has been marked by high volatility in growth, in particular due to climate and political shocks. A revival in economic activity as a result of the political changeover in 2003 was hindered by the political crisis in 2007-08, turmoil related to the international financial crisis in 2008, and the serious drought in 2009. Since 2010, Kenya's growth has stood at an average of 6%, mainly driven by massive public investment, particularly in the transport and energy sectors. Kenya's economy has become service-based and has turned towards innovations, particularly in digital technologies. The increase in the share of services in GDP has been to the detriment of manufacturing industries, which have gradually become less competitive as a result of the real appreciation of the Kenyan currency. The share of agriculture in GDP remains

[1] The elections in 1992, 1997 and 2002 were all marked by acts of violence.

[2] Whose role is mainly to oversee the Counties.

[3] For example, the Ethics and Anti-Corruption Commission and Independent Policing Oversight Authority.

[4] The main opposition (NASA) led by Mr. Odinga questioned the impartiality of the Electoral Commission (IEBC) and the election results in 2017.

[5] As in September 2013, the attack on the Westgate Shopping Mall in Nairobi.

high (30% in 2015), despite the fact that it is declining. This sector remains highly dependent on climate conditions.

Favourable macroeconomic outlook. According to IMF projections, the short and medium-term macroeconomic outlook remains favourable, with an average growth estimated at between 5.8 and 6.2% for 2017-2020. An increase in private sector investments, as well as a rise in exports,[6] are still required to take over from public investments in a context of a tightening of the State's budgetary margins. The continued attraction of foreign direct investments (FDI),[7] in particular related to the exploitation of the oil, gas and coal reserves discovered in 2015, should maintain the high level of private investments. The rise in private consumption, due to the increase in the middle class, and the continued regional and continental trade integration will also contribute to the economic dynamism. The construction of the Standard Gauge Railway (SGR) demonstrates the authorities' objective of taking advantage of Kenya's strategic geographic location to turn it into the hub[8] of East Africa and the gateway to Africa from Asia.

Reduction in budgetary leeway. In order to ease tensions and revive economic activity following the political and financial turmoil in 2008, Kenya has launched an ambitious investment programme called Vision 2030. The financing of large-scale infrastructure projects, such as electricity interconnections and the Mombasa-Nairobi railway line, has increased the rate of public investment to 11% of GDP, while the implementation of the devolution process has led to a transfer of expenditure to the Counties, which was equivalent to 4% of GDP in 2016. There was a significant increase in the budget deficit to 8% of GDP in 2016, whereas it only stood at 3.4% in 2010. It is expected to continue to increase, although the actual budget deficit is still below the deficit announced when the initial budget was adopted due to unrealised budgeted investments. The authorities have made a commitment to the IMF to reduce this deficit to 4% of GDP by 2019-2020, as announced during the presentation of the 2017-2018 budget before the Parliament.[9] As Kenya's growth model is highly dependent on public investment, an excessively rapid or sudden budgetary consolidation could have a recessionary impact.

Increase in public debt. Public debt is the result of the growth model and has logically experienced a constant rise, from 40% of GDP in 2010 to 54% in 2016. However, this gradual increase in the level of public debt has not affected the debt sustainability analysis of the IMF which, in its last review,[10] indicated that the risk of Kenya's overindebtedness remained low. This positive short and medium-term assessment is mainly due to the fact that external public debt only accounts for 27% of GDP and remains largely concessional. The constraints related to this trend do, nevertheless, put a strain on the country's financial situation, with interest payments reaching approximately 3% of GDP and a debt repayment which consumes almost 14% of tax revenues. More recently, increasing recourse to loans with a low level of concessionality, recourse to syndicated loans, and Eurobond issues also tend to increase the cost of debt.

Structural deficit in trade balance. The economic strategy launched in 2008 led to strong demand for imported products and a gradual qualitative and quantitative weakening of the national export system. The trade deficit reached 20% between 2010 and 2015[11] as a result of an increase in imports,[12] mainly from China and India, and a significant decline in exports, which fell from 13% to 9% of GDP over the same period.[13]

Dynamic financial system. Starting in 2007, the monetary authorities conducted an expansionary policy in order to support the country's development strategy. This mainly resulted in strong growth in credit to the economy, which rose from 32% to 46% of GDP between 2007 and 2015. This growth was fostered by the development of branch networks and the use of innovative mobile financial services, such as the M-Pesa, M-Kesho and M-Shwari[14] systems, but also by the development of cooperatives, which are called SACCOs.[15] The introduction of this ecosystem has substantially increased access to financial services for the population[16] and has especially benefited isolated rural areas and disadvantaged populations.

Relatively stable banking sector. Despite the fact that small banks are clearly fragile[17] and the persistence of fraudulent behaviour, which has led to the bankruptcy of institutions,[18] Kenya's banking sector[19] generally remains healthy, dynamic, innovative and inclusive.[20] The entry into force of the amendment to the banking law in September 2016, which provides for a control over interest rates, has caused uncertainty. The introduction of a floor for the remuneration of savings and a ceiling for lending rates could have a negative impact on the viability of small and medium-sized banks and ultimately reduce access to credit for certain categories, such as microenterprises and individuals with few guarantees.

Inflation under control. In response to these changes in the financial system and the inflationary risk, the Central Bank (CBK) has conducted a rather cautious monetary policy, although the lack of anticipation has led to some drastic interventions, such as the increase in the benchmark rate in late 2011 by 1,200 basis points and the increase in the reference rate by 300 basis points in 2015. While inflation has experienced an erratic trend over the past 15 years, since late 2014, it has remained within the target of 2.5 – 5%, except in the first quarter of 2017, due to the increase in food prices, a sign of the vulnerability of inflation to weather conditions.

[6] African Development Bank, Country Strategy Paper 2014-2018.

[7] FDI which surged by 52% in 2015.

[8] Logistics, commercial, industrial, financial, medical, education, banking and innovation hub.

[9] In the context of the precautionary programme concluded with the IMF, the Kenyan Government had committed to a target of 6.5%.

[10] Kenya, First Review under the Twenty-Four Month Stand-By Arrangement – Debt Sustainability Analysis Update, (December 2016).

[11] Against an average 12% of GDP during the 2000s.

[12] Mainly three purchase items: industrial inputs, machines/equipment and fuel/lubricants.

[13] A decline which concerned all products and particularly tea and horticultural products, which account for 25% and 20% of total exports, respectively.

[14] M-Pesa, mobile payment system; M-Kesho, banking system; M-Shwari lending service.

[15] Savings and Credit Cooperative Societies.

[16] The rate of use of the banking system rose from 26% to 75% between 2006 and 2016.

[17] Dubai Bank (0.1% of banking assets) was placed in receivership in August 2015 due to weaknesses in terms of liquidity and the level of capitalisation, which proved fatal for it when the key rates increased.

[18] Imperial Bank (1.8% of banking assets) was also placed in receivership in October 2015 and Chase Bank in April 2016 following the discovery of irregularities and fraudulent behaviour.

[19] Banking sector comprising 42 commercial banks and 12 microfinance institutions.

[20] According to sources, it ranks as the 3rd or 4th largest banking sector in Africa, behind South Africa, Nigeria and Mauritius.

Main development issues

Kenya was reclassified as a lower-middle-income country (LMIC) in 2015 by the World Bank and in December 2017 by the DAC, thanks to a per capita GDP of USD 1,377 (2015), and has managed to diversify its economy by directing it towards services and capitalising on a young, relatively well-trained and entrepreneurial young population, as well as on a growing middle class. There continue to be major development challenges in the context of a growth model which has in all likelihood reached its limits, particularly in terms of budget.

Governance. Kenya is characterised by a high level of perception of corruption in the political and administrative spheres. Consequently, it ranks 145th out of 168 in the 2016 Corruption Perceptions Index published by the NGO Transparency International. The country is ahead of Uganda (151st), but behind Tanzania (116th) and Rwanda (50th), and has fallen 6 places compared to 2015, the symptom of a worsening situation. While the one-party system allowed a political and economic elite to share virtually all the resources, the advent of a multi-party system in 1992 did not significantly reduce corruption. However, there is relatively good performance in terms of economic and financial governance. For example, the World Bank's latest Country and Policy Institutional Assessment (CPIA 2015) of Kenya led to an overall score of 3.8, ranking Kenya above the average in Sub-Saharan Africa (3.2), behind Rwanda (4.0), but ahead of Uganda (3.7), Tanzania (3.7), Ethiopia (3.5) and Burundi (3.1). This score has fallen slightly compared to the CPIA 2012/2013 (3.9), but has risen compared to the late 2000s (3.6-3.7). The last public financial management assessment (PEFA), which dates back to 2012, notes the limited progress achieved in terms of public finance management since the previous assessment in 2008 with, however, progress in public procurement, internal audit and external control. It highlights the fact that the imminent adoption of a new Law in this field (which has since been adopted) could bring about significant improvements, which will be measured by the ongoing PEFA (2017-2018).

Long-term sustainability of public finances. Kenya's growth model has demonstrated a capacity for resilience to international crises since the early 2000s. However, the fiscal consolidation, a commitment by Kenya *vis-à-vis* the IMF, requires measures to improve the effectiveness of public investments. It has been made more complex by the effective application in 2013 of devolution and the budgetary risks it entails. Even if, in theory, the expenses transferred are substitutable in the long term, recent years have shown that devolution led to additional expenditure due to the large number of counties. Consequently, the capacity of these counties to manage the new competences and the resulting financial resources will be crucial in controlling a sustainable path for public finances. Despite dynamic growth, Kenya is experiencing a stagnation in revenues, which is due to the absence of a comprehensive tax reform.

Improvement in the capacity to manage public debt. With increasing recourse by the Kenyan authorities to external sources to finance budgetary imbalances, in 2016, external financing accounted for 6.1% of GDP. The creation of a public debt management department in the National Treasury should allow an improvement in the supervision of external public debt, as well as the implementation of a comprehensive strategy for arbitrage between the various levels of concessionality on the external financing available to Kenya.

Persistent poverty and growing inequalities. Kenya ranks 145th out of 187 in the United Nations Human Development Index (HDI). According to the last census, the poverty rate stands at 45% of the population.[21] The growth experienced by the country has not, however, been combined with a decline in income inequalities. Kenya also stands out for the high levels of inequality between the various regions, particularly between rural and urban areas, as well as considerable disparities within the same territory. Geographical inequalities are particularly marked in terms of access to infrastructure and essential services,[22] with greater access in the south than in the arid and semi-arid lands (ASAL), which include 29 districts in the north. The country's rapid urbanisation, which is expected to reach 50% by 2033,[23] could contribute to aggravating this path by increasing inter and intra-county inequalities. Kibera, which is located not far from downtown Nairobi and whose population is estimated at 1 million inhabitants over an area of 4 km^2, is regarded as the densest slum in Africa.

Gender inequalities. Tangible progress has been achieved in recent years with the introduction into the Constitution in 2010 of the principle of gender equality, as well as the establishment of a rule guaranteeing employment for women in the public service and a number of seats in the legislative assemblies. However, the rejection by Parliament, in February 2017, of a bill aiming to combat sexual harassment and the practice of female genital mutilation in certain territories show that the fight against gender inequalities remains a major development challenge for the country.

A young population seeking employment. There continue to be considerable social challenges, which are exacerbated by dynamic population growth. It is essential to integrate the population into the labour market, particularly young people and women. Young people (15-34) make up 80% of people actively seeking employment,[24] while women are still largely excluded from the formal labour market. The informal sector has considerable weight: 70% of employment and 35% of GDP. Kenya's labour market is marked by its duality and a mismatch between labour supply and demand, with a shortage of intermediate level technicians and artisans.[25] The arrival of some 800,000 people on the labour market every year illustrates the need to strengthen the link between curricula and private sector needs in order to take advantage of this demographic dividend. With an annual increase in the urban population of 4.4%, there is consequently strong pressure on Kenyan cities to meet demand for employment.

Growing demand for high-quality infrastructure. The rapid urbanisation and emergence of a middle class, which is expected to reach between 20 and 25% of the population by 2030, lead to increased needs for infrastructure. In 2014, 35% of the population had access to electricity and only 10% in rural areas. The installed generation capacity of 2,340 MW is not sufficient to meet needs related to the projected strong economic growth. Kenya ranks among countries where there is chronic water scarcity and household access to drinking

[21] According to national standards.
[22] Education, health, water and electricity.
[23] Against 30% in 2015.
[24] UNDP, Kenya's Youth Employment Challenge, 2013.
[25] African Development Bank.

water remains low in rural regions, where it only reaches 49%. The capacity of surface water storage infrastructure has fallen due to population growth and the damage caused by adverse weather conditions, which illustrates the sector's vulnerability to climate change. Furthermore, while the country is highly dependent on road transport, only 7% of Kenya's road network is tarred, which is a lower level than the EAC average. Rapid urbanisation leads to growing demand for the public transport system in Kenyan cities. Finally, healthcare provision is unevenly distributed and barely operational, as only 57% of the 8,000 facilities identified in Kenya have the resources required to provide healthcare in line with international standards.[26]

Vulnerability to climate change. Kenya is a low emitter due to a power generation mix largely based on renewable energies, but it is highly vulnerable to climate change:

→ **Low-carbon path**

A country which is today virtuous, with a low level of emissions and a low-carbon energy mix. In 2012, Kenya's greenhouse gas (GHG) emissions stood at between 1.4 and 1.6 tonnes of carbon dioxide equivalent (tCO2e) per capita, which is relatively low compared to the global average (6.6) or even the average for SSA (3.39). Agriculture accounts for 60% of total GHG emissions, including 96% for livestock raising. The forest sector, with a forest cover of less than 10% of the land mass, generates 10% of GHGs with, in addition to deforestation, a significant use of firewood and charcoal. By contrast, power generation is currently mainly based on renewable energies.

→ **Resilience path**

Kenya is highly vulnerable to climate change, which is exacerbated by forest degradation and overgrazing. 40% of Kenya's population lives on arid and semi-arid lands (ASAL), which cover 80% of the territory. This population is exposed to the risk of drought and extreme climate events. Since 1960, there has been an increase in the annual temperature of 1°C.[27] While rainfall data are not sufficiently conclusive to identify a clear trend at national level, droughts are becoming increasingly frequent, especially in the north. However, projections clearly show that there has been an increase in the irregularity of this rainfall and consequently a rise in the proportion of rainfall during extreme climate events. Kenya is therefore particularly exposed to climate change and El Nino Southern Oscillation (ENSO) has become the dominant factor in climate variability, which can be extremely strong. 70% of natural disasters[28] are related to extreme climate phenomena, the scale and frequency of which have recently increased. There were severe droughts in 2001, 2003, 2006, 2009, 2011 and 2017, threatening food security and exacerbating the risks of famine in the arid and semi-arid lands. There is also the issue of water stress in urban areas, for example, the rivers supplying Nairobi had virtually dried up in 2017, illustrating the challenge posed by water resources and watershed management. There are also major flood risks, particularly in the coastal region, which has some 3.5 million inhabitants, in a context of a projected rise in sea levels.[29]

The impact of climate change is a major development challenge in Kenya, as some 45% of GDP and approximately 75% of jobs come from sectors which rely on natural resources, such as agriculture, energy, forestry and tourism. Land degradation, which is caused by overgrazing and deforestation,[30] exacerbates these impacts. Agriculture is the sector the most exposed and the most vulnerable to the changes in rainfall patterns and increase in droughts. Power generation, 40-45% of which is based on hydropower, is also particularly exposed. The reduction in water resources needs to be offset by recourse to thermal generation units, which are particularly costly and generate high GHG emissions. Finally, the impact of climate change is more acute in ASAL areas.[31] Extreme climate events in this region can create water-related conflicts between communities, increase cattle rustling and exacerbate pressure on protected areas. They can even cause a strong deterioration in food security conditions for populations in these areas, as shown by the food crisis in 2016/2017 (UNICEF has announced that 4 million people are threatened with food insecurity in Kenya). In a context of frequent climate shocks, the protection of biodiversity and ecosystems poses a major challenge for the Kenyan authorities, both environmentally and economically. Protected areas cover 8% of the territory and are divided up into 59 parks and reserves. Biodiversity conservation is becoming a real economic challenge as tourism, for example,[32] is heavily reliant on the wealth of biological resources.

1.2. THE COUNTRY'S DEVELOPMENT STRATEGY

Growth model driven by public investment. In 2008, Kenya adopted a national development plan called Kenya Vision 2030, which is based on three pillars: a political pillar aimed at implementing an accountable system, focusing on the population and delivering results; an economic pillar, with an annual growth target of 10%; a social pillar allowing fair, inclusive and equitable development. This vision is implemented in successive Medium-Term Plans (MTPs). The Government has now completed the implementation of the second MTP "Transforming Kenya: Pathway to Devolution,

[26] Defined by the World Health Organization.
[27] Increase in annual temperatures of between 1 and 2.8°C by 2060.
[28] African Development Bank.
[29] From 0.52 to 0.98 metres by 2100.
[30] It is estimated that forests now only cover 6% of the territory, against the 10% provided for by the Constitution.
[31] They cover 80% of the territory and have 30% of the population, 50% of cattle and 80% of wildlife.
[32] Tourism accounts for 12% of GDP and brings in 27% of foreign currency.

Socio-Economic Development, Equity and National Unity" (2013-2017), which focuses on infrastructure development in order to increase competitiveness; the Government is now preparing the third MTP. The Government's strategy involves massively increasing public investment in order to finance projects considered as priority.[33] To finance the expected economic transformation, Kenya can rely on an elite which invests in the country, the development of public-private partnerships, and flows of foreign direct investments (FDI), which are constantly rising.

Climate strategy aligned with Vision 2030. The Kenyan authorities' climate policy is mainly based on the National Climate Change Adaptation Strategy (2010) and National Climate Change Action Plan (NCCAP 2013-2017). The latter is aligned with Vision 2030 and included in MTP II, which is currently being updated (MTP III). The climate policy, whose operationalisation would need to be improved, is led by the Ministry of the Environment and Natural Resources, with support from the Climate Change Directorate. Its cost is estimated at USD 40bn by 2030. Kenya's adaptation policy targets its efforts on 8 priority sectors: agriculture, livestock rearing, water, the environment, infrastructure in ASAL areas, sustainable livelihoods in ASAL areas, energy and tourism. Given the impacts of climate change on the country, for example, the drought in 2008--2011 which cost USD 12.1bn, the strategy primarily aims to integrate adaptation actions into sectors which drive the economy and at all levels in the context of devolution. In practical terms, the diversification of livestock rearing, the development of human capital, the development and management of water resources and the construction of resilient road and energy infrastructure are a few of the priority adaptation measures. Kenya's mitigation policy has a target to reduce GHG emissions by 30% with respect to the ambitious scenario for an increase to double-digit growth over the next 20 years, which reflects the authorities' highly optimistic objective for economic growth. Two-thirds of the country's energy consumption comes from biomass (wood energy), without there being a policy on this subject, whereas there would appear to be strong potential for reducing emissions. At the same time, a substantial increase in forest areas is planned, by restoring degraded forests and reforestation,[34] which is intended to allow Kenya to achieve its emission reduction targets, but the current reforestation policy would not appear to be very operational. In addition, the livestock sector has been left out of the NDC. The continued development of renewable energy, the improvement in firewood or charcoal stoves for cooking and the development of urban public transport (BRT and LRT) are also potential vehicles for a low-carbon strategy.

1.3. OVERVIEW OF DEVELOPMENT ASSISTANCE

Official Development Assistance

Changes in development assistance. In 2015, Kenya was the 4th largest recipient country of ODA in Africa. The country received an average of USD 2.5bn a year between 2010 and 2015.[35] There has been a significant change in aid in terms of volume and modalities, with a share of ODA in the total budget falling from 21 to 15% between 1995 and 2015.[36]

Competitive landscape. The USA, World Bank, African Development Bank (AfDB) and UK (DFID) are the main donors in Kenya, mobilising an annual average of over USD 230m since 2013. In 2015, France was the 5th largest bilateral donor, with USD 115m, after the USA, UK, China and Japan, with these 4 countries providing almost 80% of the total bilateral development assistance received. In the context of its strategy to diversify external resources and its "Looking East" policy, Kenya has gradually turned towards Chinese financing and has raised capital on international markets.

Development assistance gradually linking development and trade. Despite an aid coordination architecture intended to foster dialogue, aid is relatively fragmented, as a result of increased competition between donors following the reduction in profitable infrastructure projects and, at the same time, the increase in recourse to loans. Recent years have been marked by a reduction in traditional aid, which focuses on social sectors *via* grants, with a shift towards an approach more closely linking development and trade. Project aid has increased and the strategy of donors has gradually turned towards more infrastructure projects and strong support for private sector growth. In certain sectors, this concentration has created bottlenecks and left other sectors orphans, such as tourism, ICTs, and security and peace.

Donor strategy

The change in the UK's strategy is emblematic of the changes in aid currently taking place in Kenya. Grant amounts, which exceed USD 200m a year and have traditionally been earmarked to finance the sectors of primary education and health, will gradually be redirected towards support for economic development, the facilitation of public-private partnerships and the integration into the labour market of disadvantaged young people. In the context of the 2017-2022 strategy, the Japan International Cooperation Agency (JICA) is also expected to promote economic diplomacy by focusing on the notion of investments likely to encourage

[33] For example: the construction of new terminals at Jomo Kenyatta International Airport (JKIA), the construction and rehabilitation of 5,500 km of roads, the development of the LAPSSET Corridor, the upgrading of port and rail facilities, the commissioning of Bus Rapid Transit (BRT) in Nairobi, the increase in the power generation capacity, etc.

[34] 49% of the reduction effort, with a potential of 32.6 million tonnes of carbon dioxide equivalent out of a total objective of 67 million tCO2e.

[35] After Egypt, Ethiopia and Tanzania.

[36] The value of ODA as a percentage of GDP consequently fell from 10% in the 1990s to 4.5% in 2015.

the establishment of Japanese companies and boost the economy.

The World Bank and African Development Bank will continue their massive support to the private sector and infrastructure development, with a focus on supporting devolution for the former and on supporting capacity building for the latter. In the context of the 11th European Development Fund (EDF 2014-2020), the European Union has focused on food security/resilience in ASAL areas, infrastructure and governance, reaffirming its grant commitment, particularly in the agricultural sector and for rural development.[37] The EU Joint Programming (2014-2017), which focuses on 4 sectors,[38] has also enhanced the complementarity of operations and improved predictability for the Kenyan authorities.

Despite this shift towards more project aid, focused on productive sectors *via* loans, the share of aid in the form of grants from member countries of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) remains high. The shift in aid towards a more "partnership-based" and "trade-based" approach, which is fully in line with the country's economic dynamics, should not overshadow the financing needs which remain high in social sectors in order to reduce growing inequalities.

1.4. FRANCE'S STRATEGY

A close partnership. Political relations have gradually been strengthened and have recently been marked by the first official visit to France, in April 2016, by President Uhuru Kenyatta. This revival in French-Kenyan cooperation was stimulated by the meeting between the two Heads of State during the Africa-EU Summit in April 2014. Bilateral relations are based on security and economic issues, with the declared will to establish a partnership between equals.

Stronger economic and financial relations. French-Kenyan economic relations have been considerably strengthened in recent years, following the renewal of the political partnership framework. In 2015, there was a 26% increase in trade compared to 2014, to EUR 280m, a level which had not been reached for 10 years.[39] This trade is characterised by a structural surplus for France (EUR 93m in 2015), due to the fact that French supply meets Kenyan demand.[40] With a stock of FDI making up 10% of the total stock, in 2015, France ranked as the 4th largest investor and Kenya accounted for over half of French FDI stock in East Africa.

The number of French companies established has recently increased[41] and the presence of these companies[42] is in line with an internationalisation strategy supported by French economic diplomacy. The aim is to take advantage of Kenya's role as an economic, commercial and financial platform to establish companies in the region. Half of the French companies established in Kenya have a regional dimension and focus.

AFD's second largest exposure. France is Kenya's 2nd largest bilateral creditor with 2% of external debt, behind China (14%) and ahead of Japan (1.7%). Kenya is AFD's second largest exposure in Africa. These extensive financial relations allow a dialogue to be initiated on the structural issues of public finances and debt management. France is consequently recognised as an ad hoc partner with a capacity to assist the authorities in the implementation of a public finance management strategy by building the technical capacities of the Kenyan National Treasury.

[37] EUR 210m earmarked for this sector out of a total budget of EUR 435m.

[38] Agriculture, Rural Development & ASAL; Energy and Transport; Governance, Justice and the Rule of Law; Water and Sanitation.

[39] With the exception of 2012.

[40] Which is characterised by a rapidly growing urban middle class and therefore an increase in demand for goods (Regional Economic Service of Nairobi).

[41] With the construction of a Peugeot assembly plant in Mombasa and the establishment of companies from very diverse companies in terms of business sectors and sizes, such as L'Oréal, Danone, Schneider, Decathlon, Société Générale and Allianz.

[42] Including: Bonduelle, AGS, Air France-KLM, CMA-CGM, Bolloré, Egis, Veolia, Alstom, Michelin, Renault, Total, Thalès, Sanofi-Aventis, Africa Internet, Pernod Ricard, Grass Savoye.

2.

REVIEW OF AFD'S ACTIVITY IN KENYA (2008-2016)

2.1. QUANTITATIVE REVIEW

AFD group has been operating in Kenya since 1995 *via* its subsidiary PROPARCO. AFD subsequently opened an agency in Nairobi in 1997, with a regional competence for the five countries which make up the East African Community of States (Kenya, Uganda, Tanzania, Burundi and Rwanda) and Somalia since 2016. In line with the Vision 2030 programme led by the Kenyan Government, the priority focus for AFD's operations has been infrastructure development, particularly for energy, support for urban dynamics in the water and sanitation sector, and support for economic growth by promoting the private sector.

Trend in the portfolio. Group commitments (AFD and PROPARCO) in Kenya have risen sharply since 2008 and reached a total allocation amount of EUR 2bn at the end of 2016. Kenya figures prominently in the overall portfolio, as the country represents AFD's 2nd largest exposure in Sub-Saharan Africa, with a total of EUR 1.5bn of commitments since 2008. The constraints related to Kenya's sovereign debt have prompted AFD to develop non-sovereign activities with the public sector (without a guarantee from the Kenyan State) or private sector. Sovereign commitments rose from EUR 40m in 2008 to EUR 201m in 2011, and stood at EUR 120m in 2016. At the same time, the volume of non-sovereign loans has gradually increased and reached a total amount of EUR 302m at the end of 2016.

Table 1 – Trend in AFD Group commitments (2008-2016)

EUR M	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
AFD	40	229	237	219	100	143	208	200	181	1,559
PROPARCO	51	8	29	34	55	159	37	42	-	417
AFD + PROPARCO	91	237	266	253	155	203	245	242	181	1,976

Table 2 – Trend in AFD's commitments and disbursements (2010-2016)

EUR M	2010	2011	2012	2013	2014	2015	2016	Total
Commitments	237	219	100	143	208	200	181	1,288
Disbursements	97	70	87	143	116	96	71	682

Consequently, AFD in Kenya has operated through sovereign and non-sovereign loans, accounting for 67% and 33%, respectively, of financing allocated between 2008 and 2016. Some 88% of outstanding loans in 2017 had been contracted since 2007, demonstrating AFD's strong growth over the past ten years.

AFD's financing in Kenya has focused on 3 sectors: energy, water and sanitation, and transport. These 3 sectors accounted for 86% of the volume of AFD's commitments between 2008 and 2016. Other operations have been conducted in the sectors of the environment (sovereign loans), health, agriculture and higher education (non-sovereign loans).

For the period 2008-2016, 30% of projects in AFD's portfolio have a climate co-benefit and aim to mitigate the impacts of climate change.

Historical support to the energy sector. With total commitments of some EUR 800m since 2008, the energy sector is the largest portfolio in terms of volume, making AFD one of the main donors in this field in Kenya. The financing has allowed operations both in power generation, particularly for geothermal energy, and transmission and distribution. AFD has gradually supported renewable energy development, a priority area for the Kenyan authorities. The operations have taken place within the framework of a high-quality strategic dialogue with the Ministry of Energy, with AFD having financed the Master Plan[43] to feed into reflection on public policies on power generation. AFD's support has sought to integrate a regional dimension and has materialized in EUR 91m of financing for the Kenya-Ethiopia electricity interconnection. There has been an increase in the use of non-sovereign loans, with the allocations of loans for the Meru/Isiolo wind farm led by KenGen and to reinforce Kenya Power's distribution grid.

Substantial support to the water and sanitation sector. Since 2008, AFD has committed EUR 336m in the water and sanitation sector, giving priority to the implementation of the sectoral policy in three main urban centres: Nairobi, Mombasa and Kisumu. AFD is the main donor in the sector alongside the World Bank, KfW, AfDB and EIB. It has supported the increase in the drinking water supply in Nairobi, the rehabilitation and extension of infrastructure in Mombasa and the extension of the distribution network in Kisumu. The financing has also been part of a regional approach to the management of water from Lake Victoria, thanks to coordinated operations in cities around the lake in Kenya, Tanzania and Uganda.

Strong focus on the transport sector. Despite the fact that there is a lower volume of commitments than in the energy and water sectors, the transport sector is a focus sector for AFD in Kenya, with a historical positioning on rural roads. Since 2008, AFD has provided some EUR 201m of financing for transport

[43] "Generation and Transmission Master Plan" study produced by Lahmeyer International, a subsidiary of Tractebel, Engie Group.

projects, including EUR 127m to the Kenya Airport Authority (KAA) for the rehabilitation of airport runways in Nairobi, then in Mombasa. Given the importance of rural roads in opening up rural areas and despite difficulties related to the complexity of the subject, AFD has continued its support for rural roads in order to promote balanced territorial development.

Other sectors financed. AFD has managed to adapt to developments in the budgetary constraints of the Government of Kenya, in particular by developing non-sovereign loans. In this respect, Kenya is one of AFD's countries of operation with the highest concessional and non-concessional non-sovereign component. AFD has been able to work with the main banks on the market and to promote loans with concessional rates, without a State guarantee. In addition to the instrument alone, these operations have been characterized by a wide variety of sectors: ports, airports, health, energy. The wide range of innovative financial tools available, such as credit lines, has allowed other sectors to be supported, such as higher education and student housing.

Financing for the initiatives of civil society organisations. Since 2009, AFD has contributed to financing 12 projects led by French civil society organisations (CSOs), *via* the window dedicated to financing CSO initiatives. They include seven projects which concern several countries, including Kenya, and only two projects exclusively concerned Kenya and have now been completed. The main sectors of operation of these projects are human rights, agricultural development and microfinance. French CSOs are historically not as established in Kenya as in other parts of Africa. There a consequently few of them, but their action is always long-term and in partnership with Kenyan CSOs.

AFD has also financed Kenyan CSOs *via* other tools, including funds from FFEM. For example, this is the case in the field of biodiversity conservation, with Kenyan associations which have good knowledge of the field: The Green Belt Movement (CKE 6008 project) and the association NRT (CKE1050 project), whose role was to promote the participation of local communities in the project and thereby improve ownership. In the context of water and sanitation projects in Nairobi, the association Umande Trust has also benefited from financing to build bio-centres in Nairobi's slums, which provide residents in these neighbourhoods with improved access to showers and toilets, while recycling waste through biogas production. This financing has allowed Umande Trust to develop its know-how and obtain useful references to mobilise financing from other donors.

Development and prospects for commitments. The distribution in terms of amounts and the sectoral breakdown of past activities show that AFD's operations are characterised by a strong positioning on sovereign loans, which is fully consistent with the strategy of the Government of Kenya. The financing has been in line with the aim of focusing on the regional dimension as far as possible, in order to ensure there is consistency with the other countries under the competence of the Nairobi agency. Finally, there has been an increase in non-sovereign financing, illustrating AFD's capacity to address Kenya's development challenges. In the short and medium term, the financing prospects in the 3 focus sectors are favourable, due to the nationwide needs for infrastructure.

2.2. QUALITATIVE ASSESSMENT

Operations in line with the Government's strategy. AFD's activities in Kenya for the period 2008-2016 have fit in with the dynamics of a country with a growth model based on public investment. By focusing on the sectors of energy, water/sanitation and transport, AFD's operations were relevant, as they were calibrated in terms of volume and meet priority needs in terms of public infrastructure.

A strong and recognised identity. The alignment of AFD's strategy with Vision 2030 and the successive MTPs has given AFD recognition at the highest level of the State. AFD's positioning is clear and appreciated due to a strong identity in infrastructure financing and major visibility in the electricity and water/sanitation sectors. The diversity of tools which have been implemented or can be used[44] has proved to be a major advantage in giving visibility in a country where there are a number of donors with a financing capacity that is sometimes higher. The complementarity of AFD's provision has allowed a concentration in terms of sectors, which ultimately gives greater clarity to operations.

Partner-advisor relationship. AFD has become a major partner in the main focus sectors and a constructive dialogue has gradually been established, especially with public companies. AFD has developed a "partner-advisor" positioning with, for example, Kenya Power, KenGen, Ketraco, Kenya Airport Authorities and Athi Water Services Board. These high-quality relationships of trust have allowed financing to be allocated directly to some of these public companies, without a State guarantee. AFD has been a pioneer in the non-sovereign niche in the public sector, as it is one of the only donors to operate using non-sovereign loans (without a guarantee from the Kenyan State). AFD has managed to maintain relationships of trust with local banks for the implementation of specific innovative financing *via* the SUNREF programme. At the same time, it has gradually increased its presence in the sectoral dialogue, but its contribution to the debate still remains limited given the volumes of financing. AFD's added value also lies in its capacity to mobilise grants from other donors, such as the EU and DFID. Finally, the regional competence of the Nairobi agency allows synergies and projects promoting regional integration to be implemented more rapidly and effectively.

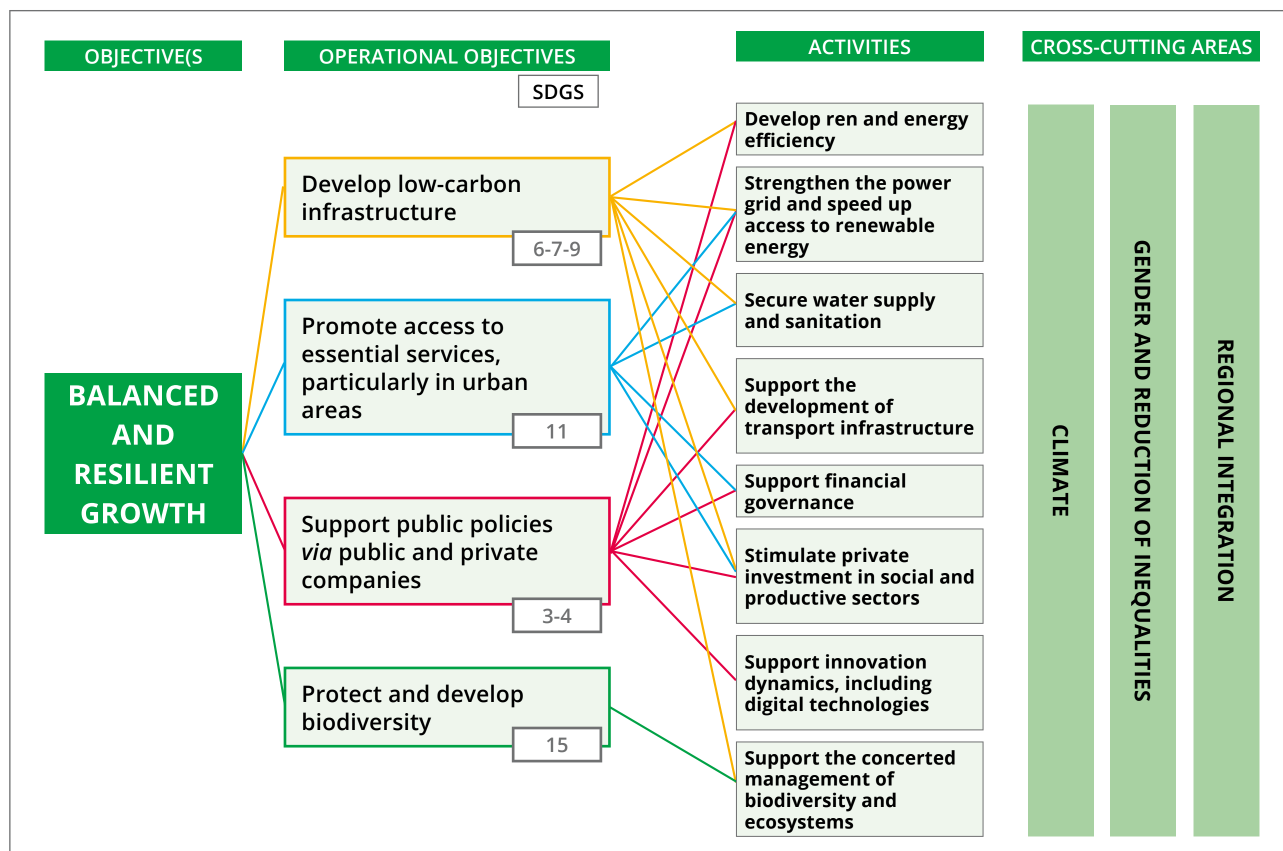
[44] Sovereign loans; concessional or non-concessional non-sovereign loans; technical assistance; ARIZ guarantee, SUNREF program.

3.

AFD'S STRATEGY FOR OPERATIONS IN KENYA (2017-2021)

3.1. LOGICAL FRAMEWORK

Logical framework for AFD's operations in Kenya



3.2. PRIORITY AREAS OF OPERATION

Strategic orientations

Support balanced and resilient growth. The entry into force of the 17 Sustainable Development Goals on 1 January 2016 allowed new ambitious objectives to be set to eradicate poverty, protect the planet and ensure prosperity for all by 2030. All countries and development actors pledged to take action for a common world. In France, this new framework led to a meeting of the Inter-ministerial Committee for International Cooperation and Development (CICID) in November 2016, which specified France's new orientations in this field. AFD's contribution to the 17 SDGs will be based on the notion of "commons", for which the concerted management requires successfully achieving five main transitions, in line with the "All Africa" strategy, which aims to go beyond national approaches to a regional and dual approach, moving towards a multifaceted approach: transitions *(i)* demographic and social *(ii)* energy *(iii)* territorial and ecological *(iv)* digital and technological *(v)* political and citizen-based.

AFD's strategy in Kenya for 2017-2021 will fit in with this vision, based on the notion of commons, and will be part of the Regional Intervention Framework for Sub-Saharan Africa (2017-2021), which aims to *(i)* achieve prosperous and shared development *(ii)* establish resilient societies. In view of these main orientations, the macroeconomic context and the challenges facing the country, operations in Kenya will focus on supporting the 4 following transitions: energy, territorial and ecological, digital and technological, political.

Objectives and activities

The structural objective of Agence Française de Développement's strategy in Kenya for 2017-2021 will be balanced and resilient growth. To contribute to this objective, AFD has set 4 operational objectives:

(1) Develop low-carbon infrastructure: through this objective, AFD will actively participate in the low-carbon path defined by Kenya in the context of its NDC *via* the various infrastructures financed;

(2) Promote access to essential services, particularly in urban areas: in response to growing urbanisation in Kenya, support for the development of sustainable and accessible cities is a challenge which AFD will be contributing to;

(3) Support public policies *via* public and private companies: AFD will continue to support the action of public policies *via* support from non-sovereign loans to public companies in the market sector and private companies. The aim is to address Kenya's development objectives while limiting the country's debt;

(4) Protect and develop biodiversity: this objective only concerns one activity and aims to "support the concerted management of biodiversity and ecosystems".

These objectives will be implemented through 8 activities:
- → The implementation of activities 1 and 2 will contribute to the energy transition;
- → Activities 2, 3, 4, 6, 8 will contribute to the territorial and ecological transition;
- → Activity 7 will contribute to the digital transition;
- → Activity 5 will allow AFD to contribute to the political transition.

The choice of activities included in the framework of the Kenya strategy is in line with *(i)* the country's development strategy and *(ii)* in this respect, targets sectors where AFD has a legitimacy (added value, expertise, historical positioning, particularly in terms of the operations of the other donors).

ACTIVITY 1

Developing renewable energies and energy efficiency

In line with France's commitments[45] and the objectives set by the Government of Kenya in MTP II in terms of renewable energies (REn), AFD will continue financing this sector. This will support the current energy mix, over 80% of which is made up of (REn), and will consequently contribute to Kenya's achievement of SDG 7.

The Group will implement its available range of tools and will finance these projects *via* both sovereign and non-sovereign loans to public companies (KenGen, KPLC, GDC) or private banking counterparties (SUNREF programme) and non-banking counterparties. The possibility of providing support for projects to finance solutions to replace fuelwood will also be studied, with the aim of combating deforestation. AFD will continue to support geothermal energy, will initiate support for hydropower projects and will develop financing for wind and solar projects, with the aim of stabilising REn production. Given the time periods for the implementation of infrastructure projects, these additional units will only be commissioned in the long term (7 to 10 years).

ACTIVITY 2

Reinforcing the power grid and accelerating access to energy

To support the objective set by the Government of Kenya to achieve universal access to electricity in the short term, in particular with the aim of achieving SDG 7 for Kenya, AFD will seek to reinforce and extend infrastructure for the power transmission and distribution grid. This support will be provided in rural areas, where the access rate is currently low, but also in urban areas to meet the strong rise in energy demand in cities. The sovereign and non-sovereign financing will support projects to improve power transmission and develop mini off-grid solutions or individual solar kits. AFD will finance projects with Ketraco and KPLC and a second Last Mile Connectivity[46] project may be considered. AFD will also seek to develop activities in the field of access to energy other than electricity (for example, by improving the fuelwood sector). The focus will be the regional approach and mobilizing French expertise which is already present and recognised. AFD will encourage banks to move into sectors which are not mature, such as financing energy efficiency and renewable energy projects, by defining additional eligibility criteria with them.

ACTIVITY 3

Securing water supply and sanitation

In order to support demographic and urban growth, AFD will continue to focus its operations on the Water Services Boards (WSB) of the three main cites: Athi WSB for Nairobi, Coast WSB for Mombasa and Lake Victoria South WSB for Kisumu. In the context of the new Water Law (2016), which provides for grouping WSBs into Water Works Development Agencies with extended geographical perimeters, AFD may consider extending its financing to the satellite cities of the three main cities mentioned above, provided that they fall within the extended perimeter of the new water agencies. AFD will also continue its support for capacity building for the network operating companies (Water Service Providers – WSPs), which are now under the direct responsibility of County Governments, in order to improve technical and financial performance. The bulk of AFD's financing will continue to concern drinking water supply (production, storage and distribution), with a focus on sanitation in order to bridge the financing gaps identified in this field.

In order to gain a clear understanding of the consequences of climate change, AFD will include the issues of vulnerability and adaptation to climate change in its feasibility studies. In the future, special attention may be paid to protecting water resources. Finally, AFD will continue to support water management around Lake Victoria (resources and quality of the water discharged) with a regional approach (country projects in Kenya, Tanzania and Uganda, and projects for inter-country structures).

The water and sanitation sector will remain a focus sector and will consequently make it possible to support Kenya in achieving SDG 6.

ACTIVITY 4

Supporting the development of transport infrastructure

In view of Kenya's strategic position and the major role played by transport in positioning the country as a regional economic platform, AFD will scale up its support for the development of airport, road and port infrastructure. AFD's support for this sector will contribute to the achievement of SDG 9 by Kenya. The quality of transport infrastructure is a key factor in strengthening the service quality offered in urban areas, but also in promoting economic integration in East Africa, facilitating its integration into the international economy and boosting exports, particularly for horticultural products. AFD's operations will aim to upgrade the country's two main airports, in Nairobi and Mombasa. The

[45] In the context of the commitments made by France during the Paris Agreement, AFD Group pledged to provide EUR 6bn of financing for the energy sector in Africa by 2020. 50% of this financing (EUR 3bn) will be earmarked to support the Africa Renewable Energy Initiative (AREI).

[46] Project which aims to connect the population within a radius of 600 m around transformers which exist or are to be built.

possibilities of financing other infrastructure in secondary cities may also be studied. The development of the capacity of the Port of Mombasa, which is a real entry point for goods for landlocked countries bordering Kenya, such as Uganda, will be supported *via* non-sovereign loans. AFD will continue to finance projects for rural roads, giving priority to coordination and synergies with other donors operating in this key sector, as this contributes to opening up territories, in particular in the ASAL area. Finally, the financing of urban mobility projects, such as the Bus Rapid Transit (BRT) in Nairobi, may be considered, giving priority to seeking cofinancing with European donors and to supporting low-carbon and climate-resilient infrastructure.

ACTIVITY 5

Supporting financial governance

The sustainability of public finances is a major issue for Kenya's growth model and the implementation of reforms related to devolution has increased the need to control budgetary risks and improve the effectiveness of public expenditure. In this context, AFD could contribute to addressing these challenges by financing support for public finance management on subjects such as the management at central level of transfers to counties, the management of the external public debt at national and local level and public investment management. Special emphasis will be placed on the prioritisation, supervision, evaluation and ownership of methods in order to provide sustainable support. This could be set up for the National Treasury in a complementary approach to the operations already conducted by donors such as the World Bank.

ACTIVITY 6

Stimulating private investment in the social and productive sectors

There continue to be major social challenges in Kenya. AFD will support public policies for access to basic services *via* operations with private banking and non-banking counterparties, which will contribute to the achievement of SDGs 3 and 4. In the health sector, AFD will continue its support to the Aga Khan Health Services, a longstanding partner of AFD at national, regional and international level. AFD will seek to diversify partnerships with non-profit health organisations in order to meet increasing needs for high-quality healthcare provision in the country. The partnership with M.P. Shah will improve access to basic services and increase the quality of medical and paramedical staff, in particular *via* in-service training. The financing of university hospitals will develop specialities and address the shortage of a number of specialities, such as cardiology and paediatrics. In other sectors, particularly social housing, AFD will seek to address the issues of access *via* credit lines to stimulate the interest of private investments. Finally, AFD will seek to develop financing opportunities in other sectors, *via* the financial sector, such as the agricultural sector, by developing credit lines and/or guarantee mechanisms targeting small and medium-sized farms. The implementation of a range of complementary financing blending concessional loans, technical assistance and, if possible, other innovative products, such as the provision of local currency, will allow investment to be developed to benefit populations who are vulnerable or find it more difficult to access financial resources provided by the banking system.

ACTIVITY 7

Supporting innovation dynamics, including digital technologies

According to a study by the think tank Intelligent Community Forum, Nairobi is the continent's leading smart city. The project for the Konza Technology City, Kenya's "Silicon Valley" entirely dedicated to technologies, which aims to attract innovative companies and solutions, demonstrates the Government of Kenya's objective of speeding up the deployment of new technologies and positioning itself as a digital hub in Africa. AFD's entry into this new sector is in line with AFD's digital strategy and meets the objectives of SDG 9. AFD will seek to develop support that will create quality jobs, particularly for disadvantaged people. Emphasis will consequently be placed on democratising digital technologies, the inclusion of women and the development of an ecosystem to bridge the digital divide. AFD will examine the possibility of integrating digital components into the appraisal of new projects (health, financial inclusion, transport, energy, water…). It will seek to support digital dynamics by financing infrastructure (quality of urban transport services, power transmission…) and *via* support for social sectors (e-health, for example), environmental and climate risk management, etc. AFD will remain open to other opportunities offered by the sector, especially when they make it possible to contribute to the achievement of the SDGs.

ACTIVITY 8

Supporting the concerted management of biodiversity and ecosystems

Kenya is particularly rich in terms of biodiversity and it is necessary to preserve and restore terrestrial ecosystems in order to achieve SDG 15. The country has a large number of ecosystems: tropical rainforests, dry forests, mangroves, savannahs, freshwater lakes, salt lakes, coral reefs and deserts. However, the demographic, economic and climatic upheavals have caused losses in ecosystem services due to the reduction in fresh water reserves, poaching, and an acceleration in deforestation. Kenya is one of the few countries where large mammals still regularly migrate. As the country's economic and social development is largely dependent on biological resources, AFD will provide support for the concerted management of biodiversity and existing protected areas and the development of ecosystems for the benefit of all. AFD's financing will seek to support the adaptation of ecosystem services, particularly in rural areas, the development of natural products by local actors in order to maintain income-generating activities, and the development of sustainable tourism. It will be implemented by involving all stakeholders, particularly Counties and local communities, whose role in this field is recognised by the Wildlife Conservation and Management Act (2013). The possibility of combining financing with grants from the French Facility for Global Environment (FFEM), the presence of a recognised French service provision (particularly ecological consultancy firms) and opportunities for partnerships with other donors (World Bank, KfW, Green Fund, USAID) should promote the implementation of operations tailored to needs in this sector.

CROSS-CUTTING OBJECTIVES

AFD's activity in Kenya will seek to *(i)* optimise the climate co-benefits of projects, with the objective of achieving **40% of projects with climate co-benefits** over the duration of the strategy and, more generally, of seeking to make its operations consistent with the Paris Agreement *(ii)* address the issues of inequality, and more specifically **gender** inequality *(iii)* promote **regional integration**. These cross-cutting objectives will provide a response to SDGs 5 and 10 on the fight against inequalities, and particularly in terms of gender, and SDG 13 to support Kenya in achieving its low-carbon path.

Optimising the climate co-benefits of projects

AFD will continue its activities which contribute to a low-carbon and resilient development of the country, in particular by seeking to optimise the climate co-benefits of the funded projects. It will thereby seek to contribute to the commitments made by France to achieving the objective of 30% of projects having a climate co-benefit in Sub-Saharan Africa. In this context, AFD will seek to participate more in this objective, with the aim of financing 40% of projects with a climate co-benefit. This climate approach will necessarily have to take into account the constraints which apply to AFD in Kenya, including the need to meet a demand, complementarity and legitimacy *vis-à-vis* other donors, the type of resources and financial tools at its disposal, and the complexity of the thematic areas in question.

Optimising gender co-benefits in projects and the fight against inequalities

AFD will ensure that gender issues are taken into account in the design of projects, firstly and systematically during the conducting of the feasibility study, then throughout the project cycle. Given the persistence of gender inequalities in Kenya, both from a legislative and regulatory perspective and in daily life, special attention will be paid to supporting projects which make a real improvement to the inclusion of women in the economic fabric and improve access to basic services. This gender mainstreaming will be based on a gender/sector toolkit developed by AFD and will concern most projects, as the reduction of gender inequalities brings about more inclusive and resilient economic and social development. The Nairobi agency will prepare an annual gender action plan in order to identify flagship projects which specifically mainstream the notion of gender, as well as the awareness-raising and training actions which will be conducted. In the context of future project appraisals, several projects have and could have gender as an explicit project objective (rural roads, M.P. Shah, KPA, credit lines….) and the agency will seek to achieve the objective of 50% of its portfolio having a significant impact (DAC indicators 1 and 2). More generally, AFD will seek to provide a response to the growing inequalities in Kenya, particularly in terms of access to services and infrastructure. A specific study will be conducted on the subject (*cf.* research partnerships).

Promoting regional integration

In line with AFD's All Africa strategy, which aims to take into account the plurality and diversity of spaces, AFD will strengthen its regional approach in the East Africa region in order to address transnational issues and promote regional integration. In this respect, transport projects with a regional dimension (ports and airports) are in line with this objective of improving regional integration. In the context of the water sector, AFD will conduct reflection on the development of projects related to the quality of the water of Lake Victoria, such as the management of the proliferation of the water hyacinth and, more generally, reducing the pollution of the water of the lake. Finally, regional integration is also reflected in AFD's operating methods with, for example, the setting up of regional credit lines to promote capitalisation on the operational experiences of the implementation of projects, successes and issues.

PARTNERSHIPS AND KNOWLEDGE PRODUCTION

Financial partnerships

This strategy fits in with the framework of the joint European programming, which is currently being reviewed (2018-2021). AFD will continue to seek cofinancing with other financial institutions, wherever this makes sense, in particular for infrastructure projects. It will fit in with the cofinancing agreements which AFD has signed with the World Bank, African Development Bank and the Mutual Reliance Initiative (MRI) agreement with KFW and the European Investment Bank. Parallel cofinancing (with JICA for example) and fund delegations (with the European Commission for example) will be sought in common sectors of operation in order to create major leverage on projects. AFD will continue to cofinance CSO initiatives which will benefit Kenya and to seek their participation in the other projects it finances, particularly when this improves knowledge of the local context and increases support from populations.

Research partnerships

In the context of its financing, AFD will seek to include a knowledge production component in the sectors of operation, but also in the mechanisms and operating methods. This intellectual production will promote the sectoral dialogue with the Government of Kenya. AFD will promote partnerships with the French research actors who are present, in particular CIRAD, IRD and IFRA. AFD will conduct decentralized evaluations in order to capitalize on past actions. It will seek to support a Kenyan partner and special attention will be paid to the Institute of Economic Affairs, a research institute which aims to influence public policy and which works with other institutes, such as the Kenya Institute of Public Policy Research and Analysis (KIPPRA). A study will also be conducted on inequalities in Kenya, financed by the EU, with strong support from departments at headquarters (ERS) in directing this study.

FINANCIAL PERSPECTIVES AND OPERATING METHODS

4.1. INDICATIVE FINANCIAL PROGRAMMING

AFD Group has committed to finance EUR 23bn of development projects for Africa between 2017 and 2021. The implementation of the Kenya strategy will contribute to this objective.

In this respect, AFD will continue its commitment in the focus sectors for sovereign financing (water and sanitation, energy and transport) for a total amount estimated at some EUR 600m for 2017-2021 (*i.e.* an annual average of EUR 120m). This volume of sovereign financing is consistent with the debt path of the Government of Kenya and in line with AFD's regulatory constraints in Kenya.

> *AFD will comply with the wishes of the Government of Kenya to encourage the private sector and market public sector to bear part of the investment effort required to achieve its development objectives.*

In accordance with the wishes of the Government of Kenya, which encourages the private sector and market public sector to bear part of the investment effort required for the achievement of its development objectives, AFD will also continue its efforts initiated during the period of the previous strategy to finance projects with non-sovereign loans (without a guarantee from the Kenyan State). This non-sovereign financing is estimated at EUR 515m for 2017-2021 and may be realised with public companies in the market sector (energy, ports, airports…) and with private operators (banks, non-profit companies…). AFD will support public companies which currently need the State guarantee to borrow, to strengthen their governance and their financial capacity so that they can eventually have access to the resources required to realise their investments.

Kenya is not on the list of the Priority Poor Countries for French development cooperation and is not a priority for the allocation of grant financing. However, grants for small amounts will be available to finance the Study and Capacity Building Fund (SCBF, for feasibility studies in particular), the Technical Expertise Fund (FEXTE, for the development of technical partnerships) and a limited number of operations requiring technical assistance financed by grants (209 Programme). The grant resources of the French Facility for Global Environment (FFEM) could also be mobilised in the context of projects seeking a strong impact in terms of the protection of natural resources and with innovative responses to climate change. Furthermore, AFD will seek to mobilise grants from the 11th EDF for Kenya, *via* the Africa Investment Facility (AFiF, a loan-grant blending instrument) when the projects fall under the European Commission's NIPs and RIPs, as well as grants from the Green Fund when the funded projects have a transformational effect in terms climate change adaptation or mitigation. Other grant sources may be identified in order to strengthen the leverage of AFD-financed projects (increase in impacts). AFD's agency in Kenya could thereby mobilise some EUR 96m of grants between 2017 and 2021.

The trend for the financial scenario for 2017-2021 indicates a total volume of sovereign loans of EUR 600m, EUR 515m of non-sovereign loans and EUR 96m of grants (direct or delegated), ***i.e.* EUR 1.2bn over 5 years**.

4.2. INTERVENTION METHODS

For this new strategy, AFD will implement measures which aim to further improve conditions for the implementation of projects. These measures will concern the entire project cycle: during the identification (design projects with objectives that can be achieved in the allotted time), the formalisation (promote the use of model agreements, limit the number of conditionalities), the monitoring of implementation (strengthen the role of the middle office), *ex post* evaluation.

More generally, AFD will seek to be innovative through its products and its approaches. For example, in 2016, it launched reflection on public policy financing, with an initial real case in the field of public finance management. It will also seek to develop innovative guarantee products in order to identify the most appropriate solutions for the implementation of loans in local currency or to identify opportunities for green bond issues. It will continue its efforts to structure credit lines which contribute to public policies, for example, for renewable energy and energy savings (SUNREF), but also for new thematic areas, such as agriculture or fuelwood. Finally, AFD will seek to further integrate digital technologies into its sectoral projects and to finance a pilot project in the field of the digital transition.

5. MONITORING METHODS

The monitoring of the strategy, which will feed into communication actions, and the management of the activity will focus on the indicators below, which partly come from the matrix of indicators for bilateral aid validated by the CICID in November 2016. These indicators will make it possible to measure the contribution of AFD's action to the achievement of the SDGs.

By sector

Number of people connected to the electricity distribution network or gaining access to electrification	SDG 7.1.1.
New installed renewable energy capacity	SDG 7.2.
Surface areas benefiting from a biodiversity conservation, restoration or sustainable management programme	SDG 15.5.
Investments supported in the private sector	
Number of companies (SMEs) benefiting from AFD support or financing	
Number of people gaining sustainable access to an improved drinking water source	SDG 6.1.1.
Number of people gaining access to an improved sanitation system	SDG 6.2.1.
Number of kilometres of public transport infrastructure financed	SDG 11.2.1.
Number of people with improved access to healthcare	SDG 3.4.1.

In terms of climate co-benefits

Share (amount) of commitment approvals with a climate co-benefit	SDG 13.1.

In terms of gender and the fight against inequalities

Share (number) of commitment approvals with a gender objective	SDG 5.1.

A mid-term review of the strategy will be conducted in 2019 with two objectives *(i)* update the initial orientations depending on the development of the context and *(ii)* adjust/specify the financial projections for the second half of the implementation period.

ABBREVIATIONS AND ACRONYMS

AFD: Agence Française de Développement
AfDB: African Development Bank
AFIF: Africa Investment Facility
AREI: Africa Renewable Energy Initiative
ASAL: Arid and Semi-Arid Lands
AU: African Union
BRT: Bus Rapid Transit
C2D : Debt Reduction-Development Contract
CBK: Central Bank of Kenya
CICID: Interministerial Committee for International Cooperation and Development
CIRAD: Agricultural Research Centre for International Development
CPIA: Country and Policy Institutional Assessment
CSO: Civil society organisations
CSP: Country Strategy Paper
DAC: Development Assistance Committee of the OECD
DFID : Department for International Development (UK)
EAC: East African Community
EDF: European Development Fund
EIB: European Investment Bank
ENSO: El Nino Southern Oscillation
EPA: Economic Partnership Agreements
EU: European Union
FASEP: Private Sector Assistance Fund (DGT)
FDI: Foreign Direct Investments
FEXTE: Technical Expertise Fund
FFEM: French Facility for Global Environment
GDC: Geothermal Development Company Limited
GDP: Gross Domestic Product
GHG: Greenhouse Gas
HDI: Human Development Index
ICT: Information and Communication Technologies
IEA: Institute for Economic Affairs (Kenya)
IFRA: French Institute for Research in Africa
IMF: International Monetary Fund
IRD: Research Institute for Development
JICA: Japan International Cooperation Agency
KAA : Kenya Airport Authority
KANU: Kenya African National Union
KENGEN : Kenya Electricity Generating Company
KES: Kenyan Shilling
KETRACO: Kenya Electricity Transmission Company
KIPPRA: Kenya Institute for Public Policy and Research Analysis
KPLC: Kenya Power & Lighting Limited Company
KWS: Kenya Wildlife Services
LAPSSET : Lamu Port-Southern Sudan-Ethiopia Transport
LIC: Low-Income Country
MDGs: Millennium Development Goals
MIC: Middle-Income Country
MRI: Mutual Reliance Initiative
MTP : Medium-Term Plan
NARC: National Rainbow Coalition
NCCAP: National Climate Change Action Plan
NDC: National Determined Contribution (Paris Climate Agreement)
NIP: National Indicative Programme
ODA: Official Development Assistance
ODM : Orange Democratic Movement
OECD: Organisation for Economic Co-operation and Development
PEFA : Public Expenditure Financial Accountability
PPP: Public-Private Partnership
REn: Renewable energy
RIF: Regional Intervention Framework
RIP: Regional Indicative Programme
SADC: Southern African Development Community
SCBF: Study and Capacity Building Fund
SDGs : Sustainable Development Goals
SGR: Standard Gauge Railway
SSA: Sub-Saharan Africa
SUNREF: Sustainable Use of Natural Resources and Energy Finance
UNDP: United Nations Development Programme
UNEP: United Nations Environment Programme
USAID: United States Agency for International Development
USD: United States Dollar
WB: World Bank
WSB: Water Services Boards
WSP: Water Service Providers

What is AFD?

AFD is France's inclusive public development bank. It commits financing and technical assistance to projects that genuinely improve everyday life, both in developing and emerging countries and in the French overseas territories. In keeping with the United Nations Sustainable Development Goals, AFD works in many sectors — energy, healthcare, biodiversity, water, digital technology, professional training, among others — to assist with transitions towards a safer, more equitable, and more sustainable world: a world in common. Through its network of 85 field offices, AFD currently finances, monitors, and assists more than 2,500 development projects in 108 countries. In 2016, AFD earmarked EUR 9.4bn to finance projects in developing countries and for overseas France.

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