



Executive Board Minutes 21/37-1

April 2, 2021–2:00 p.m.

**Kenya—Requests for an Extended Arrangement Under the Extended Fund Facility
and an Arrangement Under the Extended Credit Facility**

Documents: EBS/21/29, and Cor. 1, and Cor. 2, and Cor. 3, and Sup. 1, and Sup. 1, Cor. 1

Staff: Goodman, AFR; Kaufman, SPR

Length: 1 hour, 5 minutes

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CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors commended the authorities' prompt and forceful response to the pandemic and the economy's recovery since mid-2020. While noting medium-term prospects positively, Directors emphasized that the outlook is subject to high uncertainty and observed that the crisis had set back development goals and exacerbated existing debt vulnerabilities. Against this background, Directors welcomed the authorities' commitment to policies that chart a clear path to reduce vulnerabilities and support sustainable, inclusive growth.

Directors viewed the planned multi-year fiscal consolidation effort, while securing resources to protect vulnerable groups, as essential to lay the ground for a return to durable growth and to safeguard debt sustainability. They commended the steps already taken to mobilize additional tax revenues and considered the reversal of recent extraordinary COVID tax cuts appropriate, along with prioritizing and limiting recurrent spending to contain the deficit. They supported bringing the primary deficit below its debt-stabilizing level during the program and restoring tax revenue, which had fallen even before the COVID-19 shock, to levels achieved in recent years.

Directors agreed that the near-term structural reform agenda should focus on urgent priorities. Highlighting financial weaknesses in several state-owned enterprises (SOEs) as a key risk, they called for a strong focus on containing fiscal risks and stressed that any extraordinary SOE support be consistent with Kenya's limited fiscal space. Directors were encouraged by plans for fiscal structural reforms on revenue administration, spending efficiency, and fiscal transparency. They also emphasized the importance of continuing to improve the anti-corruption framework, including the publication of audits of COVID-19 related expenditures and disclosure of beneficial ownership information of companies awarded contracts; and looked forward to the implementation of the AML/CFT agenda.

Directors commended the Central Bank of Kenya's proactive policy response during a very challenging period. They supported maintaining an accommodative monetary policy stance while keeping inflation well-anchored, and continuing to allow the shilling to act as a shock absorber. They noted that the shock had exacerbated preexisting challenges for bank asset quality and supported maintaining close supervision of credit risks and provisioning.

Given elevated uncertainty, Directors supported flexibility in the program design, including recognition of near-term challenges around tax yields and SOE contingent liabilities.

EXECUTIVE BOARD DECISIONS

The Executive Board took the following decisions:

Kenya—Request for an Extended Arrangement Under the Extended Fund Facility

1. Kenya has requested an Extended Arrangement in an amount equivalent to SDR 1248.44 million for a period of 38 months from the effective date of this decision.
2. The Fund approves the Extended Arrangement for Kenya set forth in EBS/21/29 and decides that purchases may be made under the arrangement, on the condition that the information provided by Kenya on the implementation of the measures specified as prior actions in Table 2 of the Memorandum of Economic and Financial Policies attached to the letter from the Cabinet Secretary, National Treasury and Planning and the Governor of the Central Bank of Kenya, dated March 19, 2021, is accurate.
3. The Fund waives the limitation in Article V, Section 3 (b) (iii).
4. This Decision shall become effective only upon the adoption of the decision on the arrangement under the Extended Credit Facility for Kenya. (EBS/21/29, 03/19/21)

Decision No. 17024-(21/37), adopted
April 2, 2021

Kenya—Request for an Arrangement Under the Extended Credit Facility

1. Kenya has requested an arrangement under the Extended Credit Facility for a period of 38 months in an amount equivalent to SDR 407.09 million.
2. The Fund approves the arrangement for Kenya set forth in EBS/21/29 and decides that Kenya may request the first disbursement under the arrangement, on the condition that the information provided by Kenya on the implementation of the measures specified as prior actions in Table 2 of the Memorandum of Economic and Financial Policies attached to the letter from the Cabinet Secretary, National Treasury and Planning and the Governor of the Central Bank of Kenya, dated March 19, 2021, is accurate. (EBS/21/29, 03/19/21)

Decision No. 17025-(21/37), adopted
April 2, 2021

EXECUTIVE BOARD ATTENDANCE¹

A. Sayeh, Acting Chair

Executive Directors

I. Mannathoko (AE)

L. Levonian (CO)

A. Buisse (FF)

S. Bhalla (IN)

D. Fanizza (IT)

M. Poso (NO)

A. Mozhin (RU)

M. Mouminah (SA)

Alternate Executive Directors

R. N'Sonde (AF)

J. Corvalan (AG), Temporary

C. White (AP)

B. Saraiva (BR)

Z. Zhang (CC)

J. Romero (CE)

C. Just (EC)

K. Merk (GR)

M. Shimada (JA), Temporary

M. El Qorchi (MD)

W. Abdelati (MI), Temporary

T. Manchev (NE), Temporary

F. Mochtar (ST)

M. Zhunusbekova (SZ), Temporary

C. Clapham (UK), Temporary

C. Westphal (US), Temporary

G. Bauche, Acting Secretary

S. Maxwell, Summing Up Officer

D. Jiang, Board Operations Officer

M. Eddy, Verbatim Reporting Officer

Also Present

African Department: R. Celaya, V. Crispolti, A. Fedelino, M. Goodman, J. Jack, X. Li, F. Nyankiye, G. Pula, T. Rasmussen, D. Robinson, A. Selassie, S. Touray. Communications Department: A. Kanyegirire. Fiscal Affairs Department: L. Bounader. Finance Department:

¹ For countries in each constituency, please see the Constituency Codes in the annex.

G. Kabwe, C. Kadama, M. Mohlala, J. Shin. Legal Department: K. Christopherson Puh, P. Di Benedetta, J. Duasing, A. French, R. Snipeliski Nischli. Monetary and Capital Markets Department: M. Bazarbash. Office of Internal Audit and Inspection: N. Onyango. Strategy, Policy, and Review Department: M. Kaufman, S. Rodriguez Medrano. World Bank Group: A. Dennis, X. Furtado. Executive Directors: A. Andrianarivelo (AF), M. Mahmoud (MI), P. Moreno (CE), S. Riach (UK), P. Trabinski (SZ), R. von Kleist (GR). Alternate Executive Directors: B. Alhomaly (SA), A. Alhosani (MI), H. Azal (EC), S. Geadah (MI), W. Nakunyada (AE), F. O'Brolchain (CO), O. Odonye (AE), L. Palei (RU), P. Rozan (FF), F. Sylla (AF). Senior Advisors to Executive Directors: S. Ahmed (MD), H. Andrianometiana (AF), E. Cartagena (CE), M. Choueiri (MI), Patterson C. Ekeocha (AE), J. Garang (AE), O. Hendrick (AG), M. Ismail (AE), B. Jappah (AE), M. Maidi (AE), Son T. Nghiem (ST), S. Senich (US), M. Sidi Bouna (AF), T. Shay (NE), G. Vasishtha (CO), R. Velloso (BR). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), S. Belhaj (MD), E. Boukpassi (AF), D. Fadhel (MI), K. Florestal (BR), Z. Huang (CC), G. Khurelbaatar (AP), T. Krahne (GR), M. Merhi (MI), R. Moral Betere (CE), K. Osei-Yeboah (MD), T. Persico (IT), B. Piasecki (SZ), M. Pucnik (EC), F. Rawah (SA), B. Singh (IN), B. Slettvag (NO), D. Coelho (BR), E. Comolet (FF).

DISCUSSION RECORD²

The Acting Chair (Ms. Sayeh):

The authorities are firmly committed to their reform program despite the uncertainty of the COVID-19 shock and the setbacks of Kenya's earlier gains in poverty reduction. The program is expected to anchor the next phase of the authorities' COVID-19 response and their medium-term fiscal consolidation plan, which is centered on raising tax revenues and tightly controlling spending while safeguarding resources to protect vulnerable groups.

Kenya is at high risk for debt distress and the program charts a clear path to reduce debt vulnerabilities. It also sets out an important structural reform and governance agenda along with plans to strengthen the monetary policy framework and support financial stability.

The actions the authorities took last year even as the pandemic was unfolding to expand the tax revenue base are worth highlighting in this respect. Fund financing is expected to play a catalytic role in mobilizing additional support from Kenya's development partners and capital markets along with relief already committed by the G-20 through the Debt Service Suspension Initiative (DSSI). This will be important to fill the financing gap in 2021 and certainly over the coming years as well.

Ms. Mannathoko:

I will just say thank you to Executive Directors for supporting the decision in their gray statements, but I will hold my comments until the end.

The staff representative from the African Department (Ms. Goodman):

Thanks to Directors for their questions to the staff in gray statements. We want also to thank the authorities for the buff statement and for the close collaboration that has provided us the opportunity to be in a position to bring the request for an Extended Fund Facility/Extended Credit Facility (EFF/ECF) arrangements to the Board today.

I want to cover very briefly two issues of relevance to the discussion. First is to reconfirm that the authorities have completed the prior action on

² Edited for clarity.

financial evaluation of nine state-owned enterprises (SOEs) representing the most notable fiscal risks to the 2021 budget. This has been a significant undertaking. The evaluations confirm staff's understanding of the nature of the near-term issues presented by those state-owned enterprises.

Financial weaknesses in SOEs was highlighted in the staff appraisal as an important source of fiscal risk to the program, and while the impact of the COVID shock has been most notable in the case of Kenya Airways, and indeed the supplemental budget does provide for financial support to Kenya Airways, the evaluations underscore that for many of these SOEs the COVID shock came on top of preexisting challenges. Findings from the evaluations will feed into the authorities' planned work on SOEs.

The second point I would like to raise is to update on the current COVID-19 situation in Kenya. We covered this also in our written response to gray statements. With the rise in the number of COVID-19 cases due to the third wave of the virus that Kenya is experiencing, the authorities have this past Friday reinstituted a number of containment measures. This includes limiting domestic travel between areas of the highest infection rates, which are Nairobi and its contiguous counties, and the rest of the country, adjournment of Parliament, temporary closure of schools, and other social distancing measures.

Many of these steps had been imposed in 2020 but eased with the passing of the earlier COVID-19 waves. The duration of these measures has not been announced and will depend on the underlying COVID-19 situation. This represents a downside risk to staff's 2021 growth forecast. Risks from the intensification of the pandemic were flagged in the staff report, and staff will need to see how long the new measures are maintained to evaluate the impact, in particular, the closure of schools, which had in any event just begun a planned seven-week vacation period.

We will shortly be undertaking the first review provided the Board is supportive of the program today, and we would have an opportunity to update the Board at that time.

Mr. N'Sonde:

We thank staff for their responses to Directors' questions, including our question, and Ms. Goodman for her initial comments today. We would like to start by commending the Kenyan authorities for their strong policy response to the pandemic, which combined with the timely financing from the Fund and the World Bank has helped alleviate its impact.

That said, while the economic recovery underway seems solid, the outlook remains very uncertain and medium-term financing needs are substantial. We support the authorities' request for access under an EFF/ECF blended access to assist in their efforts to stabilize the economy while also catalyzing financing from donors and capital markets.

We have issued a gray statement and would like to add the following three points for emphasis. First, we share the assessment that a gradual but steadfast fiscal consolidation over the medium-term is necessary to strengthen fiscal and debt sustainability. We are reassured by staff's assessment that the measures outlined in the report, both on the revenue and expenditure sides, so it should bring the primary deficit below the level that will stabilize and reduce debt over the medium term.

However, like many other Directors, we also urge the authorities to refrain from external borrowing on non-concessional terms except for investment that are likely to provide a meaningful boost to the country's growth prospects.

Second, we are of the view that the authorities should maintain the current accommodative monetary policy stance to support the recovery given that inflation risks remain subdued.

We look forward to the central bank's white paper that will outline the authorities' strategy to strengthen their monetary policy framework. We would also like to associate ourselves with Directors who underscored the importance of preserving financial stability to ensure a healthy recovery. With the fast growth of digital financial services in Kenya, it is critical to complete the legislative phase of the digital lender regression to issue notably the protection of consumer rights.

Lastly, we believe that the structural reforms envisaged under the program are adequately focused on SOEs and governance. We support the steps that are being considered to reinforce SOEs which are essential to

contain contingent liability risks. We welcome the completion of the required prior action, which is an encouraging development indeed.

Finally, enhancing the anticorruption framework, including on fiscal transparency, should remain at the top of the authorities' reform agenda.

Mr. Rozan:

We issued a gray statement with Ms. Riach, and we expressed our support in this gray statement to the program; I just wish to underline three points on program design, consolidation, and debt management.

First, we commend staff and management for bringing this post-emergency financing Upper Credit Tranche (UCT) program to the Board today, and we agree with staff that risks to the program are sizable; hence, we support the flexible approach to the implementation of the program in the first reviews since there are relatively large risks in the short term. The program being rather ambitious with frequent reviews early on, continuous flexibility in the implementation appears critical.

Second, on the fiscal account, we will need to be mindful of the implementation and composition of fiscal consolidation. In this regard, I just respond, tax collection, vaccine-related spending, and SOE support are useful, as is the indicative target on social spending to cushion the most vulnerable from the adjustment.

Considering the development needs of the country and the structure of the fiscal expenditure, strong improvement in domestic resource mobilization is a bit critical rather than cutting back on the much-needed development spending.

Finally, the last point on debt, we note the risk of debt distress, which continues to be assessed as high. In this context, we encourage a proactive debt management strategy and generally welcome the emphasis in the program on SOEs. Cost-benefit analysis before incurring non-concessional debt and maintaining high standards of transparency and strong engagement with all creditors will remain necessary. We also thank staff for the breakdown of the Debt Service Suspension Initiative (DSSI) relief between Paris Club (PC) creditors and non-Paris Club creditors in 2021.

We are wondering, and this is a question, we are wondering whether staff would mind clarifying whether all of the official bilateral creditors have given financing assurances under the DSSI.

In this relation, we also note that Kenya's debt is susceptible to foreign exchange rate shocks. Could staff elaborate a bit on the options in case those risks would materialize?

Ms. Levonian:

We commend the Kenyan authorities for their efforts to contain the pandemic and sustain the recovery under challenging circumstances. We have issued a gray statement supporting the authorities' request for an EFF/ECF arrangement and would like to just raise two points for emphasis.

First, given the significant risk of uncertainty around the outlook, like Mr. Rozan just now, we welcome the flexible approach of the program which focuses on indicative targets and close engagement and monitoring for the first two reviews. Such an approach will help ensure that the authorities have adequate flexibility to respond to COVID-related exogenous shocks.

Secondly, we welcome the program's priority to strengthen fiscal governance and transparency. We also join Mr. Trabinski, Mr. Just, Mr. Buisse, Ms. Riach, and just now Mr. N'Sonde, and others, in encouraging the authorities to continue making progress in addressing weaknesses in fiscal transparency and the anti-corruption framework.

On a more general note, we reiterate the importance of governance and anticorruption safeguards in Fund lending, especially as we transition from emergency financing to more UCT-quality programs.

Mr. Just:

We would like to stress the following points. The proposed program offers the authorities opportunity to further strengthen the macroeconomic management/non-governance while maintaining fiscal sustainability. In view of rising debt, we note that both the revenue and expenditure measures should be credible and focus on strengthening revenue mobilization, reducing non-essential cost spending, and addressing weaknesses in the SOE sector. In our view, the program is sizably calibrated towards these effects.

Preserving debt fiscal discipline during the upcoming constitutional referendum as well as the elections in 2022 will be both a test of commitment to the steadfast implementation of this program as well as a good opportunity for the authorities to build better confidence.

As poverty levels are on the rise again in the wake of the pandemic, like Mr. Poso and Mr. Rashkovan, we welcome the plan to protect social expenditures during the program in order to reduce extreme poverty.

On behalf of my Austrian authorities, I would like to add that Austria continues to be confronted with an open official claim resulting from the credit of the Austrian Development Bank to Chase Bank Kenya. Together with some other European Development Financial Institutions, we are concerned about the discriminatory treatment of external creditors of this bank under receivership. In contrast with domestic creditors, which according to the information of my authorities have benefited from the State of the Good Bank to the State Bank of Mauritius, the Austrian Development Bank, and other external development financing institutions continue to wait for compensation.

My Austrian authorities urge the Kenyan Minister of Finance as receiver to enter into negotiations for finding a mutually acceptable solution for this official claim. Notwithstanding, we fully support this program.

Mr. Romero:

We support Kenya's request for a 38-month arrangement under the EFF and ECF to back the recovery effort to the COVID-19 pandemic and anchor reform implementation. We expect this facility will help Kenya finance part of its balance of payments' needs exacerbated by the pandemic, while catalyzing additional support from other official lenders and capital markets.

We concur with the four objectives of the economic program through this arrangement to stabilize debt and boost growth. We also concur that it is very important to rationalize nonpriority spending, but it is even more important not to compromise allocation to social growth-enhancing programs and to maintain support for the health sector and business sector, both impacted by the side effects of COVID-19. We hope this spending ensures a speedy recovery of the Kenyan economy.

We commend the authorities' swift response to the COVID-19. We know that they have three phases planned for vaccination. However, we stress Kenya's challenge in speeding up the vaccination process to reduce contagions and fatalities in the country and help reactivate the economy very fast.

We welcome Kenya's monetary and financial policy efforts. We commend the authorities' continued efforts to reform the monetary policy's operational framework and to maintain the stability of the financial system to stop the non-concessional lending. And we positively note that the Central Bank of Kenya's engagement with banks in releasing their capital planning and reassessing resilience of their portfolios an appropriate action in addressing the scars left by the pandemic in the financial sector.

We welcome the authorities' efforts to build financial space under the ECF/EFF arrangement. The measures pursued by the government in strengthening revenue mobilization and improving the quality of spending will be instrumental in this regard.

We also welcome the focus in the tax revenue to secure future revenues and to achieve fiscal balance. Looking at the tax reform, the measures are adequate to broaden the tax base of the current tax system, to eliminate the tax incentive, to strengthen the tax administration in order to fight against tax evasion, and to be more efficient in the tax collections. We think that this is the way to go and we hope success in increasing collection and securing revenues to the future.

Finally, we wish the authorities and the people of Kenya well in these still challenging circumstances. We also wish a good outcome from the referendum that will take place next June. We hope this will result to strengthen the institutional framework in Kenya, especially to end the anti-corruption side.

Mr. Velloso:

We issued a comprehensive gray statement supporting the request. I will be brief.

While the RCF disbursement last May helped cushion the blow of the initial COVID-19 impact, further support is necessary to assist the authorities in the next phase of their response to this devastating global pandemic.

Accordingly, we believe that fiscal and monetary policies should remain supportive as allowed by existing policy space until the health crisis abates. Striking the right balance between fiscal support and debt vulnerabilities is difficult, but it is also very important.

The Fund program provides an important supporting tool for the authorities in this regard. We think the program is broadly well-designed, comprehensive, and ambitious. We are encouraged by its overall structure and objectives on fiscal policy and debt management.

That said, I would like to understand better the difference of views on the net international reserves (NIR) adjuster. The authorities mentioned their preference for an asymmetrical adjuster on non-grant budget flows.

We do appreciate the flexibility already embedded in the baseline with room for further well targeted and limited external indebtedness to bolster finance of high priority and high return projects as well as debt management operations.

However, it is not clear to us why not leave some additional room for changing the composition of indebtedness, if favorable international market conditions permit by allowing, for instance, a modest shift away from more expensive domestic debt towards cheaper and longer maturity external debt?

If the fiscal balance target is respected, thus addressing debt vulnerability concerns, we would imagine that additional flexibility in the NIR target through a net asymmetrical adjuster as preferred by the authorities would be warranted.

We read the answer provided by staff. But we would very much appreciate further comments on this issue.

Mr. Fanizza:

We issued a gray statement. We fully support the program. We think it was just about time for the Fund to come back to Kenya with a full-fledged program. In our view, too long has gone by without a full-fledged program, and early engagement of the Fund would have been useful, if possible, to limit their vulnerability in the country. Kenya is a very important country in the region. This is an important program because of its size also, so it is very important to pay attention and move forward.

We support strongly what has been done. Like several of my colleagues that have talked before me, we like the built-in flexibility in the overall program approach, but I like the flexibility allowed for contracting commercial debt for key infrastructure projects. This is an important point, I think. As we discussed yesterday, the size of investment needs to push the transformation in these countries cannot in any way be satisfied by development banks or official development assistance (ODA), outflows on concessional terms. Therefore, there is the need to leverage the scarce resources from development partners and international financial institutions to attract flows from the private sector, even market flows. This issue is not as much as whether the debt is commercial or concessional. The issue is whether the debt goes to finance good spending. That is the real issue. That is where the Fund should worry about, and not whether a country is OK within reason indebted too much on commercial terms. There is an extent to which countries should in a way seek market financing. The point is to understand whether this market financing is used to finance projects with sufficient rate of returns.

In fact, using concessional loans to finance the project, it has us led us to doing the opposite. The fact that the flows are concessional does not mean that the finance is a good project. This would imply that is the real issue, not the debt policy.

That point is more general. We had a two hours long meeting today on climate. I was a bit surprised to not see any mention at all on the climate challenge in Kenya. Kenya's been hit by climate change hard as a result of increased vulnerability of rains that has produced shortage in power generation and practically the need to respond to these problems and diversify with renewable resources. Power generation from rain is essential, and investment policies should do something concerning this issue. In particular, an important area is the geothermal generation. This is, of course, a macroeconomic implication. So maybe it would be nice to have a bit of a description on what are the authorities' views on climate and helping to finance this thing. Also, maybe the authorities, until a couple years ago, were considering some coal-generated power plants. I was wondering, in Lamu, whether this is still developing or it has been completely abandoned as a possibility, as I hope.

Ms. Abdelati:

We issued a joint gray with Mr. Mouminah where we expressed our support for the program.

The authorities' decisive policy actions prevented a deeper economic downturn, providing important lifelines to protect the most affected and various measures to ease liquidity conditions. Continued support now must be balanced with measures to address preexisting vulnerabilities that have been aggravated by the pandemic. We see this program as well-designed to meet those objectives. We also welcome the flexibility incorporated in the program design, allowing it to adjust as needed. This is also necessary given the high degree of uncertainty.

We would like to associate our Chair with Mr. Fanizza's comments on the flexibility in contracting commercial debt when the rate of return clearly justifies it. We support the multiyear consolidation that will bring the primary deficit below its debt stabilizing level within three years and place debt to gross domestic product (GDP) on a downward path.

In particular, we support the plan to increase tax to GDP back to levels previously achieved through both policy and administrative measures and steps to reduce recurrent expenditures. It will be important to protect high priority public services and investment programs.

Structural reforms are critical to addressing fiscal risks from state-owned enterprises (SOEs) and to strengthen governance. We broadly support the staged approach to evaluate the extent of fiscal risks of the SOE sector and encourage staff to ensure adequate technical support to meet the many identified milestones in this agenda.

We would be interested in hearing also about the measures envisaged under the program to improve competitiveness and to restore Kenya's export market share, which might be introduced in a later part of the program. We support the central bank's emphasis on providing emergency liquidity provision and preemptive non-restructuring. It has proven essential to support the economy.

We welcome the central bank's efforts to closely monitor the post-shock situation to contain weaknesses to asset quality while maintaining the loan classification and provisioning rules.

Mr. Palei:

The proposed program is appropriately ambitious and we support its approval today. Kenya managed to limit the contraction of output last year, and staff expects the economy to return to the high growth rate exhibited over

the past decade. Corporate Kenya will once again become a great convergence story in terms of catching up with the higher-income countries.

The move to an upper-credit tranche program is a commendable step, and here I agree with most of the previous speakers. We also agree that the best strategy under the current uncertain circumstances is to focus on the medium term while remaining flexible and be prepared to adjust the program over time.

Given the relatively weak fiscal position even prior to the pandemic, it is probably inevitable for the authorities to focus on revenue-based gradual fiscal consolidation once the recovery takes root.

Attention to fiscal transparency should be one of the cornerstones of the program. Here, on a related matter, we welcome very much the focus on the state-owned enterprises, where the Fund now has substantial expertise, can undertake diagnostic studies, and can advise the authorities on how to improve governance and transparency and how to limit contingent liabilities in this essential sector of the economy.

On the governance measures, we expect the range of actions to be covering all areas described in the Fund's enhanced framework on governance, not just on anti-corruption risks narrowly. The focus on state-owned enterprises and on fiscal transparency is a good start in this direction.

Moreover, in the case of Kenya, we know about their very long history of explicitly fighting corruption in the country. Indeed, Kenya was one of the more famous case studies in this area for a long time. From this point of view, Kenya could be a good case study for staff to review what works and what does not work as well in the way the authorities approach fighting corruption, so hopefully at some point we will see comprehensive analysis by staff of the Kenyan experience, and maybe we can derive useful lessons for a much larger group of countries.

Mr. El Qorchi:

We issued a gray statement in which we fully support the proposed decisions. Like Mr. Fanizza, Mr. Velloso, Ms. Abdelati, Mr. Palei, and others, we welcome the built-in flexibility in the program during the ongoing difficult economic and health situation. We stress the importance of striking a judicious balance between the need to address the debt distress situation and

creating appropriate conditions for a quick and sustainable recovery without undermining timely implementation of the social spending programs.

That being said, we encourage the authorities to adopt a very prudent approach to non-concessional borrowing.

Mr. Zhang:

We fully support the Kenyan authorities' request for an extended arrangement under the EFF and already under the ECF. I had the opportunity to visit Kenya two years ago, and I suffered from the poor infrastructure of Kenya. From the airport to the capital city, the traffic jam was very poor. I would like to add two points.

First, regarding the zero limit on non-concessional financing, we take note of the proposed inception. We believe it is well-balanced between the need to support the growth and ensure debt sustainability, and it is also in that it is a debt limit policy which the Board has agreed several months ago.

Secondly, on the infrastructure investment, we cannot judge the feasibility of infrastructure investment, only in terms of commercial flexibility, but it also needs to take into account its social and other benefits brought from the infrastructure.

The staff representative from the African Department (Ms. Goodman):

I will respond to the following questions, and please do let me know in case I have left anything out. There were questions relating to the DSSI, potential debt shocks, NIR adjuster, measures to improve competitiveness, and climate. And then I believe my colleague from SPR will address an issue.

Thank you again for your comments and for all of this feedback. Many points were made and all of them are well taken. We will reflect on them. On the DSSI, a question was raised: what understanding do we have about the confirmation from Kenya's official creditors for participation in the DSSI?

Staff's understanding based on information we have received from the authorities is that their largest creditors from the members who are participating in the G-20's DSSI initiative have all responded favorably and will be providing the requested debt service relief. It is in part, as we mentioned in the staff report, on this basis that the program is fully financed

with the DSSI relief, which has been promised for the first half of this calendar year.

This is also supported by public statements that the authorities have made about the relief that has been provided by their key creditors. Staff has not reached out directly to those creditors to confirm their participation. And as with many countries, Kenya counts as creditors a number of official entities from other jurisdictions with much smaller exposures. So, the direct question put to us was: whether we had confirmed the participation of all of Kenya's DSSI creditors? Staff, the team, has not sought to confirm the status of each of the individual creditors, but as I mentioned, the largest creditors, our understanding is that they indeed have directly affirmed their intention to provide the relief and are providing that relief.

The second question was on the debt and the potential for shocks. The Debt Sustainability Analysis (DSA) highlights the potential given that Kenya is at high risk of debt distress for potential additional shocks. And the DSA, in fact, evaluates some alternative scenarios and shows the impacts of those shocks, if realized. I would note that in a sense we have experienced one of these events already. The authorities were subject to a quite significant shock in this recent period due to the COVID. We have seen that in the first instance the authorities have reacted strongly to take actions in order to address the challenges it poses. So, in the first instance, if there was a shock, the authorities would likely react strongly in the context of the program and that to some extent some of that shock might be reflected through to the trajectory of the debt, perhaps in a similar way to what is indicated to the adverse scenarios.

I would mention that if there was a shock that caused an increase in the financing need under the program, so not a deterioration in the observed measures, say, in relation to GDP but in a deterioration of the financing need, as we have indicated in the staff report, it is possible that Kenya could have, if they faced a larger financing need, access to additional concessional resources in that context. Again, that is a hypothetical situation.

Regarding the points that were raised about the NIR adjuster, as we mentioned, we did seek to respond to questions on the NIR adjuster in our written responses. To reiterate, and this was raised by a number of Chairs who raised this question, the NIR adjuster, which is incorporated in this proposed program, is asymmetrical for grants, but it is symmetrical when it comes to borrowing. So, it is symmetrical for debt obligations, that is program loans, the revenue component of project loans, or commercial and semi-concessional

borrowing. In staff's view, this does strike the right balance with the program's broader objectives. Given that, under the debt limits policy, both non-concessional borrowing and concessional borrowing are in any event limited by the relevant program conditions (PCs) under the program in line with the debt limits policy. Staff has sought in the design of the NIR adjuster to avoid sending conflicting messages in the design of the program conditions and the relevant adjusters.

There were questions raised about measures to improve competitiveness and market share. In paragraph 22, we noted that in the sense in the design of this program, we have sought to focus in the very near-term on the most urgent policy questions and issues, but we do fully anticipate that, as we go forward, we would broaden the focus of staff's work with the authorities in the context of the program to support employment creation, a vibrant recovery of growth, and competitiveness. Those issues we anticipate would move towards the center of the agenda of our discussion with the authorities during the later stages of the program. I would mention that, in the context of our Article IV, we do anticipate exploring with the authorities the topics which could inform that later work.

Similarly, on climate, this is an issue which is mentioned briefly in our staff report. It is raised in the Risk Assessment Matrix (RAM). And in the discussion of domestic risks where we mention the challenges potentially to agricultural output from climate shocks, indeed Kenya has been very much subject to such shocks. Climate and these issues are among the topics which we anticipate would move more toward the center of our agenda later in the program.

The staff representative from the Strategy, Policy, and Review Department (Mr. Kaufman):

Let me just cover one issue that was raised by Mr. Just, which relates to the restructuring of Chase Bank. The issue had been covered in a Board meeting on Kenya on June 13, 2018. Maybe what I can do is restate what staff said at the time, which was basically that the Fund did not consider those claims to be official and that the Paris Club's retirees and creditors supported the rationale explained by the Fund. In short, the rationale was that when the government agency resolves a failed bank, it does not assume or guarantee any liability of the failed entity, unless it explicitly does so as a part of the resolution.

The liabilities either remain with the failed entity as it is liquidated or it can in some cases be transferred to another entity, but obviously not all liabilities can be transferred from the original failed entity to a successor entity given the whole of the bank. This was what was covered back then, but, certainly, we would encourage the authorities of the two countries to work collaboratively and resolve any pending issue related to the Chase Bank.

Ms. Mannathoko:

On behalf of our Kenyan authorities, I wanted to thank Executive Directors for their support and for approving this request for the EFF and ECF arrangements. The authorities appreciate the continued backing of the Fund, especially during this pandemic. As Ms. Goodman indicated, the emergency financing that was received in May under the RCF really helped Kenya weather the initial impacts of the pandemic. However, with this ongoing crisis, now fiscal and balance of payments needs remains sizable, so, we are here. The approval really of this ECF and EFF this morning comes at a critical juncture for the country to try to sustain an effective response, saving lives and cushioning households and firms, as was mentioned, there has been reinforced lockdown focused on protecting the vulnerable.

Our authorities are determined to address macroeconomic vulnerabilities, thus stabilizing the economy and setting a basis for a durable and inclusive recovery. With Fund support, this broad objective will be achieved through the implementation of the Post COVID-19 Economic Recovery Strategy.

Directors have, amongst other things, they have emphasized, a lot of Directors, if not all, appreciated the flexibility, emphasized the importance of flexibility, and the authorities also subscribe to this. They indicated that this really helps them in terms of making the program more realistic given the uncertainties around the path and duration of the pandemic, which also affects macroeconomic projections, greater flexibility to ensure their ability to respond, to ensure that that is not constrained, especially if shocks are longer or more significant than envisaged, they find this very helpful.

In our experience as well, just for country negotiations in general, allowing flexibility also has helped countries and facilitated more productive program negotiations.

The authorities have committed to pursuing revenue-driven fiscal consolidation. This is critical in managing vulnerabilities. They will ensure

that adjustment does not compromise allocations to social sector and growth-enhancing development programs that are needed for recovery, as some Directors were talking about. The support that has been provided to the vulnerable, they will guard against premature withdrawal of this. Transfers to the bank to vulnerable groups are part of the support package now. In addition, in order to sustain support for low-income earners, they have sustained personal income tax relief and the lower turnover tax on small businesses, these were excluded when most of the tax cuts were reversed on January 1.

Therefore, the authorities will also continue their efforts to further strengthen Public Financial Management and enhance transparency and accountability. This includes in public procurement and beneficial ownership information. They will take steps to strengthen the oversight of SOEs and limit risks from contingency planning.

They are also sustaining broader structural reforms to boost productivity and improve the business environment. They realize that these actions are also vital to help achieve program objectives and manage small development objectives.

A quick word on governance: the authorities are aware of the risks that corruption poses to fiscal sustainability. This was discussed on the floor today how they have been forming systems and they are aware, but this is important for the attainment of national development goals. They have prioritized the fight against corruption and are undertaking national risk assessment on money laundering and terrorism financing, which will assist in the development of a stronger national anti-money laundering/combating the financing of terrorism (AML/CFT) strategy as well as an action plan to address any shortfalls.

On the monetary front, we will also share with the authorities Directors' support for maintaining the accommodative monetary policy stance work, keeping inflation in check, and the encouragement as they continue to move ahead with work on improving the monetary policy framework. They have indicated that the use of the exchange rate as a shock absorber is working so they are maintaining that.

I would also like to thank Directors for all the policy advice and recommendations they have provided. These will be conveyed promptly to the authorities. I should comment briefly on the concerns that were raised by Mr. Just this afternoon on the Chase Bank receivership issue.

As was indicated by SPR, the bank has been under receivership managed by the Kenyan Deposit Insurance Company and that this matter was brought to the Board, as he indicated. So, the authorities are working to resolve the receivership of the Chase Bank in accordance with Kenya laws and the requirement to benefit depositors and other stakeholders and to all creditors. They are trying to do it in a very transparent manner with regular meetings with depositors and creditors, co-chaired by the Central Bank of Kenya as well. They are in regular communications between the authorities—they try to maintain regular communications with all stakeholders.

Going forward, they do remain committed to finding ways to resolve the receivership issue. We will highlight to them the concern that was raised by Mr. Just and encourage them to engage more closely.

To conclude, I just want to also thank the Mission Chief, Ms. Mary Goodman, and her team for the fruitful engagement, for the strong program design. The authorities appreciated the engagement, and thanks for the comprehensive responses and clarifications to issues that were provided on the floor.

The Acting Chair (Ms. Sayeh):

Let me now try to bring our meeting to close. Clearly, today's decision on this ECF/EFF-supported program marks an important juncture in our relationship with Kenya. The country is embarking on reforms supported by UCT arrangements against the backdrop of the COVID shock, and a number of Directors underscored the significance of uncertainties, of course, on the horizon.

We all recognize that that level of uncertainty is indeed extraordinary at present and that there are significant risks, but the programs now approved by Directors offers a clear path and the best prospects to really navigate this difficult period ahead.

Today's discussions were very constructive. I want to thank Directors very much for it. Staff will, of course, take note of the Board's guidance as they look to the program's first review.

Finally, I would like to express my appreciation to Ms. Mannathoko for her collaboration and to staff and Ms. Goodman and her team, of course, and Mr. Kaufman and others in SPR and in other departments around the

Fund for the very hard work that went into putting this among the first set of UCT programs after the emergency financing we saw last year.

The Acting Chair (Ms. Sayeh) adjourned the discussion.

ANNEX

- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

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BUFF/ED/21/45

March 30, 2021

**Statement by Ms. Mannathoko and Mr. Sitima-wina on Kenya
Executive Board Meeting
April 2, 2021**

I. Introduction

1. Our Kenya authorities appreciate the constructive engagement with staff during recent program negotiations for arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). They broadly concur with the staff appraisal and policy recommendations.

2. The COVID-19 pandemic has upended steady and robust economic growth in Kenya that averaged almost six percent for a decade. Growth has declined significantly, while macroeconomic vulnerabilities have risen. While emergency measures were put in place quickly, and the emergency financing received under the Rapid Credit Facility (RCF) in May 2020—for which the government is grateful—has supported their response plan, fiscal and balance of payments needs remain. The authorities are determined to stabilize the economy and set a basis for resurgence of growth and shared prosperity through the Post COVID-19 Economic Recovery Strategy. The strategy seeks to enable an effective pandemic response by maintaining support to the health sector and the vulnerable; reduce debt vulnerabilities through revenue-based fiscal consolidation; advance the structural reform and governance agenda; strengthen the monetary policy framework; and support financial stability.

3. To support these objectives, our authorities request 38-month arrangements under the EFF and ECF with blended access at 305 percent of quota to be disbursed as budget support. They expect that together with support from development partners and other financing sources, including the G20 Debt Service Suspension Initiative, the proposed arrangements will fill the fiscal and external financing gaps over the medium term. The authorities have completed the required prior actions and look forward to Executive Directors' support for the arrangements.

II. Recent Economic Developments and Outlook

4. Real GDP growth dropped sharply from 5.4 percent in 2019 to an estimated -0.1 percent in 2020, reflecting severe disruption in economic activity. The typically resilient, critical services sector covering accommodation and food services was the most affected by domestic containment measures. The education sector also contracted, while agriculture benefitted from favorable weather and alongside construction remained strong. Following

the partial lifting of containment measures, economic activity is rebounding with trade and transportation picking up. Medium-term prospects remain strong with growth projected at 7.6 percent in 2021, but the COVID-19 shock has given rise to substantial uncertainties around most estimates, particularly for the medium term.

5. Inflation has remained within the target range (5 ± 2.5 percent), as disruptions to supply chains from the pandemic were limited and did not translate into significant price pressures. Over the past year, broadly stable headline inflation was supported by lower food price inflation in the first half of 2020 following the strong performance seen in agriculture, which compensated for higher fuel prices.

6. Kenya's external sector has remained resilient supported by agricultural exports, especially tea and non-flower horticulture. Exports of goods rose by 3.3 percent in 2020 while the value of imports declined by 12.5 percent reflecting lower oil import prices. Remittances rose, notwithstanding the global downturn. The net effect was that the current account deficit narrowed to an estimated 4.8 percent of GDP in 2020 from 5.8 percent in 2019. The flexible exchange rate served as a shock absorber, strengthening external sector resilience.

III. Fiscal Policy and Debt Management

7. During the program period and beyond, the authorities will pursue revenue-based fiscal consolidation to stabilize public debt and bring it onto a downward trajectory. The adjustment goal is to reduce the primary fiscal deficit to below its debt-stabilizing level. They will implement measures to broaden the tax base, as recommended by the IMF and enacted in April and June 2020. In addition, they are strengthening revenue administration and will implement further tax policy measures in the ensuing fiscal years. Our authorities' commitment to fiscal consolidation is reflected in the recent reversal of most emergency tax relief measures and the introduction of measures to improve tax performance in the midst of the pandemic.

8. On the expenditure side, measures will largely focus on rationalizing non-priority spending without compromising allocations to social and growth enhancing development programs. In this regard, the authorities will be guided by an indicative target to ensure that health and other social expenditures, including transfers to vulnerable groups and free primary and secondary education are protected. To ensure prudent management of available public resources, they will further strengthen public financial management (PFM), particularly in budget control and execution processes, and cash management.

9. A related near-term priority that the program will help sustain is to contain the impact of the pandemic, maintaining support for the health sector and those most impacted by the shock. Besides allocations to the health sector, spending will also protect vulnerable groups and stimulate economic activity in key areas. The support packages focus on providing liquidity support to businesses through accelerated payment of VAT refunds and pending bills to suppliers, cash transfers to urban poor, stimulating activity in hard-hit sectors, with an emphasis on creating youth employment, and supporting small and medium-sized businesses through a recently launched credit guarantee scheme. The authorities will also unwind emergency spending on non-priority areas, adding to the January 1, 2021 reversals of tax cuts.

10. On debt, the authorities are pursuing a financing strategy that balances domestic and external financing and utilizes concessional financing where available. They are also taking steps to extend the maturity of domestic debt. In recognition of external debt vulnerabilities, the authorities will confine external non-concessional financing to funding essential projects critical to the development agenda for which concessional financing is not available, and for liability management purposes. External financing in this manner would complement domestic financing and help prevent an unnecessary crowding-out of private sector credit. The authorities maintain their preference for an asymmetric net international reserves (NIR) adjustor also on non-grant budget flows, given the uncertainties around the timing of donor flows and their inherent import content.

IV. Monetary and Financial Sector Policies

11. The CBK remains committed to ensuring price stability in line with its mandate. In this regard, headline inflation will be kept within the target range of 5 ± 2.5 percent consistent with the monetary policy consultation clause (MPCC). Given the current environment, the CBK will maintain an accommodative monetary policy stance to support the economy as it recovers. The authorities note that their swift policy reaction to the COVID-19 shock, including monetary policy easing, emergency liquidity provision and pre-emptive loan restructurings, provided essential support to an economy under stress. The authorities will also maintain the flexible exchange rate policy which has served the economy well and will limit interventions to smoothing excess volatility.

12. The CBK has been working to strengthen its monetary policy framework and will publish a white paper by June 2021, outlining the requisite reforms. Once the COVID-19 shock abates and conditions permit, reforms will focus on refining the macroeconomic modeling and forecasting frameworks, and improving the operations of financial markets, including fully developing a Centralized Security Depository that will improve monetary policy transmission and promote efficiency and transparency in the government domestic debt market. In addition, they will improve communication of monetary policy decisions to make them more effective. The monetary policy framework will be supported by reforms carried out to strengthen CBK's internal capacity and enhance monetary policy transmission, including the repeal in November 2019 of interest rate caps on commercial bank loans under section 33B of the Banking Act. Additionally, to address concerns of illicit financial flows, corruption and counterfeits that targeted large denominations, the old series Ksh1,000 currency notes were demonetized successfully in an exercise that concluded on September 30, 2019.

13. Safeguarding financial stability and expanding access to affordable finance remain key priorities as the financial sector supports the economy through the COVID-19 pandemic. While the banking sector remains stable and resilient, supervisory and regulatory processes continue to focus on ensuring prudent asset classification and provisioning practices. In this context, the CBK advised banks to revisit their capital planning and reassess the resilience of their portfolios and potentially curtail dividend payments. They will continue to improve prudential regulation and supervision, with a view to addressing the increased complexity of the financial sector, including cyber challenges.

V. Structural Reforms

14. To complement ongoing efforts that strengthen PFM, our authorities will implement fiscal structural reforms to address challenges in state-owned enterprises (SOEs) and to advance governance reforms. The ongoing pandemic has aggravated some underlying challenges in some SOEs. To address those characterized by overlapping mandates, low profitability, weak governance and poor value for money, the authorities are taking a systematic approach to evaluate, monitor, and manage the financial challenges facing SOEs. An immediate action has been the evaluation of the financial health and fiscal needs of nine SOEs with the largest fiscal risks to the FY20/21 budget. This will be followed by an in-depth analysis of the financial vulnerabilities of the largest and most exposed firms in the sector and development of a strategy to address fiscal risks from the SOEs, including a framework to guide interventions. Overall, the reforms will aim to strengthen corporate governance and enhance oversight to limit the risk of contingent liabilities.

15. On governance, the reforms comprise four priorities that will seek to enhance the anti-corruption framework. First, the authorities plan to ensure that comprehensive information on public tenders, including beneficial ownership information of the awarded entities, are publicly available on the government procurement information portal. Second, operationalizing the Access to Information Act. Third, review of the current legal framework for asset declarations of senior public officials and conflict of interest rules. The ongoing review is expected to establish a uniform disclosure regime, strengthen sanctions on misreporting, and improving accessibility of the asset declarations. Fourth, the authorities are undertaking a national risk assessment on money laundering and terrorism financing that will help Kenya develop a national AML/CFT strategy as well as an Action Plan to address the deficiencies identified. At the same time, they are supporting the Financial Reporting Centre (FRC) work on encouraging and strengthening the use of financial intelligence to trace proceeds of corruption by sharing relevant financial intelligence with law enforcement agencies.

16. Our authorities also place a high premium on efforts to strengthen the business environment. Building on past reforms, they will continue to remove any impediments to facilitate investment-led inclusive growth, including reducing the number of days to register a business. At the same time, they are taking measures to boost productivity in the agriculture sector and to reduce gender inequality.

VI. Program Modalities

17. Given the huge uncertainty brought about by the pandemic, our authorities appreciate the program's design which focuses on indicative targets and quarterly reviews. However, they note that key variables in the macroeconomic framework that underpin a program are subject to rapid changes, and they emphasize the need for utmost care in interpreting the results. For instance, the WEO global growth projections used in the assessment of the debt carrying capacity have been superseded in the rapidly changing environment and the projection itself remains highly uncertain (DSA, ¶11).

VII. Conclusion

18. Our authorities reiterate their commitment to further strengthening macroeconomic stability and enhancing the resilience of the economy. In this connection, they will pursue a multi-year fiscal consolidation that should bring public debt on a downward trajectory while preserving space for growth friendly public investment, including in The Big Four. They look forward to Executive Directors' support for approval of the EFF and ECF arrangements to complement their efforts to contain the impact of the pandemic and reignite durable and sustainable growth. Our authorities expect that Fund financing will catalyze additional grant and concessional financing from development partners to augment ongoing efforts and support recovery.

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GRAY/21/950

March 31, 2021

**Statement by Ms. Levonian, Mr. O'Brolchain, and Ms. Vasishtha on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for their informative reports and Ms. Mannathoko and Mr. Sitima-wina for their insightful Buff statement.

We support Kenya's request for a 38-month arrangement under a blended EFF-ECF program. The authorities have demonstrated good reform progress under the 2020 RCF arrangement, which helped weather the initial impact of the pandemic. Nevertheless, Kenya's fiscal and balance-of-payments needs remain sizeable due to the ongoing crisis, and significant challenges remain in achieving a durable and inclusive recovery. The proposed program would support the authorities' efforts to promote the nascent recovery and address the urgent need to reduce debt vulnerabilities over the medium term. We welcome the flexibility built into the program, given the elevated uncertainty around the outlook. We also support the proposed exception to allow the authorities to access commercial borrowing under strictly limited circumstances. However, we echo staff in emphasizing that this should be an exception, used only when necessary.

The authorities' response to the crisis has been appropriate and well-calibrated so far, focused on containing the outbreak and supporting impacted groups. Protecting the most vulnerable should remain a top priority going forward, especially within a context of rising poverty and insecurity. As such, we support the authorities' plans to protect health and social expenditures while gradually unwinding emergency expenditures in other non-priority areas. We note with concern the rising rate of COVID-19 infections in recent weeks. *Could staff comment on whether/how this apparent third wave of infections could affect the projected outlook? Have authorities developed any contingency plans or alternative scenarios to potentially speed up vaccinations (contingent on vaccine availability)?*

Continued fiscal stabilization should remain a priority in light of increased fiscal pressures and the high risk of debt distress. However, the authorities will need to proceed cautiously, as a very rapid consolidation could risk undermining the nascent economic recovery. Increased revenue mobilization and continued expenditure prioritization will be especially critical going forward. We, therefore, welcome the revenue-enhancing measures undertaken to strengthen government finances and the efficiency of the tax system, in line with staff recommendations. On the expenditure side, we support the efforts aimed at restraining recurrent expenditure - particularly through a reduction in the wage bill and transfers to public sector entities - and improving the efficiency and effectiveness of government spending. Further strengthening PFM systems will also be crucial in this regard.

Structural reforms aimed at improving fiscal governance and strengthening the business environment should continue to be prioritized. The COVID shock has exacerbated preexisting financial vulnerabilities in SOEs, necessitating reforms to improve the oversight, monitoring and governance of these entities. We also encourage the authorities to implement measures to strengthen competitiveness, including the business environment, and boost investment and employment creation to support strong and inclusive medium-term growth. We welcome the ongoing efforts to improve Kenya's anti-corruption framework. Among other structural reforms, we strongly encourage the authorities to make efforts to enhance gender equity, including through policies to reduce discrimination against women and by further enforcing the implementation of gender rebalancing laws and policies.

A strong commitment to transparency and accountability remains essential. We welcome the authorities' efforts over the past year to begin publishing procurement and beneficial ownership information, and encourage them to continue making progress in this area.

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GRAY/21/951

March 31, 2021

**Statement by Mr. Merk and Mr. Krahne on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for the candid set of reports and Ms. Mannathoko and Mr. Sitima-wina for their helpful Buff statement. **We can support the Kenyan authorities' request for a blended ECF/EFF arrangement.** The pandemic has had and continues to have a tangible impact on the Kenyan economy and society, which tends to exacerbate pre-existing vulnerabilities. In particular, the pandemic causes sizeable needs for public health and economic stabilization, which coincide with an already fragile fiscal situation. As a result, a judicious and forward-looking fiscal consolidation will be essential over the course of the proposed program to rebuild and preserve fiscal and external buffers and thereby reduce the vulnerability to shocks and to allow for adequate prioritization of development spending in the medium to long term. The proposed program can usefully support this process, and we welcome that staff and the authorities have chosen a UCT-quality arrangement, rather than further emergency assistance, for Kenya's continued Fund engagement. Steadfast and ambitious program implementation will be crucial to reach program objectives.

We appreciate the program's objective to entrench a multi-year fiscal adjustment centered on raising tax revenues and mitigating fiscal risks. While generally welcoming the repeal of the bulk of last year's emergency tax cuts, we see more scope for building durable revenues in meaningfully addressing weak tax compliance rather than in the calibration of tax rates. On the expenditure side, we appreciate the commitment to limit recurrent spending and strongly encourage the authorities to ensure that support foreseen in the FY20/21 supplementary budget to highly affected SOEs is targeted and does not predetermine inefficient outlays to these institutions in the future.

Concerning fiscal risks, and recognizing the intended use of Fund financing for budgetary purposes, the program should put a spotlight on issues related to the soundness of public financial management, governance of SOEs and PPPs, and the anti-corruption framework. We welcome that Kenya requires beneficial ownership information

on all awarded tenders on a permanent basis (beyond COVID spending) and we encourage the authorities to ensure the public disclosure of these information. At the same time, the Auditor General's finding of numerous violations of procurements rules and operational shortcomings in the execution of the authorities' COVID-19 response is startling, and we urge the authorities to rigorously investigate these incidences, and steadfastly address identified weaknesses.

We call on the authorities to do the utmost possible to seek external debt financing on concessional terms. We note the proposed exception to the zero limits on non-concessional financing that would normally apply in a case of similar debt vulnerabilities. Indeed, it appears plausible to deviate from this rule and allow for an opportunistic recourse to non-concessional financing for the purpose of debt management operations that aim at lowering the NPV of the debt stock and provide for a more favorable repayment profile. With a view to the exception for high-priority development projects, we would call for a very cautious approach with close monitoring by staff. Moreover, this should also be seen in conjunction with the authorities' progress on implementing structural conditionality aimed at strengthening the effectiveness and the risk management of public spending programs, as well the reforms on efficient budget execution and control mechanisms. In any case, enhancing transparency in all debt operations is key.

We agree with staff on the appropriateness of the monetary policy stance and look forward to the CBK's plans to modernize its monetary policy framework. *Noting that the CBK has implemented "most of the recommendations of the last Safeguards Assessment", we would be interested in staff information on the state of affairs of the outstanding issues.*

We encourage the authorities to be vigilant in monitoring developments in the financial sector and to stand ready to respond to the emergence of currently contained risks to financial stability. We note that electronic payments have increased in importance and increased their already high market share for financial services. *Is staff able to assess whether the regulatory and oversight framework is appropriate to ensure stability and consumer protection, given the growing importance of the e-payment sector?*

Finally, we note risks to Kenya's capacity to repay the Fund, particularly with regard to a possible pullback of international investors over the medium term. We can broadly share staff's overall assessment, including on Kenya's strong track record of servicing external debts. At the same time, it is not fully clear that in case of downside risks materializing, "*continued access to concessional financing in such a scenario*" would likely cushion the adverse impact. Depending on the reasons for the deterioration in market access (e.g. slippages on domestic policies), the availability of concessional financing would likely be more limited as well.

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GRAY/21/953

March 31, 2021

**Statement by Mr. Trabinski and Ms. Zhunusbekova on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We consent to the request for a blended arrangement under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). The large amount of SDR 1.6 billion underlines the need to maintain hard limits on the use of resources from the PRGT for presumed blenders with market access. In this context we want to emphasize that Fund resources should not crowd-out market financing. Instead, this type of Fund support must catalyze funding from the capital markets and from development partners.

Risks to the program are sizeable. They include a worsening of debt refinancing conditions, headwinds to policy implementation, as well as political uncertainties. This said, Kenya's economy was performing strongly before the pandemic hit, due to growth-oriented policy initiatives and a dynamic Fintech sector. The economy is expected to rebound strongly, with growth reaching up to 7.6 percent this year.

The authorities' post-COVID-19 recovery strategy is ambitious. A clearer focus would be helpful and in line with the principle of parsimony in Fund's conditionality. To meet the fiscal targets for FY21/22, it is essential to raise tax revenues, including through the elimination of a long list of VAT and income tax exemptions, and to exert expenditure control. We welcome that fiscal risk reporting will become more transparent, including through the quantification of contingent liabilities from high-risk SOEs and PPPs. The flexible exchange rate acts as an important shock absorber. We concur that monetary policy should remain accommodative given the high degree of uncertainty, while bearing in mind the central bank's primary mandate of price stability.

We urge the authorities to closely monitor financial stability risks. Public debt is assessed to be sustainable and capacity to repay the Fund is adequate. At the same time Kenya is at high risk of debt distress and subject to zero limits on non-concessional borrowing. A number of debt indicators in the DSA have worsened since the start of the pandemic. We

encourage the authorities to further strengthen debt management capacities and expand the statistical coverage of public debt. Financial weaknesses have also emerged in some SOEs and asset quality is a concern in the banking sector.

We call on the authorities to continue strengthening the anti-corruption framework.

Publishing procurement information and audits (such as COVID-related expenditures) as well as disclosure of beneficial ownership information on SOEs is essential for fostering public trust. Greater transparency will also help strengthen institutions to help detect illicit enrichment and address conflicts of interest. Furthermore, an effective implementation of AML/CFT measures is key to support governance and anti-corruption reform efforts.

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GRAY/21/955

March 31, 2021

**Statement by Mr. Zhang and Mr. Huang on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for the insightful set of reports and Ms. Mannathoko and Mr. Sitima-wina for their helpful Buff statement. Kenya's economy is estimated to contract slightly in 2020, thanks to its sound economic fundamentals and the authorities' timely macroeconomic policy response. However, the pandemic crisis exacerbated the country's pre-existing vulnerabilities and the fiscal and balance-of-payments financing gaps remain large. We welcome the authorities' decision to request an upper-credit-tranche (UCT) program, support the proposed 38-month arrangements under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF), and would like to limit our comments to the following.

While fiscal policy should stay supportive in the near term, a gradual consolidation centered on raising tax revenue is essential to safeguard debt sustainability and support recovery. Given the high uncertainty of the pandemic, we take positive note that the authorities will continue to protect health and social expenditures and unwind other COVID expenditures in a gradual manner. The proposed fiscal consolidation rightly placed emphasis on revenue mobilization. The authorities are encouraged to withdraw the emergency tax cuts, continue to broaden the tax base by streamlining tax exemptions, and improve tax collection by strengthening revenue administration. On the expenditure side, we concur with staff's suggestion to further contain recurrent spending through a gradual reduction in the wage bill and transfers to state-owned enterprises. The public debt continues to be sustainable, but risk of debt distress is high. The Fund's debt limit policy should balance the need to support the growth while ensuring debt sustainability. We take positive note that non-concessional borrowing could be used for critical project financing and debt management operation purpose, while Kenya is subject to zero limits on non-concessional borrowing. *As some peer frontier countries have issued Eurobonds after the pandemic, could staff comment on the recent developments in the financial conditions of Kenya?*

A phased approach to reinvigorate structural reform efforts is appropriate given the complex post-crisis situation. We support the staged structural reform agenda, which first focuses on urgent policy needs and then shifts to non-urgent but important areas. The pandemic crisis takes a heavy toll on SOEs, as it does to private businesses. Like staff, we see the deteriorated financial position of some SOEs as an important source of fiscal risks. We support the authorities' efforts to address the related fiscal risks by strengthening performance monitoring and enhancing corporate governance. The authorities' reform agenda to further improve fiscal transparency and combat corruption is also welcome. As the program shifts into the next stage, we encourage the authorities to prioritize reforms to reduce poverty and promote social inclusion. We take positive note of the role that mobile money played in mitigating the impact of pandemic, enhancing financial inclusion, and promoting social protection, and encourage the authorities to continue their efforts to further digitalizing the Kenyan economy.

Continued efforts are needed to improve the monetary policy framework and support financial stability. We agree with staff that the current accommodative monetary policy stance is appropriate. We take positive note that the flexible exchange rate has acted as a shock absorber during the pandemic. We look forward to the central bank's white paper, which will outline planned reforms to further improve the monetary policy framework. As the supportive policy measure to encourage banks to extend loan repayment schedules comes to an end, the authorities are encouraged to keep a close eye on the banks' asset quality and take actions if needed. The increasingly wide use of mobile money not only helped to promote financial inclusion, but also facilitated the cash transfer to the poor, which is commendable.

Finally, regarding the program modalities, we take note of the high uncertainties and large risks of the program, and support the proposed program design and conditionalities, including the quarterly review in the early stage of the program and increased flexibilities in the performance criteria and structural benchmarks.

With these remarks, we wish the authorities every success in their policy endeavors.

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GRAY/21/956

March 31, 2021

**Statement by Mr. El Qorchi and Mr. Ahmed on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for a comprehensive report and Ms. Mannathoko and Mr. Sitima-wina for their helpful Buff statement. We broadly concur with the staff appraisal and support the proposed decisions.

We welcome the authorities' swift and well-organized response to the Covid-19 pandemic. We note that the pandemic has had a pronounced impact on the economy, creating urgent balance of payments and fiscal financing needs, while increasing the poverty rate, after years of healthy growth and reducing inequality. We stress the importance of ensuring adequate and well-targeted support to the most vulnerable segments of the population until the pandemic abates.

We note positively that Kenya's economic growth is projected to rebound to 7.6 percent in 2021, from almost flat last year, helped by the easing of coronavirus restrictions and the government's support programs. The headline inflation remained close to the mid-point of the central bank's target range despite increasing fuel prices. With government revenues declining as a share of GDP, large infrastructure investments and growing reliance on non-concessional borrowing contributed to increased fiscal deficits and debt vulnerabilities. Looking forward, we emphasize the importance of raising the revenue-to-GDP ratio in the medium term to help support fiscal consolidation and steady growth.

The proposed arrangement will help meet balance-of-payments and budget-support need and provide a framework for fiscal and structural reforms over the medium term. The program will complement the authorities' efforts to contain the impact of the pandemic and support their multi-year plans to reduce debt levels relative to GDP through gradual improvements in primary fiscal surpluses. The program will create an anchor for Kenya's fiscal consolidation lending more credibility to the reform process. We note positively that the structural reforms agenda includes addressing SOEs weaknesses, strengthening the

anticorruption framework, improving the monetary policy framework and safeguarding financial stability. We welcome the built-in flexibility in the program due to exceptional uncertainty around the pandemic. We call on development partners to support the authorities' efforts by helping to fill the remaining financing needs through grants and concessional loans.

We welcome the CBK's accommodative monetary policy stance and temporary measures to support the banking sector's liquidity and credit to the private sector. We agree that monetary policy should remain data-driven to ensure price stability, and that the exchange rate should be allowed to act as the main external shock absorber. We welcome the authorities' efforts to strengthen the monetary policy framework, which would bolster the central bank's capacity to respond to negative shocks. We note positively that the CBK has implemented most of the recommendations from the September 2019 safeguards assessment.

We note that while the banking sector remains well capitalized, liquid and profitable, the pandemic has exacerbated preexisting asset quality weaknesses. *Could staff indicate how they propose to bring the NPL ratios down in the context of significant downside risks to the economic outlook.* Kenya's advances in financial inclusion as a leader in digital and mobile banking played an important role in social protection during the crisis.

We welcome the steps being taken by the authorities to ensure that COVID-related spending is used for the intended purpose through ex-post audits and by strengthening institutions to help detect misuse of funds. We also welcome the authorities' commitment to publish procurement and beneficial ownership information for greater transparency.

With these remarks, we wish the Kenyan authorities' success in their endeavors.

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GRAY/21/957

March 31, 2021

**Statement by Mr. Bevilaqua, Mr. Saraiva, and Mr. Coelho on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for its well-focused set of reports and Ms. Mannathoko and Mr. Sitima-wina for their helpful statement. The Kenyan economy has been hit hard by the CODID-19 pandemic, but the authorities' containment measures and decisive policy support have helped the country weather the shock. The RCF disbursement in May 2020 also helped cushion the blow of the initial COVID-19 impact. However, to combat scarring and address existing fiscal and external financing gaps, further support is necessary. **We, therefore, support the authorities' request for a 38-month blend EFF/ECF arrangement to support the next phase of their response.**

We are encouraged by the scope and direction of the authorities' response. We welcome the set of measures taken to support the economy in the face of such this unprecedented shock. Fiscal and monetary support have helped improve the economic outlook for 2020. We take positive note that output growth recovered from -5.5 percent in the second quarter of 2020 to -1.1 percent in the third quarter. We also take note of the authorities' positive views on the growth outlook and agree with staff that growth is projected to bounce back strongly in 2021. The growth outlook, however, is still uncertain and dependent on the evolution of the pandemic. We encourage the authorities to direct efforts to increase vaccination rollout, with support from the international community.

Fiscal and monetary policies should remain appropriately supportive, as warranted by existing policy space, while the crisis lasts. Withdrawing fiscal and monetary support prematurely could inflict considerable losses to more vulnerable groups and to the economy. That said, fiscal support should remain well-targeted and continue to account for debt sustainability constraints. Also, the Central Bank should continue support the economy, while maintaining inflation on check and monitoring financial system vulnerabilities.

Although debt vulnerabilities have risen because of the pandemic, we are encouraged by staff's assessment that Kenya's public debt remains sustainable. Striking the right balance of fiscal support is a difficult and important task and IMF program should support the authorities in this regard.

The blend EFF/ECF program is well designed, comprehensive, and ambitious. The program is appropriately focused on ensuring fiscal and debt sustainability while protecting the poor and the most vulnerable. The arrangements will support monetary and financial stability and advancing the authorities' reform agenda to foster stronger and more inclusive growth, likely helping to prompt additional bilateral and multilateral financial support, while keeping adequate reserve levels.

Successful fiscal consolidation strategy within the program will require steadfast commitment and supplementary measures from the authorities. The post-COVID Economic Recovery Strategy and the Budget Policy Statement presented to Parliament in February 2021 sets the right tone when aiming at protecting fiscal space for the authorities' development agenda while also supporting private credit and investment. Still, an effective implementation of the program will require strong ownership by the authorities to: streamline public administration and tax exemptions; broaden the tax base; address financial vulnerabilities in the SOE sector; increase access to affordable finance; enhance operational tools in the context of increasing financial sector complexity; and improve governance and transparency in line with the anti-corruption legislation.

In closing, we wish the Kenyan authorities a successful program implementation on their path to full recovery from the crisis.

The Kenyan Central Bank helped cushion the blow with interest rate cuts, and with liquidity injections to ensure the continued smooth functioning of Kenya's financial system. It also encouraged banks to offer borrowers the chance to postpone loan payments. The temporary elimination of fees for mobile money transactions reduced costs for users and promoted transition from physical exchange of cash to a safer means of payment.

While the COVID-19 shock interrupted planned fiscal consolidation, the authorities have limited the fallout on the fiscal accounts.

Pressures on borrowers' balance sheets have risen but financial sector vulnerabilities remain contained.

The external position of Kenya in 2020 was broadly in line with the level implied by fundamentals and desirable policies

The COVID-19 shock erased the poverty reduction gains of the last 5 years, as initial estimates by the World Bank suggest that the pandemic increased the

poverty rate to 36 percent, raising the number of poor by 2 million. The planned fiscal consolidation and accompanying structural reforms would protect fiscal space for the authorities' development agenda while also supporting private credit and investment, leading to higher and more inclusive medium-term growth. With the fading of the COVID-19 shock, the economy is expected to settle at its potential growth rate (roughly 6 percent) over the medium term. Exports of goods and services are projected to reach 13.3 percent of GDP in 2025, broadly the same share as observed in 2018.

Risks to the outlook remain tilted to the downside (IMF support could help)

The structural reform agenda during the first phase of the program will address urgent policy needs. In the near term, key priorities will be addressing challenges in SOEs and governance. Going

forward, supporting employment creation and social inclusion via a vibrant and competitive business environment will move toward the center of the agenda.

Strengthening the Monetary Policy Framework and Safeguarding Financial Stability

The Kenyan economy enjoyed several years of sustained economic expansion, supported by the authorities' efforts to tackle lingering structural vulnerabilities, social challenges and security issues. However, these positive developments are at risk of being reversed by the COVID-19 pandemic. In this context, we concur with staff's appraisal and fully support the authorities' request for disbursement under the Rapid Credit Facility to address the urgent balance of payment and fiscal financing needs.

Financial assistance through the RCF in May 2020 provided temporary support, but absent a sizeable and sustained multiyear fiscal adjustment effort, the debt ratio would continue to increase. The authorities have set out a medium-term plan to stabilize the economy and set a basis for a resurgence of growth and shared prosperity. The plan is laid out in the Post-COVID Economic Recovery Strategy launched in December 2020 and in the Budget Policy Statement presented to Parliament in February 2021.

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GRAY/21/958

March 31, 2021

**Statement by Mr. Hendrick and Mr. Corvalan Mendoza on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for the report and Ms. Mannathoko and Mr. Sitima-wina for their informative Buff statement.

We support the authorities' request for financing under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). The commitment to stabilize the economy through the post COVID-19 Economic Recovery Strategy is welcomed. Kenya had a robust economic growth in the past decade, which was temporarily put on hold when the pandemic hit the country. We take positive note of the authorities' swift deployment of measures to mitigate the impact buttressed by the Rapid Credit Facility (RCF).

For the medium term, continuous support to the health sector and vulnerable population, revenue-based fiscal consolidation, structural reform, and governance strategy are welcomed. The EFF and ECF blended access at 305 percent of quota seems appropriate to close the financing gaps needed to advance with the ambitious strategy. The catalytic role of the IMF program could also facilitate development partners' support, which is much needed at this juncture.

Real GDP contracted in 2020, mostly affected by domestic containment measures. Once the vaccination roll out speeds up, and lifting measures are in place, the economic performance might rebound strongly. The latter, especially, taking into consideration the country's external sector, which remained supportive during the pandemic, with some improvement in the terms of trade (due to lower oil import prices) and strong remittances inflows.

Hence, we welcome the authorities' commitment to their post COVID-19 Economic Recovery Strategy, to overcome this challenging situation. Looking to the medium-term, public debt sustainability is warranted, backed by a revenue-based fiscal consolidation. We welcome the idea to reduce primary fiscal deficit to ensure debt-to-GDP downward trajectory (which is expected to peak at 73.0 percent in FY2022/2023). Implementing new tax measures, modernizing, and strengthening the revenue administration while keeping expenditures prioritization in check seems appropriate. We take positive note of the authorities' understanding on the need to reinforce public financial management (PFM). The latter would prove critical to generate the fiscal space needed to protect vulnerable population and support the economy, while stimulating specific sectors to promote employment, through small and medium-sized enterprises. We were encouraged by how mobile money systems stepped up, to enhance the social protection mechanisms during the pandemic, as described in Box2.

The flexible exchange (FX) rate as a first line of defense to shocks for any small open economy is appropriate. We are encouraged with the authorities' commitment to continue with a flexible exchange rate policy, while limiting its footprint in the FX market only to smooth excess volatility.

The central bank shift to an accommodative stance in 2020 was suitable and worked as planned. Inflation expectations are anchored on the target rate of 5 (+-2.5) percent. The monetary and financial tools to ease monetary policy, provide liquidity to the financial system, and the temporary relaxation of loan restructurings were necessary during the first wave of the COVID-19 pandemic to support the economy. The regulation and supervision of the financial systems seems appropriate and the institutions under their control remain stable and resilient to the shock, but preexisting asset quality weakness may have exacerbated. It is important to closely monitor banks' NPL's ratio that seem high at 14 percent at the end of last year.

Special consideration should be given to state-owned enterprises (SOEs) to minimize potential liability risks to the treasury in the coming years. We welcome the authorities' recognition of the challenges ahead to tackle governance issues with SOEs. As described in the Buff statement, "poor value for money" would need close consideration going forward.

Finally, we welcome the steps made to tackle AML/CFT challenges. The plan to advance on beneficial ownership information for public tenders, declarations of senior public officials, among other measures, aim in the right direction to strengthen the action plan to address these challenges and revamp Kenya's AML/CFT framework according to best international practices.

With these comments, we wish the people of Kenya every success in these challenging times.

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GRAY/21/959

March 31, 2021

**Joint Statement by Mr. Pösö, Mr. Rashkovan, Mr. Tsur, and Mr. Slettvag on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

*We thank staff for the detailed report, and Ms. Mannathoko and Mr. Sitima-wina for their informative Buff statement. We commend the Kenyan authorities for their efforts to contain the pandemic and sustain the recovery during this difficult period. **We support the authorities' request for 38-month arrangements under the EFF and the ECF.** We also support the flexible approach of the program given large risks in the early period due to the COVID-19 pandemic. However, this approach compels determined policies where possible, especially given the high risk of debt distress and the considerable political risks.*

We encourage the authorities to promote a comprehensive strategy to inoculate its population. Purchasing vaccines is the main challenge to overcome, but not the only one. Even advanced economies, who managed to purchase reasonable amounts of vaccines, struggle with other constraints including operational challenges and vaccine hesitancy. We encourage Kenya to build capacity to execute this complex operation upfront, together with partners such as the World Bank, learning from the experience of other countries.

Implementation of key reforms should start without delay. We support the flexible approach of the program, with close engagement and monitoring for the first two reviews, given the large challenges in the early stage due to COVID-19. Nevertheless, there are also significant downside risks to the medium-term outlook, including an uptick of political tensions which could increase fiscal pressure and affect the public support and the authorities' ownership of the program. *Staff's comments on the public and political climate that surrounds the program are welcome.* The authorities should implement feasible parts of the program as soon as possible. Particularly, the urgent need to improve revenue administration and spending efficiency to mitigate the high risk of debt distress. It is also important to continue reducing the possibilities for corruption. The enactment of the legal framework for implementation of electronic procurement by all public entities is an important step in the right direction.

We welcome the plan to protect social expenditures during the program and encourage the authorities to prioritize reducing extreme poverty. We regret that the COVID-19 shock erased the poverty reduction gains of the last 5 years and are concerned about the long-term dampening effect

on the accumulation of human capital. Learning losses due to COVID-19 are likely to linger far beyond the period of the pandemic if extreme poverty forces children and youth to drop out of school to join the labor market. This risk emphasizes the urgent need to support the most vulnerable households because the alternative is disproportionately more expensive.

We commend the authorities for taking important steps to promote international and regional integration and trade. Kenya was among the first countries to ratify the African Continental Free Trade Area, has recently signed a trade deal with the UK, and is working on a trade deal with the US, which could lead to the first bilateral trade agreement between the US and a sub-Saharan African country. Given the importance of trade as the path toward increased dynamism and productivity, we would have appreciated more coverage of trade aspects in the report. *Staff's view on the effects of Kenya's recent bilateral trade initiatives is welcome.*

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GRAY/21/961

March 31, 2021

**Joint Statement by Mr. Chikada, Mr. Mochtar, Mr. White, Mr. Nghiem, Mr. Khurelbaatar, and Mr. Shimada on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for the report and Ms. Mannathoko and Mr. Sitima-wina for their informative buff statement.

Like many other countries, Kenya was hit hard by the pandemic. Despite the swift implementation of supportive measures, the economy contracted rapidly, exacerbating the country's existing vulnerabilities, resulting in a high fiscal deficit and increased debt vulnerabilities. The Covid-19 shock also opened fiscal and external financing gaps over the next several years. We commend the authorities' program to support the economic recovery in the short term and implement a reform agenda to strengthen the economic structure in the medium term. **Against this backdrop, we support Kenya's request for an Extended Arrangement Under the Extended Fund Facility and an Arrangement Under the Extended Credit Facility.** As risks to the outlook are tilted to the downside, we positively note that the program incorporates the flexibility to address adverse impacts if some risks materialize and to adjust program targets if required. We broadly agree with the report and have the following comments.

We welcome the authorities' strategy to mitigate the short term risk from the pandemic and to implement fiscal consolidation reforms to stabilize debt. We support the authorities' priority to cushion the impact of the pandemic and support the most affected groups. In this regard, we urge the authorities to utilize everything possible to speed up the vaccination process and enhance social spending. With regard to fiscal consolidation, we positively note that the authorities demonstrated strong commitment by passing the budget for 2021 in line with program objectives and delivering a tax package to enhance revenue collection. We also welcome that capacity development focuses on tax policy, revenue administration, and public financial management, as shown in Annex III. The ambitious fiscal consolidation targets and the path to fiscal sustainability will be challenging and lengthy and will require continued commitment throughout the program. *Could staff elaborate on the risks to fiscal consolidation stemming from political events going forward?*

We are encouraged by the authorities' strategy to contain external debt vulnerabilities. In this context, we welcome the performance criteria on debt targets, which set ceilings for new borrowings.

As a precautionary measure, limiting non-concessional borrowing is crucial to mitigate downside risks and will positively affect Kenya's ability to repay its debt.

We take comfort from the authorities' effort to strengthen the monetary policy framework, safeguard financial stability, and pursue a flexible exchange rate. We commend CBK's accommodative monetary policy stance that aims to strike the optimal balance between supporting economic recovery while maintaining monetary and financial stability. The emergency liquidity support to the financial sector and a large-scale preemptive debt restructuring operation have helped to preserve financial sector stability during the pandemic. We commend the authorities' commitment to continue to closely monitor the post-shock economic and financial market situation, including loss provisioning and the impact on banks' earnings and capital buffers of restructured loans. In addition, we note positively that the flexible exchange rate regime has served Kenya well during the pandemic, and it should continue to be allowed to act as a shock absorber for external shocks.

We commend the authorities' efforts in facilitating structural reforms. The economy's resilience and competitiveness could be strengthened by addressing governance issues, improving transparency and accountability, strengthening SOEs' operations, further enhancing the AML/CFT framework, and improving the business environment.

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GRAY/21/962
Revised

March 31, 2021

**Statement by Ms. Senich and Mr. Westphal on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for this report and Ms. Mannathoko and Mr. Sitima-wina for the helpful buff statement. The Kenyan economy was performing relatively well prior to the COVID-19 shock, with some challenges including weak fiscal revenues. The pandemic has exacerbated these issues, reducing economic activity and increasing fiscal pressures, which has pushed Kenya to high risk of debt distress. **Given the well-targeted reform agenda and strong conditionality, we support the requests for an Extended Arrangement under the Extended Fund Facility and an Arrangement under the Extended Credit Facility, which aim to help Kenya return to a sustainable fiscal and debt path, facilitate private sector growth, and catalyze other donor support.** We consider the relatively large program size (305 percent of quota, 2.4 percent of GDP) to be appropriate given the financing needs, the strength of the program, and the government's adequate capacity to repay.

The program sets out a medium-term fiscal consolidation path that is realistic, gradual, and growth-friendly. We welcome the indicative targets designed to protect health and social spending during this future consolidation. We appreciate that the authorities have met the prior action to publish a budget in-line with the program. We also appreciate the holistic approach to addressing revenue shortfalls, which includes broadening the tax base, enforcing existing tax laws, and creating an integrated electronic tax management system. We encourage the authorities to pursue debt management operations, as market conditions permit, to improve the country's debt profile. We also urge the authorities to use non-concessional borrowing judiciously, ensure projects are carefully vetted, and follow best practices during implementation.

We welcome the program's structural reform priorities to improve fiscal governance and reduce opportunities for corruption. We particularly appreciate that the program will focus on improving public financial management and public investment, increasing fiscal

transparency, and enhancing the anti-corruption and AML/CFT framework. The Attorney General's diligent work investigating irregularities in health care equipment procurement during the pandemic provides an encouraging signal of the authorities' willingness to undertake necessary anti-corruption measures. We also note the authorities' steps to improve pension management. *Could staff comment on how the new pension system will resolve the significant backlog of pension arrears?*

We welcome the plan to evaluate fiscal risks arising from state-owned enterprises (SOEs) and to address those risks with strong conditionality. We appreciate that the program includes reforms to improve the oversight, monitoring, and governance of SOEs. We look forward to an update on the financial evaluation of the nine SOEs that pose the largest risks to the budget—a prior action that was slated to be completed in March 2021. We also look forward to the in-depth financial evaluation of 15–20 SOEs and the strategy to limit the fiscal risks they pose. We would welcome regular updates from staff as that evaluation progresses.

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GRAY/21/963

March 31, 2021

**Statement by Mr. Just and Mr. Pucnik on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for the well-focused and detailed reports and Ms. Mannathoko and Mr. Sitima-wina for their helpful Buff statement. The pandemic has exacerbated Kenya's pre-existing vulnerabilities, including weak public finances and SOE sector, putting Kenya at high risk of debt distress. The economy has, however, already staged some recovery, and the prospect of its continuation will depend significantly on the vaccine roll-out and the authorities success' in repairing the pandemic-induced damage. The proposed program is appropriately focused on structural fiscal and governance reforms, and should shore up investor confidence. **Thus, we support the requests for an extended arrangement under the Extended Fund Facility in the amount of SDR 1,248 million (230 percent of quota) and an arrangement under the Extended Credit Facility in the amount of SDR 407 million (75 percent of quota).**

Continued fiscal consolidation efforts are critical for achieving a medium-term macroeconomic balance. The authorities should use the scope to further increase revenue collection by eliminating tax exemptions, strengthening revenue administration, and addressing weaknesses in the SOEs. On the expenditure side, the authorities should focus on the efficiency of public spending. Additionally, considering that the fiscal deficit is targeted at 8.7 percent of GDP for FY2020/21 and interest payments on public debt have reached more than one-fourth of revenue, reducing the fiscal deficit over the medium term remains a key priority. We encourage the authorities to address these issues adequately while advancing in their efforts to improve fiscal flexibility and implementation capacity.

The adjustor on Covid-19 vaccine-related spending is a suitable and sensible measure. The adjustor to enable a faster vaccination program should, however, become feasible before the costs can be incorporated into the program baseline.

The authorities' program ownership is a prerequisite for a successful outcome of the program. However, given the upcoming constitutional referendum as well as elections in 2022, a deeper reflection on the associated risks and how those are reflected in the program design would appear appropriate. *Staff's comments would be welcome.*

The increased level of non-performing loans (NPLs) at 14.1 percent is a systemic risk to financial stability and sustainable growth. NPLs have already been steadily increasing prior to the pandemic. Elevated NPL levels could undercut economic recovery efforts by weakening banks' balance sheets and eroding asset quality. In order to prevent further rising NPL rates, we encourage the authorities to allow banks to grant a loan payment moratorium to firms and individuals for a certain period of time. *Would staff consider an opt-in feasible to make support measures more targeted?*

Given the high risk of debt distress, additional borrowing should be limited and well-justified. While we agree that the domestic market is an important source of public financing, the authorities should refrain from pursuing non-concessional external borrowing for financing big infrastructure development projects with uncertain profitability. We concur with staff's recommendation to seek concessional financing under the current circumstances, as well as limiting external non-concessional borrowing only to debt management operations and for supporting critical growth-enhancing investments projects in line with the conclusions of the Debt Limits Policy.

The effective implementation of governance reforms and AML/CFT measures will strengthen the resilience to corruption. The authorities have a long track record of rather unsuccessful anti-corruption measures, but recent enacted laws that are contributing to enhanced governance and transparency as well as AML/CFT reforms, are steps in the right direction. We are encouraged by the authorities' promotion of fiscal transparency via publishing procurement information of companies awarded contracts.

SOEs' rising debt is a growing concern for Kenya, with severe implications for fiscal sustainability. We support the strong program focus on SOE reform. Poor performance of the SOEs has in some instances resulted in increasingly precarious financial positions and potentially significant contingent liabilities. Improving the monitoring and assessment of contingent liabilities, stemming particularly from the nine SOEs with the largest fiscal risks, deserves particular attention. Fiscal support to the SOEs to cushion the pandemic shock is justified for the time being but should be redefined once the pandemic abates.

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GRAY/21/966

March 31, 2021

**Statement by Mr. Fanizza and Mr. Persico on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank the staff for an excellent report and Ms. Mannathoko and Mr. Sitima-wina for their clear and useful Buff statement. We welcome the ongoing efforts of the Kenyan authorities. We are reassured by early recovery signs and by authorities' confidence for a swift rebound. We broadly share the thrust of the staff's appraisal and support the request of an arrangement under the Extended Fund Facility and the Extended Credit Facility. We offer the following comments for emphasis:

- **We commend the authorities for the timely implementation of the emergency response plan and of mitigating measures.** We welcome their commitment to stabilize the economy and lay down the foundations for inclusive growth through their Post COVID-19 Economic Recovery Strategy, as well described in the Buff statement. We acknowledge that fiscal and balance of payments needs have remained elevated even after the Rapid Credit Facility (RCF) provided significant financial in May 2020. We welcome the authorities' request and Fund's financial support to their economic reform program. Moreover, we are reassured that the arrangements are expected to leverage support from both official lenders and financial markets.
- **We welcome the authorities' commitment to first stabilize the public debt-to-GDP ratio and then gradually reduce it.** In this regard, the 2021 Budget Policy Statement sets the primary balance targets that should place the debt-to-GDP on a firmly declining trend starting from FY23/24 thanks mainly to continued revenue efforts. In this context, we encourage the authorities to pay due attention to fiscal risks, improve the governance of SOEs, and ensure that public investments are executed timely.
- **We have become increasingly concerned about poverty and inequality because the pandemic has in part erased the recent significant progress. For this reason, we wonder whether the program could have set a structural benchmark on policies to address these issues.** The authorities' efforts to host refugees from

neighboring countries are commendable. However, the authorities should scale up their efforts to address social gaps as the country resumes its growth path.

- **We are reassured that staff believe Kenya’s debt remains sustainable and that debt dynamics will benefit from the program.** Ongoing debt management efforts aim at (a) extending the maturity of domestic debt; and (b) limiting the use of external non-concessional financing to funding strategic projects. The DSA rightly highlights the high risk of debt distress mainly reflecting external conditions, in a context of lower debt-carrying capacity. In this regard, we wonder whether judgment could have completed this mechanical result. *Staff’s comments are welcome.*
- **An accommodative monetary stance remains appropriate, because international reserves remain more than adequate and inflation pressures subdued.** We praise the Central Bank for the prompt implementation of the recommendations from September 2019 safeguards assessment. We see merit in the authorities’ preference for an asymmetric net international reserves (NIR) adjustor for loan budget flows as uncertainties could affect both donor grants and loans. *Could staff provide greater details on the rationale behind the use of asymmetric adjustor for non-grants budget flows?*
- **Finally, we want to praise the staff for the ambitious and well-detailed program design.** We share the choice of using extended 38-month arrangements with blended access at 305 percent of quota. However, pending additional support from IFIs and modification to Fund’s concessional lending, staff should stand ready to reevaluate access and program design should more favorable conditions arise.

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GRAY/21/967

March 31, 2021

**Joint Statement by Mr. Buissé, Ms. Riach, Mr. Rozan, Ms. Clapham, and Mr. Comolet
on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for the papers, and Ms Mannathoko and Mr. Sitima-wina for their helpful buff statement.

Following years of steady and robust growth, Covid19 has had a significant impact on Kenya's economy causing growth to decline significantly and exposing preexisting macroeconomic vulnerabilities. We welcome the actions that the Government has taken to support livelihoods and save lives during this incredibly challenging period. Unfortunately, efforts to mitigate the spread of the virus have come at a significant economic cost, particularly to the critical services sector, leading to an increasing fiscal gap and balance of payment needs. **Given the balance of payment needs and the prior actions implemented, we support Kenya's request for a 38-month arrangement under the EFF and ECF with blended access of 305% to be disbursed as budget support.** We also agree that there are downside risks to the baseline and that flexibility will be necessary in the implementation of the program.

We welcome the progress the authorities have made on prior actions and towards meeting their commitments under the RCF, agreed last May. Whilst it is clear that efforts have been made particularly towards broadening the tax base, limiting recurrent spending, and better prioritizing domestically financed projects, there is also a need to improve public financial management and we welcome the focus of the new program on this. We note that a comprehensive audit of all Covid related spending in FY19/20 is still being completed, but so far numerous violations of the Procurement and the Public Finance Management Acts and inefficiencies in the procurement process have been identified, as well as the need to make more progress on publishing information on beneficial ownership. We note the commitment of the authorities to addressing these weaknesses and fully support the focus of the new program on continuing to improve transparency and accountability,

by supporting the implementation of Kenya's broad anti-corruption legal framework. We would highlight disclosure of asset and interest declarations of senior public officials, and efforts to strengthen AML/CFT supervision as areas that should be strengthened as a high priority.

We welcome the focus of the program on reducing debt vulnerabilities through a multi-year fiscal consolidation effort centered on raising tax revenues while safeguarding resources to protect vulnerable groups. Covid has had a significant impact on poverty and unemployment in Kenya, erasing the gains that have been made over the last five years. The unemployment rate has reportedly grown to over 10% with an estimated additional 2 million people falling into poverty. Significant efforts have been made to cushion the impact on the poorest through cash transfers, but it will be crucial to ensure that targeting policies adjust to include the different profile of the newly poor and those in the informal sector, which makes up approximately 80% of the economy, who may not have been traditionally covered by existing social safety nets. The authorities should review their targeting policy on social transfers to ensure the newly poor across different regions and demographics, and the informal sectors, are not left behind in the economic recovery. We also would caution against too rapid a fiscal consolidation, in particular on the expenditure side, which could be self-defeating. In this context, improving the efficiency and effectiveness of public spending, on the back of the World Bank Public Expenditure Review appears critical.

We note that Kenya has been pushed into high risk of debt distress notably by reduced economic activity, increased fiscal pressures and large infrastructure loans. Debt service obligations will hit around USD 10 billion in FY 2021/22 constraining the fiscal space for COVID-19 related spending and economic recovery investments. The rising expenditure on interest payments (currently at 4.3% of GDP and accounting for over 25.2% of total revenue) leaves limited room for public spending on priority areas and emergency COVID-19 expenditures. We agree with staff that sizable and sustained multiyear debt management and fiscal efforts are required to prevent the current public debt ratio, 66% of GDP, from reaching unsustainable levels. We welcome Kenya's participation in the DSSI and underline the economic benefits of this initiative on debt service. *Could staff elaborate on the breakdown of DSSI relief by creditors and the commitments they have made?* We also note that while Kenya is subject to zero limits on non-concessional borrowing, the authorities and staff have agreed on non-zero limit exceptions for project financing and debt management operations. *Could staff elaborate on the role they will play in the selection of projects or specific debt operations to ensure adequate cost benefit analysis?*

We note the update on Kenya's State Owned Enterprises and the increasing fiscal pressures these are placing on Kenya's balance sheet. We welcome the completion of a financial evaluation of those SOEs with largest fiscal risks and fully

support the authorities' commitment to improving oversight, monitoring and governance of SOE's. To this end we look forward to the establishment of a framework for determining interventions and reforms and welcome the inclusion of contingent liabilities from high risk SOE's being in the annual budget review.

We appreciate staff clearly setting out the downside risks to the program which remain significant. Given the high degree of uncertainty we support staff's efforts to build flexibility into the program from the beginning, and support the use of indicative targets and the commitment to conducting quarterly reviews to ensure that the authorities ability to respond is not constrained should the shock prove to be longer or more significant than currently anticipated. We also welcome the inclusion of a vaccine related adjuster to spending to support the authorities to undertake a more accelerated Covid19 vaccination program if this becomes feasible.

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March 31, 2021

**Joint Statement by Mr. Mohieldin, Mr. Mouminah, Mr. Alhomaly, Mr. Geadah, Ms. Abdelati, and Mr. Rawah on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for the well-focused report and Ms. Mannathoko and Mr. Sitima-wina for their helpful Buff statement. Following the significant slowdown in economic activity, the authorities' decisive policy actions have been paramount in preventing a deeper economic downturn and spurring economic recovery. Indeed, the support measures have been appropriately focused on providing important lifelines to protect the most affected, including through ramping up both health and social spending while implementing various measures to ease liquidity conditions. Nonetheless, pre-existing vulnerabilities have been aggravated while fiscal and balance-of-payments financing needs are expected to remain sizable over the medium-term. Against this background, we would like to make the following comments.

We support the request for a blended program at 305 percent of quota to help meet balance of payments and budge-support needs. This is expected to catalyze support from other official lenders and capital market financing. We take note of the risks identified stemming from uncertainties related to the duration of the COVID-19 shock, and its implications for realizing projected tax yields as well as risks from contingent liabilities of SOEs. We therefore welcome the flexibility incorporated in program design and it will be important to adjust as needed, including by applying adjustors on COVID-19 vaccine related spending and on extraordinary SOE support. Although the program faces a busy electoral calendar, the constitutional amendments promise to deliver important institutional reforms to underpin more inclusive and accountable governance.

We support the objectives of the fiscal strategy, consisting of a multi-year consolidation that brings the primary deficit below its debt stabilizing level within 3 years to keep debt-to-GDP on a downward path. The planned increase in tax-to-GDP back to levels previously achieved, by increasing it close to 1 percent of GDP per year, is appropriate to generate needed resources to meet Kenya's development goals. At the same time, steps to reduce recurrent expenditure, will together generate a fiscal adjustment of 4.8 percent of GDP over three years, which is quite ambitious and comparable to other strong programs.

We also underscore the need for measures to protect high-priority public services and investment programs.

We note that debt is assessed as sustainable, but the overall risk of debt distress remains high, and the sharp decline in exports and economic growth, coupled with high fiscal deficits, have deteriorated liquidity indicators during this difficult time. We therefore welcome the projected improvements in debt-to-GDP expected by the end of the program as exports and growth recovers and the fiscal position improves. We support the authorities' planned shift toward prioritizing concessional financing and limiting commercial borrowing for critical development projects. *Does staff expect the risk of debt distress to decline to "medium" by the end of the program?*

We welcome the focus of the planned structural reforms on addressing fiscal risks stemming from state owned enterprises (SOE) and on strengthening governance as well as on employment creation and social inclusion. In addition, we fully support the authorities' multi-pronged governance reform agenda and look forward to updates in the upcoming reviews. **We also welcome the planned reforms to CBK's monetary policy framework.** We broadly support the "staged approach" to evaluate the extent of fiscal risks of the SOE sector, we call for realism in what can be implemented within just a few months. It is not surprising that the financial position of several SOEs weakened due to COVID-19. We also note that some SOEs, such as power company registered persistent losses even before the onset of the pandemic, while returns on the railway projects turned out to be insufficient to service on-lent government loans. That said, we commend the authorities' completion of a financial evaluation of the 9 SOEs with the largest fiscal risks, and support the plan to improve the transparency of fiscal risk analysis and reporting by September 2021, with continued IMF technical assistance. We note that the authorities must complete a draft blue-print for legal reforms to enhance governance by July 2021, which is supported by the IMF TA, as well as develop an integrated reporting system and performance management and evaluation framework by September 2021, for which TA is not mentioned. *To what extent is the Fund able to support these efforts, or are other partners supporting this work?*

Finally, we take positive note that that financial sector vulnerabilities remain contained and capital adequacy remains high, but attention is needed to contain the weaknesses to asset quality that have been exacerbated by the pandemic. We support the CBK's emphasis on providing emergency liquidity provision and pre-emptive loan restructuring that has proven essential to support the economy. We welcome the CBK's attention to closely monitor the post-shock situation, while maintaining the loan classification and provisioning rules. *We agree that a credit guarantee scheme can play an important role in supporting new credit to SMEs and would welcome further details of this scheme and how it is financed.*

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GRAY/21/970

March 31, 2021

Statement by Mr. Andrianarivelo and Mr. Sidi Bouna on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021

1. We thank staff for a comprehensive set of reports and Ms. Mannathoko and Mr. Sitima-wina for their helpful Buff statement.
2. **Following a strong policy response and a timely support of the international community last year to help alleviate the impact of the pandemic, the authorities request an EFF/ECF assistance to put growth on a more robust and sustainable footing, and we support this request.** We welcome the ongoing economic recovery following last year's severe crisis. However, although the economic outlook has improved, it remains subject to very high uncertainty, amid prevailing downside risks. The pandemic has weakened Kenya's macroeconomic performance and undermined the country's fiscal position. We welcome the timely financial assistance provided last year by the Fund and the World Bank. However, medium-term financing needs have since risen and are substantial, which warrants the proposed arrangements.
3. **We expect that the EFF and ECF blended access will assist in the authorities' efforts to restore macroeconomic stability and support a strong and sustained recovery while also catalyzing financing from donors and capital markets.** We take positive note of the recognition that there is a need to incorporate flexibility in the program. We agree that one of the key priorities of the program should be to reduce debt vulnerabilities through fiscal consolidation while also taking steps to strengthen SOEs to mitigate risks from contingent liabilities. We also support the focus on reinforcing the monetary policy framework and ensuring financial stability. Improving governance should also rank high in the authorities' reform agenda.
4. **The authorities' appropriate fiscal policy response to the pandemic has led to a widening of the fiscal deficit and an increase in debt levels, which require a gradual consolidation over the medium-term.** We welcome the fiscal measures to improve domestic revenue mobilization and control expenditures. Steps to further broaden the tax base and improve revenue administration while also progressively reversing the temporary tax cuts introduced at the beginning of the pandemic will be necessary. We

note from the Buff statement that the Kenyan authorities have started to reverse most of the emergency tax relief measures and introduced actions to improve tax performance. We would like to caution against early withdrawal of Covid-19 temporary relief measures. Enhanced prioritization of expenditures while helping secure resources for social needs and key infrastructure spending will also be important. These combined actions should help bring the primary deficit over the medium-term below the level that would stabilize and reduce debt. We agree that external non-concessional borrowing should only be considered for investment projects that are likely to provide a meaningful boost to the country's growth prospects.

5. **The central bank's policy stance has been appropriately accommodative, but reforms are needed to strengthen the monetary policy framework and close supervision is necessary to ensure financial stability.** Given limited inflation risks, the current monetary policy stance should be maintained to support the recovery, especially as fiscal stimulus is progressively withdrawn. We look forward to the central bank's white paper that will present the authorities' strategy to reinforce the monetary policy framework. We welcome the staff's assessment that the flexible exchange rate has helped absorb the shock caused by the pandemic and agree that foreign exchange interventions should be limited to smoothing excessive volatility and preserve foreign exchange reserves. *On the net international reserves (NIR), we note the authorities' preference for an asymmetric adjustor under the program for both non-grant and grant budget flows. Could staff clarify the rationale for requiring a symmetric adjustor for non-grant flows? Also, when such adjustors on non-grant flows are required under Fund-supported programs with countries similar to Kenya, are they always symmetric?* We underscore the importance of ensuring financial stability for a healthy recovery. We welcome the finding that the banking sector is well-capitalized and liquid but note however the rising concerns over the quality of assets. This will require close supervision of credit risks and ensuring that banks are adequately provisioned.
6. **We commend the authorities for their commitment to advancing structural reforms and share the program's focus on strengthening SOEs and improving governance.** We support the steps being considered to reinforce SOEs which will be essential to limit contingent liability risks. Specifically, the measures envisaged to better report fiscal risks stemming from SOEs and PPPs into the budget go in the right direction. We praise the authorities for their reforms to enhance the anti-corruption framework, particularly on fiscal transparency.

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GRAY/21/971

March 31, 2021

**Statement by Mr. Romero Tarazona and Mr. Cartagena Guardado on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

We thank staff for the comprehensive reports on Kenya's request for an Arrangement Under the Extended Fund Facility (EFF) and Arrangement Under the Extended Credit Facility (ECF). We also thank Ms. Mannathoko and Mr. Sitima-wina for their insightful Buff statement.

We support Kenya's request for a 38-month blended arrangement under the EFF and the ECF to back the COVID-19 recovery efforts and anchor reform implementation. We expect this facility will help Kenya finance part of its balance of payments needs, exacerbated by the pandemic, while catalyzing additional support from other official lenders and capital markets. We acknowledge that these financial arrangements will be instrumental in helping the authorities addressing structural challenges. We concur with the four objectives of their economic program under this arrangement to stabilize debt and boost growth. We also concur that it is very important to rationalize non-priority spending, but even more important not to compromise allocations to social and growth-enhancing programs and to maintain support for the health and business sectors, both very impacted by the side effects of COVID-19. We hope this spending ensures a speedy recovery of the country's economy.

We commend the authorities' swift response to the COVID-19 pandemic. The implemented set of macroeconomic and financial policies were very useful in protecting households and businesses, supporting vulnerable segments of the population. We note the significant drop in economic growth during 2020 relative to historical average and pre-Covid forecasts. We also highlight the positive recovery stage and the resilience of the external sector, as emphasized in the report. We acknowledge the authorities' well-planned vaccination process through the three phases noted in the report; however, we stress Kenya's challenge in speeding up the vaccination process to reduce contagion and fatalities while safely boosting high-contact economic sectors.

We welcome Kenya's monetary and financial policy efforts. We commend the authorities' continued efforts to reform the monetary policy operational framework and to maintain the

stability of the financial system. These efforts to strengthen the monetary policy framework and to maintain a flexible exchange rate to act as a shock absorber will be instrumental for price stability. Further efforts to continue strengthening prudential regulation and supervision, as well as AML/CFT, are encouraging. We positively note that CBK's engagement with banks in revisiting their capital planning and reassessing resilience of their portfolios are appropriate actions in addressing the scars left by the pandemic in the financial sector.

We welcome the authorities' efforts to build fiscal space under the ECF/EFF arrangement. The measures pursued by the government on strengthening revenue mobilization and improving the quality of spending will be instrumental in this regard. We underscore the authorities' focus on assigning higher priority to spending in social sectors and engaging in a growth-friendly fiscal consolidation. We also underscore their commitment to addressing fiscal risks derived from the SOE; we concur enhancing its governance and transparency is instrumental.

In closing, we welcome the focus in the tax reform to secure future revenues and achieve fiscal balance. We consider that having a broader tax base, eliminating tax incentives and strengthening tax administration to improve collections, as well as reducing evasion levels, are all adequate measures that send a very positive message in support of the extension request, and we hope they will bring success with future results. We wish the authorities and the people of Kenya well in these still challenging circumstances.

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GRAY/21/972

March 31, 2021

**Statement by Mr. Bhalla and Mr. Singh on Kenya
(Preliminary)
Executive Board Meeting
April 2, 2021**

1. We thank the staff for their analytical reports and Ms. Mannathoko and Mr. Sitima-wina for their helpful Buff statement. In the backdrop of a high incidence of Covid-19-led surge in poverty and limited access to vaccines, as faced by most developing countries, we support the authorities' request for 38-month arrangements under the EFF and ECF with blended access as budget support. Going beyond the immediate liquidity needs, graduating to an upper tranche programme is important to tackle the structural imbalances, governance, SOE reforms, and reducing debt vulnerabilities, and support the developmental agenda. Since the assistance is for budget support, we believe that this should be backed by adequate transparency and governance. As the global external financing conditions have gradually returned to pre-COVID levels, sovereign spreads have compressed in a risk-on scenario. **In this backdrop, it would be useful to understand how far high-yield frontier market sovereign issuers like Kenya will be able to access international capital markets to lock in lower borrowing costs to bridge the financing gaps.**

2. We encourage authorities to accelerate efforts towards strengthening revenue administration and tax policy reforms. While we appreciate authorities' reversal of most emergency tax relief measures and the introduction of measures to improve tax performance amid the pandemic, we hope that the social safety nets for the vulnerable sections are continued until the economic incidence of the virus is contained.

3. We understand that to address concerns of illicit financial flows, corruption, and counterfeits, the authorities have undertaken the demonetization of high-value currency notes. **It would be instructive to understand the effectiveness of such measures in tackling corruption and containing the parallel economy.**

4. On governance, we very much appreciate the authorities' plan to ensure that comprehensive information, including beneficial ownership information of the awarded entities, and progressive disclosures. We encourage authorities to accelerate the national risk

assessment on money laundering and terrorism financing that will help Kenya develop an AML/CFT strategy as well as address the current deficiency in FATF requirements.

5. We wish the authorities the very best in their policy endeavours and the future programme.

Kenya

Staff's Responses to Technical Questions Posed by Executive Directors in Advance of

[EBM/21/37], April 2, 2021

Staff's responses to technical and factual questions are below. Questions in the areas of the impact of the current resurgence of COVID-19 cases in Kenya for the outlook will be addressed in staff's oral intervention at the Board meeting.¹

Outlook

1. ***Could staff comment on whether/how this apparent third wave of infections could affect the projected outlook? Have authorities developed any contingency plans or alternative scenarios to potentially speed up vaccinations (contingent on vaccine availability)?***
 - The current third wave of COVID-19 highlights the uncertainty associated with the outlook emphasized in the staff report. If case numbers stay high, and containment measures must remain in place for long, this could delay the projected rebound in economic activity. It should be noted, however, that a significant driver of the COVID-19 impact on real GDP has been the effect of school closures, and some schools had already begun a scheduled 7-week recess before the latest closures. If school closures are brief, the impact of real GDP could be modest. On vaccinations, options for purchase of additional vaccines are being explored but plans are still at an early stage.
2. ***Staff's comments on the public and political climate that surrounds the program are welcome.***
 - Public and political discourse in Kenya has lately centered on the pandemic response, including the pros and cons of various containment measures, the effectiveness of COVID-19 spending, and what can be done to support the economy. While concerns about rising debt levels are widespread, a temporary expansion of the government deficit has generally been viewed as unavoidable given the shock to the economy. The Fund program speaks to a number of issues of concern in the political discourse in Kenya – specifically the anchoring of fiscal consolidation over the medium term to ensure debt sustainability, the need to prioritize lower-cost financing, and emphasis on good public financial management practices

¹ EDs have requested that staff indicate those areas for which responses will be provided during staff's oral intervention in the Board. This avoids the need for EDs to repeat their questions during the discussion. In addition, staff may also indicate specifically in this document which questions they intend to address orally.

Announcement of the Fund program has not to this juncture featured heavily in the political discourse. Concerns raised in media reporting have included the prospect of job losses, privatizations, and the risks of incurring additional debt to the IMF.

3. *Could staff elaborate on the risks to fiscal consolidation stemming from political events going forward?*

- The possibility of increased political tensions represents a downside risk to the outlook, as noted in the staff report (¶13). Specifically, this could undermine fiscal consolidation by putting upside pressures on expenditures and weakening the political commitment to press ahead with the revenue-raising measures, with related implications for debt dynamics.

4. *The authorities' program ownership is a prerequisite for a successful outcome of the program. However, given the upcoming constitutional referendum as well as elections in 2022, a deeper reflection on the associated risks and how those are reflected in the program design would appear appropriate. Staff's comments would be welcome.*

- The program is firmly anchored in the authorities' plans, including the Post-COVID Economic Recovery Strategy and the medium-term fiscal framework as set out in the recent Budget Policy Statement. A central element of the plan is to strengthen government finances. Key steps in this direction have already been taken, demonstrating strong commitment in the midst of the pandemic to key program objectives. Among others, tax policy measures centered on broadening the tax base have over the past year been enacted for a net yield of 1 percent of GDP (based on pre-COVID tax base). Risks, including those stemming from an uncertain political environment, are addressed by a program design that focuses on actions critical to achieving program objectives and provides added flexibility to respond to shocks. Key elements include the near-term application of quarterly reviews, use of indicative targets over performance criteria in relation to tax revenue targets, and emphasis on structural reforms that address the most pressing economic risks. Additionally, given the tax policy measures already taken, the program does not require further tax policy measures until fiscal year 2022/23. This provides breathing space and avoids the need for tax changes in the midst of the election period.

Fiscal Policy and Debt Sustainability

5. *Could staff comment on how the new pension system will resolve the significant backlog of pension arrears?*

- By moving to a funded pension scheme for public sector workers, pension payments will over time be insulated from budget pressures experienced under the former pay-as-you go model. Participants in the funded pension scheme, which commenced at the start of 2021, include all new public sector workers and existing workers under the age of 45. As such, transition to the new scheme will be gradual. Other reforms

and initiatives will assist efficient and timely payment of pensions in the near term. These include digitizing the pension management system (to be completed by June 2022) and prioritizing timely pension payments. Budget allocations for pensions under the old scheme have also increased from 0.9 percent of GDP in FY 2019/20 to 1.1 percent of GDP in 2020/21.

6. *We are reassured that staff believe Kenya's debt remains sustainable and that debt dynamics will benefit from the program. Ongoing debt management efforts aim at (a) extending the maturity of domestic debt; and (b) limiting the use of external non-concessional financing to funding strategic projects. The DSA rightly highlights the high risk of debt distress mainly reflecting external conditions, in a context of lower debt-carrying capacity. In this regard, we wonder whether judgment could have completed this mechanical result. Staff's comments are welcome.*

- Kenya was first assessed as being at high risk of debt distress at the time of the RCF request in May 2020, with debt carrying capacity assessed as Strong based on the October 2019 WEO. Based on the October 2020 WEO, the deterioration in global growth was the main contributor for reassessing Kenya's debt carrying capacity to Medium, which translated into more protracted breaches in debt indicators, particularly indicators in terms of exports (see DSA ¶10-11). All such projections involve a high degree of uncertainty at the current juncture.
- Classification of debt carrying capacity under LIC DSF is done on an institution-wide basis, with no role provided for the use of staff judgment. As indicated in the DSA writeup, the deterioration from this mechanical signal would be reversed if Kenya's debt carrying capacity is revised upward in the future. While not supported by current data, including an informal assessment on the basis of more recent WEO vintages, in staff's view and given an improving global outlook, there are good prospects for restoring Kenya's debt carrying capacity to strong in the future. (DSA ¶21)

7. *We also note that while Kenya is subject to zero limits on non-concessional borrowing, the authorities and staff have agreed on non-zero limit exceptions for project financing and debt management operations. Could staff elaborate on the role they will play in the selection of projects or specific debt operations to ensure adequate cost benefit analysis?*

- The projects are already selected and had been included in the budget (see TMU Annex 1). The selection of projects follows the Public Finance Management (PFM) Act. The project portfolio is also aligned to the Medium-Term Plan III (part of the Kenya Vision 2030) and the BIG FOUR Agenda. Many of the projects are partially financed by development partners, including IFIs, which have already vetted the projects.
- As for debt management operations (DMOs) which are provided for under the existing Debt Limits Policy, staff and the authorities have agreed that non-

concessional borrowing for DMOs should improve Kenya's debt profile. To that end, staff and the authorities will be in consultation to ensure that the DMOs considered under the borrowing plan will improve Kenya's debt profile. Staff and the authorities have agreed that operations that improve the overall debt profile are operations that reduce the present value of external debt and improve the external debt service profile (Table 1, footnote 5; TMU ¶121).

8. Does staff expect the risk of debt distress to decline to “medium” by the end of the program?

- A key objective of the program is to achieve the primary balance that will stabilize and start reducing debt (in percent of GDP) during the program. While it is expected that Kenya could restore a strong debt carrying capacity later in program (see Question 6), the timing of a transition to moderate risk of debt distress is difficult to assess at this moment given the very elevated uncertainties.

9. As the global external financing conditions have gradually returned to pre-COVID levels, sovereign spreads have compressed in a risk-on scenario. In this backdrop, it would be useful to understand how far high-yield frontier market sovereign issuers like Kenya will be able to access international capital markets to lock in lower borrowing costs to bridge the financing gaps.

- After the initial shock in 2020 due to COVID-19, frontier issuers in Sub-Saharan Africa (SSA) had seen delays in their return to capital markets compared to issues from other regions. During 2021, several SSA issuers have returned to the global markets. In staff's views, global market conditions should be conducive for Kenya to borrow from international markets as other frontier markets have done during 2021. Under the baseline, staff anticipates that Kenya will continue to have access to international markets as the authorities deliver on their commitments under the program. There are, however, downside risks from global shocks which could impact frontier countries' ability to access capital markets (Staff Report, ¶13).

10. As some peer frontier countries have issued Eurobonds after the pandemic, could staff comment on the recent developments in the financial conditions of Kenya?

- Developments in sovereign spreads on global bonds suggest that financial conditions for Kenya have improved. The average spread for March 2021 (408 basis points) is similar to levels observed in January and February (412 and 400 basis points, respectively) and significantly lower than the average spread observed at the start of the pandemic (802 basis points in April 2020).

Monetary and Financial Policies

11. We agree with staff on the appropriateness of the monetary policy stance and look forward to the CBK's plans to modernize its monetary policy framework. Noting that the CBK has implemented "most of the recommendations of the last Safeguards Assessment", we would be interested in staff information on the state of affairs of the outstanding issues.

- The safeguards assessment issued nine recommendations, of which eight have already been implemented. The remaining recommendation relates to some legal amendments. The assessment found that a draft Bill to amend the Central Bank of Kenya Act, and which is broadly in line with the IMF staff recommendations, was with the National Treasury awaiting submission to Parliament. Staff also acknowledged that the political climate was not an opportune time for discussion of the Central Bank of Kenya Act amendments in the legislature. Thus, the draft CBK Bill remains at the National Treasury pending its submission to Parliament.

12. Could staff indicate how they propose to bring the NPL ratios down in the context of significant downside risks to the economic outlook?

- The authorities had taken steps to reduce NPLs before the pandemic by encouraging recovery efforts by banks. NPL resolution was significantly slowed as the pandemic made asset sales and default workouts extremely difficult for banks. While downside risks to the outlook continue to pose risks to rapid progress on reducing NPLs, the normalization of economic activity should provide a more conducive environment for NPL resolution. This remains an area of policy focus for the CBK (MEFP, ¶9)
- More broadly, with the origination of new lending, particularly in the context of interest rate caps having been removed and the operationalization of the government's guarantee scheme for small businesses loans, staff would expect the share of NPLs to decline.

13. The increased level of non-performing loans (NPLs) at 14.1 percent is a systemic risk to financial stability and sustainable growth. NPLs have already been steadily increasing prior to the pandemic. Elevated NPL levels could undercut economic recovery efforts by weakening banks' balance sheets and eroding asset quality. In order to prevent further rising NPL rates, we encourage the authorities to allow banks to grant a loan payment moratorium to firms and individuals for a certain period of time. Would staff consider an opt-in feasible to make support measures more targeted?

- Central Bank's initiative to encourage banks to proactively restructure loans of borrowers whose loans were performing prior to the pandemic in order to ease their liquidity constraints provided important support to the economy throughout the early stages of the COVID-19 shock. These measures were in place for a year and have

recently expired (March 2021). Staff supports the authorities' decision and their intention to closely monitor the performance of these loans.

- On asset quality, while the NPL ratio remains high, the Kenyan banking system is cushioned by a 19 percent capital adequacy ratio at end-2020 and NPLs are relatively well provisioned (55 percent at end-2020). Banks, especially large banks, use forward-looking provisioning for impaired loans, following IFRS 9 guidelines, and have remained profitable despite the impact of the pandemic. Credit growth has also continued to increase, reaching to about 10 percent at end-2020. These observations suggest that the high NPL ratio, while appropriately a focus of policy attention, does not expose the Kenyan banking system to an imminent systemic risk. Also note that a large fraction of NPLs are legacy NPLs (pre-pandemic NPL ratio was 12.7 percent), and the conditions for reducing the elevated level of NPLs should improve as economic activity normalizes post-pandemic.

14. We agree that a credit guarantee scheme can play an important role in supporting new credit to SMEs and would welcome further details of this scheme and how it is financed.

- The credit guarantee scheme (CGS) program is intended to de-risk lending to formal Kenyan micro and small and medium-sized enterprises (MSMEs). The CGS was launched on September 10, 2020 with initial seed funding of Ksh 3 billion to support lending to MSMEs. Participating banks commit to extend credit to MSMEs by at least four times the amount guaranteed by the CGS. The government will make a total of Ksh 10 billion available over FY20/21 and FY21/22 towards the scheme. The scheme is assessed by banks to be positive, but not large enough to have a meaningful impact on lending to MSMEs. The government has been seeking further support through funding by development partners.

15. We encourage the authorities to be vigilant in monitoring developments in the financial sector and to stand ready to respond to the emergence of currently contained risks to financial stability. We note that electronic payments have increased in importance and increased their already high market share for financial services. Is staff able to assess whether the regulatory and oversight framework is appropriate to ensure stability and consumer protection, given the growing importance of the e-payment sector?

- The digital financial services industry in Kenya has been growing rapidly, led by mobile money services by mobile network operators (MNOs) Safaricom (65 percent market share) and Airtel (20 percent). Mobile money accounts are supervised by the central bank and according to MNOs, mobile money funds in reserve accounts of MNOs are fully guaranteed. Large banks have in recent years collaborated with MNOs to offer other financial services such as digital credit. They have further developed internet banking services. Such activities of banks are regulated and supervised by CBK. To strengthen its capacity, CBK has recently received TA on cybersecurity from AFRITAC East. A small fraction of digital lending (about 1

percent) occurs outside banks by app lenders. CBK is working with parliament on an amendment bill that is going through its final legislative phase for regulating digital lenders and ensuring that consumer rights of their users are protected.

Structural Reforms

16. Staff's view on the effects of Kenya's recent bilateral trade initiatives is welcome.

- Engaging in international trade agreements supports the authorities' objective to deepen structural reforms to improve the business environment, attract FDI and boost investment and employment creation with the potential to reduce inequality. In this context, trade agreements, including bilateral agreements, that support international and regional integration are welcome as they help strengthen competitiveness. A bilateral agreement with UK that ensures continued duty-free trade post Brexit was recently completed, and negotiations on a trade agreement with the US are ongoing.

17. We note that the authorities must complete a draft blue-print for legal reforms to enhance governance by July 2021, which is supported by the IMF TA, as well as develop an integrated reporting system and performance management and evaluation framework by September 2021, for which TA is not mentioned. To what extent is the Fund able to support these efforts, or are other partners supporting this work?

- The SOE issues in Kenya require an integrated approach to support effective reforms that can last over time. Consequently, the program's SOE reform agenda contains a number of workstreams supported by Fund TA and assistance from other developing partners.
- First, the financial evaluation of SOEs is an ongoing task, where the next major milestone is the in-depth evaluation of the 15-20 major SOEs (end-May SB) with technical assistance from both AFRITAC East and FAD, as well technical assistance from bilateral partners, and relying on WB expertise, in particular in the case of SOEs in the electricity sector.
- Also in the context of the end-May SB, the authorities will formulate a strategy to enhance the institutional capacity at the National Treasury to anticipate, monitor, manage and mitigate financial risks stemming from SOEs and to ensure that decisions on support to SOEs take into account Kenya's limited fiscal space. This workstream will be supported by an FAD TA.
- Finally, by end-July 2021 and with the help of LEG TA, the broader blue-print of SOE reforms will be formulated, including the actions that are needed to enhance state ownership arrangements, performance monitoring, and governance of SOEs.

Governance

18. *We understand that to address concerns of illicit financial flows, corruption, and counterfeits, the authorities have undertaken the demonetization of high-value currency notes. It would be instructive to understand the effectiveness of such measures in tackling corruption and containing the parallel economy?*

- The demonetization of large denominations and launching of new currency started on June 2019 and was carried out in four months with the objective of fighting counterfeit currency. The four-month transition period, together with heavy public awareness, facilitated a smooth changeover. The process included AML/CFT measures with collaboration of law enforcement and several other non-CBK agencies. The conversion ratio was 97 percent leaving \$74 million of old currency unsubmitted for conversion.
- General literature (e.g., Rogoff 2016, The Curse of Cash) suggests demonetization could help reduce economic crimes, including corruption, however staff do not have direct evidence to that effect. Effective implementation of AML/CFT framework is critical in this aspect. It is still too early to see the impact of demonetization in Kenya. However, we will continue to monitor the development in future engagements.

Program and Financing

19. *On the net international reserves (NIR), we note the authorities' preference for an asymmetric adjustor under the program for both non-grant and grant budget flows. Could staff clarify the rationale for requiring a symmetric adjustor for non-grant flows? Also, when such adjustors on non-grant flows are required under Fund-supported programs with countries similar to Kenya, are they always symmetric.*

- The NIR adjustor proposed by the program is asymmetrical for grants (program grants, revenue component of project grants), but symmetrical for debt obligations (program loans, revenue component of project loans, commercial and semi-concessional borrowing). The authorities' preference relates to the potential link to import content in some of those possible additional financing items and to a preference not to face restrictions on the use of potential additional financing flows. They would thus prefer a full downward adjustment of the NIR target in case of shortfalls, but zero upward adjustment in case of above-projected levels. Staff views that the NIR adjustor agreed with the authorities strikes the right balance in terms of consistency with the program's broader objectives. As additional borrowing above the baseline (NCB and concessional borrowing) is in any event limited by relevant PCs under the program in line with the Debt Limits Policy, staff has sought to avoid sending conflicting messages in the design of program conditionality and adjustors. Of note, the import component of financing items that form part of the baseline has already been considered in setting the program NIR targets. Regarding the broader use of NIR adjustors, the most common practice among frontier economies under

program arrangements is to have a symmetric NIR adjustor. For countries where the level of reserves is a serious concern, the downward adjustment to the NIR target for shortfalls is often capped.

20. An accommodative monetary stance remains appropriate, because international reserves remain more than adequate and inflation pressures subdued. We praise the Central Bank for the prompt implementation of the recommendations from September 2019 safeguards assessment. We see merit in the authorities' preference for an asymmetric net international reserves (NIR) adjustor for loan budget flows as uncertainties could affect both donor grants and loans. Could staff provide greater details on the rationale behind the use of asymmetric adjustor for non-grants budget flows?

- Please see above – answer to question 19.

21. We have become increasingly concerned about poverty and inequality because the pandemic has in part erased the recent significant progress. For this reason, we wonder whether the program could have set a structural benchmark on policies to address these issues.

- As flagged in the Staff Report (§12), the last 5 years' poverty reduction gains have been erased due to the pandemic, with a World Bank estimate of about 2 million additional poor. The COVID-19 crisis has directly affected income distribution in Kenya due to its heavier impact on some sectors and segments of workers, particularly low-income workers. To ensure that the program appropriately secures space for social and development spending, the proposed IT has been expanded in comparison to previous Fund arrangements with Kenya to include school food and sanitary programs, free maternal healthcare, universal health coverage, health insurance subsidy for targeted categories (i.e., orphan, vulnerable children, the elderly, and people with disabilities), and spending for vaccination and immunization.
- In addition to the IT on social spending, some other redistributive channels such as tax policy are aimed at alleviating inequality and poverty. For instance, in the reversal of the emergency tax cut, which took effect on January 1, 2021 the tax relief for the lower end of the income distribution was maintained. Looking ahead, staff will keep a close eye on inequality developments and will continue to discuss these issues with the authorities.

22. Could staff elaborate on the breakdown of DSSI relief by creditors and the commitments they have made?

- Of the debt service relief expected under the DSSI initiative during 2021H1, Paris Club creditors account for roughly 15 percent and non-Paris Club creditors account for roughly 85 percent. The authorities have indicated that the largest creditors have accepted to participate in the initiative and to staff's knowledge those creditors are following through.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States