August 2021

Kenya’s increasing use of loans from international financial institutions

briefing

Introduction

Donor financing to Kenya has been a blend of both grants and loans. Evidence from our recent analysis on the Kenyan aid landscape before and during Covid-19 suggests that grants are declining, and loans are increasing.[1]

This briefing presents an in-depth analysis of the loans[2] advanced to Kenya between 2018 and 2021 by the three major international finance institutions (IFIs) − the World Bank (WB), African Development Bank (AfDB), and International Monetary Fund (IMF) − and the purpose of this financing. The analysis considers data and project documents sourced from the International Aid Transparency Initiative (IATI) and the institutions' websites. The data published by WB and AfDB using the IATI standard is considered to be of good quality. The IMF has not published data to IATI since 2018 and so this study has had to rely on the limited information available on its website.

From the data we have for IFIs, bilaterals and multilaterals, we can see that IFIs contributed the bulk of the loans in the period reviewed. IFI lending increased 87% between 2018 and 2019, and 102% between 2019 and 2020. We cannot immediately comment on the exact changes between 2020 and 2021 since the data presented in 2021 does not include the full year's loans.[3] Kenya's increased demand for loans has been driven by increased budget deficit as a result of poor revenue collection in both 2019 and 2020, primarily due to Covid-19.[4]

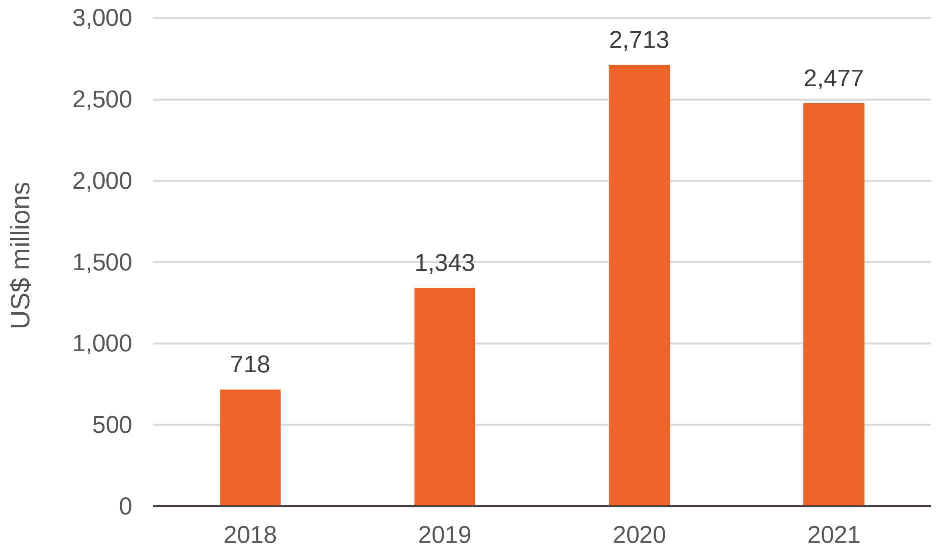
Important note about the aid data used in this briefing

This analysis relies on data published by donors to IATI – a major source of near real-time disbursements of aid. In this paper, we look at loans to show what funding has crossed into the country and how activities on the ground are affected. The data in this briefing comprises all loans disbursements made by a consistent set of donors to all the sectors, detailed in Table 1, for January to December 2018 to 2020, and relies on data published by these donors up until May 2021.

It is possible that more loans made in 2020 and 2021 will be published to IATI after this briefing; however, this is likely to have minimal impact on the findings based on the publishing habits of donors to date. As not all donors publish to IATI, this analysis focuses on how disbursements have changed, rather than total flows.

Trends in financing from major international finance institution donors

Figure 1: Total loans from the three major international finance institutions, 2018–2021

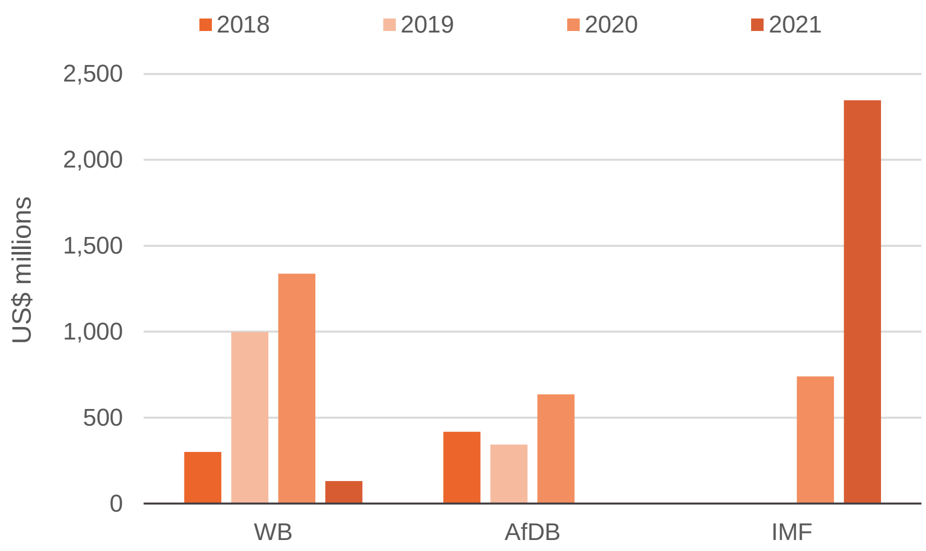


Source: Source: Development Initiatives based on IATI and project documents from international financial institution lenders.

Note: Data for 2021 does not include all the loans that will be advanced this year. Loans included were only up to May 2021.

Data published through IATI shows that between 2018 and 2021, the Government of Kenya borrowed US$4.2 billion from the WB and AfDB. If we add the IMF loans in the same period, the amount comes to US$7.3 billion. For the period under review the IMF has now provided 42.6% of the borrowing compared to 38.2% from WB and 19.3% from AfDB (Figure 2).

Figure 2: Loans from the three major international financial institutions by lender, 2018−2021



Source: Development Initiatives based on IATI and project documents from international financial institution lenders.

Note: Data for 2021 does not include all the loans that will be advanced this year. Loans included were only up to May 2021. Data included for the African Development Bank and International Monetary Fund was only available for three and two years respectively.

The top three priority sectors for WB and AfDB loans are social services, agriculture and food security, and governance and security (Table 1).

Table 1: International financial institution loans by sectors, 2018−2021

Sector	2018		2019		2020			2021		Total
	AfDB	WB	AfDB	WB	AfDB	WB	IMF	WB	IMF	
	US$m									US$m
Agriculture and food security	30		47	345		424	0	0	0	**846**
Banking and business	172	25	0	0	210	110	0	0	0	**517**
Education	0	0	0	0	219	16	0	0	0	**235**
Governance and security	0	0	0	165	0	537	0	0	0	**702**

Sector	2018		2019		2020			2021		Total
	AfDB	WB	AfDB	WB	AfDB	WB	IMF	WB	IMF	
	US$m									US$m
Health	0	0	0	0	0	100	0	130	0	**180**
Industry and trade	0	25	0	0	0	0	0	0	0	**25**
Infrastructure	216	0	0	82	207	0	0	0	0	**505**
Other	0	0	0	80	0	40	0	0	0	**120**
Other social services	0	250	0	327	0	111	0	0	0	**688**
Water and sanitation	0	0	297	0	0	0	0	0	0	**297**
IMF (no sector breakdown)	0	0	0	0	0	0	739	0	2,347	**3,086**
Total	**418**	**300**	**344**	**999**	**636**	**1,338**	**739**	**130**	**2,347**	**7,251**

Source: Development Initiatives sectoral analysis of World Bank and African Development Bank commitments published through IATI. No sectoral breakdown is available for the International Monetary Fund.

Note: Data for 2021 does not include all the loans that will be advanced this year. Loans included were only up to May 2021.

World Bank – Big on governance

In the period reviewed, WB allocated new loans amounting to US$2.7 billion – US$300 million in 2018; US$1 billion in 2019; US$1.3 billion in 2020; and US$130 million to date in 2021. These loans supported a total of nine new projects between 2018 and 2021 – 2 in 2018; 2 in 2019; 4 in 2020; and 1 in 2021.

The bulk of the loans in the period under review went towards health, education and other social services (US$885 million), agriculture and food security (US$769 million), and governance and security (US$702 million).

In 2018 WB advanced loans amounting US$300 million. A loan of US$50 million was allocated to finance the Kenya Industry and Entrepreneurship project.[5] The project intends to increase innovation and productivity by improving the survival and growth rates of technology enabled startups. It also supports small and medium-sized enterprises to better compete in local and international market opportunities.[6] In addition to the US$50 million, WB advanced another US$250 million in the same year for the Kenya Social and Economic Inclusion Project, divided between social protection (90%), health (9%) and other social services sectors (1%).[7] The project aims to strengthen social protection delivery systems to enhance the ongoing National Safety Net Program (NSNP), increase access to social and economic inclusion interventions that will contribute to the Government of Kenya's goal of universal health coverage and improve the shock responsiveness of the NSNP to support the National Drought Management Unit to expand hunger safety net programme coverage. [8]

In 2019, WB loans increased to US$1 billion. Loans were advanced to social protection, health, banking and business, housing and construction, trade, industry and services, governance, agriculture and food security and other social services sectors.

US$250 million was allocated to the Kenya Affordable Housing Finance Project in 2019.[9] The primary objective of this project was to expand access to affordable housing finance and support the establishment, capitalisation, and operations of Kenya Mortgage Refinance Company (KMRC). Funds under this project were divided across the banking and business (48%), housing and construction (48%) and trade, industry, and services sectors (4%).[10]

A loan of US$750 million was advanced in 2019 to the Inclusive Growth and Fiscal Management Development Policy Financing program.[11] The funds were divided across governance (33%), agriculture and food security (44%), and the housing and construction sectors (23%). The project aimed to enhance farmers' income and increase food security, improve private investment and financing for affordable housing and provide support to the Government of Kenya's inclusive growth agenda.[12]

In 2020, WB loans increased further to US$1.3 billion from US$1 billion (or by 30%). The loans were distributed across three projects − Marine Fisheries and Socio-Economic Development Project (US$100 million),[13] Kenya Inclusive Growth and Fiscal Management Development Policy Operation 2 (US$1 billion),[14] Kenya Covid-19 health emergency project (US$ 100 billion)[15] and Second Kenya Informal Settlements Improvement Project (US$ 150 million).[16]

The beneficiary of all the funds for the Marine Fisheries and Socio-Economic Development Project was the agriculture and food security sector. The projects aim is to improve management of priority fisheries and mariculture and increase access to complementary livelihood activities in the coastal communities.[17]

Similar to the Marine Fisheries and Socio-Economic Development Project, all the funds contributed to the Kenya Covid-19 health emergency response project benefited the health sector. The project was meant to support Kenya in preventing, detecting, and responding to the threat posed by Covid-19 and strengthening health systems for preparedness.[18]

World Bank also advanced a loan of US$1 billion to Kenya under the Kenya Inclusive Growth and Fiscal Management Development program. This was a continuation of the first phase of the program implemented in 2019. As in 2019 the project's objectives were improving farmers' incomes and food security and creating a fiscal space to support the government's inclusive growth agenda.[19]

Furthermore, WB allocated US$150 million for the Second Kenya Informal Settlements Improvement Project in the same year. This project will improve access to basic services and tenure security of residents in participating urban informal settlements and strengthen institutional capacity for upgrading slums in Kenya. The project's funding will be distributed across three sectors – social protection (10%), water and sanitation (WASH) (60%) and governance (30%).[20]

In 2021, WB has already allocated a loan of US$130 billion for the Second Additional Financing for Kenya Covid-19 Health Emergency Response Project (this has not yet been published to IATI).[21] This is an extension of a project that was commissioned in 2020 to prevent, detect and respond to the threat posed by Covid-19 and strengthen national systems for public health preparedness.[22]

International Monetary Fund – Shock cushioning from the pandemic

The data used for this analysis was obtained from the IMF website as the institute does not publish to IATI. In May 2020, IMF disbursed US$739 million to Kenya to support the ongoing recovery from Covid-19. The funding was drawn from the Rapid Credit Facility.

In April 2021 IMF agreed to a further loan of US$2.3 billion. US$577 million was drawn from the Extended Credit Facility arrangement while US$1.77 billion was from the extended fund facility. These funds are meant to finance the Government of Kenya's efforts in tackling Covid-19, reducing debt vulnerabilities and safeguarding resources. The basket of funds will support the Kenyan government between 2021 and 2025.[23]

The recent IMF loans have, however, led to public protest from dissatisfied Kenyans who argue that Kenya is accruing more loans with limited-service delivery to show from the ever-increasing borrowing appetite.[24]

African Development Bank – Focus on long term returns

In the period reviewed, loans from AfDB were inconsistent and characterised by both increases and decreases across the three years. Loans committed decreased 17.6% between 2018 and 2019 and increased 84.8% between 2019 and 2020. The significant increase between 2019 and 2020 was brought about by the inclusion of loans of US$218 million to the education sector in response to Covid-19, and US$207 million for the Kenol-Kagana-Marua highway improvement project.[25]

Between 2018 and 2020, AfDB has supported projects on infrastructure, education, banking and business, agriculture and food security, and WASH. The majority of the loans were advanced to the infrastructure sector. In the period under review, AfDB supported a total of 14 projects – six in 2018, three in 2019 and five in 2020. In terms of loan amounts, the majority of the AfDB loans were advanced in 2020 for the education and infrastructure sectors.

In 2018, AfDB committed loans amounting to US$418 million to the agriculture and food security sector (US$30 million), US$172 million to banking and business, and US$216 million to infrastructure. In agriculture loans were advanced to the Enable Youth Kenya Program that aims to create youth agriprenuers through skill acquisition and creating an enabling environment in which youth become owners of profitable businesses.[26] Banking and business loans were advanced to Diamond Trust Bank (US$74 million) and Kenya Commercial Bank (US$98 million). These funds were meant to finance small and medium-sized enterprises as well as corporates in the country so as to increase the contribution of manufacturing to the country’s economy and increase employment opportunities.[27] The biggest project financed by AfDB loans in 2018 was in the infrastructure sector − Jomo Kenyatta International Airport Airfield Expansion Project which cost US$166 million.[28] Other infrastructural projects in 2018 included Kopere Solar Power Project (US$19 million)[29] and Menengai Geothermal Project (US$31 million).[30]

In 2019 AfDB advanced loans to only two sectors – agriculture and food security (US$47 million) and WASH (US$297million). In the agriculture and food security sector loans were advanced to support the Green zones development support project phase 2. This is being implemented across 15 counties with a focus on forest conservation and livelihood support and sustainable and inclusive value chains.[31] Loans advanced to the WASH sector were channeled to two projects – Nairobi River Basin Rehabilitation and Restoration program (US$73 million)[32] and Thwake Multi-purpose Water Development program (US$224 million).[33]

AfDB loans in 2020 were allocated to the banking and business (US$210 million), education (US$219 million) and infrastructure (US$208 million) sectors. Only one infrastructure project – the Kenol-Kagana-Marua highway improvement project − was implemented in 2020.[34] Similarly, in 2020 the education sector also had one project – Kenya Covid-19 Emergency Support program.[35] Banking and business loans were advanced to Equity group, KMRC[36] and Credit Bank PLC[37]. Loans were meant to finance small and medium-sized enterprises and to promote accessibility to affordable mortgages.

Summary

Kenya's appetite for loans has been increasing in the last few years. The debt to GDP ratio in Kenya has now surpassed the IMF's recommended ratio of 50% and by the beginning of the 2021/22 financial year is very likely to be higher than the 65.6% recorded in June 2020.[38]

This short piece presented analysis of loans that are available for public scrutiny. The actual state of affairs may well be higher if we had considered loans from bilateral lenders, particularly from China, where terms and amount of loan data are not available publicly.

In our complementary analysis of Kenyan foreign aid flows,[39] we find grants declining in the last three years while loans are increasing. This comes at a time when Kenya needs even greater funding to support its healthcare systems, provide social assistance to people living in poverty, and to revamp the WASH and hygiene sector to support the fight against Covid-19. This may mean Kenya will opt for more loans in the short-term to offset the shortfall brought about by the drop in grant funding and the impact of the pandemic on domestic resource mobilisation.

The fiscal space to spend more on pro-poor sectors could continue shrinking as a result of mounting interest payments. The annual budget in the past three years shows that interest payments are the most financed sector taking at least 20% of the annual budget. This is 26.9% of what the country manages to mobilise domestically.[40]

In the long-term, the country's viable and sustainable option should be better domestic resource mobilisation through a widened tax base that considers people living in poverty, as well as strengthening the public financial administration systems that minimise leakages.

One of the limitations of this paper is, it disregards terms of loans. While both concessional and non-concessional loans will need to be repaid, for policy implications, one needs to look at terms of lending and how these have been changing over time.

Notes

[1] Development initiatives, July 2021. Available at: www.devinit.org/resources/domestic-financial-flows-kenya-covid-19/

[2] Including both concessional and non-concessional loans.

[3] The 2021 data is only limited to the period between 1 January and 30 May 2021.

[4] Kenya's total public debt is likely to hit ten trillion Kenya shillings ($92bn) by the end of the financial year 2021/22, about 70% of GDP. Business daily. *Kenya's debt bigger than reported*. Available at: www.businessdailyafrica.com/bd/opinion-analysis/columnists/kenya-s-debt-bigger-than-reported-3300678

[5] Read more about the project here: www.infodev.org/articles/kenya-industry-and-entrepreneurship-project-kiep.

[6] World Bank. *Kenya Industry and Entrepreneurship programme*. Available at: https://projects.worldbank.org/en/projects-operations/project-detail/P161317?lang=en

[7] Find more detail on this project at: https://projects.worldbank.org/en/projects-operations/project-detail/P164654?lang=en

[8] World Bank. Kenya Social and Economic Inclusion Project. Available at: https://projects.worldbank.org/en/projects-operations/project-detail/P164654

[9] Find more detail on this project at: www.worldbank.org/en/news/loans-credits/2019/04/30/kenya-affordable-housing-finance-project

[10] World Bank. *Kenya Affordable Housing Finance Project*. Available at: https://projects.worldbank.org/en/projects-operations/project-detail/P165034?lang=en

[11] World Bank. Inclusive growth and fiscal management Development Policy Financing programme. Available at: https://projects.worldbank.org/en/projects-operations/project-detail/P168204?lang=en

[12] World Bank. Inclusive growth and fiscal management Development Policy Financing programme. Available at: https://projects.worldbank.org/en/projects-operations/project-detail/P168204?lang=en

[13] Find more detail on this project at: https://projects.worldbank.org/en/projects-operations/project-detail/P163980

[14] Find more detail on this project at: www.worldbank.org/en/news/loans-credits/2020/05/19/kenya-inclusive-growth-and-fiscal-management-development-policy-operation-2

[15] Find more detail on this project at: https://projects.worldbank.org/en/projects-operations/project-detail/P173820

[16] Find more detail on this project at: https://projects.worldbank.org/en/projects-operations/project-detail/P167814

[17] World Bank. *Marine Fisheries and Socio-Economic Development Project.* Available at: https://projects.worldbank.org/en/projects-operations/project-detail/P163980

[18] World Bank. Kenya Covid-19 health emergency response project. Available at: https://projects.worldbank.org/en/projects-operations/project-detail/P173820

[19] World Bank. Kenya inclusive growth and fiscal management Development Policy Operation 2 project. Available at: https://projects.worldbank.org/en/projects-operations/project-detail/P172321

[20] World Bank. Second Kenya Informal Settlements Improvement Project. Available at: https://projects.worldbank.org/en/projects-operations/project-detail/P167814

[21] Find more detail on this project at: https://projects.worldbank.org/en/projects-operations/project-detail/P176407

[22] World Bank. *Second Additional Financing for Kenya COVID-19 Health Emergency Response Project*. Available at: https://projects.worldbank.org/en/projects-operations/project-detail/P176407

[23] International monetary Fund. Available at: www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker#AFR

[24] The Star. *Kenyans flock to IMF live stream to protest loan facility*. Available at: www.the-star.co.ke/news/2021-04-06-kenyans-flock-to-imf-live-stream-to-protest-loan-facility/ and BBC. *Letter from Africa: Kenyans protest over growing debt*. Available at: https://www.bbc.com/news/world-africa-56651735

[25] Find out more about this at: https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-DB0-037

[26]Ministry of Agriculture. *Enable Youth Program*. Available at: https://enableyouth.kilimo.go.ke/

[27] Africa Development Bank. *Kenya - Diamond Trust Bank Kenya Limited*. Available at: https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-HAB-022

[28] Africa Development Bank. *Kenya - Jomo Kenyatta International Airport (JKIA) Airfield Expansion Project - 2nd Runway Development.* Available at: https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-DA0-001

[29] Africa Development Bank. *Kenya - Kopere Solar Power Project*. Available at https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-FF0-001

[30] Africa Development Bank. *Kenya - Quantum Power- Menengai Geothermal Power Project*. Available at: https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-FZ0-013

[31] Africa Development Bank. *Kenya - Green Zones Development Support Project - Phase II*. Available at: https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-AAD-005

[32] Africa Development Bank. *Kenya - Nairobi Rivers Basin Rehabilitation and Restoration Program: Sewerage Improvement Project.* Available at: https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-EB0-003

[33] Africa Development Bank. *Kenya - Thwake Multi-Purpose Water Development Program (Phase I) – Additional Financing*.Available at: https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-EA0-006

[34] Africa Development Bank. *Kenya - Kenol - Kagana - Marua Highway improvement Project*. Available at: https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-DB0-037

[35] Africa Development Bank.*Kenya - COVID-19 Emergency Response Support Program (ERSP).* Available at: https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-K00-007

[36] Africa Development Bank.*Kenya - Kenya Mortgage Refinance Company (KMRC).* Available at: https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-HB0-009

[37] Africa Development Bank. *Kenya - Credit Bank PLC (CBP).* Available at: https://projectsportal.afdb.org/dataportal/VProject/show/P-KE-HAB-026

[38] International Monetary Fund. *Joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries*. Available at: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries

[39] Development Initiatives, August 2021. Available at: www.devinit.org/resources/aid-kenya-covid-19

[40] Development Initiatives, July 2021. *Domestic financial flows in Kenya pre and during Covid-19*. Available at: www.devinit.org/resources/domestic-financial-flows-kenya-covid-19/

Development Initiatives (DI) is a global organisation that applies the power of data and evidence to build sustainable solutions that create an equitable and resilient world.

We work closely with partners at global, regional, national and local levels to ensure data-driven evidence and analysis are used effectively in policy and practice to end poverty, reduce inequality and increase resilience.

Contact
Eastone Owino
Analyst
Eastone.Owino@devinit.org

To find out more about our work visit:
www.devinit.org
Twitter: @devinitorg
Email: info@devinit.org

Development Initiatives is the trading name of Development Initiatives Poverty Research Ltd, registered in England and Wales, Company No. 06368740, and DI International Ltd, registered in England and Wales, Company No. 5802543. Registered Office: First Floor Centre, The Quorum, Bond Street South, Bristol, BS1 3AE, UK.

GLOBAL HUB
Development Initiatives
First Floor Centre, The Quorum
Bond Street South
Bristol
BS1 3AE, UK
+44 (0) 1179 272 505

EAST AFRICA HUB
Development Initiatives
Shelter Afrique Building
4th Floor, Mamlaka Road
Nairobi, Kenya
PO Box 102802-00101
+254 (0) 20 272 5346

AMERICAS HUB
Development Initiatives
1100 13th Street, NW
Suite 800, Washington DC
20005, US