Loan Agreement

(Second Inclusive Growth and Fiscal Management Development Policy Loan)

Between

REPUBLIC OF KENYA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF KENYA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (i) the actions which the Borrower has already taken under the Program and which are described in Section 1 of Schedule I to this Agreement; and (ii) the Borrower's maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower the amount of two hundred and fifty million Dollars (USD250,000,000) as such amount may be converted from time to time through a Currency Conversion ("Loan").

2.02. The Front-end Fee is one quarter of one percent (0.25%)

2.03. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.04. The interest rate is the Reference Rate plus the Fixed Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.

2.05. The Payment Dates are May 15 and November 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with Schedule 2 to this Agreement.

2.07. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:

(a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program;
(b) without limitation upon paragraph (a) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule I to this Agreement.

**ARTICLE IV — REMEDIES OF THE BANK**

4.01 The Additional Event of Suspension consists of the following namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

**ARTICLE V — EFFECTIVENESS; TERMINATION**

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower’s macroeconomic policy framework.

(b) The Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

5.03. For purposes of Section 9.05 (b) of the General Conditions, the date on which the obligations of the Borrower under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

6.01. The Borrower’s Representative is the Cabinet Secretary for the National Treasury.

6.02. For purposes of Section 10.01 of the General Conditions:

(a) the Borrower’s address is:

The National Treasury
Treasury Building
P.O Box 30007-00100
Nairobi, Kenya; and

(b) the Borrower’s Electronic Address is:

Facsimile: 254 20 330426; 254 20 218475
6.03. For purposes of Section 10.01 of the General Conditions:

(a) the Bank’s address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Bank’s Electronic Address is:

Telex: Facsimile:
248423(MCI) or 1-202-477-6391
64145(MCI)
AGREED as of the Signature Date.

REPUBLIC OF KENYA

By

[Signature]

Authorized Representative

Name: Ukur Yatani
Title: CS Treasury
Date: 20th May 2020

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

[Signature]

Authorized Representative

Name: Cedric Jawando
Title: Country Director
Date: 20th May 2020
SCHEDULE 1
Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

Actions Taken Under the Program. The actions taken by the Borrower under the Program include the following:

A. Crowd in the Private Sector for the Delivery of Affordable Housing

1. The Borrower has: (a) enacted through its Parliament the Physical and Land Use Planning Act, which, *inter alia*, allows for changes to restrictive zoning laws that hold back the construction of multi-story buildings in high density areas (b) through the president, assented to the, Business Laws Amendment Bill, which amends the National Construction Authority Act which, *inter alia*, makes provision for an up to date building code, allowing the use of a wider range of construction materials and technology, hence enabling the delivery of less expensive code-compliant housing units.

B. Enhance Farmers Income and Food Security

2. The Borrower has through its Cabinet approved the policy for the roll out of the e-voucher subsidy program consistent with the Agricultural Sector Growth and Transformation Strategy issued by the Ministry of Agriculture, Livestock and Fisheries.

3. The Borrower has through its Cabinet approved a policy to commit purchases for the strategic grain reserve function of the NCPB through the Warehouse Receipt System consistent with the Agricultural Sector Growth and Transformation Strategy issued by the Ministry of Agriculture, Livestock and Fisheries.

4. The Borrower through the cabinet secretary for finance, has approved the Capital Markets (Commodity Markets) Regulations that provides a framework for the commodities exchange market.

C. Create Fiscal Space to Support the Government’s Inclusive Growth Agenda

5. The Borrower has through its Cabinet approved for submission to Parliament, the Income Tax Bill, which streamlines tax exemptions by reducing the number of exemptions offered.

6. The Borrower has (a) published in a publicly available online portal details of contracts and tenders; including tender documents; details on companies that were awarded the tender; and the names of the directors of the company; (b) through its Cabinet approved the Public Procurement and Asset Disposal Regulations which will allow for revision of standard bidding documents to provide greater details on bidders to enhance transparency; and (c) through its Parliament enacted the Competition Amendment Act that include specific penalties on collusive behavior in public procurement.
7. The Borrower has (a) through its Cabinet approved the Debt and Borrowing Policy; and (b) through its Central Bank launched the Treasury Mobile Direct system which allows institutional and retail investors to participate through an electronic platform in the issuance of government securities to enhance transparency and efficiency.

D. Crowd in Private Investment and Leverage Digitization to Support the Government's Inclusive Growth Agenda

8. The Borrower has, through its Parliament repealed section 33B of the Banking Act, removing the cap on interest rates on bank lending.

9. The Borrower (a) has through its Cabinet approved the Kenya Investment Policy, which simplifies the process of investor entry and retention; (b) has through the Ministry of Industry, Trade and Cooperatives, approved the Special Economic Zones (Amendment) Regulations, implementing the Special Economic Zones Act; (c) has enacted through its Parliament amendments to the Companies Act requiring companies to keep a register of beneficial owners.

Section II. Availability of Loan Proceeds

A. General. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

B. Allocation of Loan Amounts. The Loan is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>250,000,000</td>
</tr>
<tr>
<td>(2) Amount due pursuant to Section 4.05 (c) of the General Conditions</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>250,000,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions.

1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework.

D. Deposit of Loan Amounts.

1. Notwithstanding the provisions of Section 2.03 of the General Conditions:

(a) the Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain the following two
dedicated accounts on terms and conditions satisfactory to the Bank: (i) a dedicated account in Dollars ("Foreign Currency Dedicated Account"); and (ii) a dedicated account in Kenya Shillings ("Local Currency Dedicated Account"); and

(b) all withdrawals from the Loan Account shall be deposited by the Bank into the Foreign Currency Dedicated Account. Upon each deposit of an amount of the Loan into the Foreign Currency Dedicated Account, the Borrower shall deposit an equivalent amount into the Local Currency Dedicated Account.

2. The Borrower, within thirty (30) days after the withdrawal of the Loan from the Loan Account, shall report to the Bank: (a) the exact sum received into the Foreign Currency Dedicated Account; (b) the details of the account to which the Kenyan Shillings equivalent of the Loan proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Borrower's budget management systems; and (d) the statement of receipts and disbursement of the Foreign Currency Dedicated Account.

E. Audit. Upon the Bank’s request, the Borrower shall:

1. have the Dedicated Accounts audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank;

2. furnish to the Bank as soon as available, but in any case not later than four (4) months after the date of the Bank's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Bank shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Bank; and

3. furnish to the Bank such other information concerning the Dedicated Accounts and their audit as the Bank shall reasonably request.

F. Closing Date. The Closing Date is June 30, 2021
SCHEDULE 2

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share").

**Level Principal Repayments**

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15</td>
<td></td>
</tr>
<tr>
<td>Beginning November 15, 2030 through November 15, 2048</td>
<td>2.63%</td>
</tr>
<tr>
<td>On May 15, 2049</td>
<td>2.69%</td>
</tr>
</tbody>
</table>
APPENDIX

Section 1. Definitions

1. "Agricultural Sector Growth and Transformation Strategy" means the Borrower’s ten-year (2019-2029) nationwide sectoral document aiming at developing and transforming the agricultural sector in order to realize the right of every person to be free from hunger, and to have adequate food of acceptable quality, provided in article 43 of the Constitution of Kenya 2010.


4. “Cabinet” means the Borrower’s cabinet as defined in Article 152 of the Borrower’s constitution.


6. “CBK” or “Central Bank of Kenya” means the Borrower’s central bank; or any successor thereto.

7. “Companies Act” means the Borrower’s companies act No.17 of 2015.


10. “Debt and Borrowing Policy” means the Borrower’s Debt and Borrowing Policy published in accordance with section 12(1) (b) of the Public Finance Management Act, 2012.

11. “Foreign Currency Dedicated Account” means the account referred to in Part D.1(a) of Section II of Schedule 1 to this Agreement.

12. “Financing Agreement” means the agreement between the Borrower and the Association in support of the Program, of the same date as this Agreement, as such agreement may be amended from time to time. “Financing Agreement” includes all appendices, schedules and agreements supplemental to the Financing Agreement.


15. "Kenya Investment Policy" means the Borrower’s investment policy means a policy that provides direction to all investors as well as provides investor aftercare of 2019.

16. "Kenyan Shillings" means the Borrower’s local currency.

17. "Local Currency Dedicated Account" means the account referred to in Part D.1(b) of Section II of Schedule 1 to this Agreement.

18. "MOALF" or “Ministry of Agriculture, Livestock and Fisheries and Cooperatives” means the Borrower’s ministry in charge of agriculture, livestock, fisheries and cooperatives; or any successor thereto.


21. "NCPB” means National Cereals and Produce Board established pursuant to the National Cereal and Produce Board Act.

22. “Parliament” means the Borrower’s parliament.


24. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated March 23, 2020 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule I to this Agreement, and actions to be taken consistent with the program’s objectives.

25. “Public Procurement and Assets Disposal Regulations” means Borrower’s public procurement and assets disposal regulations issued pursuant to the Public Procurement and Asset Disposal Act, 2015.

26. “Signature Date” means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Loan Agreement” in the General Conditions.

27. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.


30. “Treasury Mobile Direct System” means an online system enabling the public to trade in government securities.

31. “Warehouse Receipt System” means part or the whole of the process of depositing commodities in a licensed warehouse, the issuance of a warehouse receipt reflecting the quantity and quality of the deposited commodity, the management of the transfer of the receipt as a document of title and includes, but is not limited to, the regulation of warehouse and actors associated in the process.