

KENYA

2017

Walter ODERO / w.odero@afdb.org
Wilmot REEVES / wilmot.reeves@undp.org
Julius CHOKERAH / julius.chokerah@undp.org



KENYA

- Real GDP growth increased to an estimated 6.0% in 2016, up from 5.6% in 2015, with the expansion projected to continue in 2017 and 2018, supported by large investments and growth in the service sector.
- A stable macroeconomic environment with single-digit inflation (averaging 6% in 2016) prevailed as political campaigning for the August 2017 general elections got underway.
- Kenya has sophisticated entrepreneurship by regional standards but could increase its global footprint through increased investments in information technology.

Overview

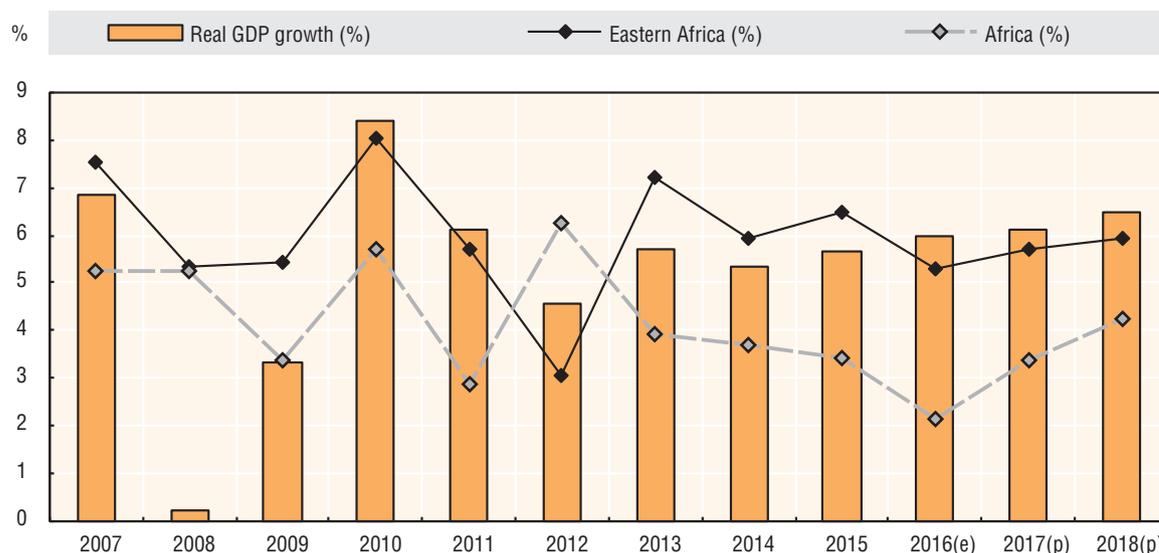
GDP growth improved to 6.0% in 2016, up from 5.6% in 2015, driven by construction, manufacturing, finance and insurance, information and communication technology (ICT), and wholesale and retail trade. The outlook is positive, with growth projected at 6.1% in 2017 and 6.5% in 2018. Consumer Price Index (CPI) inflation projections remain slightly above 5% over the same period. Projections for the short to medium term are based on the following assumptions: increased rainfall to enhance agricultural production; a stable macroeconomic environment; continued low international oil prices; continued stability of the Kenya shilling (KES); improved security as a boost to tourism; and continued reforms in governance and justice.

Political activity in 2016 was marked by campaigning for the August 2017 general elections. Two coalitions emerged, one centered around the ruling Jubilee Party and the other around the main opposition grouping, the National Super Alliance (NASA). The opposition parties led a spirited campaign calling for overhaul of the electoral infrastructure. As a result, electoral legislation was amended to provide for a revised voter register and new electoral timelines and funding arrangements. All commissioners on the Independent Electoral and Boundaries Commission were replaced in January 2017.

Kenya has sophisticated entrepreneurship by regional standards but could increase its global footprint through increased investments in information technology (IT). The country aims to have a robust, diversified and competitive manufacturing sector to help its transformation into an industrialised middle-income economy by 2030. The overall goal for the industrial sector is to increase its contribution to GDP by at least 10% per annum and propel the country towards becoming Africa's industrial hub.



Figure 1. Real GDP growth



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	5.6	6.0	6.1	6.5
Real GDP per capital growth	3.0	3.4	3.5	3.9
CPI inflation	6.6	6.3	5.5	5.1
Budget balance % GDP	-8.2	-7.8	-7.5	-4.3
Current account % GDP	-8.7	-6.0	-6.2	-7.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Real GDP growth remained robust in 2016, rising to an estimated 6.0% from 5.6% in 2015. Kenya's main drivers of growth continue to be construction, manufacturing, finance and insurance, ICT and wholesale and retail trade. With the restoration of security in most parts of the country, the tourism sector has gained pace.

Kenya's outlook remains positive for 2017, an election year, and 2018, with projected growth of 6.1% and 6.5% respectively. CPI inflation is expected to remain above 5% over the period. A long dry spell experienced since August 2016 worsened in Q1 2017 and could hurt growth potential. Similarly, the outcome of the August 2017 elections could impact growth positively or negatively, depending on post-election events. This will depend on whether there is peaceful political transition and on the retention of policy priorities. A stable macroeconomic environment, continued low international oil prices, the stability of the Kenyan shilling, improved security as a boost to tourism and reforms in governance and justice will also have an effect on economic outcomes.

As in previous years, the Central Bank of Kenya (CBK) continues to pursue a prudent monetary policy, which has helped to contain inflation. In a major departure from previous years, Parliament in 2016 passed amendments to the Banking Law to cap commercial banks' lending rates at 4 percentage points above the central bank's benchmark rate (CBR). The amendments also set the minimum rate for bank deposits at 70% of the CBR. It is generally acknowledged



that capping interest rates might solve the high interest rate spreads in the banking sector but may lead to other challenges, such as: i) locking out small and medium enterprises (SMEs) and other “high-risk” borrowers from access to credit as banks will prefer to loan to the government; ii) straining small banks that have effectively been shut out of the interbank market, have to mobilise funds at higher than current rates and can only lend within stipulated margins; iii) potential collusion of banks so as to push up the yields on treasury instruments; and iv) the emergence of shadow banking systems, which may result in inefficiencies in terms of transmitting the effects of policy decisions into the economy. Despite the new Banking Law, the CBK has continued to manage the CBR independent of expected market dynamics. The CBR rose to 11.5% in September 2015 to contain rising fragility in the money market. In early 2017, the rate stood at 10%.

The KES depreciated by 11% in 2015 due to global rapid appreciation of the US dollar and reduced earnings from tourism. The depreciation impacted government liquidity, leading to a draw down on the IMF Exogenous Shocks Facility (ESF). The KES thereafter largely remained stable in 2016. However, the exchange rate weakened against major international and regional currencies in January 2017, partly due to the strengthening of the US dollar in international markets.

The public debt-to-GDP ratio rose from 44% of GDP at end-2013 to 52% at end-September 2015 and to 53% in September 2016. The latest IMF/World Bank Debt Sustainability Analysis (DSA), from December 2016, indicates that Kenya’s risk of external debt distress remains low, while overall public-sector debt dynamics continue to be sustainable.

Agriculture contributed about 32.9% to GDP in 2015, followed by finance, real estate and business services at 15.0% (Table 2). Manufacturing continued to decline, contributing 11.4% to GDP, down from 13.1% in 2011. Continued investment in energy generation and transmission, and the revamping of agricultural production through irrigation, are expected to increase opportunities for agro-processing, boosting the growth potential of the manufacturing sector.

Table 2. GDP by sector (percentage of GDP at current prices)

	2011	2015
Agriculture, forestry, fishing and hunting	29.3	32.9
of which fishing	0.7	0.7
Mining and quarrying	1.0	0.9
of which oil
Manufacturing	13.1	11.4
Electricity, gas and water	2.1	1.9
Construction	4.9	5.3
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	10.5	9.1
of which hotels and restaurants	1.5	0.9
Transport, storage and communication	9.8	10.2
Finance, real estate and business services	15.2	15.0
Public administration and defence	4.7	4.3
Other services	9.5	8.8
Gross domestic product at basic prices / factor cost	100.0	100.0

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

The overall balance has improved, with the deficit narrowing to 7.8% of GDP in 2015/16 from 8.2% in 2014/15. The overall balance is projected at -7.5% in 2016/17 and -4.3% in 2017/18,



against current account deficit projections of 6.2% and 7.7% over the same period. Public-sector employees, who continue to demand increased pay, add to the pressure at the national level. More than 280 000 public-sector teachers went on strike in 2015/16 and secured a substantive pay rise. Public-sector doctors and public university workers went on strike in Q1 2017 demanding higher wages.

Fiscal policy is consistent with the national macroeconomic policy framework, which is pushing for macroeconomic stability amidst increased investment expenditure. This is against a background of debt that is generally sustainable in the medium term, according to the DSA of December 2016. The analysis notes that Kenya's risk of external debt distress remains low, while overall public-sector debt dynamics continue to be sustainable. However, margins have generally narrowed, and standardised stress tests suggest that vulnerability to export shocks has increased. Public debt has risen in recent years, with most new debt financing infrastructure designed to address bottlenecks and boost sustainable growth.

Total cumulative revenue, including Appropriations in Aid (A-I-A)¹, amounted to KES 313.6 billion by the end of September 2016, against a target of KES 328.0 billion, according to the 2017 government budget policy statement. The shortfall of KES 14.4 billion resulted from below-target collection of ordinary revenue (by KES 3.8 billion) and of ministerial A-I-A (by KES 10.6 billion). The shortfall in ordinary revenue was mainly due to underperformance in import-related revenues, namely import duty, value-added tax (VAT) and import declaration fees.

Total revenue as a percentage of GDP is therefore expected to average 18.8% over the next two years. In contrast, total expenditure and net lending will remain above 25%, and the average overall budget deficit will remain above 7% of GDP.

Table 3. Public finances (percentage of GDP at current prices)

	2007/08	2012/13	2013/14	2014/15	2015/16(e)	2016/17(p)	2017/18(p)
Total revenue and grants	19.9	20.1	19.6	18.9	18.7	18.7	18.8
Tax revenue	15.8	16.5	16.8	16.4	16.0	15.4	14.9
Grants	1.1	1.7	0.5	0.5	0.4	1.1	1.8
Total expenditure and net lending (a)	23.3	28.3	25.3	27.2	26.4	26.1	23.1
Current expenditure	17.6	18.3	19.5	18.4	19.3	19.4	17.0
Excluding interest	15.5	15.9	16.9	15.5	16.2	16.3	12.2
Wages and salaries	6.4	6.5	5.7	5.1	4.6	8.1	4.9
Interest	2.1	2.4	2.6	2.9	3.0	3.1	4.8
Capital expenditure	5.7	9.9	5.7	8.7	7.1	6.7	6.0
Primary balance	-1.3	-5.8	-3.1	-5.3	-4.7	-4.4	0.5
Overall balance	-3.4	-8.2	-5.7	-8.2	-7.8	-7.5	-4.3

Note: a. Only major items are reported.

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The CBK continued to pursue a prudent monetary policy, which helped to contain inflation at around 6% in 2016. Overall, inflation declined slightly, to 6.6% in 2015/16, from 6.9% against a target of 5.0% a year earlier. Previously, inflation eased from 9.4% in 2012/13 to 5.7% in 2013/14, against a target of 5% in 2012/13 and a Second Medium Term Plan (MTP II) target of 6% in 2013/14.

The Kenya shilling remained largely stable in 2014, depreciating by about 4.9% against the US dollar. However, in 2015, it depreciated by 11% due to global rapid appreciation of the US dollar and reduced earnings from tourism. The depreciation impacted government liquidity, leading to a draw down on the IMF ESF. The shilling largely remained stable in 2016.

The government is taking action to preserve financial stability, including steps to strengthen micro and macro prudential stress testing; the capital adequacy assessment framework; and



developing a legal and operational crisis management system. Continued improvement in the quality of macroeconomic statistics and a stronger business climate will be key to promoting transparency and evidence-based policy making and supporting inclusive growth.

The current account deficit improved in 2015, but financing flows and reserves dropped at the same time. The current account deficit decreased to 6.0% of GDP in 2016 from 8.7% in 2015 and 1.3% in 2014. This is mainly explained by an estimated decline in oil-related imports of more than 2 percentage points of GDP. However, a decrease in financial inflows more than offset the improvement in the current account balance against a background of volatile global markets, contributing to an acceleration of exchange rate depreciation. The CBK intervened between March 2015 and February 2016 on both sides of the market, which reduced exchange rate volatility and contained the pace of depreciation.

The monetary policy stance aims to maintain the overall month-on-month inflation rate within the government's target range of 2.5% on either side of the 5.0% target. The goal is to ensure that movements in short-term interest rates support the objective of price stability. The level of foreign exchange reserves, together with precautionary arrangements with the IMF, will continue to provide an adequate buffer against short-term shocks. Annual growth in credit to the private sector is projected to pick up gradually in the year to June 2017.

Economic co-operation, regional integration and trade

Kenya has long been the preferred entry point for investors looking for business in the East African region. The country facilitates access to a common market that includes Burundi, Rwanda, Tanzania and Uganda and also provides easier access to Democratic Republic of Congo, Ethiopia and South Sudan. In the past few years, Kenya has seen an increase in investment activity and deal interest from Europe, most notably the United Kingdom and the United States. Investment activity from China, India and the Middle East has also picked up, while South African firms are increasingly aggressive in their expansion plans into the continent.

The trade deficit is projected to remain above 10.0% of GDP, owing to increased imports of equipment and infrastructure-related materials. The current account balance deficit is expected to increase from -6.0% in 2016 to -6.2% in 2017 and -7.7% in 2018. The government should implement measures to increase export earnings (e.g. through diversification of products and markets) in order to improve the external position in the medium term.

Kenya continues investing in the improvement of the northern corridor road and rail network. The construction of the Single Gauge Rail (SGR) linking Mombasa to Nairobi, launched in 2014, is due to become operational in June 2017. Construction of the second phase (Nairobi-Naivasha) was officially launched in October 2016. This extension will link special industrial zones to be established in Naivasha. Kenya also continues with engagement on the Lamu Port South Sudan Ethiopia Transport (LAPSSET) network, with the construction of three berths at Lamu nearing completion in January 2017.

Table 4. Current account (percentage of GDP at current prices)

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-15.9	-12.7	-9.6	-16.1	-13.4	-13.3	-15.4
Exports of goods (f.o.b.)	14.2	13.1	12.8	8.5	8.0	9.0	8.7
Imports of goods (f.o.b.)	30.1	25.8	22.4	24.6	21.5	22.3	24.1
Services	3.8	4.6	3.3	2.8	3.0	3.0	3.2
Factor income	-0.1	-0.6	-1.1	-0.8	-1.1	-1.2	-1.2
Current transfers	6.6	5.7	6.2	5.4	5.5	5.3	5.7
Current account balance	-5.6	-3.0	-1.3	-8.7	-6.0	-6.2	-7.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.



Debt policy

Debt burden indicators do not signal an elevated risk of debt servicing difficulties for Kenya. A rise in the public debt-to-GDP ratio – to 53% of GDP in September 2016 from 52% at end-September 2015 and 44% at end-2013 – was mainly driven by disbursements from the sovereign bond (issued in 2014) and the Chinese-funded SGR loan. The DSA of December 2016 indicates that Kenya's risk of external debt distress remains low, while overall public-sector debt dynamics continue to be sustainable. Public debt is expected to stabilise at around 54%-55% of GDP in 2017-18 and to gradually decline thereafter. Half of Kenya's public debt is owed to external creditors.

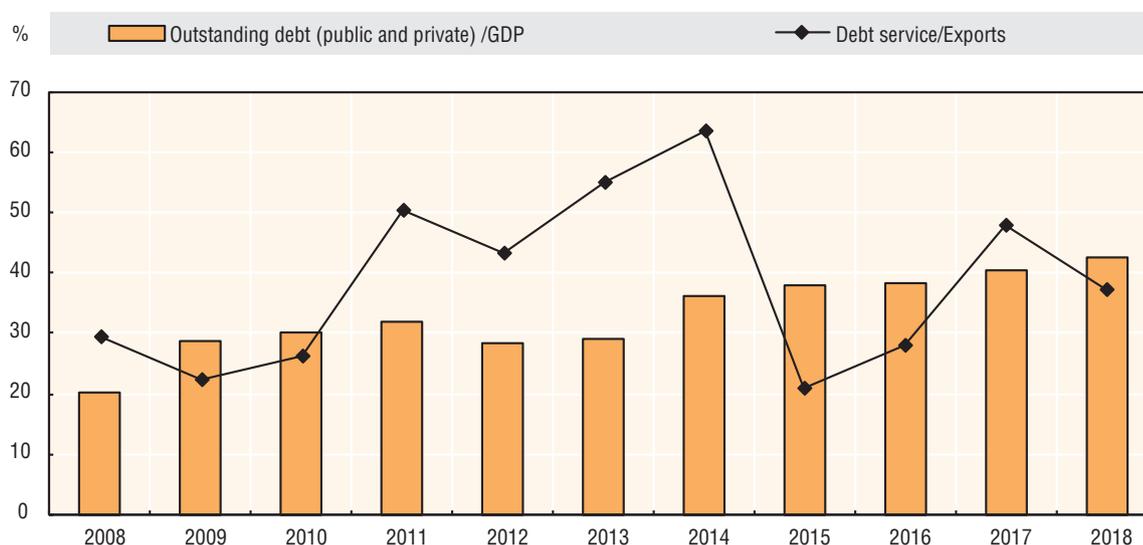
Domestic debt is issued mostly in the form of treasury bonds (66%) and treasury bills (32%). Commercial banks hold 57% of the domestic debt, with the remainder held by nonbanks (pension and trust funds, insurance companies and others). Rollover risks appear moderate. The average maturity of Kenya's domestic debt shortened, from 5.8 years in June 2011 to 5.2 years in June 2013 and 4.3 years in June 2016.

While preference is for debt to be raised from concessional sources, the current trend remains consistent with the macroeconomic policy framework and also does not deviate from the debt sustainability objectives agreed with the IMF and other key partners. Following growth challenges in the first three months of the 2015/16 financial year, a few adjustments were made to debt mobilisation. Revenue collection fell significantly short of projections (by about 0.8% of GDP). This is a reflection of lower than projected growth, persistent challenges in income tax and VAT collection, and a delay in approving new excise tax measures. Access to domestic financing was constrained during July-September 2016 as a result of tight liquidity conditions and the government's reluctance to accept higher interest rates, which led to an accumulation of pending bills.

With the stabilisation of liquidity conditions and the acceptance of higher rates, the treasury borrowed about KES 177 billion (2.5% of GDP) on a net basis during October-December 2016. The treasury also substituted some of the planned domestic financing with foreign financing in early November 2016 by drawing on a two-year syndicated loan of USD 750 million (about 1.2% of GDP) at about 8% effective cost. An additional USD 800 million is expected to be borrowed from a bilateral creditor in 2017. Following the stabilisation of financing flows, the government has resumed normal implementation of its expenditure programme and is settling outstanding pending bills.



Figure 2. Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

A thriving private sector is central to achieving sustainable economic growth and development, thus creating greater wealth and employment opportunities. Kenya's Vision 2030 sets development benchmarks for several priority sectors, including giving the large informal sector opportunities to transform into the formal sector. The government encourages investments in sectors that create employment, generate foreign exchange and create forward and backward linkages with rural areas.

In an effort to create a business-friendly environment and transition to a modern economy, the government has enacted several laws over the last two years. In 2016, Kenya enacted legislation to remove restrictions on foreign ownership of public-sector companies. A finance bill that was intended to guarantee 30% local ownership of foreign companies was dropped in September 2016 due to pressure from the private sector to revoke a law requiring foreign companies setting up shop in Kenya to cede a third of their shareholding to locals. In 2015, the country enacted the New Companies Act and the Insolvency Act 2015, as well as the Special Economic Zones Act, the first of its kind in Africa, which aims to create an enabling environment for global and local investors in specially designated zones.

The reform measures undertaken to improve the country's business environment are yielding positive results, as evidenced by the 2017 World Bank *Doing Business* report. Overall, Kenya's ranking shot up to 92nd out of 190 countries from 113th the previous year due to reforms in starting a business, dealing with construction permits, getting electricity, registering property and getting credit. Kenya continues to maintain an environment devoid of state intervention in the form of direct subsidies or price controls in the manufactured goods markets. The productive sector operates on free-market terms with minimal controls to guarantee the quality of the products.

Financial sector

The Kenyan banking sector counts 42 commercial banks, 1 mortgage finance company, 13 microfinance banks, 8 representative offices of foreign banks, 79 foreign exchange bureaus, 17 money remittance providers and 3 credit reference bureaus (as of 30 June 2016). The commercial banks are dominated by five large banks, which account for the bulk of deposits. This has reduced competition and resulted in high cost of credit. Further, given the low penetration of formal financial services, investing in microfinance institutions, banks, and savings and credit societies holds considerable potential to address the large demand for financial services by the section of the population that remains unbanked.

Kenya's banking sector continues to be the most developed in the region, with the *FinAccess Survey Report 2016* indicating that financial exclusion dropped to 17.4% in 2016 from 25.4% in 2013, while access to formal banking increased to 75.3% from 65.9% in the same period. Success stories have continued with regard to mobile money transfer, where services and usage expanded by 71.4% in 2016. *Doing Business 2017* also indicates that Kenya is ranked 32nd of 190 countries in terms of getting credit. However, although women own 48% of micro and small enterprises, they access only 7% of credit, with studies showing that women entrepreneurs identify this as the single biggest constraint on expanding their businesses.

To contain perceived high lending rates and low returns on savings, Parliament in 2016 passed legislation capping interest on commercial bank loans at 4% points above the CBR and 70% of CBR as interest on deposits. The CBK is taking prudential regulation a notch higher by requiring commercial banks to be more open in their operations, reduce their interest spreads and observe Kenya's adherence to Basel Core principles. The CBK's enforcement of existing regulation, especially with respect to the classification of loans, continued to strengthen and ensure transparency in the sector. The ratio of gross non-performing loans to gross loans stood at 9.3% in October 2016 compared to 8.2% six months earlier, partly reflecting reclassification of loans in line with the required reporting standards. The CBK continued its close monitoring of liquidity and credit risks in the sector.

Public sector management, institutions and reforms

The establishment of Huduma Centres across the country continues to be one of the transformative measures in the public sector. Huduma Kenya is a "one-stop shop" approach in reforming service delivery that amalgamates related services and makes access convenient for service seekers. The services include the online e-Huduma web portal, which provides access to integrated services by various government ministries, departments and agencies, and a unified and integrated Huduma payment gateway to facilitate ease of payment for government services. It also features an m-Huduma platform to offer services to citizens from their mobile phones and other online devices and a call centre to provide customer service using a single dialling prefix.

Tenders and vacancies in the public service are also accessible via the Huduma platform. In addition, important information on county government contacts is readily available. This is especially important given that the counties were established only recently with the promulgation of the 2010 Constitution. The Huduma Centres established in different parts of the country provide approximately 20 to 30 services from various ministries, departments and agencies.

In 2016, Kenya launched new human resources policies, procedures and guidelines for the public service. The policies provide general and practical guidance for line managers and staff in the public service on how to handle employment issues. The guidelines incorporate a description of principles, rights and responsibilities for line managers and employees. The procedures support and supplement human resources policies where appropriate by giving a step-by-step account of specific arrangements that apply in particular circumstances. It is envisaged that the policies



once implemented will transform human resources management in the public service, leading to improved public service productivity and provision of quality services to the people of Kenya.

Natural resource management and environment

Kenya has made progress in terms of environmental sustainability, especially in the development, enactment and promulgation of the 2010 Constitution, in which Articles 42, 69 and 70 mandate the right to a clean and healthy environment, while Article 43 gives people the right to clean and safe drinking water for all in adequate quantities, accessible and adequate housing, and reasonable sanitation. Furthermore, Article 69 provides that the state should ensure and maintain a tree cover of at least 10% of the land area.

The Kenya Mining Act of 2016 overhauls previous legislation on mining. The new law attends to various articles of the constitution insofar as they apply to mineral prospecting, mining, processing, refining, treatment, transport and any dealings in minerals. These include: Articles 60 (on land policy), 62 (on public land), 66 (on regulation of land use and property), 69 (on obligations in respect of the environment) and 71 (on agreements relating to natural resources).

Since 2014, Kenya has developed a Climate Change Policy as well as a Green Economy Strategy and Implementation Plan (GESIP) with support from the African Development Bank. The GESIP, due to be launched in Q1 2017, is designed to support a globally competitive low-carbon development path through promoting economic resilience and resource efficiency, sustainable management of natural resources, development of sustainable infrastructure, and providing support for social inclusion.

The Kenya Forest Service continues sustainable management of forest resources, as demonstrated by enhanced participatory forest management across the country and relocation of illegal settlers from the Mau, Embobut and Kieni forests. The area under forest cover continues to rise and is estimated at 7.0% of total land area, to date.

Political context

Political campaigning continued throughout 2016 for the presidential and parliamentary elections scheduled to take place on 8 August 2017. Two political formations emerged, with the ruling coalition merging all its parties into a single party, Jubilee. The opposition parties also unveiled a single coalition, the National Super Alliance, through which they hope to field a single presidential candidate to face the incumbent, President Uhuru Kenyatta.

The political environment was marked by calls for amendment of the Constitution and institutional reform, especially of the Independent Electoral and Boundaries Commission (IEBC) and the judiciary. According to a public survey in June 2016, the level of public trust in the IEBC and the judiciary, two of the most crucial institutions in electoral management, remained very low, at 34% and 38%, respectively. In 2016, the judiciary faced credibility challenges, and public confidence dramatically dwindled due to allegations of involvement in impropriety by some of its members. Legislative reforms undertaken in 2016 led to a complete overhaul of IEBC, with all of the commissioners replaced in readiness for the August elections. Reforms in the judiciary led to replacement of three out of seven Supreme Court judges and changes in legislation.

In 2016, amendments to Kenya's Election Act 2011 led to revision of timeliness for procurement of materials, management of voting and transmission of election results. The constitution stipulates that the voting system must be simple, accurate, verifiable, secure, accountable and transparent. The law now provides for exclusive use of biometric voter registration and Electronic Voter Identification Devices in the 2017 elections.



Social context and human development

Building human resources

The government continues to prioritise human resources development through reforms in the social sector. In the education sector, recent efforts focus on tackling the problem of skills mismatch by producing graduates who are well prepared to be absorbed into the job market. To achieve this, there is now a plan to overhaul the existing curriculum. The new system is expected to encourage students to specialise in areas they are good at, early on in their education, and then to take career paths that are related to those areas at the higher education level. Current efforts to improve the quality of education include: ongoing electrification of all primary and secondary schools (almost 95% complete); planned provision of computers to pupils entering the first grade in the 22 000 primary schools; and construction of learning facilities for early childhood learners. Already 70 000 teachers have been trained in ICT, and the Kenya Institute of Curriculum Development has developed content for Standard One and Two that has been installed in the tablets.

Presently, about 1.6 million Kenyans are said to be living with HIV and AIDS, 16% of whom are young people. The national prevalence rate is now 5.9%, after a peak of 10.5% in 1995-96. This progress is mainly attributed to the rapid scaling up of HIV treatment and care throughout the country. In February 2015, the government issued a directive to collect up-to-date information on all school children living with HIV/AIDS. This directive was later challenged in the High Court on grounds of a violation of Article 31 of the constitution and Sections 18, 21, 22 and 23 of the HIV Prevention and Control Act by two individuals and two non-governmental organisations – the Kenya Legal and Ethical Issues Network on HIV/AIDS and the Children of God Relief Institute. On 7 December 2016, the High Court delivered a landmark ruling against the directive and in favour of the right of the children to privacy regarding their HIV status.

In September 2016, the government launched the process of domestication of the Sustainable Development Goals, noting that they are largely embedded in the Vision 2030, but also emphasising their integration in the revised MTP II (2013-17) and in MTP III (2018-22), whose preparation begins in 2017.

Poverty reduction, social protection and labour

About two-thirds of Kenya's population are of working age and 12.7% of them remain unemployed. About 80% of Kenya's unemployed are aged 15-34. The unemployment rate of persons aged 15-24 is 25%, or nearly double the overall unemployment rate. An important reason for the high unemployment figures is a lack of relevant skills, especially in sectors with high potential for value addition. To address the unemployment and skills gap at middle level, the government currently operates 44 Public Technical and Vocational Education and Training (TVET) institutions. The number of TVETs is set to rise sharply, to 253 by 2018, given the ongoing construction and establishment of new Technical Training Institutes at constituency level funded by the government and the African Development Bank. Internship placements, entrepreneurship training and youth mentoring programmes have also been rolled out by the government and the private sector to address the experience gap amongst youth.

The Human Development Index has risen to 0.548 in 2014 from 0.473 in 1990, placing Kenya at the threshold of classification as a country with medium human development. However, poverty and inequality remain major development challenges, which are compounded by a demographic youth bulge that poses significant development challenges for the labour market. Kenya has a Gini Coefficient of 47.7, a relatively high inequality level in East Africa, and a national poverty line of 45.9%, with 43.4% of the population living on less than USD 1.25 a day (in purchasing power parity terms). The Multidimensional Poverty Index stands at 0.226, with 15.7% of the population in severe multidimensional poverty.



The government's 2016/17 national budget made allocations for various social protection programmes. These include the Government Constituency Development Fund, KES 34.5 billion; Orphans and Vulnerable Children, KES 7.9 billion; Elderly Persons, KES 7.3 billion; Equalisation Fund, KES 6 billion; Affirmative Action for Social Development, KES 2.1 billion; Persons With Disabilities (PWDs), KES 1.5 billion; Rehabilitation of Street Families, KES 0.4 billion; Children Welfare Society, KES 0.4 billion; and the Presidential Secondary School Bursary Scheme, KES 0.4 billion. The target beneficiaries of these programmes are youth, women, PWD, the elderly, children and other vulnerable groups. The primary objectives are combating poverty, promoting equity and enhancing social protection and the social safety net. While these initiatives are critical, it is equally important that the government put in place an effective financial management system under the framework of the Public Financial Management Act 2015 to ensure that the transfers are managed appropriately and actually get to the intended beneficiaries to achieve the programme objectives.

Gender equality

The aim of achieving gender equality and gender parity is duly recognised in the 2010 constitution. Specifically, Article 27 states that no more than two-thirds of the members of an elective or appointive body shall be of the same gender. Several attempts have been made in parliament to implement this constitutional provision, but they have been vehemently defeated by vote. For instance, on 28 April, 5 May and 27 December 2016, the National Assembly rejected the Constitution Amendment Bill (No. 4) of 2015, which sought to ensure that the membership of the National Assembly and the Senate would be comprised of no more than two-thirds of either gender. On 20 December 2016, the High Court ruled that the present cabinet of President Kenyatta had violated the two-thirds gender principle and that the National Assembly had violated the constitution in approving the cabinet nominees.

The Public Procurement Act of 2015 reserves 30% of public procurement opportunities for women, youth and PWD. As at September 2016, the category had attracted USD 436 million in public procurements distributed among women (54%), youth (44%) and PWD (2%).

Thematic analysis: Entrepreneurship and industrialisation in Kenya

Kenya has sophisticated entrepreneurship by regional standards but could increase its global footprint through increased investments in information technology. The country aims to have a robust, diversified and competitive manufacturing sector to help its transformation into a new industrialised middle-income economy by 2030. The overall goal for the industrial sector in Kenya's Vision 2030 is to increase its contribution to GDP by at least 10% per annum and propel the country towards becoming Africa's industrial hub. The sector has high potential for employment creation, provides stimulus for growth in agriculture and offers significant opportunities for export expansion.

Kenya's manufacturing sector comprises micro, small, medium and large industries classified mainly by employment levels and capital investment. The medium and large industries constitute less than 5% of the total number of enterprises but they contribute more than 60% to the manufacturing sector's share of GDP. In contrast, the micro and small enterprises comprise about 95% of total industries but contribute only about 20% of the manufacturing sector's output. The sub-sectors that continue to record high growth include textile and clothing; petroleum and other chemicals; non-metallic minerals; beverages and tobacco; and metal products. In the export sub-sector, locally manufactured goods comprise 25% of Kenya's exports. A National Industrial Policy was prepared in line with Vision 2030 to guide the development of the manufacturing sector; this takes over from the Sessional Paper No. 2 of 1997 on Industrial Transformation to the Year 2020. Similarly, a Master Plan for Kenya's Industrial Development has been developed and will provide the roadmap for development of the industrial sector. The priority sectors identified



in the roadmap include agro-machinery, electrical and electronics/ICT. In addition, the Sessional Paper No. 2 of 2005 on Development of Small and Medium Enterprises (SMEs) was prepared to provide a framework to stimulate the growth of SMEs and contribute towards employment creation and poverty reduction.

The iHub, an African innovation playing a critical role in shaping future technology globally, was established in Kenya (March 2010) and has spurred a revolution in the tech ecosystem across the African continent over the last six years. It provides open community space, part vector for investors and part incubator. This vibrant collaborative environment, in which innovators and start-ups may think through their ideas and develop solutions, lowers the barriers to entry for many young would-be entrepreneurs. The community includes individual developers, designers, creative people, researchers, scientists, engineers and technologists, as well non-tech people looking to launch start-ups.

Kenya's Vision 2030 identified business process outsourcing (BPO) and the IT-enabled services (ITES) sector priority areas capable of creating at least 20 000 jobs per year and of contributing more than 10% to GDP. The MTP II target for the sector is to transform Kenya into the BPO/ITES hub for East Africa and beyond. More than 2 000 Kenyan youths were trained in BPO and a total of 50 digital villages were established, against a target of 210. A total of 30 rural information centres (RICs) were also established, against a target of 24, while 14 000 additional jobs were created, nearly double the target of 7 500.

The National Broadband Strategy (NBS) for Kenya, launched in 2013, is a long-term initiative that is expected to contribute to the country's goal of becoming a true knowledge-based economy by the year 2030. This means, among other things, the availability of 5 Mbps always-on connectivity to all citizens by 2017. Kenya is the second African country to launch a national broadband strategy, after South Africa. Implementing the NBS, at an estimated KES 258 billion (USD 3 billion), is by no means cheap. The existence of the NBS is a clear sign that the government understands the importance of leveraging ICT for development.

Nonetheless, the sector is facing various challenges. Most industries are still engaged in the production of low value-added and a restricted range of products due to limited technological capability and information on international trade opportunities. These factors have contributed to limit the scope for product diversification and expansion of the exports base. The cost of production is high due to inadequate and costly supply of energy, which is more expensive than in the main competitor countries. Investors are compelled to provide alternative sources of power supply or to relocate to areas where power is already available, incurring additional transportation costs. The culture of embracing technology, innovation, research and development in the sector is low and hinders its growth. In addition, there is lack of institutionalisation of incentives for the promotion and efficient use of existing knowledge, the creation of new knowledge and the flourishing of entrepreneurship activities, which would increase the capacity and competitiveness of local enterprises. Low capacity for intellectual property rights is another disincentive to innovation. The entry into the local market of sub-standard counterfeit and contraband products has seriously affected the manufacturing sector.

However, Kenya has a strong telecommunications infrastructure and solid aviation connections, both within Africa and to Europe and Asia. Its port at Mombasa is the major trade gateway for much of East Africa. The ongoing expansion and modernisation of aviation facilities, and especially the expansion of Jomo Kenyatta International Airport and the improvement of the airports at Lamu, Isiolo and Lokichogio, will result in increased passenger and cargo traffic. Development of the ports of Mombasa and Lamu and the Standard Gauge Railway from Mombasa to Nairobi will significantly increase the capacity of the transport corridor to handle cargo through the Port of Mombasa. Implementation of the LAPSSET project, particularly in the area of the Port of Lamu and associated facilities, and the road network along the route to Ethiopia are also important ongoing projects.



Several initiatives have been fast-tracked to support the timely implementation of these programmes and projects. In transport, an Autonomous National Aircraft Accident Investigation Agency has been established. Under review are the Kenya Ports Authority Act, the Kenya Railway Corporation Act and the Sessional Paper No. 2 on Integrated National Transport policy. Ongoing are the finalisation and enactment of the Roads Sub-sector Policy, the Kenya Roads Bill 2013 and the establishment of the Nairobi Metropolitan Transport Authority, as well as the establishment of a LAPSET Corridor Implementation Fund and the development of an Integrated Maritime Policy. An Integrated Transport Study is underway, while a Lake Victoria Maritime Transport study is planned for 2017.

Note

1. Funds raised and used directly by government agencies or payments made on behalf of the government, without going through the exchequer.

