Sustaining Kenya's Economic Development by Deepening and Expanding Economic Integration in the Region

KENYA ECONOMIC REPORT 2017

To create a globally competitive and prosperous nation with a high quality of life by 2030

The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

Kenya Economic Report 2017

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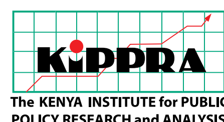

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ISBN 9966 058 58 4

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Transforming Kenya through Economic Integration

The theme for the Kenya Economic Report 2017 is "*Sustaining Kenya's Economic Development by Deepening and Expanding Economic Integration in the Region*." The theme enables us to reflect on the gains, opportunities, and challenges of Kenya's active participation in various regional integration initiatives, especially the East Africa Community.

The desire for economic integration in Africa follows the ambition and political vision of African leaders as stipulated in the Lagos Plan of Action and the Abuja Treaty. The leaders emphasized Africa's solidarity, self-reliance, and continental industrialization. As a result, the East Africa Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA), of which Kenya is a founding member, were formed. Kenya is also a signatory to other multilateral, regional, and bilateral trade agreements including the African Growth and Opportunity Act (AGOA) with the United States. These provide the country with a strategic position to exploit available opportunities that have great potential in complementing national development efforts.

Expanding trade underpins the long term development agenda as spelt out in Kenya's Vision 2030. In this regard, the National Trade Policy of 2016 recognizes the importance of trade in poverty reduction and sustainable economic development by providing an opportunity for expanding domestic, regional and global markets.

Kenya has for the last two years experienced steady economic growth largely driven by agriculture, financial services and most recently the rebound in tourism activities. Agricultural products are the most traded commodities in the EAC and COMESA regions. However, domestic value addition is still low particularly in agro-processing for which there is huge potential for employment generation. Increased regional market access by Kenya is partly hampered by persistent and unresolved non-tariff barriers (NTBs) which exacerbate the challenges that impede Kenya from optimally gaining from regional integration, especially in the manufacturing sector.

Notwithstanding the impressive economic growth, net exports need to contribute positively in boosting domestic demand. Thus, in seeking for alternatives to improve the performance of the external sector, this Kenya Economic Report 2017 focuses on the importance of deepening regional economic integration as a channel to diversify and boost exports.

This report comes at a time when Kenya is set to review the Medium Term Plan II of Vision 2030 and commence the preparations of the Medium Term Plan III. It is important therefore that policy makers, the private sector, and development partners take cognizance of the urgency in not only promoting economic diversification and value added production but also leveraging on economic integration to support productivity-induced, employment-generating and poverty-reducing growth.

A key message of this report is that accelerating growth in private investments and enhancing export diversification will place the economy on a stable and sustainable growth path. However, as we deliberate on how Kenya's economic growth can benefit from deeper regional integration, constraints and changing regional and global dynamics cannot be ignored.

The report therefore proposes key recommendations to mitigate the challenges that hinder the full exploitation of the opportunities provided by deepening regional integration. Among them is facilitating implementation of and diversification agenda, taking an integrated regional approach to infrastructure development, enhancing industrial development through trade, improving labour productivity and expanding labour opportunities through regional integration, and strengthening institutions that perpetuate regional integration.

Hon. Mwangi Kiunjuri (EGH, MGH)
Cabinet Secretary
Ministry of Devolution and Planning

Harnessing Opportunities in Regional Integration

In pursuit of Part V, Section 23(3) of the KIPPRA Act 2006, the Kenya Institute for Public Policy Research and Analysis (KIPPRA) prepares an annual report on Kenya's economic performance and prospects for the medium term. The Kenya Economic Report 2017 is the 9th edition of the series of these annual reports.

This report focuses on regional integration, capturing the gains, challenges and potential opportunities that Kenya can exploit in implementing her economic development agenda. This is important in that Kenya needs to exploit available opportunities in expanding its markets.

African leaders have been championing regional economic integration as a framework to facilitate implementation of economic transformation and diversification agenda. Under the African Union, a lot of effort has been put on advancement of a Continental Free Trade Area that would bring together all the existing regional blocs.

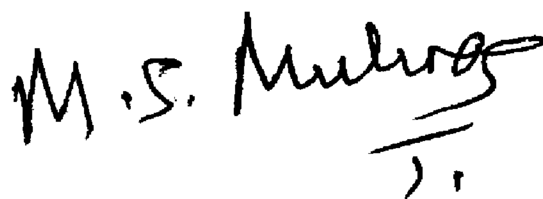
The compelling argument is that deepening regional integration facilitates the expansion of the existing narrow domestic markets. For example, the East African Community provides an additional market of over 100 million people for Kenya, and this potential has not been fully exploited.

Moreover, regional integration facilitates implementation of regional infrastructural projects and harmonization of legal and regulatory frameworks that reduce the cost of doing business, thus enhancing competitiveness.

On behalf of the Board of Directors of KIPPRA, I wish to congratulate the staff of KIPPRA for producing this report. I also commend all stakeholders who made valuable inputs towards the report during the conceptualization of the theme, the drafting and quality control processes, and also during the stakeholders' validation workshop.

Finally, I would like to thank the Government of Kenya, the African Capacity Building Foundation (ACBF), and the Think Tank Initiative of IDRC for continuing to provide much needed financial resources that enable the Institute to execute its mandate.

It is our expectation that the proposed policy recommendations will serve to deepen and expand economic integration in the East African Community and beyond.



Prof. M. S. Mukras
Chairperson
KIPPRA Board of Directors

Prioritizing Regional Integration Efforts for Maximum Benefits

The preparation of the Kenya Economic Report is a statutory obligation under the KIPPRA Act 2006. The report analyzes economic performance in the key sectors of the economy and provides medium term prospects for a three year period. Through this report, KIPPRA engages in policy dialogue in seeking policy options to address key development challenges.

The theme of Kenya Economic Report 2017 is "*Sustaining Kenya's Economic Development by Deepening and Expanding Economic Integration in the Region*." The conceptualization of this theme was guided by the fact that growth in trade is crucial in the development process. Whereas the government has put in place various important initiatives to support growth in trade, the size of Kenya's trade remains relatively small from a global perspective.

The Government of Kenya has embraced regional integration as an integral part of its development strategy and has so far concluded several bilateral and regional trade agreements. Economic integration has the potential to expand local and foreign markets for goods and services as well as increase the scale of production, efficiency and competitiveness. If well harnessed, regional integration can complement domestic efforts to enhance food security; open up opportunities for job creation; address infrastructure gaps; advance industrialization; strengthen regional institutional structures; and help maintain peace and stability. So far, Kenya has realized significant benefits from integration in various areas of cooperation, but greater efforts are required to consolidate the gains, while at the same time strategizing on ways to maximize the existing opportunities from EAC market and beyond.

In 2016, Kenya's economy expanded by 5.8 per cent supported by prudent fiscal and monetary policies. Construction, real estate and the rebound of tourism continued to strongly support this growth process. However, the 10 per cent growth rate target in Vision 2030 is yet to be achieved.

The analysis in this report projects that to maintain a strong future growth trajectory, a boost in private investment and enhanced external sector performance are necessary. The report discusses in greater detail the prospects of enhancing Kenya's economic growth and development by exploiting the opportunities in regional integration. A key observation is that there is unexploited potential that can play a significant role in complementing the national development agenda.

While it is not possible to discuss the full extent of such potential in such an annual report, this report tries to bring out the existing potential in key areas through which regional integration impacts on economic growth. Deliberately, this report thus covers trade in goods and services (tourism), agriculture and food security, industry, infrastructure, labour and governance. In addition, the report points out some important and emerging global issues that will, in one or several ways, impact on the regional integration blocs, including the East Africa Community.

Dr Rose W. Ngugi
Executive Director
KIPPRA

Acknowledgements

The development and subsequent publication of the Kenya Economic Report (KER) 2017 has been made possible through the participation of many individuals and key institutions.

We acknowledge the KIPPRA Board of Directors, and the Executive Director Dr Rose Ngugi, for providing the overall leadership in preparation of the report.

The KER 2017 Technical Committee comprised Benson Kiriga (Chair), John Nyangena (Secretary), Dr Christopher Onyango, Moses Njenga, Victor Mose, Phares Kirii and Dr Douglas Kivoi. The team was later joined by Nahashon Mwongera. Special thanks go to KIPPRA researchers from all the Divisions for their contributions to various chapters of the report in terms of collecting, collating and synthesizing information that formed the bulk of the foundational material used in the report. The Human Resources, Finance, Procurement and Knowledge Management Divisions tirelessly provided valuable support to ensure timely completion of the report.

KIPPRA would also like to appreciation the State Departments and other government agencies that generously availed data that was used in the report.

We are particularly grateful for expert advice whose quality assurance was critical in making the report technically sound. The initial report was reviewed by Dr Mbui Wagacha (Senior Economic Advisor, Office of the President), B.A. Korir (formerly Central Bank of Kenya), Dr Othieno Nyanjom (Consultant), Simon Kiarie (Ministry of Tourism), Jamshed Ali (Ministry of Planning), Joseah Rotich, and Authur Ndegwa (Taita Taveta University). It was subsequently reviewed by Dr Moses Kiptui (Kenya School of Monetary Studies), Onesmus Masinde-Mmwangale (Kenya National Chamber of Commerce and Industry), Dr Anthony Wambugu (University of Nairobi), Dr Otiato Wafula (Kenyatta University) and Dr James Njeru (Communications Authority of Kenya). The contributions received from stakeholders during the validation workshop helped shape the report to global standards.

We thank the editorial and production team of Felix Murithi and Kenneth Kiptanui (Editorial) and John Ngugi (Designer) for putting the report in a readable form.

The Board of the Kenya Yearbook provided most of the photographs used in this report, for which we are greatly indebted.

Finally, the preparation of this report was made possible through financial support to KIPPRA by the Government of Kenya and the African Capacity Building Foundation (ACBF). We are indeed very grateful for this financial support.

Abbreviations and Acronyms

ACCA	Association of Chartered Certified Accountants
ACP	African Caribbean and Pacific
AGOA	African Growth and Opportunity Act
AGRA	Alliance for a Green Revolution in Africa
AMISOM	African Union Mission to Somalia
ATPU	Anti-Terror Police Unit
AU	African Union
CAADP	Comprehensive Africa Agriculture Development Programme
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CET	Common External Tariff
CMP	Common Market Protocol
COMESA	Common Market for Eastern and Southern Africa
CPA	Comprehensive Peace Agreement
EAC	East Africa Community
EACJ	East African Court of Justice
EALA	East Africa Legislative Assembly
EAQFHE	East African Qualifications Framework for Higher Education
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EEZ	Exclusive Economic Zone
EPA	Economic Partnership Agreement
EPZ	Export Processing Zone
ERB	Engineers Registration Board
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GoK	Government of Kenya
ICC	International Criminal Court
ICPAK	Institute of Certified Public Accountants of Kenya
IGAD	Inter-Governmental Authority on Development
ISIS	Islamic State in Syria
JRC	Joint Railway Commission
KATC	Kenya Accounting Technicians Certificate
KENTRADE	Kenya Trade Network Agency
KER	Kenya Economic Report
KITP	Kenya Industrial Transformation Programme
KTMM	KIPPRA-Treasury Macro Model
M.I.C.E.	Meetings, Incentive travel, Conventions and Exhibitions
MFN	Most-Favoured Nation
MGR	Metre Gauge Railway
MRA	Mutual Recognition Agreements
MRP	Money Remittance Providers
MSEs	Micro and Small Enterprises
MTP	Medium Term Plan
NBAA	National Board of Accountants and Auditors
NCIP	Northern Corridor Infrastructure Project
NCM	Non-Conforming Measures
NTBs	Non-Tariff Barriers
OSBP	One-Stop Border Points

PFM	Public Finance Management
PPP	Public Private Partnership
RCEP	Regional Comprehensive Economic Partnership
RECSA	Regional Centre on Small Arms
SADC	Southern African Development Community
SCT	Single Customs Territory
SEZ	Special Economic Zone
SGR	Standard Gauge Railway
SSA	Sub-Saharan Africa
STR	Simplified Trade Regime
TICAD	Tokyo International Conference on African Development
TPP	Trans-Pacific Partnership
TTIP	Trans-Atlantic Trade and Investment Partnership
UIPE	Uganda Institute of Professional Engineers
ULS	Uganda Law Society
UNCTAD	United Nations Conference on Trade and Development
UNMISS	United Nations Mission in South Sudan
UNWTO	United Nations World Tourism Organizations
VAT	Value Added Tax
WTTC	World Tourism and Travel Council

Executive Summary

Macroeconomic Performance

Kenya's economy has remained resilient over time. There was notable improvement in economic growth, which increased from 5.4 per cent in 2014 to 5.6 per cent in 2015 and 5.8 per cent in 2016 which was accompanied by stable macroeconomic environment. In addition, the growth performance was driven by high growth in economic sectors, including tourism (13.3%), mining and quarrying (9.5%), construction (9.2%), electricity supply (9.1%), real estate (8.8%) and transport and storage (8.4%).

To secure and sustain a strong inclusive growth, fundamental areas require further attention. For example, the persistent savings-investment gap requires deliberate efforts to boost mobilization of domestic resources. With wage employment generally dominated by informal sector employment, ensuring quality jobs are created is crucial in reaping the youth dividend. Safeguarding fiscal sustainability while also promoting public investment to address infrastructure gaps will secure a growth-enhancing fiscal policy. In addition, access to appropriate and affordable credit by the private sector will contribute significantly in boosting private investments and trade.

With net exports continuing to drag growth of aggregate demand, regional economic integration is important in boosting exports. By promoting economic diversification and value added production, economic integration would support productivity-induced, employment-generating and poverty-reducing growth as envisaged in Vision 2030. Specifically, economic integration initiatives provide the opportunity for Kenya to expand private investments in support of value addition, and diversification of exports and place the economy on a stable and sustainable growth path.

Medium Term Growth Prospects

The medium term growth prospects point to the need to accelerate private investment and exports growth. Assuming the Vision 2030 growth trajectory, a projected 9.5 per cent economic growth in the year 2020 requires accelerated

growth of 9.6 per cent in private investment that translates to investment/GDP ratio of 30 per cent and 9.4 per cent growth in exports. Allowing for exogenous shocks, including persistent drought, possible negative impacts of the August 2017 general elections, and volatility of global commodity prices, a more conservative economic growth of 6.1 per cent is projected, with private investments and exports expected to grow at 6.0 per cent and 6.4 per cent, respectively.

Facilitating Domestic Trade

Kenya's retail and wholesale trade is dominated by Micro, Small and Medium Enterprises (MSMEs) that are heavily reliant on self-supporting and informal institutional arrangements. The government has initiated reforms aimed at enhancing information sharing, reducing operational costs and improving product competitiveness. The establishment of Huduma Centres and the National Electronic Single Window System have enhanced efficiency in registration and simplified e-commerce transactions. The MSMEs, though, face various challenges including inadequate business premises; and lack of basic facilities to handle perishable agricultural products for wholesale traders. The former has resulted to mushrooming of illegal structures, hawking in non-designated locations and frequent confrontations with law enforcement agencies in most urban areas while the latter results to losses in value of perishable products. The sector also faces the challenge of inconsistent and unpredictable tax environment and multiple charges at the national and county government levels. Meanwhile, MSMEs play a critical role in cross-border trading through activities of Informal Cross Border Traders, and a simplified trade regime being implemented under the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA) programme aimed at enhancing facilitation.

Regional Integration and Trade

Regional integration in Africa aims to help countries overcome constraints arising from small domestic markets, enabling them reap the benefits of economies of scale, strengthening competition and increasing domestic and foreign investments. Such benefits raise productivity and diversify production, thereby promoting trade.

Kenya has a persistent balance of trade deficit, given that the value of total imports is about three times that of total exports. The bulk of exports are raw materials and primary products, while the imports are high value capital and finished products. Over 70 per cent of total exports are destined to only 15 countries globally. Kenya's trade with other African trading blocs outside EAC and COMESA stood at 12.6 per cent in 2016. This small share of exports exemplifies the potential for expanding Kenya's export market in African markets.

The EAC is the leading export destination for Kenya and accounted for 21 per cent of total exports in 2016. This was mainly attributed to liberalization of trade under the Customs Union and Common Market regimes. Uganda has been the leading destination for Kenyan exports followed by Tanzania, Rwanda and Burundi. Kenya's trade surplus in EAC has been gradually declining since 2011 due to strengthening of the manufacturing sector in partner states, and increased competition from imports from India and China into the region. Kenya has also maintained a positive trade balance in COMESA, with the Democratic Republic of Congo, South Sudan and Egypt being the leading export markets. The export products to regional markets have mostly been processed and semi-processed products. However, there is huge potential to enhance value addition and the backward and forward linkages of various industrial sectors within the regional trading blocs.

Despite the opportunities arising from the preferences provided under the various regional integration initiatives, Kenya is yet to fully exploit the regional market opportunities. Domestic value addition is still low, even in agro-processing for which there is huge potential for diversification. Increased regional market access by Kenya is partly hampered by persistent non-tariff barriers (NTBs) within EAC and COMESA. Eliminating such barriers and sensitizing on the EAC rules of origin to enhance cross-border trade is therefore a priority.

Promoting Tourism

The tourism sector is the second largest contributor in foreign exchange earnings in Kenya. It contributes about 10 per cent to GDP and 9 per cent of total formal wage employment. The sector's performance is below the Medium Term Plan (MTP) II annual targets but on a recovery path. The slow growth of the sector is mainly due to terrorism-related insecurity that has seen travel advisories issued by major tourist source markets in North America and Europe. Furthermore, the sector has been susceptible to market price fluctuations, increasing competition in the region, political instability, and the recent global recession. The upgrading of Jomo Kenyatta International Airport (JKIA) to a Category 1 airport is expected to boost tourism and trade in general.

The EAC seeks to market the region as a single tourism destination. So far, Kenya, Rwanda and Uganda have adopted the EAC common visa to avoid multiple applications and issuance of visas to visitors, thus reducing the cost and increasing the competitiveness of the sector. The three countries have also launched a portal to jointly market their tourism products online. The proposed Open Sky policy is expected to boost tourism in the region. Enhancing investment in the sector is critical to increase accommodation facilities and Meetings, Incentives travel, Conventions and Exhibitions (M.I.C.E.) infrastructure. Further, diversification of tourism products and joint efforts in tourism promotion are needed to sustain development of the sector in Kenya.

Attaining Food Security through Regional Trade

Agriculture is the mainstay of Kenya's economy and those of other African economies. Kenya is food insecure due to low agriculture productivity, low value addition, and high post-harvest losses. Low productivity is attributed to poor farming systems, over-reliance on rainfall, and high costs of inputs (seeds, fertilizer, pesticides). Although several parts of East Africa are food insecure, the region has the potential to produce enough agricultural goods and achieve regional food security through cross-border trade. Kenya is a net importer of all her staples and, therefore, continues to benefit from the EAC and COMESA trade preferences to access cheaper food items in the region to bridge her food deficit.

The agricultural sector enjoys tariff protection within the EAC and COMESA integration frameworks. Most agricultural products are designated as sensitive, and hence agricultural imports attract tariffs beyond 25 per cent. Besides, a simplified trade regime has been adopted to facilitate cross-border agricultural trade by small scale traders, who are largely engaged in informal trade.

The major issues hindering cross-border agricultural trade include low value addition, poor infrastructure connectivity, and weak marketing systems. Other issues include non-tariff barriers, including customs clearance at border points, lack of awareness about the existence of a simplified certificate of origin by majority of traders, and lack of harmonized standards of agricultural products. The potential for food security can be exploited by diversifying food products, easing cross-border trading, closing productivity gaps in agriculture,

minimizing post-harvest losses, and investing in value addition.

Industrialization and Integration

The agro-processing, textiles, leather and construction materials have been earmarked as priority sectors in Kenya's industrial transformation programme. These sub-sectors are generally labour-intensive and have potential for value addition to spur growth. However, the manufacturing sector is largely dominated by Micro and Small Enterprises (MSEs) that are characterized by low quality jobs, coupled with under-employment, that increase vulnerability to poverty. Competitiveness is further hampered by relatively high cost of production, including high electricity tariffs compared to regional markets, and power outages.

There have been mixed results in industrial investments in Kenya in the recent past, with new companies entering the Kenyan market and others relocating to other regional markets. This is mainly due to the competitive environment created domestically and complemented by regional integration initiatives to make EAC a common investment area; as well as investment promotion, and liberalization.

The EAC market is an important destination for Kenya's manufactured exports. The region's manufacturing sector, however, exhibits a similar structure characterized with high share of low technology sub-sectors (food, beverage, textiles, etc). Increased competition from cheap imports into the local and EAC markets, especially from China and India, and the strengthening of the manufacturing sector in the EAC countries pose a major threat to growth of Kenya's manufacturing sector. In addition, there are challenges of increased incidences of illicit trade, including counterfeits and dumping. Kenya needs to diversify to medium and high technology products to secure and expand its market share.

Infrastructure Development and Regional Economic Integration

Significant efforts have been made in development of Kenya's infrastructure–transport, energy and information technology–with a view to enhancing efficiency in production, trade and investments. There is need, however, to design a package for infrastructure services to becoming a regional hub.

Kenya hosts the Northern Corridor Infrastructure Project (NCIP), which constitutes a multimodal transport corridor consisting of surface transport modes that include the Port of Mombasa, road, rail, inland waterways and oil pipeline networks. A modernization programme has improved productivity and efficiency of the Port of Mombasa. For instance, the port recorded a steady annual average growth of 5.7 per cent over the past five years from 21.92 million DWT in 2012 to 27.36 million DWT in 2016. Container traffic increased from 903,463 TEU to 1,091,371 over the same period, while dwell time reduced from 10 to 4 days.

Kenya, Uganda, Rwanda and South Sudan signed and ratified the Standard Gauge Railway (SGR) protocol to develop the railway connecting Mombasa to Kampala, Kigali and Juba. The protocol is designed to ensure uniform specifications for construction and subsequent seamless operation of the system. The Kenyan component of the SGR project between Mombasa and Nairobi is already complete, and is expected to reduce travel time between the two cities from 15 to 4 hours. Preparations for the operation phase have been put in place, with commencement of services scheduled for June 2017.

Several one-stop border points (OSBP) have been established and are expected to reduce delays and clearance bottlenecks across borders. The three OSBPs in Kenya are: Taveta (Kenya)–Holili (Tanzania); Busia (Kenya–Uganda) and Namanga (Kenya–Tanzania). The Taveta (Kenya)–Holili

(Tanzania) is already operational and has reduced time taken to clear trucks by 30 per cent, and distance between Mombasa and Bujumbura by 400 km through a new and shorter route. The other two border points are at advanced stages of completion.

Significant progress has also been made in expanding power generation and increasing access. Despite the significant reduction in tariffs, they remain relatively high at regional level and this could undermine the country's industrial competitiveness. Achieving an appropriate energy mix will support future reduction in tariffs. The EAC Energy Master-Plan proposes actions to improve supply, reduce energy costs, and therefore lower production costs while ensuring greater efficiency.

Kenya is well positioned to become the hub of technology services in the region, given its deep telecom penetration, strong private sector, skilled workforce and critical mass of technology companies. ICT-intensive services sectors such as telecommunications, finance, transport, tourism and business services have prospered over the past decade. Overall, the growth and expansion in modern services has lowered transaction costs and created spillovers of knowledge to other sectors, while stimulating demand for traditional services such as trade and distribution. However, with growing competition from the region, Kenya needs to establish her market niche to be an ICT hub.

Labour Market and Economic Integration

Notwithstanding the huge youth population and relatively high levels of unemployment, the EAC region has shortages of professionals and mismatch of skills. As a result, many professionals are left without jobs. Kenya, however, has a relatively developed market for professional services including accounting compared to the other EAC partner states, which exemplifies the potential to export professional skills to the region.

The EAC has adopted measures to facilitate free movement of persons through the use of EAC passports, national identity cards, and establishment of EAC citizens' desk at points of entry. However, movement of workers and service providers face restrictions such as work permits and the 6 months maximum length of stay requirement as contained in national migration laws and regulations. In addition, the Common Market Protocol does not make a distinction between entry, stay, and exit of service suppliers and workers in another EAC partner state, which somehow restricts the movement of service suppliers. EAC partner states have in principle agreed that free movement of service suppliers should be seen as separate from that of workers in the EAC Common Market Protocol.

Kenya has signed Mutual Recognition Agreements with Rwanda, Tanzania and Uganda in engineering; architecture; and accounting, auditing, and book-keeping services. But, none of the partner states have aligned their laws to the provisions of the MRAs so far. In addition, the certification and accreditation of professionals needs to be harmonized. Further, establishing a joint labour portal to enhance information sharing would facilitate labour mobility in the region.

Governance, Peace and Security

Peace and security are pertinent to safeguarding the gains made in economic integration and stable environment for investment. Kenya has been at the fore-front in promoting peace and stability in the region, with a view to increasing economic development prospects. These initiatives include participation in peace and security missions in Somalia and Democratic Republic of Congo; the Sudanese Comprehensive Peace Agreement (CPA); the Great Lakes region; and the Inter-

Regional integration through the East African Community

Governmental Authority on Development (IGAD) initiatives. That said, the region continues to face various challenges such as border disputes, influx of refugees, and increased terrorism that could constrain deepening of the regional integration process.

The EAC provides mechanisms for promoting good governance, democracy and political stability. This has worked well to enhance mutual trust, political good-will, peaceful coexistence and good neighbourliness. It provides a platform for coordination of defence, peace and security matters. These include sharing criminal intelligence, surveillance to combat cross-border crime, and holding of joint patrols. However, the existing institutions, including the EAC Secretariat, the East Africa Court of Justice, and the East African Legislative Assembly need to be empowered to deal with non-conformity to the EAC Treaty provisions by partner states.

Dynamics of other Partnerships and Emerging Global Issues

The delay in signing of EAC-EU Economic Partnership Agreement (EPA) by Uganda and Tanzania are likely to impact negatively on Kenya's exports to the European Union, if not resolved. The future relationships with Britain (after Brexit) and the implications of ratifications of the Trans-pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) are likely to modify the global trade landscape and pose a fundamental challenge to the multilateral trading system. Kenya needs to remain vigilant on global developments to enable her take timely and appropriate policy measures.

Chapter 1

Introduction

The Kenya Institute for Public Policy Research Analysis (KIPPRA) is mandated through the KIPPRA Act 2006 to produce an annual report on Kenya's economic performance and prospects for a three year period. This is the ninth report in the series of annual reports done by the Institute towards the fulfilment of the statutory requirement.

The theme of the 2017 Kenya Economic Report (KER) is **"Sustaining Kenya's economic development through deepening and expanding economic integration in the region"**. Regional integration is an essential strategy of economic development for Africa in building economies of scale and enhancing competitiveness necessary for structural transformation. It is essential for realization of development goals among participating partner states, and an important ingredient in stimulating economic growth and development. In addition, it is considered a rational response to the difficulties faced by fragmented small national markets and landlocked countries.

A compelling argument for regional integration in Africa is the creation of an economic base that is more resilient to exogenous shocks, and building a more skilled regional labour force that adds value to goods and services while raising social welfare. Regional partnerships facilitate regional planning, making it easier for people to cross borders, creating larger, more attractive regional markets and boosting intra-African trade. They also promote investments in regional infrastructure including transport links, energy and telecommunications networks to support desired structural transformation. By boosting intra-regional trade and investments, regional economic integration initiatives reduce the full impact of adverse effects of exogenous economic shocks on participating members. Moreover, regional integration initiatives also seek to build trust and improve regional peace and security.

The history of economic integration in Africa follows the ambition and political vision of African leaders to integrate Africa, and to develop the continent through a framework of continental industrialization during the immediate post-colonial period. This desire provided the rationale for the Lagos Plan of Action (LPA), an initiative of the Organization of African Unity (OAU), adopted by Heads of State in April 1980, and keenly supported by the United Nations Economic Commission for Africa (ECA). A decade later in 1991, the Abuja Treaty provided strong support for the African integration agenda. This Treaty emphasized African solidarity, self-reliance and an endogenous development strategy, through industrialization. The proposed framework for African integration and continental industrialization was the division of the continent

into regional integration areas that would constitute a united African economy, the African Economic Community.

The Kenya National Trade Policy recognizes the importance of trade in poverty eradication and sustainable economic development by providing opportunity for expanded markets targeting domestic, regional and global markets. In pursuit of this, Kenya is signatory to multilateral regional and bilateral trade agreements, including the World Trade Organization (WTO), the African Caribbean and Pacific (ACP) states, the EU-EAC Economic Partnership Agreement (EPA), the African Union (AU), the East Africa Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), the Inter-Governmental Authority on Development (IGAD) and the EAC-COMESA-SADC Tripartite Free Trade Agreement. Kenya is also a beneficiary of the African Growth and Opportunity Act (AGOA) with the United States.

Historical ties among the three East African states (Kenya, Tanzania and Uganda) date back to 18th century. Under this arrangement, the three countries enjoyed joint ownership of common facilities (harbours, an airline - the East African Airways, the East African Posts and Telecommunications, the Inter-University Council of East Africa and the East African Currency Board), a Legislative Assembly, etc. The Community was, however, dissolved in 1977 due to ideological differences between the members and concerns about unequal sharing of benefits of integration. The present EAC is a revival of the original EAC integration initiative, which originated from the Mediation Agreement for Division of Assets and Liabilities of the East African Community. The agreement establishing the Permanent Tripartite Commission for East African Cooperation was signed on 30th November 1993 and launched in Arusha on 14th March 1996.

This report focuses on how to exploit available opportunities in economic integration to reap maximum benefits in supporting Kenya development agenda. Ideally, integration of trade, investment, technology, and transport and infrastructure development directly enhances strong economic growth. In addition, financial and monetary integration cushions the impact of volatile financial markets, hence strengthening macroeconomic stability. Integration in health, education, research, training and academic exchange helps in the development and creation of a pool of skilled human resources. Finally, integration in political, governance and security matters contributes to the stability of regional institutions, thus safeguarding economic development gains.

This report discusses the prospects of enhancing Kenya's economic growth and development by boosting trade and enhancing industrial development, taking an integrated approach to infrastructure development, improving labour productivity and opportunities, and strengthening institutions by deepening participation in regional integration. These, together, complement domestic efforts in addressing the challenges of poverty, unemployment and inequality in the realization of Vision 2030.

The rest of the report is organized as follows: Chapter two reviews developments in key macroeconomic indicators, demographic factors and labour market issues. Chapter three analyses the medium term prospects of the economy for the period 2017-2020. Chapters four to ten review sectoral issues of regional economic integration, namely trade, tourism, agriculture and food security, industrial development, infrastructure, labour and governance. Dynamics in other partnerships and emerging global issues are discussed in chapter eleven. Chapter twelve presents conclusions and policy recommendations.

Chapter 2

Macroeconomic Performance

Kenya's economy is resilient. However, the growth rate remains below the long term trajectory envisaged in Vision 2030. As such, transformation and diversification agenda is relevant in achieving strong inclusive growth and cushioning the economy against exogenous shocks. It is the aspiration for Kenya to become an upper middle income country by 2030 and currently Kenya is classified as a lower middle income country. To attain the upper middle income category, at the minimum, the economy needs to achieve the Vision 2030 growth trajectory. This requires boosting investment and exports and maintaining internal and external stability to support stronger economic growth. Furthermore, boosting export growth by exploiting opportunities of regional integration is a priority to improving the net export position.

2.1 Introduction

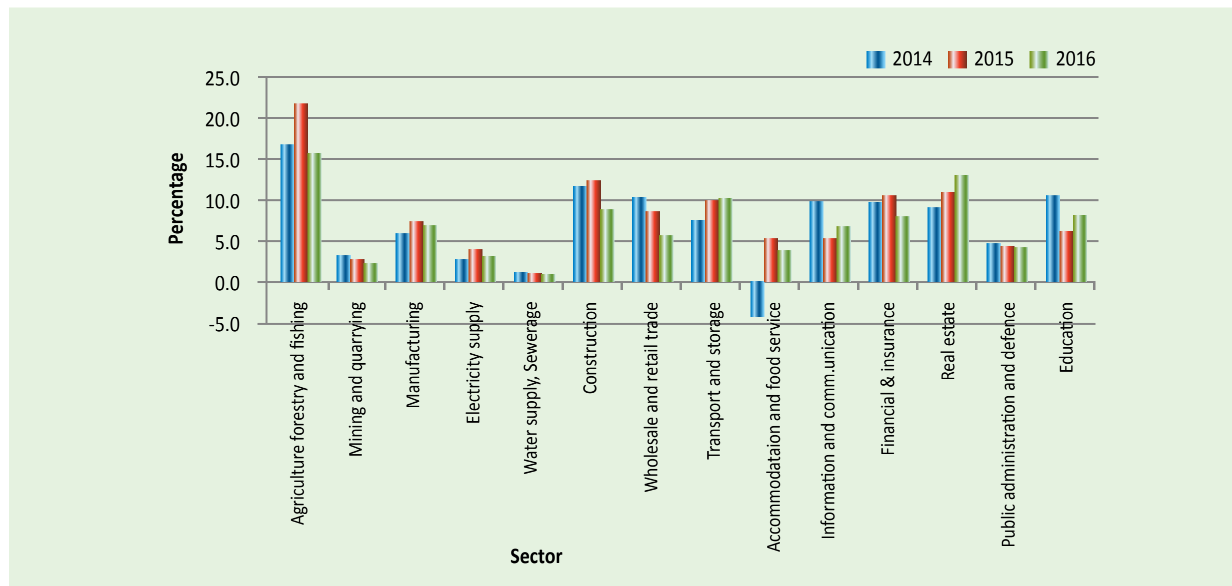
This chapter reviews the performance of macroeconomic indicators for Kenya, mainly for the year 2016. The review also captures the linkages between domestic macroeconomic indicators and regional economic integration.

2.2 Economic Growth

The Kenyan economy remained strong and has potential for further growth. The economy grew by 5.8 per cent in 2016 against a Medium Term Plan (MTP) II target of 8.7 per cent. This growth was driven by the following sectors: agriculture, forestry and fishing (15.2%), construction (8.2%), financial and insurance activities (7.3%), real estate (12.3%), transport and storage (9.7%), wholesale and retail trade (5.0%), manufacturing (6.3%), among others (Figure 2.1). The growth was also supported by a stable macroeconomic environment, especially low inflation arising from declining international crude oil prices.

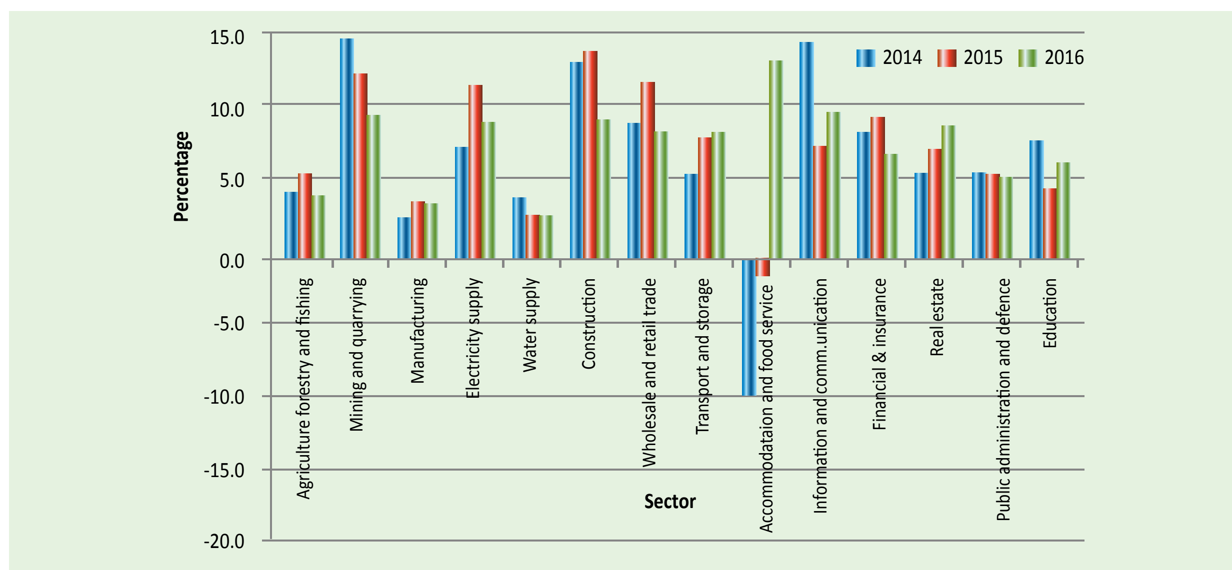
During the four quarters of 2016, the economy expanded by 5.9 per cent, 6.2 per cent, 5.7 per cent, and 5.5 per cent, respectively. This growth was mainly due to recovery of the tourism sector, which saw the sector grow from 10.4 in the first quarter to 14.2 per cent in the fourth quarter. This can be attributed to increased conference tourism, hosting of high profile international meetings in Kenya, and an improved security situation. The other sectors

Figure 2.1: Sectoral contributions to growth, 2014-2016



Source of Data: KNBS (2017), Economic Survey

Figure 2.2: Sectoral growth rates, 2014-2016



Source: KNBS (2017), Economic Survey

that contributed to this growth include mining and quarrying whose growth rose from 6.7 per cent in the first quarter to 11.2 per cent in the fourth quarter following enhanced exploration of minerals. The transport and construction sectors also contributed to this growth due to lower international oil prices, improved road network, and expanded consumption of cement and other construction materials.

Significant growth rates were also recorded across various sectors in 2016 (Figure 2.2). Agriculture, forestry and fishing sector grew by 4.0 per cent, largely due to good weather conditions, including abundant rainfall. The transport and storage sector grew by 8.4 per cent as a result of low and stable international oil prices. The real estate sector grew by 8.8 per cent, driven mainly by increased private sector credit. Electricity supply grew by 9.1 per cent,

construction sector by 9.2 per cent, and financial and insurance activities by 6.9 per cent. Manufacturing sector's real output grew by 3.5 per cent in 2016, which was mainly driven by increased production of pharmaceutical products, beverages, meat and meat products, and non-metallic minerals and plastic products. Mining and quarrying grew by 9.5 per cent, wholesale and retail by 3.8 per cent, and information and communication by 9.7 per cent.

A comparison of growth across Sub-Saharan Africa countries reveals a slowing growth for low income countries in 2016 compared to average growth of 6.6 per cent and 5.6 per cent in 2014 and 2015, respectively. Similarly, growth in middle income countries slowed down in 2016 to 0.4 per cent compared to 4.6 per cent in 2014 and 2.7 per cent in 2015 (IMF, 2017). In the East African region, Tanzania and Kenya recorded the highest growth rates of 7.2 per cent and 6.0 per cent, respectively, in 2016 (Table 2.1) while Burundi's economy contracted further. Ethiopia recorded a slower growth rate in 2016 which was a significant drop from 10.2 per cent in 2015 to 6.5 per cent in 2016.

The continued decline in growth of Sub-Saharan Africa countries is attributable to various exogenous shocks. These include a sharp decline in crude oil price, which averaged US$ 44.18 per barrel in 2016; tighter international financing conditions; drought, especially in the SADC region; Ebola in West Africa but with spillover effects across different parts of Africa; and less supportive global economic environment (IMF, 2017; KNBS, 2017).

East African countries are projected to record slightly higher growth rates in 2016 and 2017 due to an improved business environment (IMF, 2017). However, the external environment poses a significant downward risk, mainly due to terms of trade shocks, and tighter external financing, in addition to unfavourable weather conditions. While the demographics provide an opportunity to boost growth, there are challenges in harnessing the demographic dividends.

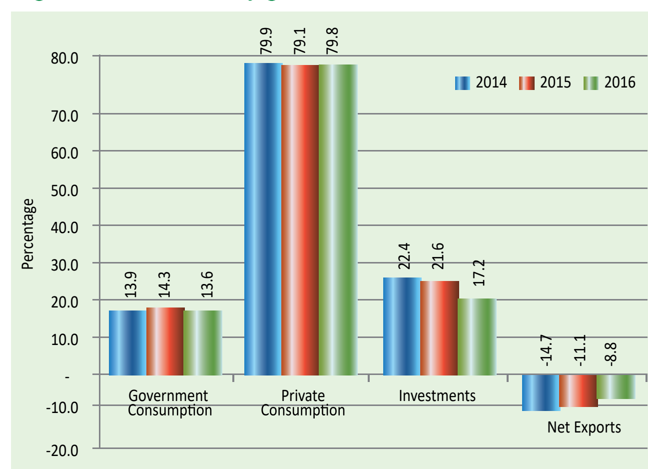
Table 2.1: GDP growth in selected African countries, 2014-2017 (%)

	2014	2015	2016*	2017*
Sub-Saharan Africa	5.1	3.4	1.4	2.9
Low Income Countries	6.6	5.6	4.7	5.4
Middle Income Countries	4.6	2.7	0.4	2.0
Oil Exporters	5.9	2.6	-1.3	0.9
EAC	5.8	4.2	4.8	5.3
Kenya	5.3	5.6	6.0	6.1
Uganda	4.9	4.8	4.9	5.5
Tanzania	7.0	7.0	7.2	7.2
Rwanda	7.0	6.9	6.0	6.0
Burundi	4.7	-4.1	-0.5	2.0
COMESA	3.4	3.5	3.2	4.4
Ethiopia	10.3	10.2	6.5	7.5
Egypt	2.2	4.2	3.8	4.0
Sudan	1.6	4.9	3.1	3.5
SADC	4.9	3.6	2.9	3.4
Botswana	3.2	-0.3	3.1	4.0
South Africa	1.5	1.3	0.6	1.2
Zambia	5.0	3.0	3.0	4.0
Angola	4.8	3.0	0.0	1.5
ECOWAS	4.2	2.3	4.2	5.0
Ghana	4.0	3.9	3.3	7.4
Nigeria	6.3	2.7	-1.7	0.6

Source: IMF (2017), Regional Economic Outlook
*Projections

From the demand side of the economy, private consumption contributed 79.8 per cent to GDP while investments and government consumption contributed 17.7 per cent and 13.6 per cent, respectively, in 2016. However, the contribution of net exports to GDP was -8.8 per cent, and therefore a key factor in determining growth performance (Figure 2.3). The unfavourable net exports have been persistent over time due to low value addition, low diversification of exports and increased demand for imports. Deepening integration in regional markets can provide an opportunity to enhance exports performance and thus achieving sustainable growth and development.

Figure 2.3: Sources of growth, 2014-2016 (%)



Source: KNBS (2017), Economic Survey

2.3 Social-Economic Indicators

Kenya has made significant improvement on the social indicators but more efforts are required in achieving the Sustainable Development Goals (SDGs). Life expectancy at birth for Kenya was 59 years (Table 2.2) in 2015 compared to 57 years in 1999. However, this is slightly lower than the life expectancy in the EAC region (60 years). The Under-5 mortality rate per 1,000 stands at 39 according to the 2014 Kenya Demographic and Health Survey (KDHS). In 2011, the population living below US$ 1.25 a day was 43.4 per cent. Women and children constitute the majority of the most affected compared to youth and men. Kenya has a high literacy rate compared with other EAC countries and the rest of Africa.

2.4 Investment and Savings

To achieve an average of 8.8 per cent growth in the period 2014-2017, the MTP II projected gross savings to GDP of 20.9 per cent and investment to GDP at 27.6 per cent. However, the savings and investment ratios averaged 13.5 per cent and 22.5 per cent, respectively, during the period. Therefore, the gap between the target and actual savings and investment to GDP ratios was at 7.4 per cent and 5.3 per cent of GDP, respectively. The Budget Policy Statement 2017/18 provides lower projections for savings and investment ratios to GDP estimated at 18.3 per cent and 24.4 per cent of GDP in 2017/18 with an economic growth target of 6.2 per cent.

The savings-investment gap for Sub-Saharan Africa (SSA) has also widened, increasing from 1 per cent of GDP in 2011 to 3.7 per cent in 2016 (Table 2.3). However, EAC (5 countries) have witnessed a decline from 10.8 per cent in 2011 to 6.9 per cent in 2016. Among the EAC countries, Rwanda has the widest savings-investment gap followed by Burundi, Tanzania, Kenya and Uganda recording a gap of 18.6 per cent, 17.1 per cent, 7.9 per cent, 5.5 per cent and 4.4 per cent of GDP, respectively, in 2016. There was an improvement for Kenya and Tanzania, which saw the savings-investment gap decline from 9.2 per cent to 5.5 per cent and to 11.6 per cent and 7.9 per cent in 2011 and 2016, respectively. The savings-investment gap puts pressure on the current account balance in terms of financing.

Table 2.2: Social economic indicators

Country	Total population (millions) in 2015	Life expectancy at birth, 2015	Under five mortality rate, 2014	Population living below US$ 1.25 a day (2009-2011)	Adult literacy rate (%), 15 + years 2005-2010
Burundi	10.0	52	142.0	-	67.2
Kenya	44.2	59	39.0	43.4	87.4
Rwanda	11.2	65	50.0	44.9	71.1
Tanzania	48.8	62	49.7	67.9	73.2
Uganda	35.5	63	57.8	38.0	73.2
East Africa	149.7	60	70.4	48.6	74.4

Source: EAC (2016b)

Table 2.3: Gross investments and savings, 2012-2016 (% GDP)

Gross Savings (% of GDP)						
	2011	2012	2013	2014	2015	2016
SSA	19.5	19.0	18.3	17.4	15.0	15.4
EAC-5	16.9	16.7	14.1	16.3	17.7	17.2
Kenya	12.6	13.2	11.4	12.7	14.4	14.6
Uganda	18.7	19.3	14.9	21.8	24.1	21.3
Tanzania	21.6	23.0	20.3	17.1	17.9	19.8
Rwanda	16.4	7.3	10.5	8.6	8.7	7.5
Burundi	1.0	-3.8	-4.3	-3.4	-11.0	-8.1
Gross Investment (% of GDP)						
SSA	20.5	20.7	20.8	21.3	20.8	19.1
EAC-5	27.1	25.7	25.4	25.8	24.3	24.1
Kenya	21.7	21.5	20.2	22.5	21.2	20.2
Uganda	28.7	29.7	27.3	25.5	24.5	25.7
Tanzania	33.2	28.5	30.3	30.1	27.9	27.6
Rwanda	23.6	25.8	26.5	25.3	26.5	26.1
Burundi	14.7	14.3	15.4	15.9	11.0	9.0

Source: IMF (2017), Regional Economic Outlook, and KNBS (Various), Economic survey

2.5 Labour Sector Performance

Kenya's population growth rate is estimated at 2.9 per annum which translates to an additional 1 million persons annually. The population is projected to increase to 59 million in 2030 and 75 million in 2050. The Kenya Housing Census shows that dependency ratio was 87 dependants for every 100 people in the working ages 15-64 years. The same census also indicates that Kenya's population-age structure is youthful because the population of children below age of 15 years was 43 per cent, way above the cut-off limit of 35 per cent.

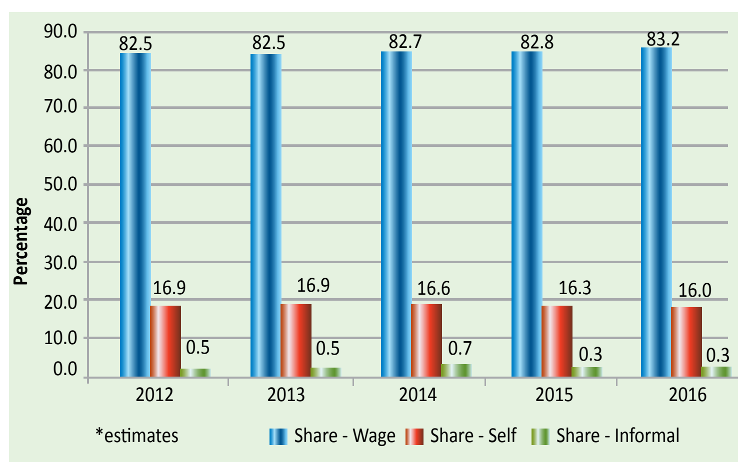
The employment to population ratio increased from 0.28 in 2009 and 0.32 in 2014, implying that growth in employment increased faster than growth in population. The per capita income was US$ 1,361 in 2015 and is projected to grow to US$ 2,139 in 2020. For Kenya to join the upper middle income status by 2030, it requires a US$ 5,600 per capita as per World Bank classification. Thus, monitoring population of youth while also growing the economy is required.

Total employment increased by 5.9 per cent annually between 2013 and 2015 while in 2016 it grew by 5.5 per cent. This increase was largely driven by the rise in informal component which grew by 6 per cent while wage employment grew by 4.5 per cent from a lower base. Informal sector employment accounted for 85 per cent of all new employment and created 747,300 new jobs in 2016 compared to 716,400 new jobs in 2015. Although Kenya's economic growth is relatively strong and above the SSA average, growth in wage employment in the modern sector has been slow over the last three years.

There has been little structural change in the composition of recorded employment in Kenya over the years. Figure 2.4 shows the shares of wage employment, self-employment, and informal sector employment, with only minimal shifts depicted. The share of informal sector employment remained at nearly 83 per cent of total employment for the last three years.

With respect to distribution of the estimated employment in the informal sector, the wholesale and retail trade, hotels and restaurants accounted for

Figure 2.4: Distribution of employment by categories, 2012-2016



Source: KNBS (2011-2016), Economic Survey, and KIPPRA computations

about 60 per cent of the 13.3 million persons in 2016. This share was followed by manufacturing at 20 per cent and community, social and personal services at 9.7 per cent. Rural areas accounted for 65 per cent of total employment in the informal sector. There were 2.554 million wage-employees in 2016 distributed as follows: Education (21%); Agriculture, forestry and fishing (13%); Manufacturing (12%); and Wholesale and retail (9%), among others.

2.6 Fiscal and Monetary Performance

2.6.1 Fiscal Performance

In 2015/16, total revenue collection in Kenya was Ksh 1,219.1 billion (18.6% of GDP) against total expenditure of Ksh 1,768.5 billion (27.4% of GDP) compared to respective targets of Ksh 1,299.9 billion and Ksh 2,032.5 billion. This revenue performance was an improvement compared to 2014/2015 total collection of Ksh 1,106.4 billion. There was also an increase in total expenditure from Ksh 1,639.2 billion in 2014/15. At EAC level, Kenya had the highest revenue collection as a per cent of GDP in 2015, while Burundi had the lowest performance. However, in the same period, Burundi had the highest expenditure as a per cent of GDP while Tanzania had the lowest (Table 2.4).

The fiscal deficit for Kenya in 2015/16 including grants on a cash basis was Ksh 474.6 billion (7.19% of GDP), which was below the target of Ksh 666.6 billion, implying a good performance. The deficit was attributed to increased expenditure in infrastructure projects, public wage bill, and implementation of the devolution system. This deficit was financed from foreign sources (Ksh 269.9 billion) and domestic sources (Ksh 202.3 billion). It is notable the deficit was above the EAC monetary convergence criteria set at 3 per cent of GDP including grants (6 per cent of GDP excluding grants). Thus a stronger commitment to fiscal prudence is necessary to contain the rising expenditure and more effort in revenue mobilization. The first quarter of 2016/17 had total revenue collection of 4.2 per cent of GDP compared to a target of 4.4 per cent, while expenditure recorded 5.2 per cent of GDP against a target of 7.1 per cent. This shows an improvement in fiscal deficit; a momentum that needs to be sustained while also ensuring that fiscal policy is growth-enhancing.

The County governments spent Ksh 295.30 billion consisting of recurrent (65%) and development (35%) for 2015/16. This compares to Ksh 258 billion in 2014/15 with recurrent at Ksh 167.56 billion (64.9%) and development at Ksh 90.44 billion (35%). Recurrent absorption rate was 91.9 per cent of annual recurrent budget in 2015/16

Table 2.4: Revenue and expenditure, 2013-2016 (% GDP)

	2013		2014		2015		2016*	
	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure
Sub-Saharan Africa	20.1	23.8	19.4	23.2	17.4	22.4	17.0	22.3
EAC	15.5	22.1	15.8	22.4	16.4	23.1	17.0	23.7
Kenya	19.2	25.4	19.3	27.2	19.1	27.8	19.2	27.0
Uganda	11.7	16.8	12.5	17.1	13.9	18.1	13.9	20.0
Tanzania	13.1	19.4	13.3	17.9	13.7	18.0	15.2	20.4
Rwanda	16.5	27.6	16.7	27.6	18.6	28.1	18.2	33.3
Burundi	14.0	33.2	14.4	31.8	12.9	28.5	15.5	22.5

Source: IMF (2017), Regional Economic Outlook

* Preliminary

and development absorption rate was 65.2 per cent of annual development budget (OCOB, Various issues). The low absorption rate in development expenditure could slow growth and development in counties. Though expenditure on development improved in 2015/2016, recurrent costs need to be substantially reduced to free resources to development projects. That said, counties complied with the requirement in the PFM Act 2012 that at least 30 per cent of budget be allocated to development expenditure.

Kenya's total wage bill rose by 8.8 per cent to Ksh 450 billion in 2016. The share of the national wage bill to total public sector wage bill was 20.1 per cent. The increasing wage bill squeezes resources meant for development expenditure, and this might impact on economic growth as it delays building of the required foundations for Vision 2030. There is urgent need to contain the rising wage bill and adequately provide for development spending from the domestically mobilized resources.

2.6.2 Public Debt

The total gross public debt was Ksh 3,763.5 billion, equivalent to 52.6 per cent of GDP as at the end of December 2016. This comprised 48.7 per cent of external debt and 51.3 per cent of domestic debt. The external debt stock comprised of multilateral debt (43%), bilateral debt (32%), export credit debt (0.8%) and commercial banks' debt (25% including the International Sovereign Bond). Although most of Kenya's external debt is on concessional terms, its commercial component has increased.

Total domestic debt increased from Ksh 1,540.0 billion in December 2015 to Ksh 1,931.0 billion in December 2016. The stock of domestic debt comprised of Central Bank debt (6%), commercial banks debt (51%) and non-banks and non-residents debt (43%). The total stock of Treasury bills as a per cent of total domestic debt increased from 25.4 per cent in December 2015 to 32.1 per cent in December 2016. However, total stock of Treasury bonds decreased from 52 per cent of total domestic debt in December 2015 to 47.8 per cent in December 2016.

Reading of the Kenya Budget 2017 by Cabinet Secretary, The National Treasury, Henry Rotich (Centre), accompanied by Cabinet Secretary, Devolution and Planning, Hon. Mwangi Kiunjuri (Left) and Principal Secretary, Treasury, Dr Kamau Thugge, (Right)

The rise in public debt is as a result of government need to finance infrastructural development. The government borrowing plans remain anchored in the medium term debt management strategy, which aims at ensuring public debt sustainability. The strategy also ensures that the private sector continues to have access to adequate financial resources.

Kenya's public debt was above the EAC convergence criteria threshold of 50 per cent of GDP. Across the region, public debt in 2015 has been on an upward trend, with Kenya leading at 50.4 per cent of GDP, followed by Burundi (42.4%), Rwanda (37.3%), Tanzania (36.5%) and Uganda (34.4%). The high level of public debt in Kenya narrows the window for future borrowing, and increases vulnerability to fiscal risk in the event of any urgent need for borrowing.

2.7 Monetary and Foreign Exchange Policies

2.7.1 Inflation and Foreign Exchange Rate

The annual average inflation rate declined marginally from 6.6 per cent in 2015 to 6.3 per cent in 2016. This was attributed to stable transport prices, tight monetary policy, and decline in the cost of electricity, kerosene and cooking gas. This inflation remained within the government target set at 5±2.5 per cent in the MTP II, and also within the EAC convergence criteria of 8.0 per cent.

In 2016, the Kenya shilling remained stable against the major world currencies. This was attributed to narrowing of the current account deficit, largely due to a lower import bill, an improvement in earnings from exports, and increased diaspora remittances. A stable shilling supports the performance of the current account and servicing of public debt.

2.7.2 Interest Rates and Credit Market

Interest rates in Kenya are stabilizing following the capping of interest rates and the continued tight monetary policy stance adopted to maintain market stability. The Banking (Amendment) Act 2016 requires commercial banks to charge interest rates at 4.0 per cent above the Central Bank Rate (CBR) and pay depositors a rate of 70 per cent of the CBR. There was significant decrease in the overall commercial banks' average lending rates from 18.3 per cent in 2015 to 13.7 per cent in 2016 as shown in Table 2.5. However, the average deposit rates decreased marginally to 7.3 per cent from 8.02 per cent in 2015. The decline in average lending rates lowered the interest spread to 6.4 per cent, which is very close to Vision 2030 target of 6.0 per cent. A lower interest rate spread driven by market forces signals efficiency in the banking sector.

Table 2.5: Trends in interest rates, 2015-2016

Indicator	Dec. 2015 (%)	Dec. 2016 (%)	Change
CBs Average lending rate	18.3	13.69	(4.61)
CBs Average deposit rate	8.02	7.33	(0.69)
CBR	11.50	10	(1.5)
Interest rate spread	10.28	6.36	(3.92)

Source: Central Bank of Kenya (2017)

*CBs - Commercial Banks

Private sector credit continued to dominate the total banking system at over 90 per cent of total banking system credit. The uptake increased slightly by 4.3 per cent from Ksh 2,220.0 billion in December 2015 to Ksh 2,314.7 billion in December 2016. The increase was mainly due to credit flows in manufacturing, transport and communication, real estate, private households, and consumer durables and business services. Credit growth in trade and manufacturing which are priority sectors of Vision 2030 registered negative growth. Despite recording a high growth, credit to the agriculture sector is still low. Provision of more credit to the private sector, especially to the priority sectors of Vision 2030 is necessary to support high economic growth and realization of Vision 2030 goals.

2.8 External Sector Performance

2.8.1 Current Account

The current account balance improved to a deficit of Ksh 370.8 billion (5.2% of GDP) in 2016 from a deficit of Ksh 421.1 billion (6.7% of GDP) in 2015. This performance is attributed to improvement in merchandise trade balance on account of lower merchandise imports, which more than offset the reduction in the value of merchandise exports. In particular, imports of oil, machinery and transport equipment decreased by 18.8 per cent and 21.0 per cent, respectively, in 2016.

Over the period 2012-2016, trade volume in import and export has been increasing as shown in Annex Table 6. However, import volumes increased at a higher rate than exports, thus widening the trade deficit. This has also been exacerbated by the fact that over the review period nearly 40 per cent of exports was composed of unprocessed food and beverages, which traditionally fetch lower prices in the world market. In contrast, industrial supplies and fuel and lubricants accounted for over 50 per cent of imports save for 2015 when they only accounted for 45 per cent.

2.8.2 Foreign Direct Investment in Kenya

Foreign Direct Investment (FDI) improved in 2015 with total inflows of US$ 2,187 million. The leading sectors that attracted FDI in 2015 were construction, mining and quarrying, wholesale and retail trade and tourism which accounted for 60.4, 21.2 and 9.3 per cent, respectively, of the total FDI inflows (Table 2.6). Traditionally, agriculture, manufacturing, tourism and services (banking and financial services, ICT) have been the main sectors attracting FDI.

2.8.3 Remittances

In 2016, total remittances were US 1.724 million compared to US$ 1.55 billion in 2015 (Figure 2.5). The performance for 2016 was attributed to increased inflows from North America. Inflows from Europe increased by 15.6 per cent while the rest of the world decreased by 26.2 per cent. The gradual recovery of the Nairobi Securities Exchange (NSE) has partly led to improved remittances, indicating increased confidence in the economy. Remittances have also been supported by liberalization of the foreign exchange market as well as increase in the number of money remittance providers (MPRs) which has led to reduced cost of sending money through the formal channels. Increase in use of mobile phone for funds transfer has also facilitated remittances from the diaspora.

Remittances to Kenya play a vital role in the economy, notably in stabilizing the Kenyan shilling against major currencies, supporting the country's current account position, and supporting the boom in the construction and real estate sector, and establishment of MSEs in agricultural and service

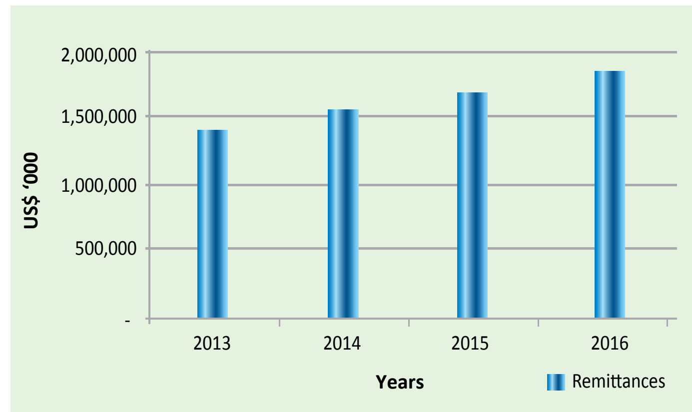
Table 2.6: Kenya's sectoral distribution of foreign direct investment, 2014-2015

	2014			2015		
SECTOR	**No. of projects**	**Amount (US$ millions) (%)**	**Employment**	**No. of projects**	**Amount (US$ millions) (%)**	**Employment**
Agriculture, fishing, forestry and hunting	6	3	556	9	23	878
Manufacturing	12	29	650	35	36	1,402
Utilities (water and energy)	3	59	60	5	19	78
Wholesale, retail trade, tourism	36	86	786	95	204	5,311
Construction	17	489	3,139	16	1,320	1,025
Finance, insurance, real estate and business services	24	138	811	37	39	686
Community, social and personal services	11	2	109	24	32	815
Transport, communication and storage	12	10	311	26	50	342
Mining and quarrying	3	58	280	4	465	314
Total	**124**	**874**	**6,702**	**251**	**2,187**	**10,851**

Source: EAC (2016g)

sectors. Thus, it is imperative to formulate policies that attract more remittances to fund various development projects.

Figure 2.5: Annual diaspora remittances to Kenya, 2013-2016



Source: Central Bank of Kenya (2016)

2.8.4 Balance of payment

Notable improvement was made in Kenya's overall balance of payment in 2016 with a surplus of Ksh 13.1 billion as compared to a deficit of Ksh 24.9 billion in the second quarter mainly due to improvement in the current account deficit.

In 2016, official reserves decreased marginally to Ksh 736.5 billion from Ksh 742.8 billion in 2015.

2.9 Conclusion

The growth of Kenya's economy remains resilient but there are significant unexploited opportunities that would support a stronger and inclusive growth. Over the years, the structure of the economy has remained more or less the same with agriculture as the key contributing sector while manufacturing sector contribution has declined. Exploiting the growth potential for the economy would require diversifying the sources of growth to cushion the economy from exogenous shocks.

Kenya net exports have remained unfavourable for some time, and this is constraining growth of aggregate demand. While Kenya enjoys a surplus in net exports both in EAC and COMESA, the surplus is dwindling. Thus, the country needs to fully exploit opportunities available in the regional markets to boost her exports.

The per capita income for Kenya improved to US$ 1,361 in 2015 and the country joined the lower middle income countries category. As much as this is a positive signal in becoming a middle income country, Kenya's aspiration to join the upper middle income category, requires a minimum per capita income of US$ 5,600. The current levels of population growth may slow the pace of attaining this level of per capita. Maintaining the momentum in implementing the transformation agenda is critical in sustaining a stronger inclusive economic growth.

Kenya's fiscal position remains stable and the public debt level is sustainable. The increased capital spending is expected to start yielding results in the medium to long term and help maintain a desirable fiscal deficit. However, increased non-concessional funding could heighten vulnerability of future borrowing.

External stability has been maintained through improved current account balance and securing foreign reserves within the statutory requirements. However, the level of exports of goods and services is still too low compared to total imports while the financing of the current account is largely from

Kenya's coffee is one of the leading export earners

foreign remittances. Thus, there is need to boost exports and address bottlenecks facing remittances, particularly the cost of transactions in remitting the money.

The savings-investment gap has remained high over time. This implies that there is need to boost the mobilization of domestic resources to enable access to adequate and appropriate financing of the required investment.

Jobs creation in Kenya has mainly been in the informal sector with service sector taking 60 per cent and rural areas 65 per cent. The major concern is that the quality of these jobs is still low to support the efforts to reduce poverty.

2.10 Recommendations

Transformation and diversification of economic activities is a priority in sustaining a strong and inclusive growth. This can be achieved by enhancing productivity, promoting value addition through agro-processing, and developing value chains. Furthermore, exploiting extractive resources to diversify sources of growth is crucial.

An export promotion strategy is critical in supporting growth of the economy and safeguarding external stability. In this regard, exploiting the opportunities presented by regional integration is paramount, including diversifying export products and destinations.

Efforts to close the savings-investment gap will serve to boost economic growth. This includes enhancing access to affordable credit and improving the business environment to enhance private investment.

To increase the per capita income for Kenya to US$ 5,600 by 2030, GDP growth rate should be faster than the population. This can be achieved by increasing private investments and promoting exports of goods and services to attain the Vision 2030 growth trajectory. There is also need to monitor population growth

Fiscal sustainability requires maintaining fiscal prudence at all levels of government. Furthermore, pushing ahead with fiscal reforms to enhance revenue mobilization and expenditure management would help maintain a desirable fiscal gap that facilitates in maintaining debt sustainability. Strict enforcement and implementation of the public finance management (PFM) rules and regulations are crucial for fiscal sustainability.

Finally, industrial development is important in formalizing informal employment in the country because jobs created in the industrial sector have higher multiplier effects in the economy.

Tea is one of Kenya's main export earners

Chapter 3

Medium Term Prospects

The future for the Kenyan economy is promising, secured by macroeconomic stability, exploitation of natural resources to diversify sources of growth, and continued infrastructure development to build the foundations for national transformation. That said, there are downside risks to the growth projections including weather persistent shocks; loss of duty-free EU market; reduced trade with Britain following Brexit; isolation from global markets with the emerging mega-regional trade agreements; and political tensions with the upcoming general elections. Should these risks materialize growth will stagnate and Vision 2030 targets will not be met. To maintain Vision 2030 growth trajectory, huge investments and a boost in exports growth are required.

3.1 Introduction

This chapter analyses the economic prospects for Kenya in the medium term period 2017 to 2020. The analysis considers three scenarios: Vision 2030 scenario assuming the underlying long-term growth targets, the baseline scenario incorporating the prevailing policy framework, and an alternative scenario if the underlying assumptions do not hold. The prospects also cover scenarios when macroeconomic conditions are stable and when downside risks materialize. In all the scenarios growth in private investments and exports remain critical for sustained growth.

Kenya's economic growth averaged 5.7 per cent in the period 2013-2016. Although the targets set in MTP II have not been met the immediate future looks promising. The relatively stable oil prices, low and stable domestic inflation, and generally stable macroeconomic conditions give an impetus for economic growth to rise to higher levels. The exploitation of natural resources such as oil, titanium, coal, and iron ore coupled with huge infrastructural investments are also expected to drive economic growth. The four quarters in 2016 recorded growth rates of 6.0, 5.9, 5.7 and 5.8 per cent, respectively, which averaged 5.9 per cent, thereby giving a better basis for higher growth in the medium term. All the economic sectors in the four quarters registered positive growth rates.

This notwithstanding, there are significant downside risks, including uncertainty with trade policy direction particularly given the delays at regional level to conclude EPAs and the yet to be realized implications of Brexit and US withdrawal from international partnership agreements. In the short run, inflation has increased due to continued increase in pump oil prices since February 2017 and the current drought in the country. The Kenya shilling has weakened towards major currencies which could worsen the balance of payment position. Moreover, higher levels of repayment of increased public debt would mean that resources are taken away from financing of development projects.

3.2 MTP II Scenario

The MTP II objective in the economic pillar specified a target of economic growth rate of 10.1 per cent by the year 2017. The expected growth trajectory is reflected in Table 3.1. Notable is that the expected high growth rate has not been achieved due to a number of factors, some of them being the challenges that were never envisaged in domestic and external fronts.

The key assumptions in this scenario are stable macroeconomic conditions, prudent fiscal and monetary policies, improvement in productivity and competitiveness, steady contribution by county governments to overall development, well performing investment and exports, and a governance system that embraces zero tolerance to corruption. Foreign direct investment was also expected to increase with the discovery of oil, gas and minerals; and coal in Kitui. Other major investments include the Lamu Port and Southern Sudan-Ethiopia (LAPSSET) corridor; modernization of the Mombasa port; Standard Gauge Railway (Mombasa–Malaba); expansion of Jomo Kenyatta International Airport; Ethiopia power interconnectivity; completion of Olkaria IV; and carbon credits.

The achievement of MTP II targets was constrained mainly by delays in implementation of the prioritized flagship projects and financial constraints in implementation of the projects. In addition, the tourism sector suffered from travel advisories due to insecurity in key tourism circuits in Kenya. The other challenge has been the teething problem of implementing the devolution process. Moreover, the demand on fiscal space has been high due to effects of poor weather and the significant capital spending.

3.3 Vision 2030 Expected Growth Path Scenario

The key objective of Vision 2030 was to achieve an economic growth rate of 10 per cent and sustain that level over time. This growth objective has not been achieved but it is possible to meet the target in the medium term especially through increased investments and exports. The scenario for Vision

Table 3.1: Real GDP and sectoral growth targets, 2012-2017 (%)

	2012		2013		2014		2015		2016		2017
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual*	Target
Overall GDP	4.6	**4.6**	6.1	**5.7**	7.2	**5.3**	8.7	**5.6**	9.1	**5.9**	10.1
Agriculture	3.8	**2.9**	5.1	**5.4**	6.5	**3.5**	6.8	**5.6**	7.1	**4.8**	6.7
Industry	4.5	**4.2**	6.0	**5.3**	7.6	**6.5**	8.6	**6.9**	10.1	**7.3**	10.2
Services	4.8	**4.7**	6.5	**5.4**	7.3	**5.8**	9.4	**5.5**	10.0	**5.7**	10.1

* Preliminary numbers

Source: Government of Kenya (2013a), and KNBS (2017)

2030 considers what is required to achieve the growth target of 10 per cent in the medium term.

It was envisaged in Vision 2030 that high economic growth would come from six key sectors: tourism, agriculture, wholesale and retail trade, manufacturing, business process offshoring, and financial services. The sectors were expected to add to GDP by 2012 as follows: tourism by Ksh 200 billion; agriculture by Ksh 90 billion; wholesale and retail trade by Ksh 50 billion; manufacturing by Ksh 30 billion; business process offshoring by Ksh 10 billion; and financial services was to increase savings to 30 per cent of GDP. However, this is yet to be achieved.

The scenario for Vision 2030 projects a growth rate of 9.5 per cent by the year 2020 and requires higher growth in private sector investments by 9.6 per cent and exports of goods and services by 9.4 per cent (Table 3.2). Comparison of the projected growth rates in volume terms for 2016 and 2020 translates to extra growth rates of 4.4 percentage points in private sector investments and 3.6 percentage points in exports of goods and services. In the same scenario, imports will be required to grow by an extra 2.5 percentage points, and private consumption by 3.3 percentage points. This will result in the economy growing by an additional 3.5 percentage points to achieve Vision 2030 targets.

To boost private sector investments, access to affordable credit and conducive business environment are required. Improvement in manufacturing is key to diversifying exports of goods and services through value addition. Moreover, the tourism sector should grow by Vision 2030 target of 3 million international visitors annually. Kenya's net exports can be improved further through expanded exports market in the region.

3.4 Baseline Scenario

Given the current stable macroeconomic conditions, the medium term growth prospects are expected to be strong and positive. This baseline scenario assumes that economic policy will continue to be implemented in its current situation. Other assumptions include: (a) structural reforms and public investment in infrastructure to continue as planned, thus improving the business environment

Table 3.2: Economic projections for Vision 2030, 2013-2020 (%)

	2013	2014	2015	2016	2017	2018	2019	2020
GDP growth	5.9	5.4	5.7	5.8	7.4	8.1	8.7	9.5
Inflation	5.7	6.9	6.6	6.3	6.1	5.8	5.3	4.9
Private consumption	7.0	6.5	2.5	7.2	7.8	7.8	8.6	9.2
Government consumption	6.1	1.7	13.0	7.0	7.9	7.5	7.3	7.7
Private investments	-4.4	11.1	5.2	-17.6	9.4	8.8	9.2	9.6
Government investments	25.0	9.5	4.8	21.4	4.4	7.4	7.2	7.2
Exports of goods and services	-2.2	5.8	6.2	0.6	7.2	7.6	8.0	9.4
Imports of goods and services	-0.4	10.4	1.2	-4.7	6.8	7.0	7.4	7.5
Current account balance	-8.8	-9.8	-6.8	-5.1	-5.7	-5.5	-5.3	-5.1
Fiscal deficit	-7.1	-6.4	-6.1	-5.4	-5.7	-5.6	-5.4	-6.1
Public expenditure	26.5	26.6	26.1	25.1	26.5	25.9	25.3	26.2
Interest rate	8.9	8.9	10.8	8.5	8.6	8.7	8.7	8.5
Exchange rate, (Ksh per dollar)	86.0	87.9	98.2	101.5	102.6	102.6	102.6	102.6

Source: KIPPRA Estimates, KIPPRA-Treasury Macro Model (KTMM)

and the potential GDP of the economy; (b) stable political climate, including peaceful 2017 general elections and a stable devolved system that is growth oriented; (c) favourable weather conditions to sustain improvements in agricultural output; and (d) a stable regional and global economic environment.

The projections in Table 3.3 show that economic growth in the medium term will be gradual, and is likely to reach 6.7 per cent by 2020. Private investments and government investments are both expected to continue growing at higher levels to achieve higher economic growth rates and, therefore, expected to remain the key drivers of the economy. However, the long term growth envisaged in Vision 2030 will not be achieved.

3.5 Alternative Scenario

An alternative scenario is presented in Table 3.4. This scenario assumes conservative growth rates for which the baseline assumptions do not necessarily hold. For instance, the drought in 2017 may have an extended impact on food prices, and thereby increase inflation levels. The general elections in August 2017 may also have an impact in the economy, particularly if private investments adopt a wait and see attitude. In addition, budgetary expenditure on security may increase to maintain law and order. Further, external shocks including increases in oil prices may lead to inflation surges, exchange rate volatility and unstable interest rates. In this scenario, growth would stagnate at around 6.0 per cent and Vision 2030 growth projection would again not be met in the medium term.

3.6 Conclusion

The targeted growth path in MTP II was not attained due to several factors. The economy was recovering from both internal and external shocks, and there were also challenges in implementing the flagship projects. Although the economy missed the growth target, this can be achieved in the medium term especially if implementation of policy reforms is enhanced.

Table 3.3: Economic projections for baseline scenario, 2017-2020 (%)

	2013	2014	2015	2016	2017	2018	2019	2020
GDP growth	5.9	5.4	5.7	5.8	6.1	6.4	6.5	6.7
Inflation	5.7	6.9	6.6	6.3	6.0	6.0	5.0	4.0
Private consumption	7.0	6.5	2.5	7.2	5.9	6.2	6.4	6.6
Government consumption	6.1	1.7	13.0	7.0	6.8	6.2	5.8	6.0
Private investments	-4.4	11.1	5.2	-17.6	5.3	6.5	6.7	7.1
Government investments	25.0	9.5	4.8	21.4	4.3	7.4	7.2	7.4
Exports of goods and services	-2.2	5.8	6.2	0.6	6.9	7.0	7.7	7.9
Imports of goods and services	-0.4	10.4	1.2	-4.7	5.4	6.2	7.0	7.2
Current account balance	-8.8	-9.8	-6.8	-5.1	-5.6	-5.4	-5.3	-5.1
Fiscal deficit	-7.1	-6.4	-6.1	-5.4	-5.7	-5.6	-5.4	-5.6
Public expenditure (% GDP)	26.5	26.6	26.1	25.1	26.5	25.9	25.3	25.6
Interest rate	8.9	8.9	10.8	8.5	8.9	9.0	9.0	9.1
Exchange rate (Ksh per dollar)	86.0	87.9	98.2	101.5	102.6	102.3	102.4	102.5

Source: KIPPRA Estimates, KIPPRA-Treasury Macro Model (KTMM)

Table 3.4: Alternative scenario - selected economic indicators, 2013-2020 (%)

	2013	2014	2015	2016	2017	2018	2019	2020
GDP growth	5.9	5.4	5.7	5.8	6.0	6.0	6.1	6.1
Inflation	5.7	6.9	6.6	6.3	6.9	6.7	6.4	6.4
Private consumption	7.0	6.5	2.5	7.2	5.5	6.0	6.0	5.9
Government consumption	6.1	1.7	13.0	7.0	7.3	7.2	6.8	6.7
Private investments	-4.4	11.1	5.2	-17.6	5.0	6.1	6.1	6.0
Government investments	25.0	9.5	4.8	21.4	4.1	5.4	6.2	6.3
Exports of goods and services	-2.2	5.8	6.2	0.6	6.0	6.0	6.5	6.4
Imports of goods and services	-0.4	10.4	1.2	-4.7	5.9	6.5	7.6	7.7
Current account balance	-8.8	-9.8	-6.8	-5.1	-5.9	-6.2	-6.5	-7.2
Fiscal deficit	-7.1	-6.4	-6.1	-5.4	-6.7	-6.8	-7.1	-8.0
Public expenditure (% GDP)	26.5	26.6	26.1	25.1	27.2	27.9	27.4	28.0
Interest rate	8.9	8.9	10.8	8.5	9.0	9.2	9.8	10.2
Exchange rate (Ksh per dollar)	86.0	87.9	98.2	101.5	103.2	103.8	104.3	105.3

Source: KIPPRA Estimates, KIPPRA-Treasury Macro Model (KTMM)

The baseline scenario that assumes the current policy environment shows the economy can only achieve a growth rate of 6.7 per cent by year 2020. Thus, it will require drastic policy reforms to achieve the desired long term growth.

The scenario for Vision 2030 projects the desired growth rate of 10 per cent in the medium term. This requires private sector investments to grow by 9.6 per cent and exports of goods and services by 9.4 per cent, which translates to investments to GDP ratio of 30.0 per cent. This is the only path for Kenya to attain the status of upper middle income country.

3.7 Recommendations

The Kenyan economy has the potential to achieve the objective of Vision 2030 growth trajectory of 10 per cent per year in the medium term. To achieve this, private sector investments and exports of goods and services are expected to be the key drivers. The exploitation of new markets in the region is imperative as this would eventually boost the development of industries in the priority sectors in Kenya.

Chapter 4

Trade and Market Integration

Domestic trade is dominated by retailers who are mainly micro, small, and medium enterprises. These MSMEs also play a critical role in cross-border trade. Significant progress has been made to improve their business environment and therefore enhance their competitiveness but a lot more is required to address fragmentation in the supply chain and reduce further the cost of doing business. Kenya's trade at international level remains very small, dominated by a few commodities and with limited destinations. A huge proportion of Kenya exports go to the EAC and COMESA market, but the increasing manufacturing activity in the region together with non-tariff barriers and the competition from imports from China and India implies that Kenya has to diversify her products and establish a niche market to secure her market share. The growing initiatives to create a wider free trade area in Africa provides an opportunity for Kenya to penetrate more markets outside the EAC-COMESA region, but Kenya has to strategically position herself as a regional hub for a wider regional market, including Continental Free Trade Area.

4.1 Introduction

This chapter presents the performance in the trade sector and the opportunities for enhancing trade through integration of markets. Market integration embodies the reduction and elimination of protectionist commercial policies among participating members. Local and foreign trade expands the market for goods and services thereby increasing the scale of production in an economy. Kenya's trade policy seeks to enhance the supply of goods and services to the domestic market while at the same time deepening economic and commercial ties through regional integration and bilateral and multilateral partnerships. It lays down the strategies to increase market share in traditional export destinations, penetration of new markets in emerging economies, as well as enhancing the role of private sector in regional integration initiatives. The chapter covers domestic trade, international trade, regional trade agreements and unilateral and bilateral agreements.

4.2 Domestic Trade

Domestic trade in Kenya largely comprises wholesale and retail trade, a key sector identified to drive growth in Vision 2030. The two sub-sectors

are involved in purchase and sale of agricultural produce, processed foods, beverages and tobacco; personal and household goods; petroleum products; and motor vehicle spare parts and accessories. Other categories of wholesalers and retailers include those involved in supplying building materials; forest products; apparels; machinery, equipment and supplies; and ICT/electronics. The retail sub-sector is dominated by micro, small and medium enterprises (MSMEs) which are characterized by ease of entry, small-scale operations, and heavy reliance on self-supporting and informal institutional arrangements. The MSMEs also play a key role in cross-border trade through activities of informal cross-border traders (Government of Kenya, 2016e). The sector has evolved in recent times with the emergence of supermarkets and shopping and "exhibition" malls which are taking over retailing from traditional small shops and kiosks.

The two sub-sectors together accounted for 7.3 per cent of GDP in 2016 and grew by 3.8 per cent during the same period. The sector growth rates declined to 3.8 per cent during the year 2016 from 5.9 per cent in 2015. In terms of wage employment generation the sub-sector contributed 9.38 per cent in 2016. However, most of the jobs created were in the informal sector, implying non-wage employment characterized by low productivity and which is therefore insufficient to address poverty-related concerns (KNBS, 2017).

Trade in services sector is the biggest contributor to the country's GDP ahead of agriculture and industry. The sector's average contribution to GDP stood at 49.7 per cent between 2011 and 2016. The contributions have however been steadily declining partly due to the fact that some services enter into production channels of both agriculture and industry. The key services sectors during 2016 included construction services (30.0%), transport and communication services (10.6%), wholesale retail services (9.3%) and financial services (5.8%). The overall expansion of domestic trade sector is mainly due to significant improvement in the business environment, including the establishment of Huduma Centres as integrated service delivery centres to provide efficient and transparent services.

The framework of Vision 2030 spells out various flagship projects aimed at promoting production and diversification to meet domestic, regional and global markets. According to (Government of Kenya, 2013a), the specific projects include the establishment of Special Economic Zones (SEZs) with focus on reducing operational costs for investors who can then plough back surplus funds into manufacturing. Mombasa, Kisumu and Lamu have been earmarked for establishment of the zones. The other projects are the creation of 1,000–1,500 producer business groups to enhance the integration of small and fragmented producers and entrepreneurs; establishment of wholesale hubs and tier 1 retail markets; and establishment of 47 MSME centres or industrial parks in all counties for purposes of attracting investors, developing entrepreneurial skills and providing employment opportunities. The other project involves the establishment of the National Electronic Window system to facilitate registration and provide business-related information to traders, importers, and exporters.

So far, the Special Economic Zones Act 2015 has been enacted and other relevant legislations for the establishment of the SEZs are being developed. In addition, 2,000 km^2 and 700 km^2 of land have been identified for Mombasa and Lamu SEZs, respectively, although actual construction is yet to be undertaken. In addition, 1,326 producer business groups have been formed to integrate small and fragmented individual producers into a big individual source for final consumers while concept papers for development of wholesale and retail markets have been developed and land identified in Athi River and Maragua. Implementation of these projects has been slowed down by low budgetary allocations, high costs of land, and absence of enabling legislative framework. Therefore, there is acute shortage of retail and wholesale markets

especially in urban areas. This is demonstrated by over-crowded spaces, dilapidated structures, mushrooming of illegal structures, and hawking menace.

However, positive progress has been made with regard to development of an e-trade portal to provide timely, reliable and comprehensive information to the business community and other interest groups through a web-based e-portal integrated system. It is anticipated that the establishment of a commodity exchange platform will address the challenges related to market information, value addition and product competitiveness. The Kenya Trade Network Agency (KENTRADE) has been established to manage a National Electronic Single Window System and thus simplify and harmonize e-commerce transactions. E-commerce has the potential to accelerate business development through increased efficiency and reduced costs in business operations.

With regard to the role of MSMEs in cross-border trade, a simplified trade regime (STR) to enhance facilitation of cross border trade among the MSMEs under the EAC and COMESA programmes is being implemented. The STR entails use of a simplified customs document and a simplified certificate of rules of origin on selected commonly traded items with a threshold value of up to US$ 2,000 under the EAC and COMESA STR. Besides, Cross Border Trade Committees have been established in key border points, i.e. Busia, Malaba and Namanga with the aim of monitoring and reporting illicit trade, including counterfeits, smuggled items and the emerging Non-Tariff Barriers (NTBs) (Government of Kenya, 2016e).

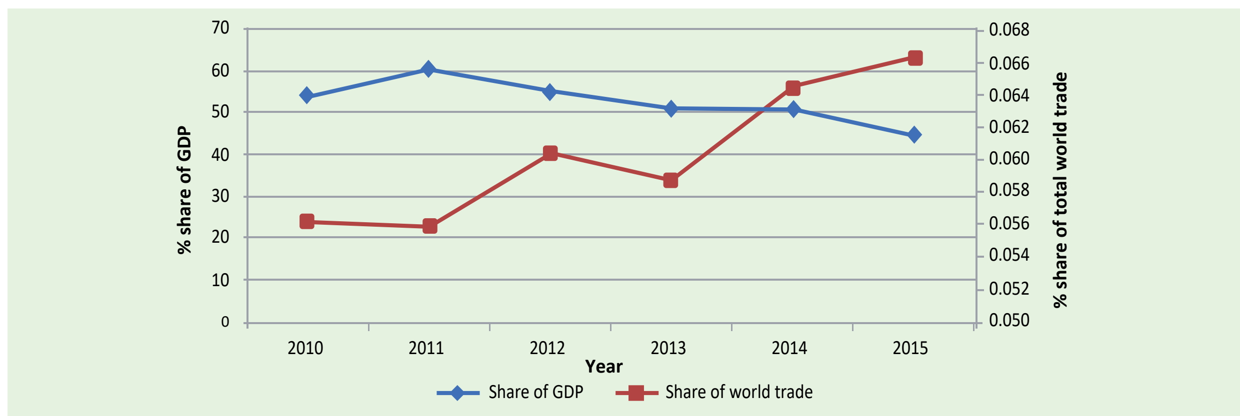
The retail and wholesale sectors face various constraints and challenges. For instance, the retail supply chain is fragmented and characterized by many small producers and retail traders with weak forward and backward linkages. Besides, the licensing regime in the retail and wholesale sector faces multiple charges at the National and County government levels, as well as regulatory agencies, thereby increasing the cost of doing business. The MSMEs operators also lack access to affordable credit for business expansion and development.

4.3 International Trade

International trade provides a platform for structural transformation of agricultural and industrial sectors through export of value added products. It provides an opportunity for enhancing the country's competitiveness and generating productive growth in the services sectors.

Although the share of trade in GDP has remained above 40 per cent since 2000, it has been declining since 2011 as shown in Figure 4.1. On the other hand, the share of Kenya's trade in total global trade is barely 0.1 per cent, although it has been increasing since 2013.

Figure 4.1: Kenya's trade performance, 2010-2015



Source: World Bank (2016a)

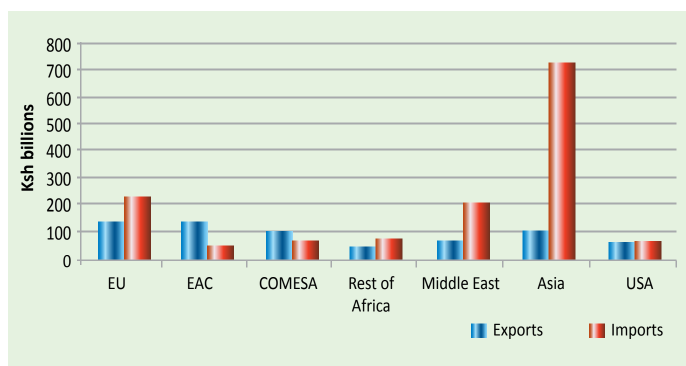
Kenya's total trade decreased by 7 per cent to Ksh 2,009.8 billion in 2016 from Ksh 2,155 billion in 2015. In 2016, total exports declined by 8.2 per cent to Ksh 578 billion whereas total imports declined by 9.2 per cent to Ksh 1,431 billion from the previous year. Consequently, the balance of trade deficit improved from Ksh 997 billion in 2015 to Ksh 853.7 billion in 2016. This was mainly due to favourable unit prices of major export commodities, coupled with falling fuel import prices during the year (KNBS, 2017).

The volumes of exports of tea, horticultural products and iron and steel rose by 14.1 per cent, 13.2 per cent, 11.9 per cent, respectively, whereas those for cement and soda ash declined by 38.4 per cent and 5.1 per cent, respectively. The large decline in cement is partly attributed to expansion of domestic demand during the construction of the Standard Gauge Railway (SGR) project. The unit price of one kilogramme of tea decreased by 11.4 per cent to Ksh 259 in 2016 due to increased supply . The unit price of coffee remained unchanged at Ksh 472 in 2016. The average price of soda ash increased from Ksh 22,925 per tonne in 2015 to Ksh 20,998 in 2016.

It is notable that apart from the EAC and COMESA countries, Kenya has a deficit trade balance with the other trading partners as indicated in Figure 4.2. For instance, Kenya had a deficit in excess of Ksh 762 billion, Ksh 212.6 billion and Ksh 195 billion with the Asian economic bloc, the European Union and the Middle East, respectively, during 2016.

The leading export earners were tea, horticulture, articles of apparel and clothing accessories and coffee which collectively accounted for 54.6 per cent of total export merchandise. Tea was the leading source of foreign exchange with revenue from the commodity rising by 1.2 per cent to Ksh 124.5 billion in 2016. The value of horticultural exports rose from Ksh 101.9 billion in 2015 to Ksh 110 billion in 2016. Foreign earnings from coffee rose for the second consecutive year to Ksh 21.4 billion in 2016. Revenue from the sale of articles of apparel and clothing accessories and iron and

Figure 4.2: Kenya's trade balance during 2016

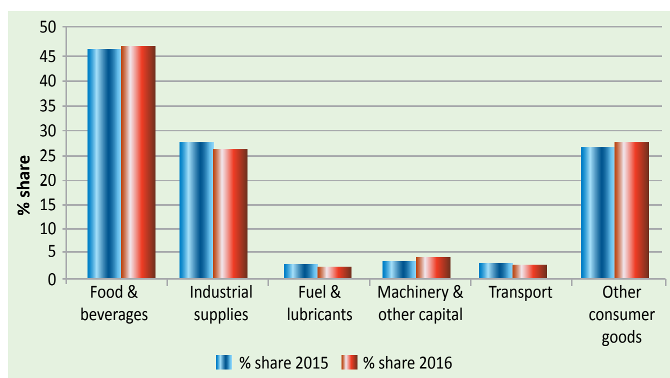


Data source: KNBS (2017)

steel increased to Ksh 30.7 billion and Ksh 13.2 billion, respectively, in 2016. Revenue arising from the export of soda ash, fluorspar and tobacco and tobacco manufactures declined by 13.0 per cent, 41.0 per cent and 7.5 per cent , respectively, during the review period.

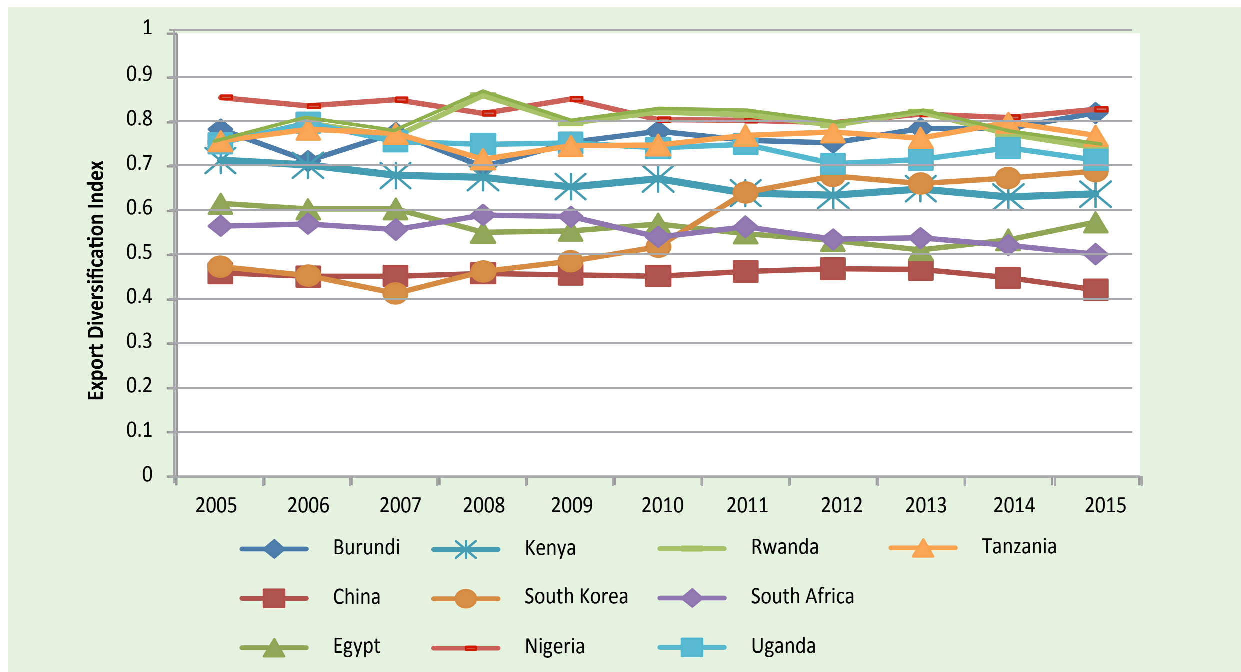
In terms of broad economic category of products, food and beverages remained the dominant source of export earnings and increased to 45.2 per cent in 2016 or 228.8 billion, respectively (Figure 4.3). The bulk of this category was in unprocessed form for household consumption. Non-food industrial supplies accounted for 24.5 per cent while other consumer goods accounted for 25.6 per cent of export earnings valued at Ksh 129.9 billion in 2016.

Figure 4.3: Domestic exports by broad economic category, 2015-2016



Source: KNBS (2017)

Figure 4.4: Export diversification in selected countries, 2005-2015



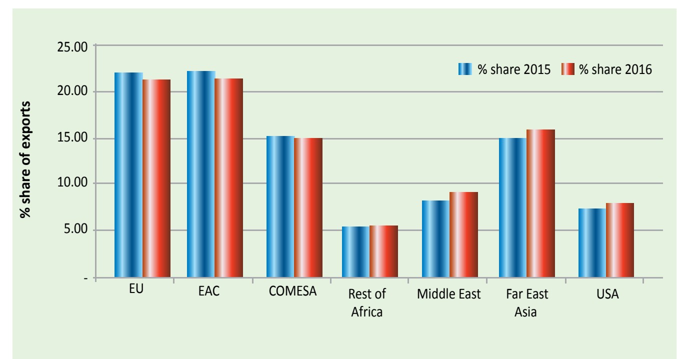
Source: http://unctadstat.unctad.org/wds/TableViewer/downloadPrompt.aspx (accessed on 18th March, 2017)

A major concern is that Kenya's exports exhibit lower levels of diversification compared to other trading partners such as China, Egypt and South Africa (Figure 4.4). The diversification index has been declining or stagnant in the recent past especially in terms of the extensive margins or expansion through undertaking new export products. Diversification of the agricultural export base and the economy across sectors is a positive long run strategy for sustaining growth and development.

Kenya's export destination market is narrow with over 70 per cent of total exports being destined to only 15 countries globally. During the year 2016, Africa was the leading destination of the country's exports accounting for 40.6 per cent of total exports (Figure 4.5). Total exports to African countries declined marginally from Ksh 242.0 billion in 2015 to Ksh 234.7 billion in 2016. The combined EAC and COMESA markets accounted for 35.5 per cent of total exports and 87.4 per cent of total exports to Africa. The limited penetration of Kenya's exports to other markets in the African region is mainly due to restrictions occasioned by tariffs and non-tariff barriers.

The European Union was the second leading destination of exports with export earnings accounting for 21 per cent or Ksh 121.3 billion during 2016. The Netherlands, United Kingdom and Germany were the three major export destinations within the EU region with the main exports being

Figure 4.5: Leading export destinations, 2015-2016



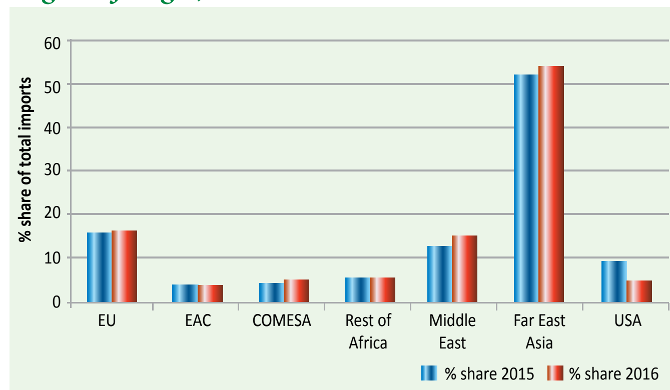
Source: KNBS (2017)

horticultural products. Export earnings from Asia rose to Ksh 140.5 billion in 2016 or 15.6 per cent of total export earnings. Kenya earned Ksh 40.3 billion worth of exports to Pakistan in 2016 followed by United Arab Emirates (UAE) (Ksh 31.0 billion) and Afghanistan (Ksh 15.0 billion). Tea was the major export product to these countries. The other important market for Kenya was the United States of America (USA) where articles of apparel and clothing accessories were the leading export products. The USA market constituted about 7.5 per cent of total export earnings during 2016.

In 2016, the value of total imports declined by 9.2 per cent to Ksh 1,431.7 billion in 2016 from the value Ksh 1,577.6 billion in 2015. This was largely due to decline in value of oil imports to Ksh 183.8 billion owing to reductions in international oil prices. In addition, there was a marked reduction in the value of importation of aircraft and associated equipment to Ksh 7.7 billion in 2016 from Ksh 83 billion, and reduced importation of iron and steel by 14.5 per cent to Ksh 75 billion while motor vehicle importations also declined by 27.0 per cent to Ksh 85.8 billion. The importation of industrial machinery rose by 19.8 per cent to Ksh 253.4 billion in 2016. The latter remains the leading imports accounting for 17.7 per cent of total imports in 2016. The other major imports include petroleum products (12.8%), road vehicles (6.0 %) and iron and steel (5.3%).

The leading sources of Kenya's imports were Asia (China and India) and the European Union, jointly accounting for more than 50 per cent of total imports in 2016 (Figure 4.6). The reduction in the share of imports from USA was on account of reduced importation of aircrafts and associated equipment during 2016 beginning from the year 2014. The major imports from China include mobile phones, household goods and steel materials used in the construction of the Standard Gauge Railway.

Figure 4.6: Share of Kenya's imports by country/ region of origin, 2015-2016



Source: KNBS (2017)

4.4 Regional Trade Arrangements

Kenya is a member of the following regional trade agreements: EAC, COMESA, EAC-COMESA-SADC Tripartite Free Trade Agreement, and the African Union Continental Free Trade Area. These agreements have an influence on Kenya's trade and economic performance.

4.4.1 East Africa Community

The EAC market had a combined GDP of US$ 147.5 billion and a population of 145.5 million persons in 2015. The membership of the EAC has since expanded from the original three constituting Kenya, Uganda and Tanzania to five in 2007 following the entry of Burundi and Rwanda and later on the Republic of South Sudan in April 2016.

The EAC integration process is defined in four phases, namely: a Customs Union, a Common Market, a Monetary Union, and ultimately Political Federation. The Customs Union came into force in 2005 and its objectives were to liberalize and promote trade and investments, competitiveness and industrial diversification. The Common Market was established in 2010 with the objective of consolidating the Customs Union and to provide for free movement of goods, persons, services, labour, capital and the rights of establishment and residence in the EAC region.

Figure 4.7: Kenya's trade balance in the EAC, 2012-2016

Source: KNBS (2017)

Subsequently, the Monetary Union protocol was signed in 2013 to maintain monetary and financial stability in facilitation of integration for sustainable economic development.

Kenya has maintained a positive trade balance within the EAC over the years. However, the surplus has been gradually declining since 2011 from Ksh 110.3 billion to Ksh 88.8 billion in 2016 as indicated in Figure 4.7 (KNBS, 2017). This was due to increased imports of agricultural products, including cereals and sugar to meet local demand.

The declining surplus in the trade balance is also largely attributed to strengthening of the manufacturing sector in the other partner states due to the window of protection provided during the initial stages of implementation of the Customs Union. In addition, there are persistent restrictions and non-tariff barriers imposed on Kenyan products destined for export in the region. Between 2014 and June 2016, 17 new measures were introduced in Tanzania, 13 in Kenya, 10 in Uganda, 4 in Rwanda and 2 in Burundi (EAC, 2016f).

Figure 4.8: Kenya's exports to EAC, 2012-2016

Source: KNBS (2017)

The EAC region is the leading Kenya's export destination and accounted for 21.1 per cent of total exports in 2016. This was mainly attributed to liberalization of trade under the Customs Union and Common Market regimes. In 2016, Kenya exported Ksh 121.7 billion worth of goods and services to the EAC compared to Ksh 126.8 billion exported in 2016, which represented a 4 per cent decline (KNBS, 2017). Uganda has been the leading destination for Kenyan exports followed by Tanzania, Rwanda and Burundi in that order (Figure 4.8). Uganda absorbed Ksh 62.2 billion worth of exports from Kenya compared to Ksh 68.8 billion in 2015 mainly due to decline in exports of cement, petroleum products, articles of plastics, alcoholic beverages and salt. Kenya's exports to Tanzania, on the other hand, marginally increased from Ksh 33.7 billion in 2015 to Ksh 34.8 billion in 2016. The increase in Kenya's exports to Tanzania could be partly attributed to a 28 per cent growth in re-exports. Kenya's imports from the EAC region have been growing since 2013 from Ksh 28.8 billion to Ksh 40.2 billion in 2015 before declining to Ksh 33.0 billion in 2016 (Figure 4.9). Uganda and Tanzania are the leading import origins. Uganda recorded a decline of 13.5 per cent in value of imports from Ksh 22.3 billion in 2015 to Ksh 19.2 billion in 2016. The imports from Uganda are mainly tobacco, raw cane, sugar and un-milled maize. Tanzania registered a 35.7 per cent decline in her exports to Kenya from Ksh 19.9 billion in 2015 to Ksh 12.8 billion in 2016. The major import products from Tanzania include furnishing articles, paper and paper board, maize, electric transformers, textiles, rice, animal products, tubes and pipes, flour and meals of oil seeds, and vegetables, among others.

Figure 4.9: Kenya's imports from EAC, 2012-2016

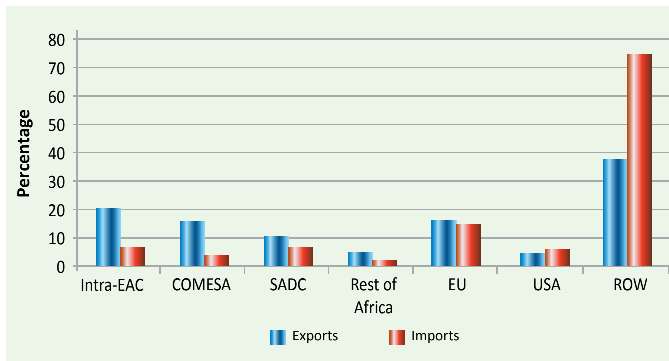
Source: KNBS (2017)

The EAC region undertakes trade in goods with the rest of the world as indicated in Figure 4.10. According to EAC (2016b), intra-EAC trade was 9.2 per cent of total EAC trade during 2015; that is, total intra-EAC trade was US$ 5.1 billion against US$ 55.4 billion total EAC trade. The total EAC exports were US$ 16 billion against US$ 39 billion imports or US$ 23 billion trade deficit. The main exports from the EAC include tea, coffee, cocoa and horticultural products as well as mineral ores (especially gold and diamond).

Intra-EAC imports accounted for 4.9 per cent total EAC imports during 2015. The EAC is therefore heavily reliant on imports from the rest of the world. The key imports from the rest of the world include petroleum products, machinery and electronics, motors, iron steel and plastics, pharmaceuticals, and cereals, specifically rice. Therefore, there is potential for Kenya to increase her market share in the EAC market taking into account the existing market access preferences by diversifying her exports.

The EAC Customs Union also provides for special considerations under exemptions and remissions schemes (EAC, 2004). Most imported goods granted exemptions and remissions include goods for investment projects, aid-funded projects, charitable organizations, embassies and consulate goods (EAC, 2016g). These exemptions are often open to abuse, which may result to loss of government revenue. For instance, the value of goods imported under exemptions and remissions regime in Kenya increased by 3.1 per cent to reach US$ 3,126.5 million in 2015 from US$ 3,032.8 million in 2014. Consequently, revenue

Figure 4.10: Trade flow for the EAC in 2015



Source: EAC (2016b)

foregone increased by 7.0 per cent to US$ 664.2 million in 2015 from US$ 621.0 million in 2014. This revenue foregone rose to 1.1 per cent of GDP in 2015 compared to 1.0 per cent in 2014.

With regard to trade in services, the EAC partner states committed to liberalize seven sectors under the Common Market Protocol (EAC, 2009). These sectors are: business, communication, distribution, education, financial, tourism and travel and transport sectors. Liberalization follows a positive list approach which involves scheduling only those sub-sectors a country is willing to open up. Kenya made a total of 63 commitments in the various services sub-sectors.

The EAC market provides a platform for a services-led transformation in Kenya. Several IT-intensive services sectors such as telecommunications, finance, transport, tourism and business services have prospered over the past decade. Kenya's Vision 2030 prioritized a number of sectors in driving transformation and these include tourism, retail trade, business process outsourcing, and financial services. Overall, the growth and expansion in modern services has lowered transaction costs and created spill-overs of knowledge to other sectors while stimulating demand for traditional services such as trade and distribution.

Kenya is a regional leader in highly productive technology services including financial, telecommunications and distribution services. For example, M-Pesa services have revolutionized financial transactions making the country a world leader in mobile banking services. The total number of mobile money subscriptions reached 31.9 million by December 2016. More than Ksh 1.1 trillion was transacted through mobile phone transfers between October and December 2016 alone (Communications Authority of Kenya, 2017). Kenya's growing importance can further be attested by high profile investment ventures by leading global IT-related companies in the recent past including IBM and Microsoft. Thus, the country boasts of a deep telecom penetration, strong private sector, skilled workforce, and critical mass of technology companies. Presently, over 11 multinational and local banks use Kenya as a hub for their regional operations. Specifically, four Kenyan banks, namely Kenya Commercial Bank, Equity Bank, Fina Bank and Commercial Bank of Africa have more than 63 branches in Rwanda, Uganda, Tanzania and South Sudan. In addition, Nakumatt has opened branches in Uganda, Rwanda and Tanzania.

Besides, liberalization of professional services has potential spill-over effects in the growth of the economy by increasing productivity and lowering transaction costs. For instance, accounting and legal services can help reduce transaction costs while engineering services contribute to development of infrastructure that is essential for economic growth. To expedite liberalization of professional services, the Protocol calls for harmonization and mutual recognition of academic and professional qualifications in accordance with Article 11.1(a) of the Common Market Protocol (CMP) adopted during the 22nd meeting of the Council of Ministers. In this regard, Kenya has signed Mutual Recognition Agreements (MRAs) with Rwanda, Tanzania and Uganda in engineering services, architectural services, and accounting, auditing and book-keeping services (EAC, 2016f).

However, there are constrains on movement of services in the region, particularly non-recognition of certificates of origin. The EAC Common Market Scorecard 2016 (EAC, 2016f) identified 59 non-

conforming measures (NCMs) in 2015 in over 600 laws and regulations governing the four committed services. Of these, Tanzania has the highest number of NCMs at 27 per cent followed closely by Kenya at 24 per cent, Rwanda and Uganda at 17 per cent, and Burundi at 15 per cent. Professional services account for 71 per cent of the total identified NCMs of which engineering (38%), accounting (29%), legal services (19%), and architecture services (14%) contribute the greatest shares. The rest of the NCMs are found in road transport (25%), telecommunications (2%) and the distribution sector (2%).

In terms of welfare, empirical studies on EAC integration indicate net welfare gains due to lower transaction costs and elimination of internal tariffs, reduced prices, availability of greater variety and better quality products and employment generation. Specifically, the study by Mayer and Thoenig, (2016) on the EAC Customs Union found 0.45 per cent welfare gains in real GDP. The results were consistent with the earlier by Onyango (2012), which also established that Kenya experienced net positive welfare effects during the first five years of implementing the Customs Union trade regime. The largest welfare gains are realized from products designated as sensitive, including vegetable products (21.6%), textiles and textile articles (20.8%), prepared foodstuffs (19.6%) and paper and products (13.9%). These are products for which Kenya has competitive disadvantages but the region can supply to the domestic market at lower costs. The welfare gains are also attributed to realignment of prices and reduction of domestic prices induced by tariff reforms, reduced barriers to cross-border trade, and hence greater efficiency and investments.

4.4.2. COMESA Integration

COMESA comprises 19 member states with a population of about 500 million persons and combined GDP of US$ 710 billion in 2015. So far, 15 out of the 19 member states have joined the Free Trade Area (FTA). This is the largest FTA bloc in Africa. The key integration programmes include the FTA which has been implemented since 2000; services liberalization in financial, communication, transport, tourism sectors; as well as movement of persons. The other programmes include infrastructure (transport, energy, ICT); agriculture (Comprehensive Africa Agriculture Development Programme–CAADP); industry and SMEs; gender; peace and security; science technology and innovation; intellectual property; and international negotiations.

Kenya's trade balance in COMESA has been positive. The exports to COMESA region are mainly tea, cement, lubricating grease, palm oil, salt, cigarettes and beer, as well as steel and iron products. Kenya has a high trade potential in a number of products including unmanufactured tobacco, tanned or crust skins, skins, fruit juices, original sculptures, basket work plaits and similar products of plaiting materials.

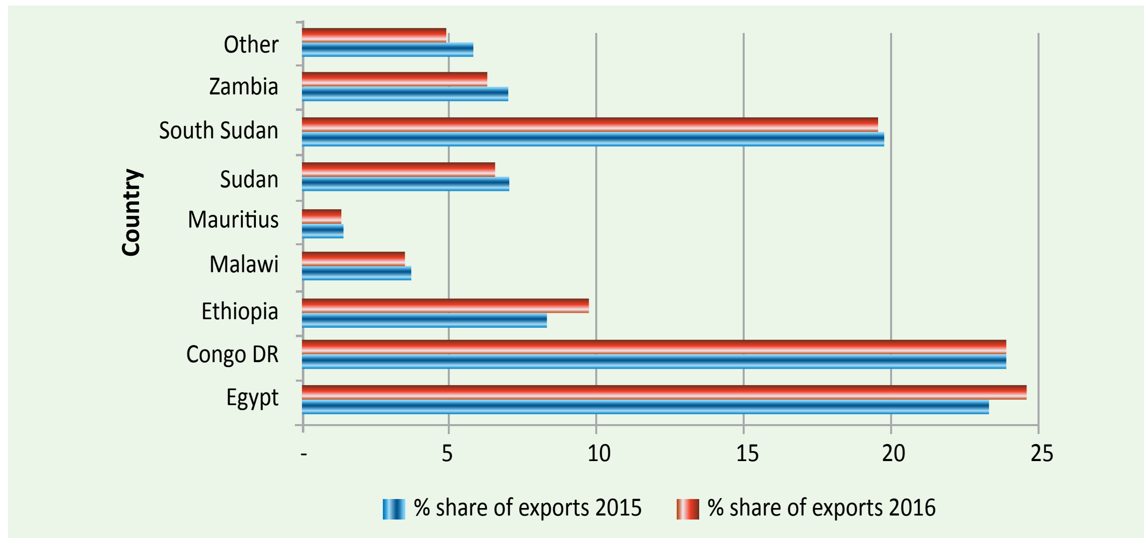
The growth of Kenya's exports to COMESA has helped to maintain a balance of trade surplus over the years. The trade balance has remained stable over recent years averaging about Ksh 40 billion during the last 5 years (Figure 4.11).

Outside the EAC, Kenya's exports to COMESA dropped from Ksh 85.9 billion in 2015 to Ksh 83.3 billion in 2016 and accounted for 14.4 per cent of total exports. Egypt and the Democratic Republic of Congo (DRC) and South Sudan are the leading export destinations for Kenya within COMESA accounting for 24.7 per cent, 24 per cent and 19.6 per cent of exports, respectively in 2016 (Figure 4.12). Tea remains Kenya's export product to Egypt. The other

Figure 4.11: Kenya's trade balance in COMESA, 2012-2016

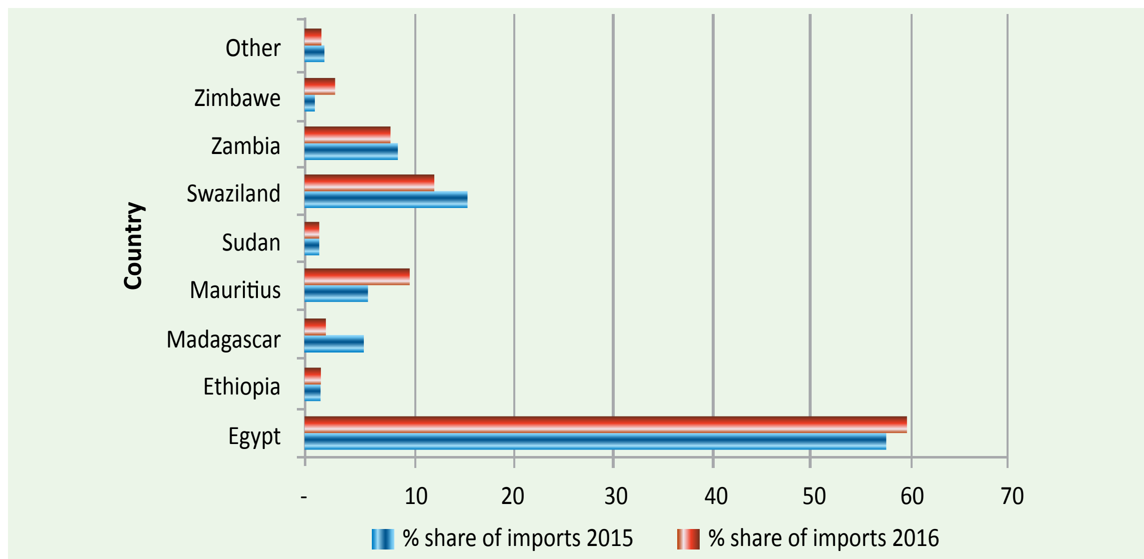
Source: KNBS (2017)

Figure 4.12: Kenya's major export destinations within COMESA, 2015-2016



Source: KNBS (2017)

Figure 4.13: Major import origin for Kenya within COMESA, 2015-2016



Source: KNBS (2017)

major export products to COMESA include consumer goods, metals, plastics and rubber and food products. The major export products to South Sudan include vegetable and oil products, medicaments, vegetable fats and oils, articles of plastic, soap, electrical machinery and telecommunications equipment, among others.

Kenya's imports from COMESA increased by 12.8 per cent from Ksh 43.8 billion in 2015 to Ksh 49.5 billion in 2016 (KNBS, 2017). Egypt remained the leading origin for Kenya's import products in 2016 with Ksh 30 billion worth imports as shown in Figure 4.13, representing 61 per cent of total imports from the region. This was a 16 per cent growth compared to Ksh 25.8 billion recorded in 2015. This was followed by Swaziland and Mauritius at Ksh 6.4 billion and Ksh 5.2 billion worth of imports, respectively. The main products imported by Kenya from COMESA region

include raw sugar, cleansing preparations, napkins, napkin liners and sanitary materials, among others.

Kenya has a negative trade balance with Egypt (Figure 4.14). Over 90 per cent of export products to Egypt are tea and other vegetable and food products. However, imports from Egypt are more diversified in nature and include manufactures, chemicals, foods, machinery and transport equipment and textiles.

Figure 4.14: Kenya's bilateral trade with Egypt, 2012-2016

Source: KNBS (2017)

4.4.3 EAC-COMESA-SADC Tripartite Free Trade Area

The Tripartite Free Trade Area (TFTA) which comprises COMESA, EAC and SADC was launched on 10th June 2015 as a building block towards the Continental Free Trade Area. The general objectives of the TFTA are: to promote economic and social development in the region; to create a large single market with free movement of goods and services to promote intra-regional trade; to enhance regional and continental integration; and to build a strong Tripartite Free Trade Area for the benefit of the people of the region.

The TFTA has so far been signed by 17 out of the 26 members of the Tripartite, including Kenya. The 26 countries represent 48 per cent of the African Union membership and account for 51 per cent of continental GDP with a combined population of 632 million. If the TFTA countries were one country, it would be the thirteenth largest economy in the world. Merchandise trade within the Tripartite region grew from US$ 23 billion in 2004 to US$ 55 billion in 2012 – an increase of 140 per cent during this period, reinforcing the 'Africa rising' narrative (UNECA, 2015).

The TFTA is anchored by three pillars, namely market integration, industrial and infrastructure development. The pillars are mutually supportive in achieving the desired sustainable socio-economic development in the tripartite region and contribute to the realization of the African Economic Community. Therefore, the TFTA augurs well for expanding investment in infrastructure, connectivity and production linkages in regional value chains as a platform for scale economies and improving backward integration into global value chains in Africa.

4.4.4 African Union Continental Free Trade Area

The main challenge facing Africa is how to structurally transform Africa's economies for sustainable growth and equitable distribution of benefits among all people, and Africa-wide integration has the potential.

In pursuit of the collective good of developing a transformation strategy, the decisive action of establishing the African Union's Continental Free Trade Area (CFTA) began following the decision during the 19th African Union Summit on 3rd July 2012 which focused on boosting intra-African trade (BIAT).

The BIAT Action Plan which was adopted in January 2012 by the Summit provides the framework that member states agreed to implement in order to enhance the level of intra-Africa trade from 10 per cent to 25 per cent in the next decade (AU, 2012). The BIAT seeks to make intra-Africa trade an important driver of development and regional integration in Africa.

The 19th summit called for the development of trade-related infrastructure, productive capacity building programmes, and an enabling policy and legal framework by the African Union Commission, Regional Economic Communities (RECs) and member states to boost intra-African trade. This provides the platform to facilitate a process of inclusive structural transformation of African countries as envisaged in AU's Agenda 2063. It is further expected to promote the United Nation's 2030 agenda for sustainable development.

Africa's share of merchandise trade and foreign direct investment flows are relatively small. The share of Africa's exports to global exports is barely 1 per cent whereas its share of global foreign direct investment net flows is about 3.9 per cent. Yet, Africa is endowed with abundant natural resources such as oil, gas and minerals. Low participation in global and intra-Africa trade is partly attributed to poor status of infrastructure, poor governance, and political instability prevalent in some countries (United Nations, 2016).

The CFTA can lift Africa from the state of under-development by boosting intra-African trade and consolidating development models in existing regional economies. For instance, the EAC, COMESA and SADC have identified development of transport corridors as the tools for infrastructure development and trade facilitation. The northern and central corridors in East Africa link Burundi, Kenya, Rwanda, Tanzania and Uganda and also provide access to the people of the Democratic Republic of Congo and South Sudan. On the other hand, the Maputo development corridor, often referred to as the most successful, is a rail and road link between Maputo and the provinces of Mpumalanga and Gauteng in South Africa and also provides Swaziland with an alternative to the port of Durban in South Africa.

The CFTA has adopted a phased approach to integration. The first phase of negotiations is liberalization of trade in goods and services and the second phase is intellectual property rights, competition and investment protection. Parallel to the negotiations, the AU summit made bold steps in pushing forward the continental integration agenda, going by the decisions during its 27th Ordinary Session in Kigali, Rwanda. For instance, the summit agreed to the proposal to fund AU operations from the proceeds of 0.2 per cent levy on all eligible imports and also launch the African passport to facilitate movement of persons within the continent. Kenya, Chad, Ethiopia and the Democratic Republic of Congo have initiated appropriate legislations with regard to funding the AU operations.

In designing the CFTA, it would be important to identify and consider the likely implications of the anticipated trade forms especially the adjustments costs and impact of government, private sector and the vulnerable groups such as women and the youth.

In order to minimize the negative impacts of trade reforms, it would be important to gradually implement the CFTA provisions, encourage member states to mainstream trade-related issues in national development plans and mainstream gender as a central pillar in the CFTA in order to ensure that women benefit from the opportunities.

4.5. Bilateral Trade Agreements

4.5.1 Kenya-Ethiopia Cooperation

In June 2016, Kenya and Ethiopia renewed their commitment to the implementation of the Special Status Agreement which was signed in 2012. The two countries agreed to ensure that the agreement plays a critical role in enhancing trade and investments between the two countries. Trade between Kenya and Ethiopia is still low. The value of Kenya's exports to Ethiopia rose from Ksh 6.9 billion in 2014 to Ksh 8.1 billion in 2016. It is expected that full implementation of the agreement will boost trade and investment between Kenya and Ethiopia.

Other critical issues under consideration in the bilateral cooperation include joint border controls, private sector role in enhancing trade and investment, construction of Moyale One-Stop Border Post

(MOSBP), joint railway commission (JRC), and Joint Grand Kenya/Ethiopia Marathon as a sports brand to promote cultural cooperation.

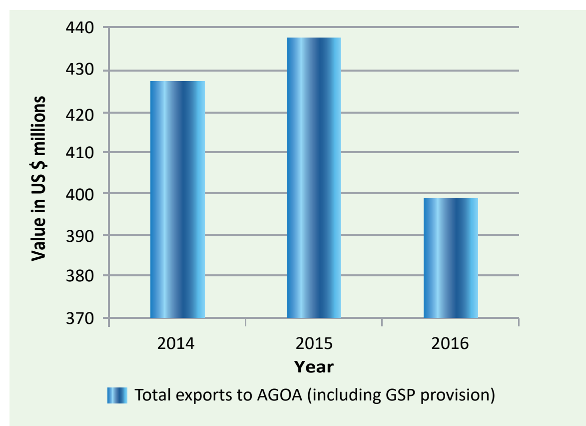
4.5.2 Bilateral Trade between Kenya and the United States

Kenya conducts her trade with the US under the Most Favoured Nation (MFN) and the African Growth and Opportunity Act (AGOA). Kenya had a favourable trade balance with the US in 2016. Total exports stood at US$ 551.5 million against US$ 393.9 million imports of goods during 2016 (Figure 4.15). The decline in total imports was attributed to reduction in the importation of aircraft and transportation equipment.

The bulk of Kenya's exports to the US include woven apparels, knit apparels, coffee, spices and edible fruits. On the other hand, top categories of imports from the US include aircraft, machineries, cereals, and electrical equipment.

With regard to AGOA preferences there was a decline in total exports during 2016 after a gradual increase over the period 2013-2015 as shown in Figure 4.16. Total exports under AGOA declined from US$ 434.0 million in 2015 to US$ 394.8 million in 2016.

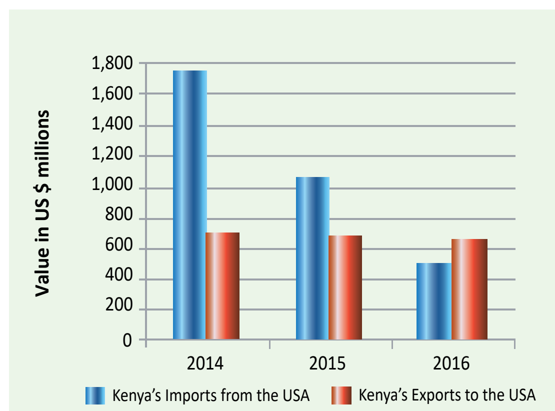
Figure 4.16: Kenya's exports to the US under AGOA, 2014-2016



Source: US Department of Commerce (2017)

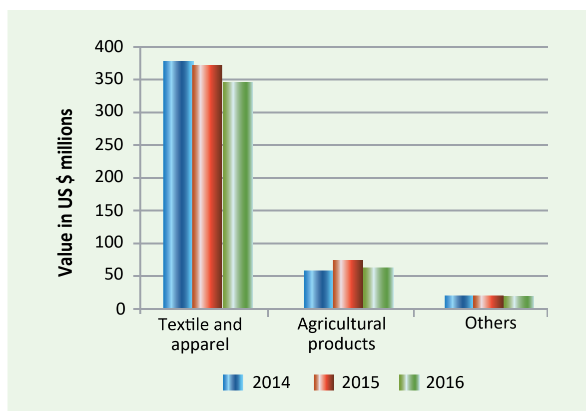
Textile and apparel products are the main commodities of export and stood at US$ 339.3 million in 2016 down from US$ 367.3 million in 2015, representing a 7.9 per cent decline. Agricultural products are the second leading export commodities and recorded US$ 50.6 million in 2016 down from US$ 61.8 million in 2015 (Figure 4.17). Other export sectors include: miscellaneous manufactures, forest products, footwear, chemical and related products, minerals and metals, electronic products, transportation equipment, and machinery.

Figure 4.15: Total trade between Kenya and the USA, 2014-2016



Data Source: US Department of Commerce (2017)

Figure 4.17: Kenya's leading exports sector under AGOA, 2014-2016



Data Source: US Department of Commerce (2017)

4.6 Conclusion

Domestic Trade

The retail trade is dominated by micro, small and medium enterprises (MSMEs) that also play a key role in cross border trade through activities of Informal Cross Border Traders. However, the sector is characterized by informal institutional arrangements which constrain their growth potential.

The implementation of MTP II flagship projects for the wholesale and retail sector has been slow. As a result, the retail supply chains remain fragmented with unreliable supplies and poor quality of products. In addition, inadequacy of business premises coupled with lack of basic facilities and infrastructure to handle perishable agricultural products for wholesale traders constrains the growth of these enterprises.

Further, the domestic trade licensing regime faces multiple charges at the national and county government levels, as well as regulatory agencies. This tends to increase the cost of doing business.

Due to weak regulatory framework, trade in services has inadequate support in business process outsourcing. Moreover, inadequate skilled labour impedes the growth of these services, and small firms are unable to enjoy economies of scale.

International Trade

Kenya has a persistent balance of trade deficit. Diversification of exports is limited, with the bulk of exports being raw materials and primary products while over 70 per cent of total exports are destined for only 15 countries globally. Kenya's trade with other African trading blocs outside EAC and COMESA stood at 12.6 per cent in 2016. The small share of exports exemplifies potentials for expanding Kenya's export market in the African markets.

Increased regional market access by Kenya is partly hampered by persistent non-tariff barriers that exist within EAC and COMESA and also the increased manufacturing activity in the region. However, with intra-EAC imports only standing at 4.9 per cent, there is opportunity for Kenya to diversify its manufactured goods to the region.

The growing support for a wider free trade area in Africa provides an opportunity to enhance intra-Africa trade and increase participation in the global trading system. However, participation in multiple integration arrangements poses challenges in harmonizing and applying various trade instruments across the various RTAs, and establishment of effective regional value chains. It is envisaged that negotiations of the Tripartite Free Trade Area (Tripartite FTA) as well as the Continental Free Trade Area (CFTA) would not only help harmonize trade policies among member states in various regional economic blocs but also establish industrial linkages. The CFTA opens the way to develop integrated regional value chains in agriculture, manufacturing and services.

Trade and trade-related aspects in Kenya are poorly coordinated in implementation partly due to overlaps, duplications and sometimes conflict amongst various implementation agencies and other stakeholders. Moreover, participation in multiple negotiations also requires huge investments in capacity, internal coordination amongst various state and non-state agencies, and increased budgetary allocations for contributions and to support effective negotiations.

4.7 Recommendations

Domestic Trade

Formalize MSMEs expansion of business development programmes, focusing on strengthening and integrating the wholesale and retail supply chains, and involving the private sector, with capacity building support from government.

Prioritize the identification of appropriate physical spaces for construction of markets with appropriate storage and sanitary facilities. This requires

Retail food market in Kenya

partnerships between the national and county governments, and the private sector.

Rationalize and/or harmonize business regulations between national and county governments, national government agencies and between county governments themselves to reduce the cost of doing business. This would eliminate concerns regarding too many regulators and multiple tax payments, as well as other restrictions that affect free flow of goods in the domestic market.

Develop a comprehensive policy and regulatory framework to guide trade in various services. This includes capacity building programmes targeting entrepreneurs to enhance skills in support of growth of the services sector.

International Trade

Strategically expand the scope of export products through value addition or processing. This requires intensive market research and intelligence, and identification of various market needs in liaison with the private sector.

Strengthen bilateral engagement with other regional/African markets such as in SADC and ECOWAS as they have potential for market expansion.

Identify regional and eventually continental export value chains to respond to the volumes that may not be within the reach of a single country's exporters, and encompassing goods and services with increasing value added.

Establish a National Trade Commission to support the implementation of the National Trade Policy and coordinate bilateral, regional and multilateral trade issues. The recommended Commission should be empowered to investigate and analyze the impacts of dumped and subsidized imports on domestic industries, and provide appropriate advice on protections, safeguard measures and compensations.

Chapter 5

Tourism Promotion and Integration

Tourism plays a significant role in the global economy, but the African region is yet to exploit its full potential in the growing the sector. There is a significant gap between arrivals and receipts across the region that could reflect on the packaging of tourism products. With the projected future growth in global tourism, the region and Kenya specifically needs to position itself as a preferred tourist destination. Flagship projects highlighted in MTP II and various incentives put in place to boost tourism marketing are complementary in sustaining recovery of the tourism sector. Therefore, the efforts required to ensure the implementation of flagship projects aimed growing the sector need to be expedited. While global and regional downside risks could derail the recovery of the sector, Kenya needs to exploit the opportunities provided by the ranking of JKIA as a category one airport and the EAC initiatives to boost tourism in the region. In addition, enhancing investment in the sector is critical to increase provision of adequate accommodation facilities and M.I.C.E. infrastructure.

5.1 Introduction

Tourism is a major category of trade in services. Its contribution to GDP and employment reflects the economic activity (and employment) generated by hotels, restaurants and other hospitality facilities; travel agents and tour operators; meetings, incentives, conventions and exhibition events; tourism-related leisure activities; and airlines and other passenger transportation services (excluding commuter services). This chapter reviews Kenya's performance at global and regional levels

5.2 Regional and Global Highlights of Tourism

Tourism continues to make a significant contribution to the global economy. For example, in 2016, global travel and tourism grew by 3.9 per cent, generating an estimated US$1.45 trillion in receipts and export value (equivalent to 7 per cent of world's exports) from 1235 million arrivals (UNWTO, 2017). Global tourism supported over 290 million jobs in 2016, equivalent to 1 in 10 jobs in the global economy (WTTC, 2017). In the EAC region, tourism generated over US$ 15 billion in 2016 and supported employment for over 1.2 million people

(Table 5.1). Kenya had the highest tourism GDP in 2016 followed by Tanzania and Uganda. However, the sectoral contribution to GDP was highest in Tanzania, showing the relative importance of the tourism sector to Tanzania's economy. The tourism sector contributed more to employment generation in Tanzania compared to other members of the EAC.

Table 5.1: Contribution of tourism to GDP and employment in the EAC, 2016

Country	GDP (current prices)*	Contribution to GDP		Contribution to employment	
	US$ billion	US$ billion	(%)	Number	(%)
Kenya	68.92	6.7	9.8	399,000	3.5
Uganda	26.20	1.8	6.6	191,000	2.2
Tanzania	47.18	5.9	13.3	470,500	3.9
Rwanda	8.41	1.0	11.2	110,500	3.8
Burundi	3.13	0.2	5.5	43,500	2.2
Total	**153.84**	**15.6**		**1,214,500**	

Data Source: *IMF (2017); WTTC (2017)

In 2015, only 13 countries in Africa received over 1 million international tourists (Table 5.2). The three top countries (Morocco, South Africa and Tunisia) accounted for 45.7 per cent of total arrivals in Africa. Kenya was ranked 10th in Africa with 1.2 million tourist arrivals. Overall, average receipts per inbound tourist for Africa are estimated at US$ 618. Although Morocco had the highest arrivals in Africa the receipts per tourist were lower than the continental average and that of East African countries. Mauritius and Tanzania have the highest revenue per tourist in the continent (US$ 1,256 and US$ 1,806, respectively) which was double and triple that of Kenya, respectively. A possible reason for this is that the two countries' tourism products are well packaged in terms of pricing and attractiveness which encourages tourists to stay longer and spend more. The three top North African countries (Morocco, Tunisia and Algeria) are strategically placed geographically to receive short-haul, short-staying tourists from neighbouring European source markets and hence the low revenue received per tourist.

Table 5.2: Top 13 Africa destinations, arrivals, receipts, shares and tourist spending, 2015

Top 13 Africa destinations	Arrivals ('000)	Market share by arrivals (%)	Receipts (US$ million)	Receipts per tourist (US$)
Morocco	10,177	19.03	6,003	590
South Africa	8,904	16.65	8,235	925
Tunisia	5,359	10.02	1,354	253
Algeria	2,301	4.16	258	112
Zimbabwe	2,057	3.85	886	431
Botswana	1,966	3.55	977	497
Mozambique	1,552	2.90	193	124
Namibia	1,320	2.39	413	313
Uganda	1,266	2.29	791	625
Kenya	**1,180**	**2.21**	**723**	**613**
Mauritius	1,152	2.15	1,447	1,256
Tanzania	1,113	2.01	2,010	1,806
Ghana	1,093	1.98	897	821
Rest of Africa	14,026	26.89	8,882	633

Data source: UNWTO (2016)

South Africa being a regional economic hub receives a huge number of repeat tourists (holiday/leisure (93.8%), business (2.5%), studies (0.6%), work (2.0%), and others (1.1%)) from neighbouring countries. The bulk of foreign tourists (79.9%) arrived by road from neighbouring countries of Botswana, Lesotho, Mozambique, Namibia, Swaziland and Zimbabwe (i.e., cross-border travellers) of which Lesotho and Zimbabwe account for 28.6 per cent and 25.3 per cent, respectively. The remaining 20.1 per cent of inbound tourists (approximately 1.9 million annually) come from outside the neighbouring countries by air (19.7%) and sea (0.4%).

South Africa and all countries sharing its border are members of the Southern Africa Development Community (SADC). Guided by the provisions of the SADC Protocol on Development of Tourism (1998); the SADC Protocol on Facilitation of Movement of Persons (2005); and the Protocol on Transport, Communications and Meteorology

(1996); South Africa has abolished visa requirements for regional tourists from the SADC member states, implemented the tourism *univisa* which facilitates movement of tourists in the SADC region; and facilitated easy entry and exit by tour operators from SADC member states. In effect, this has led to growth in cross-border tourist arrivals into the country.

In 2016, Africa enjoyed a strong rebound (8% growth) after two previous weaker years. The continent has shown extraordinary resilience from challenges related to safety and security (UNWTO, 2016). However, Africa contributed only 4.7 per cent of the total global tourist arrivals in 2016 compared to Europe 50.2 per cent, Asia-Pacific 24.5 per cent, and North and South America 16.3 per cent. The EAC countries attracted only 0.4 per cent of global tourist arrivals.

International tourist arrivals and receipts worldwide are projected to grow by 3 – 4 per cent annually to maintain the positive growth achieved in 2016 (Table 5.3), through passenger transport services rendered to non-residents. The prospects for Africa in 2017 are also buoyant, led by growth in intra- and inter-regional source markets. To boost security in the continent, the African Union is working to stem threats emanating from terrorism through the African Union Mission to Somalia (AMISOM).

5.3 Performance of Tourism in Kenya

The MTP II (2013-2017) set to increase tourism arrivals and receipts to 3 million and Ksh 200 billion, respectively. It also targeted to increase bed-nights by domestic tourists from 2.8 million in 2012 to 4 million and to develop an additional 30,000 beds in high quality accommodation facilities across the country.

In 2016, the tourism sector was the second largest contributor in foreign exchange earnings in the country after the agricultural sector. It contributed about 10.0 per cent to GDP, 9.0 per cent to formal wage employment and 3.5 per cent to total employment. The tourism sector is on a recovery path attributable to the recent lifting of travel bans by governments from the key source markets in Europe and America, and the endorsement of Kenya as a safe destination by the UN World Tourism Organization (UNWTO). However, recent global developments including the *Brexit* and continuing instability in the Middle East pose key downside risks to the recovery.

In 2016, Kenya received 1,339,700 tourists, of which 65.3 per cent were international and 34.7 per cent were cross-border arrivals. Total arrivals grew by 13.5 per cent, international arrivals by 16.8 per

Table 5.3: Actual growth in global tourist arrivals and receipts in 2009-2016, and projections for 2017, (%)

		Actual								Projected
		2009	2010	2011	2012	2013	2014	2015	2016	2017
Arrivals	World	-3.9	6.6	4.6	4.7	4.7	4.3	4.6	3.9	3 – 4
	Europe	-5.1	3.1	6.4	3.9	4.8	2.3	4.7	2.0	2 – 3
	Asia-Pacific	-1.6	13.2	6.2	7.1	6.9	5.8	5.6	8.4	5 – 6
	Americas	-4.9	6.4	3.7	4.5	3.0	8.5	6.0	4.3	4 – 5
	Africa	4.5	9.3	-0.7	4.5	4.5	0.9	-2.5	8.1	5 – 6
	Middle East	-5.4	14.6	-9.3	3.2	-1.5	8.4	0.8	3.9	3 – 4
Receipts	World	-8.3	9.0	12.0	3.8	8.3	5.5	-3.7	3.1*	3.5

Data Source: UNWTO (2016), UNWTO (2017), WTTC (2017). * = provisional

cent and cross-border arrivals by 7.8 per cent over the previous year. In terms of share of arrivals, the USA took the lead, accounting for 7.31 per cent of total arrivals, UK, 7.20 per cent, India 4.79 per cent, Uganda 3.81 per cent, China 3.57 per cent, Germany 3.25 per cent, Italy, 2.68 per cent, South Africa 2.68 percent, France 1.53 per cent, Canada 1.43 per cent, the Netherlands 1.43 per cent, UAE 1.38 per cent, Tanzania 1.36 per cent and Rest of the World 57.6 per cent. Regarding mode of transport, 66.9 per cent of tourists arrived by air, 32.9 per cent by road (cross-border arrivals) and 0.2 per cent by sea (cruise ship). The main purpose of travel to Kenya remained holiday (71.9% of the arrivals), business and conferences (13.4%), transit (5.3%) and others (e.g. studies) 9.4 per cent. The sector generated Ksh 99.7 billion in tourist receipts in 2016 reflecting a growth of 17.8 per cent over the previous year.

Between 2008 and 2011, tourism sector in the country experienced tremendous growth, achieving a peak of 1.8 million arrivals and KSh.103 billion in receipts in 2011 (Figure 5.1). However, from 2012, international arrivals declined, attributed to the eurozone crisis, travel advisories due to perceived insecurity in the country and the uncertainty over the 2012 General election in Kenya. The sector's performance is on a gradual recovery although it is yet to regain the pre-2012 figures.

The UK has shown a slight decline while all the other markets have shown positive growth. This may be attributed to the *Brexit* which has led to a weaker pound, making destinations more expensive and thus reducing the number of tourists from the United Kingdom. The growing positive relations between Kenya, China and India may be contributing to the growth in tourists from the Asia region. Recovery in arrivals from Asia to year 2011 levels has helped to compensate for the recent decline in arrivals from the country's traditional European source markets. Decline in arrivals from the UAE has been attributed to the general instability in the Middle East and the recession in the UAE in particular due to depressed oil prices.

Uganda topped the list of arrivals from Africa followed by South Africa, Tanzania, Nigeria, Ethiopia and Rwanda. Growth in arrivals from Uganda is attributed to easing of cross-border travel requirements and the joint tourism marketing initiatives by Kenya, Uganda and Rwanda. Arrivals from India, Uganda, China, Nigeria and Ethiopia have fully recovered and surpassed the 2011 tourism performance figures.

Domestic tourism accounted for 3.5 million (or 54.2%) of total hotel bed nights occupancy in 2016 representing a growth of 10.8 per cent over the previous year. The rebound in domestic tourism numbers is attributed to growth in the middle-class in Kenya and stable macroeconomic conditions. The Kenya Tourist Board is working closely with other players in the industry to ensure that the needs of local tourists are met through tailor-made products.

The MTP II identified various measures towards improving the tourism sector and a number of them have been achieved. These include: completion of feasibility studies for the Isiolo and Lake Turkana resort cities; development of a cultural and heritage tourism strategy and an agro-tourism strategy; continued promotion of eco-tourism; development of a cradle of mankind tourist circuit; development of the Wildlife Conservation and Management Bill 2013; gazetting and rehabilitation of several national monuments and historical sites for tourist attraction; development of a National Strategy on Meetings Incentives Conventions and Exhibitions (M.I.C.E.); and formulation of the Tourism Act 2011 and a Sessional Paper No.1 of 2010 to guide the development of the sector.

However, the country has lagged behind in achieving some MTP II targets. These include: development of a master-plan to implement the proposed Lamu, Isiolo and Lake Turkana resort cities; development of coastal beach ecosystem management; enhancement of destination marketing programmes aimed at attracting tourists from new and emerging source markets; combating poaching and human-

Table 5.4: Kenya's tourist establishments classified by category, 2016

Category of establishment	1 Star	2 Star	3 Star	4 Star	5 Star	Total
Vacation hotels	-	5	8	8	2	**23**
Town hotels	2	33	18	12	8	**73**
Lodges	-	5	15	9	2	**31**
Tented camps	1	6	7	10	2	**26**
Villas, cottages and apartments	-	2	2	1	1	**6**
Restaurant	-	-	2	1	-	**3**
Sub-Total	**3**	**51**	**52**	**41**	**15**	**162**

Source: Tourism Regulatory Authority (2016)

wildlife conflict; marketing of under-utilized parks; implementation of ecosystem area plans; and development of Niche Products programme.

5.3.1 Hotel Capacity and Classification

Kenya has an estimated hotel bed-night capacity of 17.4 million, the coastal region accounting for 50 per cent. The country has over 65,000 hotel beds in 1,700 licensed hotels, out of which 8.2 per cent are classified. This falls below the global standard requirement of at least 100,000 hotel beds, and could limit the country's ability to hold major conferences and conventions. The classified hotels supply 39 per cent of the total number of beds in licensed hotels. The number of 5 star hotels is below those of competitor countries such as South Africa and this negatively impacts per capita tourist spending.

In 2016, a total of 162 accommodation establishments were star rated. The rated establishments have a total of 19,649 beds and 11,632 rooms. The classified establishments are categorized into: vacation hotels, town hotels, restaurants, lodges, tented camps and villas, apartments and cottages (Table 5.4). The emerging accommodation alternatives such as home-stays, villas and serviced apartments are posing a huge competition to traditional hospitality products.

5.3.2 Meetings, Incentives, Conventions and Exhibitions (M.I.C.E.)

The M.I.C.E. sub-sector is a growing segment of the tourism sector accounting for 27.5 per cent of annual tourism earnings. In 2016, Kenya hosted a total of 77,848 delegates. The premier events were the 10th WTO Ministerial Conference, 6th Global Enterprise Summit, United Nations Conference on Trade and Development (UNCTAD-14), and the Tokyo International Conference on African Development (TICAD VI). Each conference attracted at least 10,000 delegates. Therefore, the development of M.I.C.E. infrastructure is imperative in enabling Kenya to transform into a hub for regional conventions, which in turn will generate higher tourism receipts.

5.3.3 Tourism Marketing

Kenya has continued to allocate funds to support destination marketing strategies. This is supplemented by international fairs and exhibitions. The National Treasury allocated Ksh 4.5 billion in the 2016/2017 national budget to boost tourism marketing. The allocation was equivalent to 5.3 per cent of the Ksh 84.6 billion tourist receipts in 2015. Other incentives given include: reduction in park entry fees aimed at putting Kenya at a competitive advantage with other East African nations; scrapping of tax on tips and service charge to hospitality staff

to boost their pay; removal of Value Added Tax (VAT) on park entrance fees to lower the cost of visiting national parks; and removal of VAT on tour operator services to reduce the cost of safaris and excursions for foreign visitors.

In line with the above highlighted budget proposals, the Government in 2016/2017 implemented a number of initiatives aimed at providing incentives to increase domestic and international tourist arrivals. This included waiver of visa fees for children under 16 years, revision of park fees, and a Ksh 1.2 billion charter Incentive Programme to provide for a passenger subsidy of US$ 30 per seat filled by international passengers who terminate or disembark in Kenya.

The charter airlines were required to ensure that 80 per cent of their passengers terminate in Malindi or Mombasa as well as commit to operate the Kenyan route for at least two consecutive years to qualify for the programme. Landing fees for all charter airlines terminating their journeys at the Kenyan coast was waived in the programme that runs until 30th June 2018. It will be reviewed after six months to suit prevailing market conditions and based on performance. The aim of the programme was to increase tourism numbers to the coastal region, following a major dip in arrivals due to terror threats.

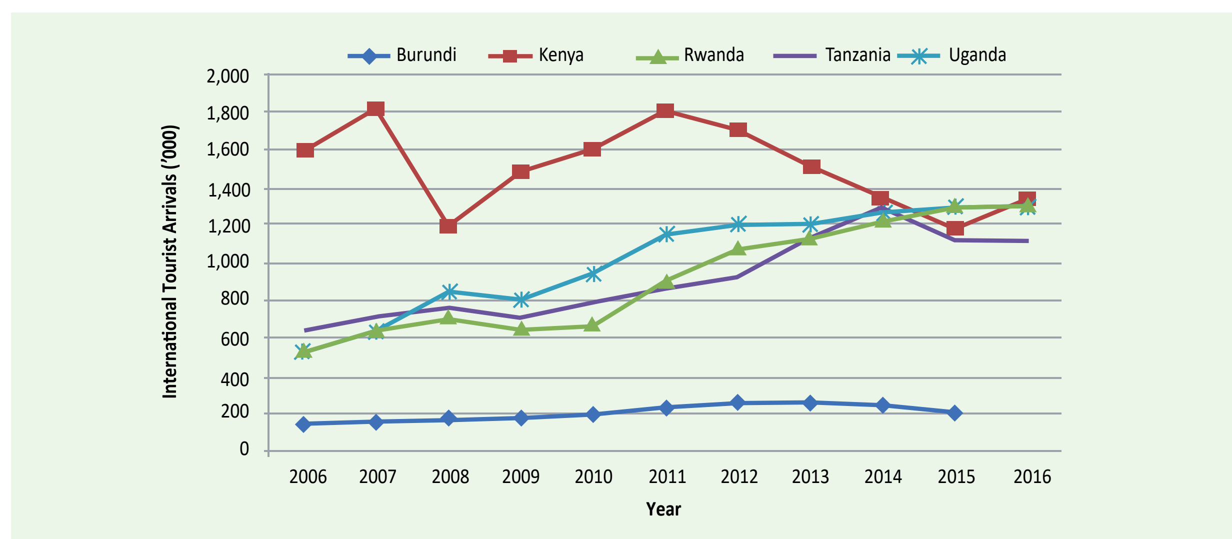
Park fees were also reduced from US$ 80 to US$ 60 for non-resident visitors in 2016/2017. The Visa fee waiver for children below 16 years of age applies to all nationalities and is aimed at positioning Kenya as a family holiday destination, thereby encouraging more family visitors into the country.

In February 2017, the United States approved non-stop flights between the US and Jomo Kenyatta International Airport (JKIA), giving JKIA a category one airport ranking. This is expected to boost direct long-haul tourist arrivals from the US and thus open up trade between the US, Kenya and the region especially through exports of horticultural products, apparels and other items under the African Growth and Opportunity Act (AGOA). Moreover, this development means that JKIA and Kenya are now regarded as safe for international air travel and offers an opportunity to boost tourist arrivals to the region from other countries besides the US.

5.4 Performance of Tourism Sector in the EAC Region

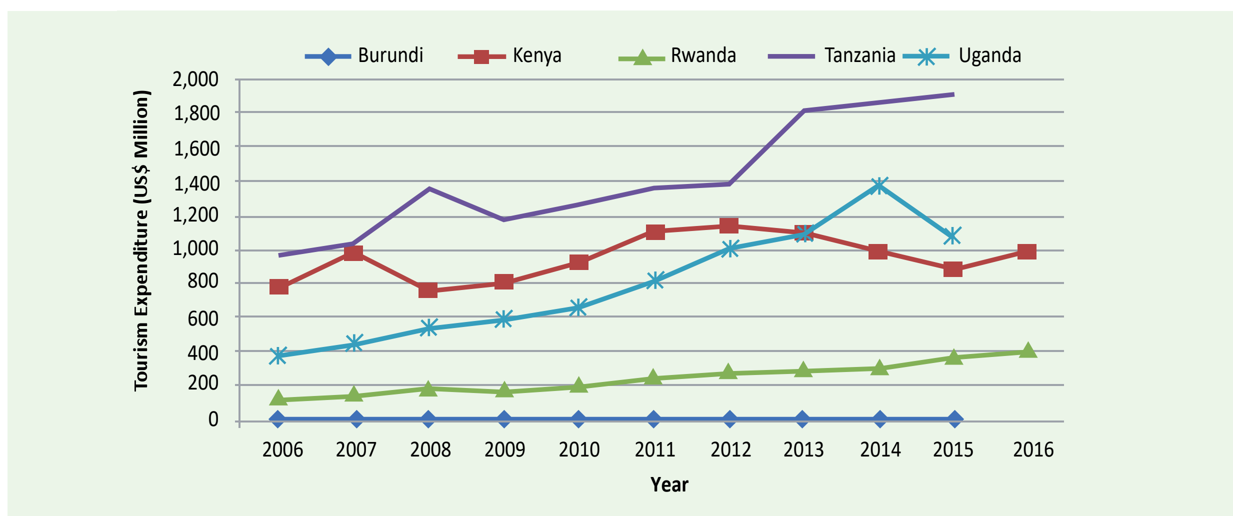
The EAC treaty promotes the region as a single tourist destination. Towards the attainment of this strategy, partner states are working together in the implementation of the Protocol on Tourism and

Figure 5.1: Number of international arrivals in the EAC, 2006-2016



Source: EAC member states' National Statistics (Various); (2016 data for Burundi not available)

Figure 5.2: Tourist expenditure, 2006-2016



Source: EAC States' National Bureau of Statistics (Various); (2016 data for Burundi, Uganda and Tanzania not available)

Wildlife Management and the Tourism Marketing Plan. Some of the strategies are a single tourist visa, joint tourism promotion portal and a standard criteria for classification of hotels and other facilities. The success of these strategies is expected to translate into higher arrivals and earnings as well as jobs created within the tourism sector. Key tourism indicators across the region show that there has been growth over the past decade.

Kenya has, on average, received more foreign tourists than any other country in the region. However, recent performance indicates falling numbers, with exception of Uganda whose inbound tourist numbers have been steadily rising since 2009 (Figure 5.1).

Although Kenya received almost an equal number of international tourists as Tanzania in 2014 and 2015 (Figure 5.1), Tanzania in 2015 earned more than twice the receipts that Kenya earned (Figure 5.2). Possible reasons for this include: ownership structure of tour operator firms in Kenya, which are predominantly foreign-owned; and method of estimating tourist earnings. Unlike Kenya, Tanzania uses the Tourism Satellite Account methodological framework in estimating tourism expenditure which gives more credible figures on earnings. Expenditure in Rwanda has ranged between US$ 100 million to US$ 400 million over the last ten years, while that of Burundi has remained in the range of US$ 2-5 million implying a small inbound tourist sector in the two countries compared to other members of the EAC whose expenditures have been above US$ 300 million per annum.

The decline in Kenya's inbound tourist arrivals and receipts since 2011 has been attributed to travel advisories by key source markets due to terror threats. Kenya is among the top twenty countries worldwide that are at high risk of experiencing terror-related threats (Table 5.5). The index ranks states according to the likelihood of experiencing terror attacks.

Kenya is considered the most exposed country in terms of terror-related threats amongst EAC partners due to its shared border with Somalia. This has the effect of diverting tourists to other countries in the EAC as alternative and competing destinations (e.g., Tanzania) that are perceived to be safer (Table 5.5).

Table 5.5: Global terrorism index ranking for EAC region, 2014-2016

Country	Rank in 2014	Rank in 2015	Rank in 2016
Kenya	12	18	19
Uganda	52	30	40
Tanzania	41	45	49
Burundi	39	55	31
Rwanda	38	56	65

Source: Compiled from the GTI reports (2014, 2015, 2016)

Security ranking for Kenya, Tanzania and Rwanda has improved over the three years. In contrast, that of Uganda and Burundi has worsened due to political instability. Over the last three years, the governments in the EAC have made concerted efforts in combating insecurity by building capacity of tourist and diplomatic police, installation of CCTV surveillance cameras in main cities, use of scanners at airports and other points of entry and enhanced border patrols. In addition, the private sector players have installed metal detectors, scanners and other security surveillance equipment at shopping malls, hotels and public places.

5.5 Efforts to Boost Tourism at Regional Level

The EAC Vision 2050 envisages joint marketing of tourism products that are competitively priced, cost-effective and have a high return on investment; product development and diversification and establishment of centres of excellence in tourism and hospitality. Recent efforts to boost tourism include the introduction of the East Africa tourist visa, the temporary permit (which can be obtained within a day), establishment of an online tourism marketing portal and ongoing efforts to implement the Open Sky policy.

5.5.1 East Africa Tourist Visa

The East Africa tourist visa was introduced to boost growth of regional tourism. As a starting point, a single tourist visa was introduced between Kenya, Rwanda and Uganda as part of a tripartite agreement on the Northern Corridor Integration Project. Travellers from any of the three countries can obtain a multiple entry visa that will allow entry for tourism over a period of 90 days. These efforts have led to an increase in visa issuance from 1,500 in 2014 to 4,000 in 2015. Issuance of the tourist visa is crucial in achieving growth in numbers of cross-border travelers, hence boosting tourist arrivals in the region.

Tourist arrivals

5.5.2 East Africa Online Tourism Marketing Portal

In 2017 Kenya, Uganda and Rwanda launched an online portal in a bid to jointly market the region as a single tourist destination (EAC, 2017). The initiative is a platform for travel and tourism players from the three countries to place their travel packages and provide a new channel to reach out to regional and international markets. It is a one-stop-shop for information on tourist products, attractions/ destinations, experiences, tour operators, tour guides, accommodation, visa information, events and festivals and local information.

Kenya's wildlife attractions

5.5.3 Open Sky Policy

Open skies refers to a bilateral or multilateral air service agreement that liberalizes the rules for international aviation markets and minimizes government intervention. Under the Yamoussoukro Declaration (1988), African Heads of States and governments agreed to fully liberalize their air space towards regional integration. The agreement aims to establish a single African air transport marketplace and avoid restrictions imposed by bilateral air service agreements (World Bank, 2010).

Four EAC countries (Kenya, Uganda, Rwanda and South Sudan) are working on an Open Sky policy to make it easy for travelers and operators to move through the region. Through the multilateral air service agreement airlines from the four member countries will operate as domestic carriers. In February 2015, Kenya signed a document on open skies in Addis Ababa, Ethiopia, binding the country to implement the policy by 2017. Talks with other partner states are ongoing. Kenya stands to gain from the Open Sky policy in that one air space for the four countries could make Moi International Airport, Mombasa, the second major hub in the region after Jomo Kenyatta International Airport, Nairobi.

5.6 Conclusion

Kenya has put in place initiatives to boost tourism marketing but it is lagging behind in implementing flagship projects targeted to boost tourism. Maximizing on the complementarities of the two aspects will support a strong recovery in the tourism sector.

The mismatch between arrivals and receipts requires a re-look at the packaging of tourism products with a view to exploring the untapped product diversity. In addition, investment incentives are critical in providing for adequate accommodation facilities and M.I.C.E. infrastructure.

The perceived threat of terror attack in Kenya continues to be a headwind to the recovery of the sector. This has seen tourists preferring other

destinations in the region. In addition, other global developments including *Brexit* and political instability in the Middle East could adversely impact on the recovery path. The country, however, needs to exploit the opportunity provided by the ranking of JKIA as a category one airport.

The current regional initiatives can play a key role in promoting tourism across the region. However, the yields are yet to be realized and Kenya needs to be strategic in exploiting these opportunities.

5.7 Recommendations

Given that tourism growth is sensitive to insecurity and macroeconomic uncertainty, continuous effort by governments of the EAC member states to promote the region as a safe destination for long-haul inbound tourists is imperative. Joint security surveillance and development of tourism master plans will go a long way in guiding the development of the region's tourism potential aimed at growing East Africa's share of global tourism receipts.

Sustaining allocation of at least 5 per cent of annual tourism receipts back to the sector would boost Kenya's marketing campaigns in targeted markets. In addition, the Tourism Finance Corporation needs funds to enable it finance local investments and upgrade facilities to remain competitive.

The establishment of the proposed National Convention Bureau whose mandate will be to promote domestic tourism and to develop the potential of M.I.C.E. sub-sector in the country needs to be fast-tracked. Adequate infrastructure investments are required to build world-class convention centres to enable Kenya realize its potential in becoming the M.I.C.E. hub in the region.

To boost cross-border travel and tourism, the EAC partner states need to embrace joint tourism promotion programmes, namely the EAC tourism visa, and the online joint marketing portal. In addition, obstacles on cross-border operations by tour operators and travel agents should be removed to facilitate further growth of the sector. Promotion of niche tourism products such as sports, shopping and health tourism would give impetus to growth in cross-border arrival numbers.

The EAC governments need to sign and operationalize the Yamoussoukro Declaration of 1988. They need to strengthen Open Sky policy by involving stakeholders in transport, tourism, civil aviation, customs and immigration, air navigation service providers/agencies, airport operators, safety oversight service providers and others in accordance with the recommendations of the International Civil Aviation Organization.

TICAD VI Summit, 27-28 August 2016, Nairobi

Chapter 6

Agriculture and Food Security

Kenya is a food deficit country. Self-sufficiency ratio has recently improved but the significant post-harvest losses, low agriculture productivity, lack of diversity in food products, and weather shocks constrain the achievement of food security. The government has identified flagship projects to enhance food security, but the implementation of these projects has been slow. The EAC cooperation aims to achieve food security, and the Common External Tariffs accord protection to food products, while simplified rules of origin have been adopted to facilitate cross-border trade. However, non-tariff barriers continue to hamper agricultural trade in the region. The potential for food security can be exploited by diversifying food products, easing cross-border trading, closing the yields gap in agriculture, minimizing post-harvest losses and investing in value addition.

6.1 Introduction

Agriculture is the backbone of Kenya's economy and significantly contributes to GDP, employment and livelihood. It is also the highest foreign exchange earner and one of the sectors expected to drive growth towards the realization of Vision 2030. Agriculture is composed of crops, livestock, fisheries and forestry. This chapter focuses on the role of regional integration in promoting agricultural trade towards enhancing food security.

The economies of the East African Community rely heavily on agriculture to meet their food demands and this has been a key challenge. Eradication of hunger and achieving food security underpin the Sustainable Development Goal number 2. It encompasses availability of sufficient food, access to adequate resources for acquiring the food, utilization through adequate diet; and stability with food being available and accessed regardless of shocks or cyclic events. Food security can be achieved by boosting domestic agricultural production, or through international trade facilitated by regional integration.[1]

Cross border movement of agricultural commodities enhances food security by encouraging investment in agriculture. Moreover, trade in agriculture helps

augment food supplies, increases availability to a variety of food products and results in reduced food prices.

6.2 Agriculture Sector Performance

Kenya's agriculture sector is dominated by smallholder farmers in rural areas, making it an important sector in food security and poverty reduction. In 2016, the sector's share of gross domestic product (GDP) increased to 32.6 per cent from 30.4 per cent in 2015. Agriculture also contributes about 27.0 per cent to GDP through linkages with manufacturing, distribution and other service-related sectors. The crops sub-sector accounted for 79 per cent of agriculture GDP in 2016, livestock 13 per cent, forestry 4 per cent, fisheries 2 per cent and support activities 2 per cent. Agriculture generates about half of Kenya's export earnings, and 18 per cent and 60 per cent of formal and total employment, respectively (KNBS, 2016b). In 2016, growth in agriculture declined at a rate of 4.0 per cent compared to 5.5 per cent in 2015, mainly due to decline in growth of fishing and aquaculture (-17.3%) and support activities (-18.9%).

Kenya's food security situation is defined by the food balance sheet which mainly comprises of cereals, starch roots, pulses, meat and fish.[2] The balance sheet compares food production with consumption and waste (Table 6.1).

The country has been experiencing food deficit in all food categories except for starch roots. The deficit for cereals varies across years and has increased from 341,000 metric tonnes in 2012 to 953,000 metric tonnes in 2016. During the same period, the deficit for pulses reduced from 301,000 metric tonnes to 271,000 metric tonnes over the same period in line with government efforts to transform the agriculture sector. Generally, the deficit is attributed to low production and post-harvest losses. Post-harvest losses which account for about 15 per cent of food production are particularly in cereals and pulses. These losses occur mainly due to poor storage, and

Table 6.1: Kenya's food balance sheet for selected categories, 2012-2016 ('000 MT)

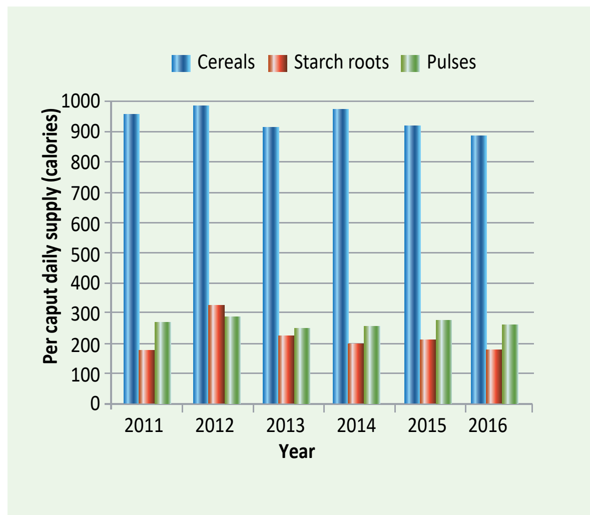
	2012				2013				2014				2015				2016			
	Production	Food use	Deficit/supply	Waste (% of production)	Production	Food use	Deficit/supply	Waste (% of production)	Production	Food use	Deficit/supply	Waste (% of production)	Production	Food use	Deficit/supply	Waste (% of production)	Production	Food use	Deficit/supply	Waste (% of production)
Cereals	4,469	4,810	-341	27.7	4,388	4,547	-159	28.7	4,131	4,744	-613	14.8	4,470	4,906	-436	14.7	3,878	4,831	-953	14.1
Starch roots	6,919	6,181	738	10.2	4,357	3,891	466	8.2	3,892	3,471	421	8.0	4,252	3,803	449	8.2	3,542	3,159	383	7.8
Pulses	946	1,247	-301	11.5	807	1,111	-304	15.1	874	1,168	-294	15.3	1,023	1,296	-273	15.2	987	1,258	-271	15.3
Meat	468	533	-65	0.0	477	575	-98	0.0	435	530	-95	0.0	568	683	-115	0.0	626	709	-83	0.0
Fish	158	161	-3	0	169	186	-17	0.0	175	195	-20	0.0	152	167	-15	0.0	125	157	-32	0.0

Data source: KNBS (2015b; 2017)

translate into loss of income to smallholder farmers and higher prices for consumers.

The food consumed yields daily energy supply to meet calorific requirements (Figure 6.1). Cereals have the highest per caput daily energy supply and, overall, the supply has remained fairly stable over the period 2011 - 2016. However the consumption of meat increased sharply over this period indicating the growing importance of meat in the country's food balance sheet.

Figure 6.1: Trends in food supply for main food categories, 2011-2016



Source: KNBS (2017)

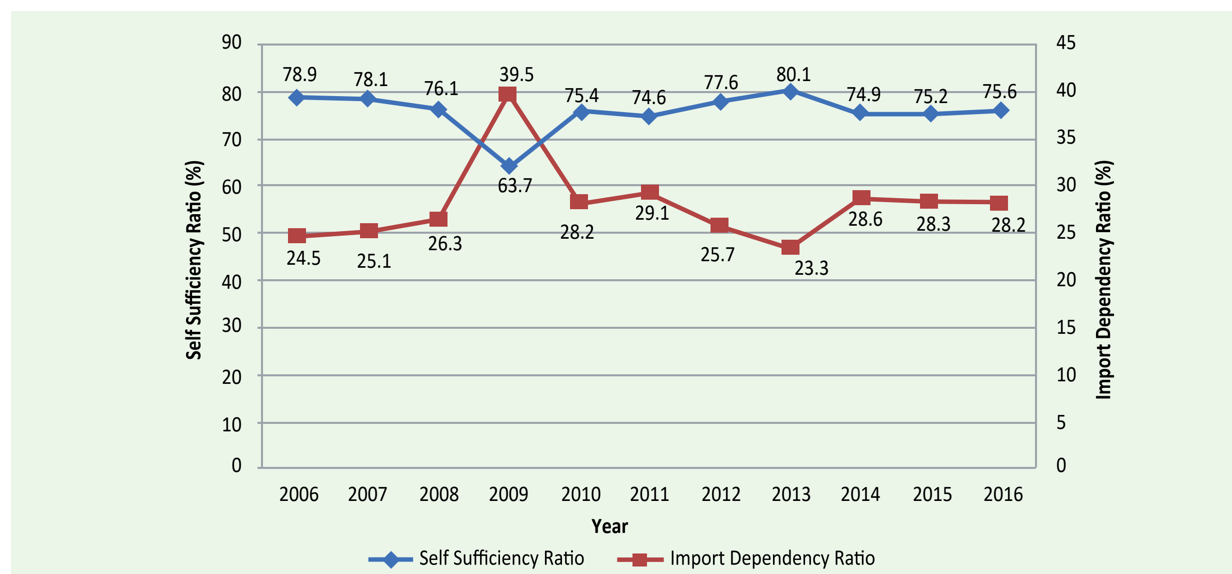
In 2016, the country's food self-sufficiency ratio (SSR) was 75.6 per cent, an increase from 75.2 per cent in the previous year, resulting in marginal reduction in import dependency ratio (IDR) from 28.3 per cent to 28.2 per cent. This performance was attributed to the favourable, abundant and well spread rainfall in most regions of the country. Overall, there has been marginal decline in the SSR from 78.9 per cent in 2006 to 75.6 per cent in 2016 while IDR increased from 24.5 per cent in 2006 to 28.2 per cent in 2016 (Figure 6.2). The high IDR proportion in the food balance sheet signals the importance of imports in making the country food sufficient.

In 2009, SSR recorded the lowest level of 63.7 per cent with corresponding IDR of 39.5 per cent. This corresponds to the 2008-2011 period when the country experienced one of the worst droughts in recent years. The country also experienced moderate droughts in 2014, maize lethal necrosis disease and aflotoxin. The drought cycle has reduced to 2-4 years from 6-7 years over the past four decades. The drought also affected livestock production, thus disrupting the food production system and exacerbating food insecurity (Government of Kenya, 2010).

The government has taken a number of measures to boost the country's food security. The Medium Term Plan (MTP) II aimed to reduce agriculture dependence on rainfall by increasing irrigated land by 404,800 hectares. However, by 2016, only 26,101 hectares were irrigated, 2,500 hectares of which were in Galana Kulalu project where maize was planted. The first production from the project was, however, below expectation. Achieving the irrigation target was constrained by funding levels (Government of Kenya, 2016). Between 2014 and 2015, investments in irrigation and drainage infrastructure decreased from Ksh 9.1 billion to Ksh 8.2 billion, a 10 per cent reduction. This led to a decrease in acreage of irrigated land by 40 per cent from 26,843 acres to 16,140 acres. For operational irrigation schemes, there was no change in the cropped area; however, the gross value of output increased by 48 per cent. Apart from reduced investment, irrigation expansion encountered challenges of sharing trans-boundary water resources.

Kenya's staple foods consist of cereals, whose gross marketed production values decreased from Ksh 24.9 billion in 2014 to Ksh 24.2 billion in 2015 due to unfavourable weather. Maize consumption in Kenya is about 40 million bags annually. To boost the country's strategic food reserves, the government in 2015/16 purchased 279,000 metric tonnes of maize in physical and cash equivalent and diversified food reserves through purchase of 548 metric tonnes of powdered milk.

Figure 6.2: Trends in self-sufficiency ratio and import dependency ratio, 2006-2016



Source: KNBS (2011; 2017)

In 2016/17, to cushion dairy farmers from the effects of milk glut, the government purchased milk worth Ksh 300 million. A further Ksh 550 million was allocated to purchase surplus milk from farmers with the objective of stabilizing prices and improving nutrition. As at October 2016, the country's strategic food reserves held 731,000 bags of maize, together with cash equivalent to purchase a further 2 million bags. In addition, other available stocks included 1.2 million bags of beans, 2.3 million bags of wheat and about 1 million bags of rice. Further, an estimated 9.5 million bags of maize were held by households/farmers.

To boost the strategic grain reserves, the government entered into an agreement with millers to purchase wheat from local farmers at a floor price of Ksh 3,000 per 90kg bag as a precondition for importation of wheat under the EAC duty remission scheme. By end of October 2016 a total of 571,143 bags out of the expected 650,000 bags were purchased. In addition, the government purchased maize at Ksh 2,800 per 90kg bag from verifiable farmers based on the cost of production, prevailing market prices and reasonable margin considerations. The country's food security would be greatly enhanced through increased strategic reserves, and repositioning of maize stocks to address imbalance between food surplus and deficit areas.

The gross marketed production value at current prices for livestock and its related products increased from Ksh 100.8 billion in 2015 to Ksh 124.9 billion in 2016. This growth was the highest in the last four years considering that the sector grew by 9 per cent, 5 per cent, 6 per cent and 3 per cent in 2012, 2013, 2014 and 2015, respectively. The growth was a result of a rise in gross marketed production for cattle and calves, and chicken and eggs.

An insurance-based livestock index programme was successfully piloted in six arid and semi-arid counties of Isiolo, Marsabit, Mandera, Tana River, Turkana and Wajir covering a total of 66,055 Tropical Livestock Units (TLUs) and 13,000 households. Although the programme aims to reduce pastoral community exposure to climate risks, it is limited in the number of counties, TLUs and households participating. It does not cover agro-enterprises and ignores the importance of livelihood diversification.

Kenya has a potential of 1.4 million hectares of aquaculture land area besides cage culture and

mariculture. Aquaculture fish farming reduced by 22.4 per cent from 24,100 metric tonnes in 2014 to 18,700 metric tonnes in 2015. This was due to low restocking of fish ponds established during the economic stimulus programme. Per capita consumption of fish and fish products increased by almost 30 per cent from 3.6 kg in 2013 to 4.6 kg in 2014, driven by the national promotion to "*Eat More Fish*", growing health and nutrition concerns, and increased fish supply. However, consumption is still considerably lower than the global average of 20 kg, and 7.6 kg for low income, food-deficit countries. Thus, marine resources are a critical source in meeting Kenya's growing fish requirement. To support the "blue economy", the State Department of Fisheries in 2016 reflagged two vessels with a combined monthly capacity of 560 metric tonnes (Government of Kenya, 2016). However, important marine resources in the country's 200 nautical mile Exclusive Economic Zone (EEZ) have not been fully exploited for the growth of the blue economy.

6.3 Food Security in the EAC

Agriculture dominates the economies of EAC partner states, supports livelihoods of 80 per cent of rural people, and creates over 75 per cent of rural employment. Differences in climatic and agro-ecological zones in EAC regions influence the production of different crops and livestock, as well as production potential. An important objective of EAC cooperation in agriculture is to achieve food security and rational agricultural production. The EAC Agriculture and Rural Development Policy (2006) is a common framework for regional agriculture development. The EAC Agricultural and Rural Development Strategy (2005-2030) lays emphasis on attaining food security; liberalizing cross-border trade in agricultural produce; increasing production of crops, livestock, fisheries and edible forest products; developing markets and marketing infrastructure; reducing post-harvest losses; and promoting value addition through agro-processing. The EAC Food Security Action Plan 2010-2015 which is aligned to CAADP seeks to mobilize resources, build value chains, harmonize standards and promote regional connectivity and insurance towards agriculture resilience to address food security. Other initiatives include harmonization of agricultural trade policies and regulations and commitment to an African-wide programme such as the 2014 Malabo Declaration, and Alliance for a Green Revolution in Africa (AGRA).

Under the EAC Common External Tariff (CET), agricultural products are accorded protection under the sensitive list of products and inputs attract higher duties as follows: milk and cream 60 per cent, wheat 35 per cent, rice 75 per cent and maize 50 per cent. In addition, simplified rules of origin have been adopted to facilitate cross-border trade in agricultural products. These measures are meant to encourage production and trade in the agriculture sector.

Despite these efforts, agriculture trade is constrained by non-tariff barriers including cumbersome clearance procedures, arbitrary bans on imports and exports and poor connectivity in terms of infrastructure and especially transport which hampers the flow of food from surplus to deficit areas. Infrastructure investment in the region has mainly concentrated on building roads along major transport corridors, ignoring crucial networks to rural agricultural areas. This leads to high transport costs and high post-harvest losses. Other non-tariff barriers relate to cumbersome clearance procedures at border points, normally by multiple regulatory agencies, including customs, police, immigration, and port health, among others, in total disregard to the simplified certificate of origin. Additional challenges are lack of harmonized food safety standards such as moisture contents and under-performing agriculture markets which cause pockets of food insecurity.

Table 6.2 shows the production of main food categories by partner states and average production and per cent for the period 2011-2014. Dry beans

Table 6.2: Production of selected food commodities in EAC region, 2011-2014 ('000 MT)

		2011	2012	2013	2014	Average	% change
Burundi	Pulses	202	201	206	225	208	11.4
	Cereals	209	220	205	204	210	-2.4
	Starch roots	30	28	48	123	57	310.0
Kenya	Pulses	391	578	623	714	576	82.6
	Cereals	3,550	3,488	3,888	3,718	3,661	4.7
	Starch roots	2,726	2,365	2,915	2,193	2,550	-19.6
Rwanda	Pulses	327	331	433	438	382	33.9
	Cereals	500	606	657	762	631	52.4
	Starch roots	1,789	2,172	2,338	2,241	2,135	25.3
Uganda	Pulses	463	447	870	941	680	103.2
	Cereals	2,592	2,784	2,946	2,962	2,821	14.3
	Starch roots	711	765	787	745	752	4.8
Tanzania	Pulses	868	676	1,199	1,114	964	28.3
	Cereals	7,383	6,589	6,905	7,551	7,107	2.3
	Starch roots	1,473	1,556	1,235	1,768	1,508	20.0

Source: FAOSTAT (2017), http://www.fao.org/faostat/en/#data, accessed in March 2017

represent the pulses, maize and rice represent cereals while potatoes represent the starch roots category.

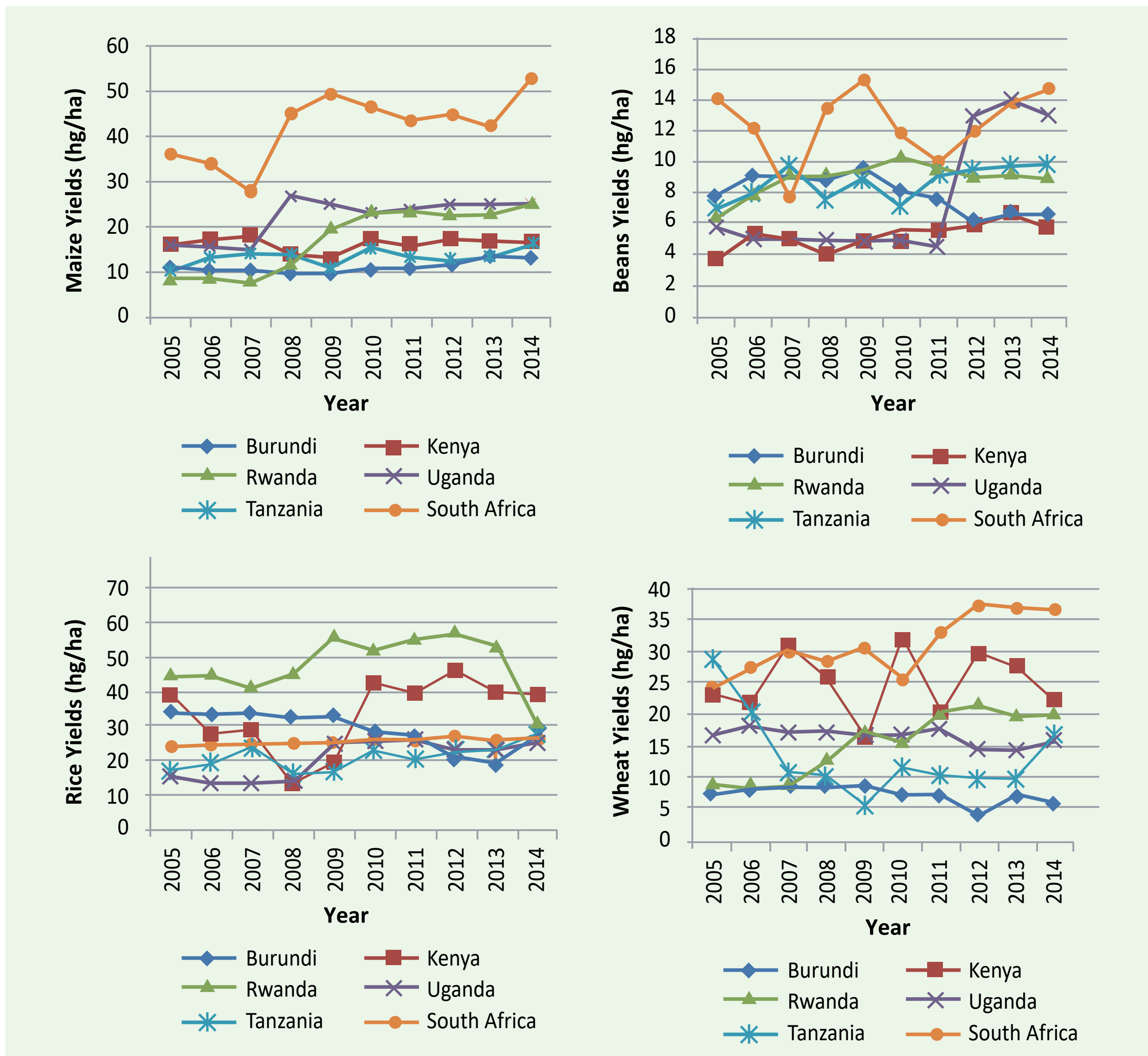
Tanzania had the highest annual average production of pulses (964,000 MT) and cereals (7,107,000 MT) while Kenya had the highest production of starch roots (2,550,000 MT). This suggests that the EAC region has different production levels for different food commodities, which could be harnessed through regional integration. Over the period, the highest increase in pulses production was recorded in Uganda (103.2%), followed by Kenya (82.6%). The highest increase for cereals was in Rwanda (52.4%) followed by Uganda (14.3%), while that for starch roots was in Burundi (310.0%) followed by Tanzania (20.0%). Burundi experienced a decline of 2.4 per cent for cereals while Kenya's starch root production declined by 19.6 per cent. Across the region, growth was a result of increased area rather than from increased yield.

Increasing the yields of both the individual countries and the region is a priority as countries strive to attain food sufficiency. The growth in yields in the EAC region has not been in tandem with the population growth, forcing countries to turn to imports. The region's total food production remains below the production potential and this poses a major challenge in transforming agricultural production in the region. This is mainly due to low adoption of value addition and commercialization of agriculture.

Compared to South Africa, the EAC productivity is lower for most individual commodities except rice (Figure 6.3). The highest gap is in maize and wheat and this is attributed to low-cost production in South Africa compared to EAC.

The leading producers of beans in EAC are Tanzania, Uganda and Kenya whose production volumes in 2010 were estimated at 950,000 MT, 455,000 MT and 390,598 MT, respectively. Bean production faces a number of constraints, among them: high costs of improved seed, pest and disease prevalence, environmental degradation, inefficient agronomic practices, high post-harvest losses, lack of a pricing structure, low input utilization, and lack of adequate

Figure 6.3: Trends in productivity of selected food commodities in EAC and South Africa. 2005-2014



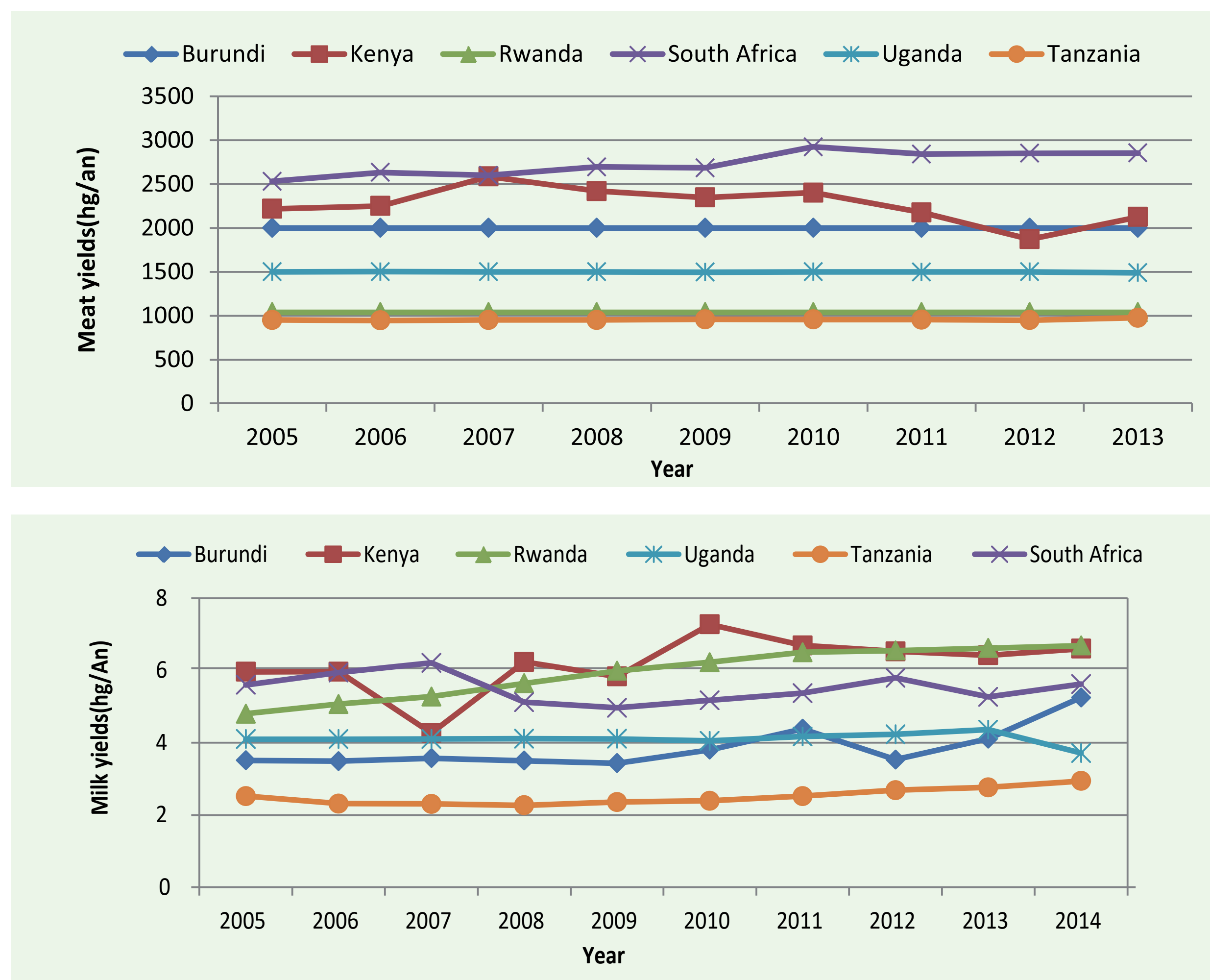
Data Source: EAC (2016b) and FAOSTAT (2017), http://www.fao.org/faostat/en/#data, accessed in March 2017

extension services. Bean consumption in Kenya has grown by 19 per cent per annum against production growth of 3 per cent, thus creating a deficit of 16 per cent. This deficit is met through imports from Uganda, Tanzania and Central Africa.

Low productivity of main staple foods poses a challenge in meeting food security in the EAC. For example, the Global Yield Gap Atlas (GYGA, 2017) shows production potential for maize in Kenya at 7.86 tonnes per hectare, Uganda 5.41 tonnes per hectare and Tanzania 6.85 tonnes per hectare. Productivity potential for rice in Tanzania is 7.71 tonnes per hectare while for Uganda is 9.42 tonnes per hectare. Thus, the region has enormous opportunity to close the yield gaps.

Milk production increased by 558 per cent in the EAC region between 1961 and 2013 from 1.3 million tonnes to 8.5 million tonnes. Kenya is the leading milk producer in the region, producing over half of the regions milk at 4.9 million tonnes. Tanzania follows at 2.0 million tonnes, Uganda at 1.2 million tonnes and Rwanda and Burundi at 0.22

Figure 6.4: Comparison of livestock productivity for EAC and South Africa, 2005-2013



Source: FAOSTAT (2017), http://www.fao.org/faostat/en/#data, accessed in March 2017

million tonnes and 0.06 million tonnes, respectively. Figure 6.4 shows differences in productivity across the region.

Food processing as a percentage of GDP for EAC countries has remained stable since 2005 and higher than the Sub-Saharan African value addition. The high level of value addition for EAC countries is due to low tariffs charged on processed agricultural commodities, which encourages value addition.

EAC is a drought-prone region with part of it having experienced a drought in all years since 2000. The distribution of drought occurrence and number of people affected shows that Kenya is hardly hit as shown in Table 6.3.

Table 6.3: Number of droughts occurances and people affected in EAC, 2000-2016

Country	No. of Occurrences	No. of People Affected (millions)
Burundi	42	3.3
Kenya	76	22.8
Rwanda	22	1.1
Tanzania	54	7.3
Uganda	54	7.3
Total	**248**	**41.8**

Source: EM-DAT database (Accessed March, 2017) http://www.emdat.be/advanced_search/index.html

Climate impacts on livestock are manifested through reduction in animal fertility, prevalence of diseases and pests and declining carrying capacity of rangelands. As a consequence, resource conflicts particularly in dry land areas intensify, leading to disruption of livelihoods. Variations in climate impacts in the EAC and cases of movement across the national boundaries are bound to increase. Thus, potential impacts on livestock would be mitigated through greater regional collaboration.

6.4 Intra-EAC Agricultural Trade

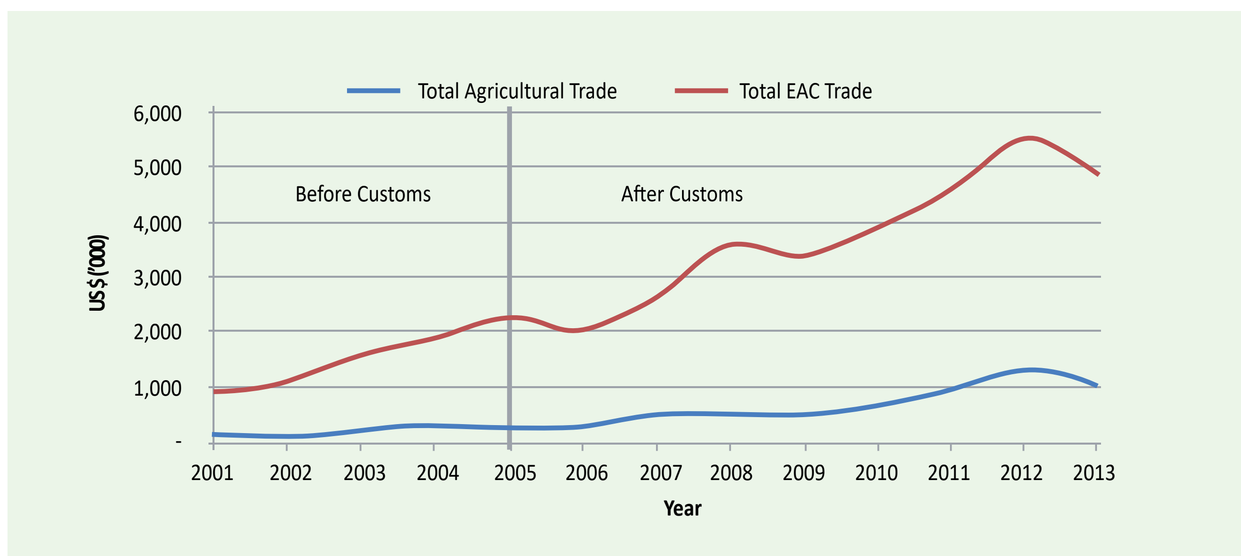
Some parts of East Africa are food insecure although the region has potential to produce enough food. For instance, Kenya is a food deficit country and relies on imports from Uganda and Tanzania to bridge her deficit. Cross-border trade in agricultural products is particularly critical for the country's national food security.

Maize grain and beans are the two most commonly traded commodities in the EAC. Of the estimated 234,000 MT of maize traded in the third quarter of 2016, exports to Kenya and South Sudan accounted for 62 per cent and 33 per cent of total trade, respectively. Exports from Tanzania to Kenya rose to 107,000 MT, which was almost three times the previous quarter. In the same quarter, maize exports from Uganda to Kenya were around 35,000 MT which was a reduction by over 70 per cent the previous period. This was mainly due to reduced demand in Kenyan markets with relatively cheaper maize from Tanzania.

Tanzania is also a net exporter of rice to the EAC region and is preferred due to its aroma and water imbibition. Food imports from Tanzania to Kenya during the third quarter of 2016 accounted for 41 per cent of total 63,000 MT imports compared to 13 per cent exports to Uganda and 11 per cent exports to Rwanda. However, there are also substantial formal rice imports into the region especially from Asia. Kenya also imported 14,000 MT of dry beans from Uganda and 6,000 MT from Tanzania.

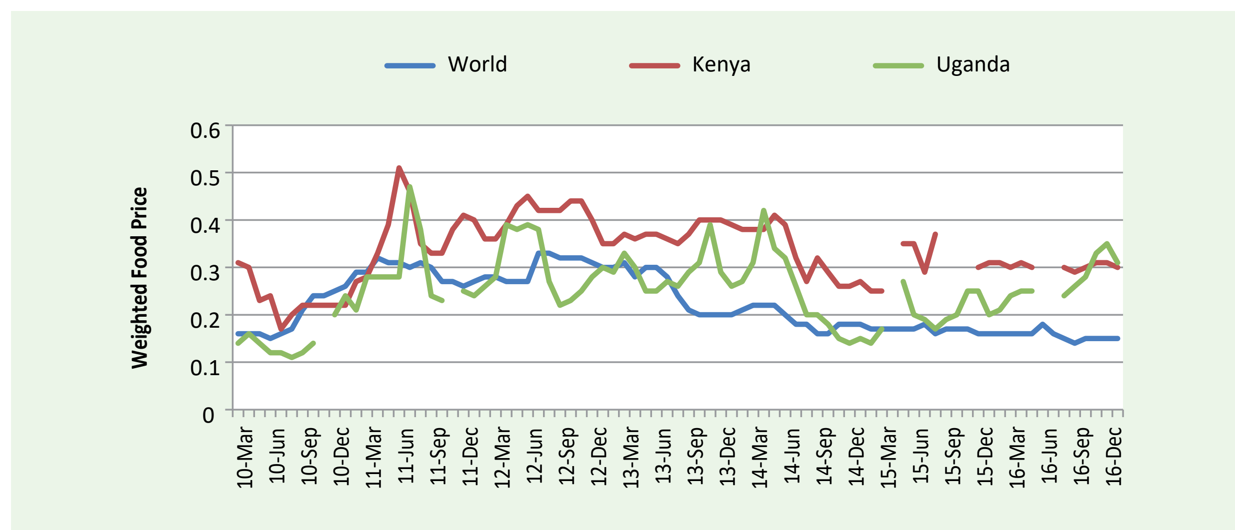
The EAC countries are highly inter-dependent in terms of supply and demand for food staples, including maize, rice and beans with Tanzania and Uganda as net exporters. Kenya is a net importer of staples from the region and therefore continues to benefit from the EAC integration initiatives to access food to bridge its food deficit.

Figure 6.5: EAC agricultural trade prior to and after the Customs Union, 2001-2013



Source: ITC Database

Figure 6.6: EAC weighted food prices, 2010-2016

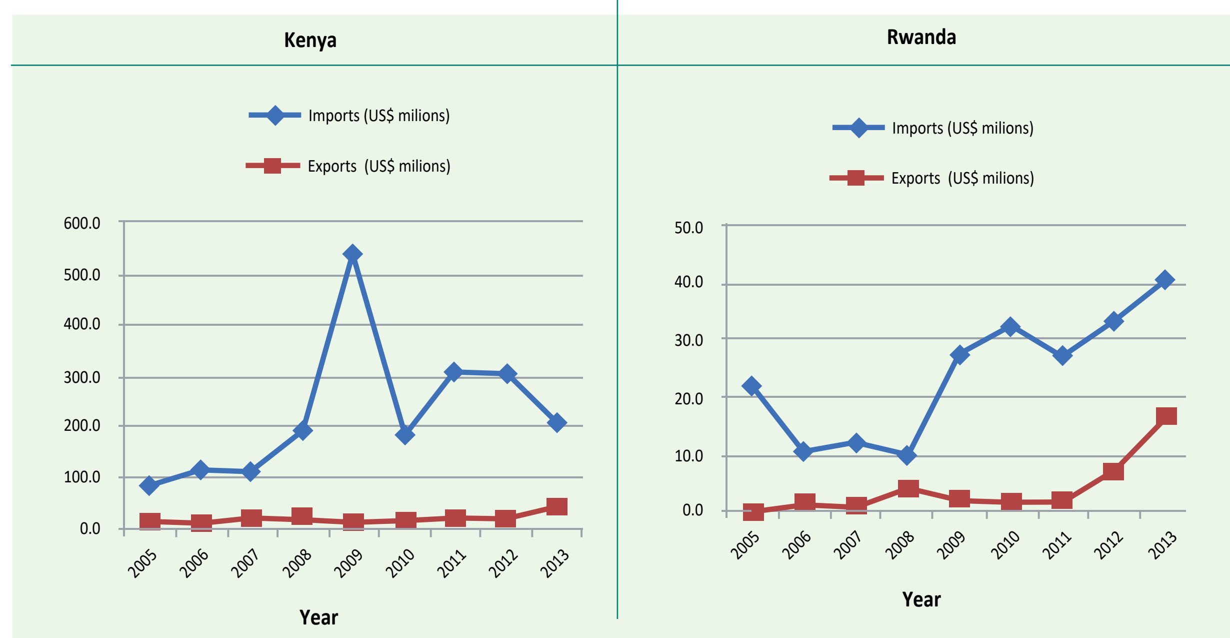


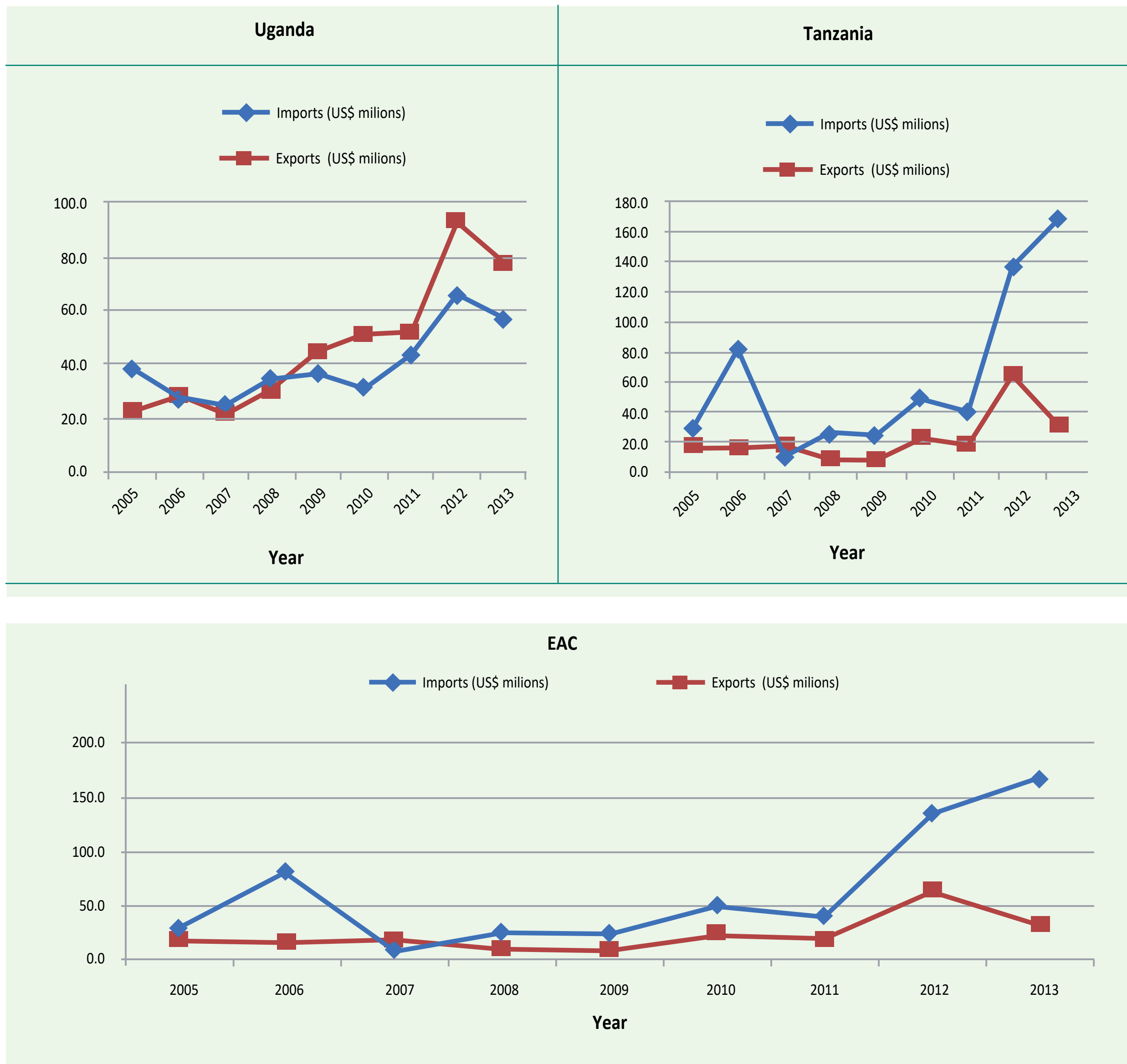
Source: http://www.foodsecurityportal.org/api/countries/maize (March, 2017)

Intra-EAC trade in agricultural commodities has been rising since 2001 from US$ 163,000 to US$ 286,000 in 2006 before tripling to US$ 1 million in 2013. Total agricultural trade as a proportion of total EAC trade has remained relatively stable, ranging between 10-20 per cent (Figure 6.5). However, growth in agricultural trade has fluctuated with negative growth rates in 2005, 2008 and 2013. The 2008 reduction in agricultural trade was largely due to the drought condition that affected the region and the accompanying restrictive trade policies. Intra-EAC agriculture trade as a proportion of the EAC overall GDP is however very low (less than 0.01%).

Agricultural trade within the East African Community could have a significant contribution to food security.

Figure 6.7: EAC food trade balance, 2005-2013





Source: FAOSTAT (2017), http://www.fao.org/faostat/en/#data, accessed in March 2017

Apart from the movement of agricultural products across borders, increasing intra-EAC trade links farmers to consumers, hence leading to specialization and economies of scale as well as cushioning the region against regional and national food shortages and price spikes. However, food prices, in particular that of main staples are higher in EAC compared with the rest of the world (Figure 6.6).

The patterns show that maize prices in the EAC do not necessarily follow world prices. There are episodes when the changes in price are in different directions, an indication of weak integration of the region to the world market. Although prices have generally declined since 2011, those in Kenya have remained above the world average. In addition, prices in the EAC countries exhibit high volatility compared to world average, largely due to their high dependence on rain-fed production, and lack of a commodity market.

In the region, Uganda is the most self-sufficient in staple foods in comparison to other countries, and the country exports maize to all the countries in EAC while Tanzania is a net importer of cereals. Though the

low yields in the region are attributed to low adoption of technologies, such as the use of fertilizer and high yielding varieties, Uganda has a competitive advantage on maize which means that with greater integration Kenya could greatly benefit from Ugandan imports. Therefore, importing maize from Uganda for the region's countries can ease the pressure on maize in the region.

In 2013, all EAC member states had a net import in food products resulting to regional net food imports of US$ 39,047 million. Kenya and Tanzania had the highest net imports of US$ 16,394 million and US$ 14,706 million, respectively (Figure 6.7).

Intra-EAC food trade accounts for 23 per cent of total EAC food exports while imports account for 19 per cent. Uganda had the largest portion of food exports (30.4%) to the EAC followed by Kenya (27.5%). Uganda and Rwanda had the largest share of imports from the region at 28.2 per cent and 24.4 per cent, respectively.

6.5 Conclusion

Kenya's food balance sheet comprising of maize, rice, wheat, meat and milk is dependent on imports. Current food production in EAC regions is below the production potential while marine resources are yet to be fully exploited. This means that there is potential to transform production towards making the region food secure. In addition, there are high post-harvest losses in maize and milk.

Over-reliance on rain-fed agriculture has increased the vulnerability of agriculture to weather shocks, with extreme events such as drought becoming more frequent. This has greatly constrained the sector performance by disrupting production of food crops and livestock both in Kenya as well as in the EAC region. Kenya though is hardly hit by droughts among the EAC partner states.

While EAC's cooperation objective is to attain food security, and the CET accords protection to agricultural products, the potential for cross-border agriculture trade to mitigate the region's food security is hampered by non-tariff barriers. As a result, agricultural trade in the region remains low.

6.6 Recommendations

EAC partner states need to pursue strategies geared towards improving productivity in agriculture, including diversifying beyond the main staple crops. Such strategies would include increasing accessibility to farm inputs by for example increasing the capacity for local production of fertilizers. Thus, by improving productivity, Kenya would increase its competitiveness with EAC and beyond. Value

Sorghum farming in Kenya

Small-scale irrigation farming in rural Kenya

addition and commercialization of agriculture can also improve productivity.

Kenya can greatly improve her food balance by managing post-harvest losses in maize and milk. This can be achieved through farmers training, expansion of storage facilities, and value addition. Improving food distribution would also reduce food wastage. Measures to tap into the country's vast marine resources should be taken.

There is need to increase domestic road network by increasing the density of all-weather roads particularly in food producing regions to facilitate all season movement of agricultural produce. This requires a coordinated approach between agencies responsible for infrastructure development and those charged with agriculture and food security so that investments in development of roads support food production and distribution within and across the EAC region.

There is need to sensitize cross-border traders about the EAC simplified rules of origin to enhance cross-border trade and minimize unrecorded trade. In addition, mechanisms for effective resolution of reported non-tariff barriers need to be developed.

To reduce vulnerability to weather shocks, countries should promote adaptation measures such as climate smart agriculture through enhanced research and extension services. Piloted insurance-based livestock index programmes need scaling up to reduce pastoralists' vulnerability to drought, while similar weather-based insurance products should be promoted among agro-communities.

(Endnotes)

1. Food security refers to a situation where all people at all times have physical, social, and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preference for an active and healthy life (FAO, 1996).

2. The food balance sheet gives an indication of a country's food supply using three key indicators: per caput daily energy supply, self-sufficiency ratio (SSR) and import dependency ratio (IDR). Per caput daily energy supply measures the average food available for human consumption during a specific period in terms of caloric value, protein and fat contents. The SSR compares the quantities produced locally with the total food required and reveal the country's ability to meet food requirement, while IDR measures the amount of imports in relation to total food supply.

Growing of sweet potatoes in rural Kenya

Chapter 7

Industrialization and Integration

Industrial development is crucial in achieving the structural transformation agenda. More importantly, by diversifying to medium and high technology sub-sectors this would enhance competitiveness of the industrial sector. While Kenya manufactured exports dominate the EAC market, they are only 6 per cent of the total manufactured products. Further, with the growing manufacturing activity in the region, and competition of manufactured exports from China and India, Kenya's regional market share for manufactured exports is diminishing. As such, diversifying the manufactured exports is a priority in securing her industrialization through trade. In addition, a focus on reducing cost of doing business is paramount in securing and attracting FDIs in Kenya. As such, in addition to the ongoing efforts of reducing the charges on energy, a focus is needed to improve the quality of power supply to enhance productivity of industrial firms.

7.1 Introduction

Industrialization is an integral part of the growth and development of any economy. Manufacturing and extractives are key sub-sectors in the industrial development process. Manufacturing is critical for value addition and its linkages with agriculture and services sectors enhance structural transformation. In addition, extractives provide an opportunity to diversify economic activity. This chapter discusses Kenya's industrialization policy framework, structure of industrial sector, and reviews performance of manufacturing sector in the context of regional integration.

7.2 Industrialization Policy Framework

The Kenya Industrial Transformation Programme (KITP) aims to develop the country into an industrial hub (Ministry of Industrialization and Enterprise Development, 2015). This programme is guided by Vision 2030 and conceptualized with the aim to consolidate and exploit the plentiful opportunities in the country and region. The MTP II targets a 10.2 per cent growth rate for the industrial sector in 2017 to transform the economy. Further, the sector is expected to generate 136,000 and 212,000 formal and informal jobs, respectively, by 2017 (Government of Kenya, 2013a).

For the region, the EAC Industrialization Policy 2012-2032 (EAC, 2012) and the EAC Vision 2050 (EAC, 2016) focus on promoting both domestic and foreign investment through a holistic approach to industrial development. Industrial growth is expected to enhance the expansion of trade and export in industrial goods to achieve structural transformation of regional economies. High value addition and product diversification based on comparative and competitive advantages are the envisioned drivers of the transformation agenda.

The EAC industrialization strategies target six sectors in which the EAC has comparative advantage. These sectors include iron-ore, and other mineral processing; fertilizers, and agro-chemicals; pharmaceuticals, petro-chemicals and gas processing; agro-processing; and energy and bio-fuels. In Kenya, the KITP has earmarked agro-processing, textiles and leather and construction materials as priority sectors. These sub-sectors are generally labour-intensive and hence have the potential to double employment in the manufacturing sector. The Uganda Vision 2040 focuses on manufacturing consumer, investment and hi-tech goods, including promotion of value addition in agricultural products. The Tanzania's Sustainable Industries Development Policy (1996-2020) gives priority on agro-allied industries. With the growing manufacturing activity in the region, Kenya needs to diversify its manufactured products to medium and high technology to grow her market share.

The key aim of the EAC industrialization strategy is to increase the share of manufacturing in GDP to 25 per cent by 2032 and 40 per cent by 2050, respectively. For Kenya, the target is to have the manufacturing sector's contribution to GDP increase to more than 15 per cent per annum to transform the economy into an industrial hub. This is expected to increase Kenya's GDP by US$ 2-3 billion (Ministry of Industrialization and Enterprise Development, 2015). Deeper regional integration is therefore important for Kenya's industrial transformation given the opportunity to increase trade.

7.3 Performance of the Manufacturing Sector

Kenya's industrial sector largely comprises the manufacturing and extractive (mining and quarrying) sub-sectors. However, compared to the manufacturing sector, the extractives sub-sector is still under-developed, contributing only 0.3 per cent of GDP. Nevertheless, when fully exploited the sector has a huge potential to drive the growth and development of the economy. Therefore, until the full commercial exploitation of the extractives is achieved, the targeted industrial growth will largely be achieved through the manufacturing sector.

The structure of Kenya's manufacturing sector comprises mainly of micro, small, medium and large firms. The share of medium and large firms is less than 5 per cent but their contribution to sector's GDP is above 60 per cent. About 95 per cent of manufacturing firms are micro and small, and contributing only about 20 per cent of sector's GDP. In terms of ownership, multinationals dominate the medium and large firms while Kenyans of African origin own most of the micro and small firms (Chege, Ngui and Kimuyu, 2016). Kenyan firms have also invested in other EAC countries, hence taking advantage of the opportunities within the region. Bidco Oil Refineries, East African Breweries, and Unga Holdings are some of the Kenyan firms with subsidiary companies within the EAC.

The manufacturing sector has over the years experienced minimal growth with a declining proportionate share in total GDP from 11.8 per cent in 2011 to 9.2 per cent in 2016 (KNBS, 2017). The sector's growth in 2016 decreased to 3.5 per cent from 7.2 per cent in 2011. This is against Vision 2030 sector's annual growth rate target of 10 per cent. The continued weak performance of the sector is linked to cheap manufactured imports in the country,

high cost of doing business, and low technology adoption, among other factors.

The growth of the manufacturing sector in Kenya is driven mainly by manufacture of food, beverages and tobacco. The share of the food, beverages and tobacco sub-sector in 2011-2016 averaged 39 per cent. In the same period, this sub-sector recorded an average growth rate of 6.5 per cent compared to non-food sub-sector, which recorded an average growth rate of 2.3 per cent over the same period (KNBS, 2016a). In comparative terms, the growth rate of manufacturing sector has been lower than that of non-manufacturing industrial (mining and quarrying) at 11.8 per cent and service sectors in general. In the regional context, Kenya's manufacturing sector, however, compares favourably with the neighbouring Tanzania and Uganda whose manufacturing share in GDP is less than 10 per cent (United Nations Industrial Development Organization, 2015).

7.4 Employment Creation in the Manufacturing Sector

The manufacturing sector is expected to be a source of employment for majority of Kenyans thereby contributing to poverty reduction. While employment in the sector has been increasing in absolute terms, its share in formal employment has declined marginally in recent years. This decline can be explained by the sector's sluggish growth rate. In 2016, the manufacturing sector recorded an employment growth of 1.8 per cent accounting for 11.8 per cent (300,800 jobs) of the 2.55 million wage employment compared to 11.9 per cent (295,500 jobs) of the 2.48 million wage employment in 2015 (KNBS, 2017).

The informal sector is the largest contributor to employment for the manufacturing sector, growing by 6.5 per cent in 2016 to 2.7 million persons. Though the informal sector provides employment opportunities, it is characterized by under-employment and low quality jobs thereby increasing vulnerability to poverty. In addition, the informal sector is dominated by MSEs who have small scale activities with limited opportunities for exports and economies of scale. Further, the MSEs generally have low access to formal financial services and also have low innovation (KNBS, 2016c). Other contributing factors to informalities are taxation and regulatory costs.

7.5 Manufactured Exports

Kenya's major manufactured export products include food products, non-metallic mineral products, chemicals and chemical products, metal products, pharmaceuticals and botanical products, textiles, and wearing apparels. Over 82 per cent of Kenya's manufactured products are consumed locally, about 6.1 per cent exported to EAC, and 12 per cent exported to the rest of the world (Table 7.1). Based on the manufacturing output of Ksh 1,986.7 billion in 2015, exports to the EAC and the rest of the world are estimated to be Ksh 121.2 billion and Ksh 238.4 billion, respectively.

Table 7.1: Manufactured products destination, 2010

Destination	Value (Ksh billions)
Local consumption	1,627.1 (81.9%)
Exports to EAC	121. 2 (6.1%)
Exports to the rest of the world	238.4 (12%)
Total manufacturing output	1,986.7

Source: KNBS (2013)

NB: The share markets are based on comprehensive survey of industrial production carried out in 2010.

The major exports to EAC are food products, cement, glass, chemicals and chemical products while the leading exports to the rest of the world are food products, pharmaceuticals and botanical products and textiles (Table 7.2).

The influx of cheap imports into the local and EAC markets and the rebound of manufacturing sector in other EAC economies have constrained the

Table 7.2: Manufactured exports and their destinations, 2010

Major exports to EAC		Major exports to the rest of the world	
Products	**%**	**Products**	**%**
Food products	17.0	Food products	68.9
Non-metallic mineral products (cement, glass etc)	11.6	Pharmaceuticals and botanical products	6.5
Chemicals and chemical products	10.0	Textiles	5.4
Fabricated metal products	8.2	Chemicals and chemical products	2.5
Basic metals	7.7	Wearing apparel (buttons, zippers, etc)	2.2
Rubber and plastic products	6.7	Leather and leather products	2.1
Leather and leather products	4.9	Basic metals	1.6
Pharmaceuticals and botanical products	3.9	Paper and paper products	1.2
Paper and paper products	4.2	Non-metallic mineral products	1.2

Data source: KNBS (2013)

growth of Kenya's manufacturing sector. Kenya's manufactured imports are mainly from India, China, United Arab Emirates, South Africa, Egypt and the UK. The main manufactured imports in Kenya, identified as industrial transformation products, include food and beverages, textile and apparel, leather and construction materials (Table 7.3). Except for the textiles and apparel, the share of imports for other products is increasing. The competitiveness in these products emanates from availability of intermediate inputs domestically and the relatively large investments that have been done in these sub-sectors over the years.

The Export Processing Zones (EPZs) are aimed at promoting and facilitating export-oriented investments. The exports from the EPZs are dominated by the garment and agro-processing sub-sectors at 61 per cent and 17 per cent, respectively (Export Processing Zones Authority, 2015). The performance of EPZs is critical in taking advantage of the African Growth and Opportunities Act (AGOA) which provides duty-free access to US imports of apparel and other selected items from eligible Sub-Saharan African countries including Kenya. In 2015/16, exports under EPZs increased by 15.5 per cent to Ksh 67 billion. This growth in exports was mainly supported by increased capital investments which grew by 21.3 per cent over the same period. Employment in EPZs also realized positive growth of 9.4 per cent to stand at 52,007 jobs in 2015/16.

Table 7.3: Major manufactured imports, 2013-2015 (% of total imports)

Products			
	2013	**2014**	**2015**
Agro-processing/food and beverage products	3.9	3.4	3.7
Textiles and apparel	1.1	1.0	0.9
Leather	0.2	0.2	0.3
Construction materials[1]	28.1	33.4	33.9
Total	**33.3**	**38**	**38.8**

Data source: KNBS (2016a and 2016d)

The exports from EPZs to the EAC are market-capped at 20 per cent of annual production as per Article 25 of EAC Protocol on the establishment of the East African Customs Union. However, exports to EAC have been on a decline from about 3.6 per cent in 2013 to about 1.2 per cent in 2015. Exports to COMESA and the rest of Africa have also been declining but exports to the US and Europe have been increasing, implying that EPZs are taking advantage of AGOA (Table 7.4).

The performance of EPZs faces several challenges that weaken their competitiveness. These include high costs of electricity, shortage of land for development of industries, unfavourable customs regulations, and shortage of raw materials for intermediate inputs (Export Processing Zones Authority, 2015).

Table 7.4: EPZs export destinations, 2013-2015 (% of total value of exports)

Period	2013	2014	2015
USA	56.4	61.9	62.7
Canada	3.9	5.1	2.5
Europe	13.6	13.4	15.9
Asia	7.0	7.7	5.5
Far East	0.8	0.7	0.4
EAC	3.6	1.5	1.2
COMESA	8.7	5.7	4.9
Rest of Africa	5.3	3.7	3.4
Other	0.7	0.4	3.5
Total value of exports (Ksh billions)	**44.4**	**51.4**	**60.9**

Data Source: Export Processing Zones Authority (2015)

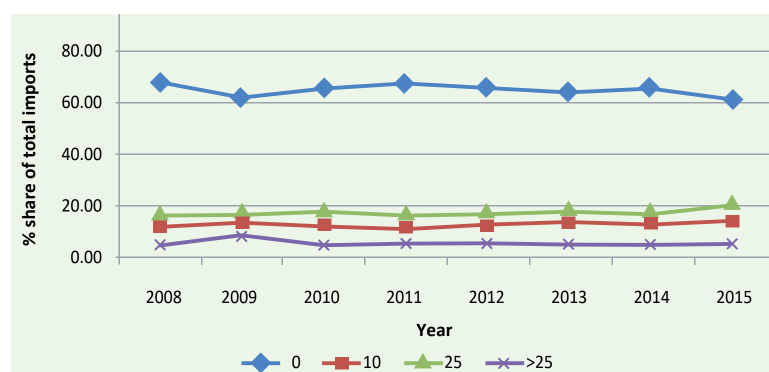
7.6 Facilitation of Value Addition

The EAC 3-band import tariff structure is designed to promote value addition and industrialization. It entails zero (0) per cent raw materials and capital goods, 10 per cent intermediates, 25 per cent finished products and over 25 per cent duty for designated sensitive products. As indicated in Figure 7.1, the biggest share of Kenya's total imports (excluding from EAC) comprises raw materials at about 60 per cent which is then processed in the country. The EAC 3-band import tariff structure has enabled Kenya to have a stronger industrial base compared to other EAC member states.

Generally, all EAC countries have a lower ranking of industrial competitiveness including the share of manufactured exports, manufacturing value added (MVA) in GDP, medium and high technology MVA, and the impact on the World's MVA (Annex Table 8). The performance of Kenya and EAC member countries in general compares unfavourably with African countries such as South Africa, Tunisia, Morocco and Egypt who have a higher industrial competiveness ranking. In addition, the structure of manufacturing sector that is characterized by a high share of low technology sub-sectors (food, beverage, textiles, etc), limits the scope of trade in EAC region.

In order to benefit from EAC integration, Kenya needs to pursue industrialization policies that diversify into medium and high technology adoption and innovativeness. Unfortunately, Kenya has a weak framework to support and finance industrial innovation, which reduces the country's industrial competitiveness. In the newly industrialized countries such as Malaysia and South Korea, a conducive business environment, enhanced innovation, skills development and fiscal incentives targeted at specific sub-sectors have enabled them to gradually diversify from low technology sub-sectors (e.g. food and beverage, textile, paper and leather) to knowledge-intensive medium and high technology sub-sectors such as electronics, pharmaceuticals and opticals.

Figure 7.1: Share of Kenya's imports by tariff band, 2008-2015



Data Source: EAC (2016)

7.7 Business Environment

The business environment has important implications for competitiveness of manufactured products, as it affects the costs of production. A competitive business environment serves as an incentive for foreign direct investment (FDI). The EAC has provided a platform for a joint and coordinated approach to improvement of the business environment, focusing on institutional and regulatory frameworks. Besides, there are joint promotions of EAC as

a common investment area. There are also efforts to increase the low share of stock of manufacturing FDI in the EAC countries. Available investment surveys show that the share of manufacturing FDI for Kenya is high at 22.3 per cent compared to 16 per cent in Tanzania and 9 per cent in Uganda (KNBS, 2015a; United Nations Industrial Development Organization, 2016).

The efforts towards creating an enabling business environment in the region have improved global competitiveness ranking for majority of the EAC countries. Kenya, for example, improved to position 92 in 2017 from position 108 in 2016 (Annex Table 9). Compared to other EAC Countries, Kenya had the largest improvement ranking after Rwanda. However, Kenya ranks lower than other countries in Africa such as Mauritius, Morocco, Botswana, South Africa and Tunisia. Also, Kenya's doing business competitiveness ranks lower than the newly industrialized countries such as South Korea, Malaysia, Thailand, Mexico, Chile and China. Therefore, improving the business environment is important to achieving industrial competitiveness.

The most highly ranked indicators for doing business in Kenya are getting credit, enforcing contracts, protecting investors, resolving insolvency and trading across borders (Annex Table 8). Except for the indicator on dealing with construction permits indicator, the ranking for all other indicators has improved. This is as a result of government efforts in carrying out various reform programmes. Examples of such reforms include the enactment of the Company Act 2015 which shortened the registration process of companies by 23 days from a high of 54 days, and establishment of the National Electronic Single Window to enhance trading across borders by reducing delays and lowering costs, among other reforms.

UNCTAD (2016) acknowledges that Kenya is becoming a favourable business hub for manufacturing exports due to renewed investor interest and confidence in the country's business climate. Volkswagen has already initiated plans to re-open its vehicle assembly plant, and Toyota Japan plans to expand its production operations in Kenya. This is expected to create more jobs for the economy and also lead to technology transfer. Further, Unilever Company has established a local sourcing model for canola oil, an input which is imported. Though Kenya has experienced increased investment, there is need to exploit the available opportunities through deliberate incentives to favour the manufacturing sector. There is evidence that inflow of manufacturing FDI in economies of Sub-Saharan Africa creates more jobs than FDI in other sectors.

Table 7.5: Kenya's Doing Business Indicators' ranking, 2010-2017

Indicator/Rank	2010	2011	2012	2013	2014	2015	2016	2017
Getting credit	4	6	8	12	13	116	28	32
Enforcing contracts	126	125	127	149	151	137	102	87
Protecting investors	93	93	97	100	98	122	115	87
Resolving insolvency	-	-	92	100	123	134	144	92
Trading across borders	147	144	141	148	156	153	131	105
Getting electricity	-	-	115	162	166	151	127	106
Starting a business	124	125	132	126	134	143	151	116
Registering property	125	129	132	161	163	136	115	121
Paying taxes	164	162	166	164	166	102	101	125
Dealing with construction permits	34	35	37	45	47	95	149	152
Overall Ranking	95	98	109	121	129	136	108	92

Sources: World Bank various, Doing Business

Chen et al. (2015), for example, indicate that the manufacturing sector in Tanzania created jobs three times more than in agriculture.

Over the last three years, however, high cost of electricity, and illicit trade have contributed to the exit of manufacturing companies in Kenya. Cadbury Kenya and Eveready East Africa have ceased their production lines in Kenya and now import their products to Kenya from Egypt which is considered a low cost manufacturing hub. Kenya's electricity tariff for industrial consumers at US cents 15/kwh is considered high when compared to US cents 6/kwh in Egypt (KAM, 2016). This is despite Kenya ranking higher than Egypt in global competitiveness (Annex Table 10). The higher power tariffs in Kenya, coupled with power outages lead to losses in production. Illicit trade which brings in counterfeit products is also a hindrance to the growth of the manufacturing sector. Other companies that have ceased production lines in Kenya are Reckitt Benckiser, Procter and Gamble, Sameer, Colgate Palmolive, and Johnson & Johnson.

The government is taking deliberate efforts to accelerate industrial development in the country, with initiatives that create an enabling environment. These include the creation of Special Economic Zones (SEZs) which entails provision of tax incentives and necessary infrastructure in designated areas. The SEZ legislation was enacted in 2015 and to operationalize the SEZ legislation, the regulations were Gazetted in 2016. The government targets to establish three SEZs focusing on manufacturing in Mombasa, Kisumu and Lamu (Government of Kenya, 2013a). The SEZs are expected to attract local and foreign investors. Further, the government envisions to develop industrial parks in every county to attract local and foreign investments. The parks are expected to offer infrastructure and other shared resources, including electricity supply, telecommunications hubs, offices and internal transportation. Though there are several milestones achieved, the establishment of SEZs and industrial parks as targeted in MTP II has, however, been slowed down by inadequate funding, delayed disbursement of funds, and inadequate industrial land.

7.8 Conclusion

The manufacturing sector has over the years performed below the expected growth path. The sector's growth rate is lower than that of overall GDP, and this has seen a decline in contribution of the sector to total GDP. About 95 per cent of manufacturing sector's firms are MSEs who are the largest contributor to employment in the manufacturing sector. These are however low quality jobs that persistently sustain vulnerability to poverty.

The EAC market is an important destination for Kenya's manufactured exports. However, competition from cheap imports into the local and EAC markets especially from China and India, and the strengthening of the manufacturing sector in the EAC countries are squeezing the market share for Kenya's manufactured exports. Further, illicit trade which brings in counterfeit products is also a hindrance to the growth of the manufacturing sector.

Manufacturing activity in the EAC region is characterized by high share of low technology sub-sectors (food, beverage, textiles, etc). There is limited progress towards medium and high technology which could be explained by low level of innovation. This is diminishing industrial competitiveness and expansion of trade in the EAC region.

While a lot of effort is being made to improve the business environment, competitiveness of Kenya's manufacturing sector is being weighed down by high costs of production that are attributable to high electricity costs, and power outages.

Further, the establishment of SEZs and industrial parks has been slowed down by inadequate funding, delayed disbursement of funds, and inadequate land for development of industries.

A textile factory in the Special Economic Zone in Kenya

7.9 Recommendations

It is important that as FDIs in manufacturing firms enter the market, sub-contracting strategies are strengthened to formalize the informal sector, enhance transfer of technology and increase the multiplier effect.

Kenya needs to progressively diversify into medium and high technology sub-sectors by recognizing and rewarding innovation. Establishment and funding of talent incubation centres is recommended. This will serve to enhance the competitiveness of manufactured products, as well as diversification of manufactured exports.

The cost of energy is a major obstacle to firms in the manufacturing sector despite various government interventions. While the ongoing efforts to diversify sources of energy are aimed at reducing the cost of energy, reducing power outages will enhance quality of power supply.

Provision of adequate funding, prompt disbursement of funds and availability of land for development of industries are important in accelerating the implementation of SEZs and SME industrial parks.

Fast-tracking development of a policy framework to guide response measures on curbing counterfeit products, which are a hindrance to the growth of the manufacturing sector, would complement the existing law.

(Endnotes)

[1] Statistics provided relate to basic metals, fabricated metal products, electrical equipment, machinery and transport equipment

Chapter 8 Infrastructure and Regional Integration

Kenya has the potential to be an infrastructure services hub for the EAC region and beyond but such services must be designed as a package. In addition to improving the competitiveness of Mombasa port, Kenya needs to focus on encouraging the formation of Trans-Africa transit traffic and trans-shipment infrastructure to reach out beyond the EAC region. Although a lot of effort has gone to increasing the supply and quality of electricity, there is need to attain an appropriate power mix to maximize on the benefits of the ongoing reforms. The ICT programmes that have been rolled out have significantly improved Kenya's ICT indicators in the region. However, given the growing competition from partner states, Kenya needs to establish its niche market in becoming a regional ICT hub.

8.1 Introduction

A good infrastructure network facilitates efficiency in trade by reducing the cost of business and enhancing the movement of goods and services. However, for a country to benefit fully from infrastructure integration, upgrading domestic infrastructure interconnectivity and linkages to the regional infrastructure is a priority. This chapter focuses on infrastructure development in transport, energy and information communication and technology (ICT) as enablers to economic growth.

8.2 Review of Infrastructure Development

Kenya has prioritized several infrastructure projects in Vision 2030. The country seeks to deploy cost-effective world-class infrastructure facilities and services to promote a favourable investment climate for industry, agriculture and business, and also to provide quality services to the population. Kenya has also played a significant role in pushing for implementation of regional infrastructure projects, and offers transit infrastructure services for exports and imports of various countries in the region, especially the land-locked countries.

In 2016, the transport, energy and communications sectors contributed 8.4 per cent, 9.1 per cent and 9.7 per cent to GDP, respectively. The country has made progress towards achieving the targets set for the infrastructure sector as shown in Table 8.1. For instance, in the energy sector, electricity installed capacity has expanded, access to electricity increased, and electricity tariffs reduced. There is also progress in the transport sector witnessed in increased kilometres of paved roads, increased air passenger traffic, and improved port performance in cargo tonnage and dwell time. Similarly, the ICT sector shows growth in cellular mobile services, data and internet usage as well as acquisition of television and radio frequencies and transceivers. Besides, infrastructure development has significant multiplier effects through linkages with other sectors of the economy.

The potential for Kenya to remain a central infrastructure service hub for the EAC region and beyond is high. The region depends on Kenya's infrastructure cutting across transport (air, rail road, port), energy and ICT. This set of infrastructure services should be developed as a package for learning and training centres, incubations and innovations centres, assembling or manufacturing of infrastructure equipment and providing world class services in transport, power and communications. To set an infrastructure hub, strategic investment decisions are required and a multi-modal approach that integrates transport, energy and communications infrastructure. Kenya has an advantaged position given its geographical location, investment commitments to infrastructure, and increasing demand for infrastructure services in the region. The potential is destined to grow even further with the on-going implementation of regional infrastructure plans on ports, roads, railway and air.

8.3 Transport

The contribution of the transport sector (road, railway, port, air) to GDP was 7.9 per cent in 2016. The sector grew by 8.4 per cent in 2016 compared

Table 8.1: Status of energy, transport and ICT infrastructure in Kenya, 2008-2016

Indicators	2008	2013	2016	Targets (year)
Energy sector				
Installed electricity capacity (MW)	1,268	1,765	2,341	6,700 (2017)
Electricity access (% of household)	15	27	55	100 (2020)
Electricity average retail tariffs	-	23.06	13.68	0.06 (...)
Transport				
Port throughput (Dead weight tonnes) (000)	16,415	23,307	27,364	35,000 (2022)
Container traffic (twenty foot equivalent units)	615,733	894,000	1, 091,371	1,550,000 (2022)
Ship turnaround time (days)	4.9	4	2.9	2
Container dwell time (days)	12.1	7	4.0	3
Air passenger traffic (000)		8231	8993	-
Paved (Bitumen) Roads (Km)- (000)	9.28	11.3	13.9	23.9
ICT				
Cellular mobile subscriptions (million)	26.9	31.3	37.7	-
Mobile money transfers (Ksh billion)	1,169	1,902	2,816	-
Data/Internet users (million)	11.3	21.2	35.5	-
Broadcasting frequencies - TV/Radio	91/346	336/553	302/608	-

Source: Government of Kenya (2016b); EAC (2016b); KPLC (2016); KPA (2016); CAK (2016)

to 5.5 per cent in 2014, thereby signalling potential for further growth. The growth was mainly due to reduction in fuel prices, increased demand for road transport, increased importation of vehicles, improvement in road network and improvement in maritime, railway and air transport. To contribute more towards GDP, the sector needs to improve its port performance and its allied services.

Table 8.2: Transit traffic through the port of Mombasa, 2011-2016 ('000 tonnes)

	2011	2012	2013	2014	2015	2016
Uganda	4,376	4,845	4,912	5,522	5,977	6,347
Tanzania	161	186	192	188	205	183
Burundi	2	39	67	79	76	36
Rwanda	226	260	240	236	292	194
South Sudan	417	767	775	761	703	598
D.R. Congo	355	482	512	408	396	377
Somalia	29	16	7	5	12	4
Others	30	29	4	0.5	7	11
Total	**5,596**	**6,626**	**6,709**	**7,199**	**7,667**	**7,749**

Source of data: KPA (2016)

The port of Mombasa has improved its performance over time. In 2016, the cargo on transit traffic (cargo for the region) grew by 1.1 per cent to reach 7.75 million tonnes, up from 7.67 million tonnes handled between 2014 and 2015. This transit traffic was shared among the countries in the region as follows: Uganda 81.9 per cent, South Sudan 7.7 per cent, D.R. Congo 4.9 per cent, Rwanda 2.5 per cent, Tanzania 2.4 per cent, Burundi 0.5 per cent and Somalia and others 0.2 per cent. These shares have been relatively the same, on average, over the period 2011-2015 (Table 8.2).

There are long term agreements with Uganda, Rwanda and Burundi through the Port Community Charter to support Mombasa port as the port of choice for transit cargo. In 2016, transit traffic handled at the port was 28.3 per cent of total cargo and the rest of the cargo was domestic (69.5%) and transhipment (2.2%). The fact that the largest cargo handled at the port is domestic (69.5%) is good for Kenya since it passes the requirement that for a port to be sustainable, it should have a large base of cargo traffic for domestic market. A big proportion of the cargo handled at Mombasa port are imports (85%) followed by exports (13%) and then transhipment (2%) (Table 8.2).

Kenya handles about 60 per cent of the regional transit traffic on the ports annually compared to Dar es Salaam port which handles the remaining 40 per cent. The market for Tanzania is Zambia, D.R. Congo, Rwanda, Burundi, Malawi and Uganda (TPA, 2015). Mombasa port still remains a port of choice to Uganda due to a difference in distance of about 600 km compared to the port of Dar es Salaam. Uganda commands 50 per cent of the regional transit traffic. Mombasa port loses out to Dar es Salaam port in the transit traffic for Burundi, Rwanda and D.R. Congo which have about 80 per cent, 74 per cent, and 77 per cent of their cargo handled in Dar es Salaam, respectively. This is because Tanzania has absolute advantage on distance from the coast to Rwanda, Burundi and D.R. Congo besides sharing a border with Rwanda and Burundi. This translates to cost advantage as well as time utility. This means that Kenya receives 60 per cent of the revenue generated through the port services in the region.

The implementation of a modernization programmes at Mombasa port has seen improvement in productivity and efficiency of the port. For instance, by 2016 the container dwell time was reduced to 4 days from 10 days (KPA, 2016), moving it closer to the international standard of 3 days. In addition, the transit time of the container laden trucks from Mombasa to Malaba reduced to less than 5 days down from 8 days (KPA, 2016). Some of the initiatives that led to this improvement

include modernization and acquisition of new cargo handling equipment, expansion of exit gate capacity, widening of port road including drainage works, embracing ICT in transactions, billing and online payments, completion of time management project, implementation of balance scorecard, improvement of network coverage and upgrading of power from 11kv to 132kv, among other investments.

To continue enhancing the competitiveness of Mombasa port in transit traffic, there is need to also improve the inland services allied to the port. On this basis, Kenya embarked on upgrading its railway through the construction of the Standard Gauge Railway (SGR), improving operational efficiency of the Meter Gauge Railway (MGR) and expanding the road network. These initiatives are expected to attract more cargo. The twin services by the SGR and MGR are expected to contribute to the growth of the economy by increasing cargo on rail and reducing both the cost and transit time. They will also ease the pressure exerted by trucks on the roads and reduce road depreciation. In 2016, the first phase of the SGR on the Kenyan component was about 70 per cent complete between Mombasa and Nairobi. It is expected that this will reduce travel time between the two cities from 15 to 4 hours and operations are expected to commence in 2017. The construction of the second phase from Nairobi to Naivasha was launched in 2016 to cover 120 km. Later, the Naivasha-Kisumu and Kisumu–Malaba phases will complete the Kenyan component of the SGR. It is expected that Uganda, Rwanda and Burundi will develop their SGR or road transport to receive the cargo traffic at Malaba border point.

Further, transit traffic will benefit from development of a second port. The second port is to ease congestion on Mombasa port and will also form an integral component of the infrastructure required to open up South Sudan and Ethiopia for business. The LAPSSET project is expected to open up South Sudan and Ethiopia for transit traffic and by extension to Central African Republic. The LAPSSET project encompasses development of Lamu port as well as a network of road, rail, inland waterways, oil pipeline networks and ICT infrastructure to South Sudan and Ethiopia (LCDA, 2016). It is expected that the Lamu port will transit about 3.8 million tonnes and 4.4 million tonnes of cargo by 2020 from South Sudan and Ethiopia, respectively. The figure will increase to 5.5 million tonnes and 9.7 million tonnes by 2030 for South Sudan and Ethiopia, respectively. Ethiopia has also developed a road network in the south, connecting to the Kenyan border, which signals that the country is ready for business with Kenya from the southern part.

The road network is also critical in promoting port performance, especially the rural roads in facilitating movement of goods, exports and imports. Among the rural roads, only 3 per cent were paved (under bitumen) by 2016; the rest were under gravel (31%) and earth (65%) as shown in Table 8.3. The country has continued to invest in construction and maintenance of rural roads to a tune of Ksh 12.5 billion in 2016 up from Ksh 10.9 billion in 2014 (Kenya Roads Board, 2016). During the period 2014-2016, an additional 1,495 km of rural road was paved. However, a large proportion remains unpaved. It is clear that the road network needs improvement to be able to offer the transport services that are required by other sectors such as industry and agriculture. Roads in bad and poor condition increase the cost of transport and cause delays in delivery of inputs and outputs. This leads to losses especially of perishable goods. The unpaved roads are impassable during the rainy season and make it difficult and costly to transport agricultural products.

The road network is part of fundamental services linked to competitiveness of ports. Various EAC road corridors are at different stages of development and will, once completed, help attract more cargo through the Mombasa port and increase the volumes handled. They include: Mombasa-Voi-Eldoret-

Table 8.3: Rural road network in Kenya, 2014-2016

	2014	2015	2016
Paved (bitumen in km)	2,624.50	3,964.20	4,119.70
Unpaved (gravel and earth (km)	133,750.44	32,410.72	132,255.25
Total rural road network (km)	136,374.94	36,374.92	136,374.95
Share of paved rural roads (%)	1.92	2.91	3.02

Source: Kenya Rural Roads Authority (2017)

Bugiri-Kampala-Masaka-Kigali-Kibuye-Kayanza-Bujumbura; Arusha-Namanga-Athi River Road Project (between Kenya and Tanzania); Arusha-Holili-Taveta-Voi Road Project (between Kenya and Tanzania); and Malindi- Lunga Lunga and Tanga-Bagamoyo Road (between Kenya and Tanzania). These projects are expected to reduce transit time of cargo from Mombasa to various destinations in Kenya and regionally.

A number of one-stop border points (OSBP) have been established and are expected to reduce delays and clearance bottlenecks across borders. The three OSBPs linked to Kenya are: Taveta (Kenya)–Holili (Tanzania); Busia (Kenya – Uganda) and Namanga (Kenya–Tanzania). The Taveta (Kenya)–Holili (Tanzania) is already operational and has reduced the time taken to clear trucks by 30 per cent. Elimination of delays on the inland systems contributes to the overall competitiveness of the port. It makes the transit route attractive to investors.

Kenya has a vibrant air transport system compared to its partners in the region. It has the highest number of international passengers, domestic passengers, passengers in transit and volume of cargo (Table 8.4). Some of the initiatives that have led to this performance in the region are upgrading of the airports, adoption of ICT in service delivery, improved security, and the geographical location. Jomo Kenyatta International Airport (JKIA) has attained Category One status, which paves way for direct flights to the United States of America.

To improve and sustain the competitiveness of transit traffic services, Kenya needs to use its strategic location to encourage the formation of Trans-Africa transit traffic and transshipment infrastructure, especially linking East Africa to Central Africa, North Africa and West Africa. Trans-Africa transit traffic network will enhance African connectivity

Table 8.4: Air transport in the EAC, 2014-2015

Category	2014					2015				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Volume of cargo (tonnes)	2,933	32,411	52,842	279,381	7,389	2,612	29,672	54,450	263,038	7,906
Passengers international (000)	241	1,976	1,332	5,744	446	207	2,004	1,375	5,573	
Passengers domestic (000)		2,898	23	3,138	26		2,846	14	3,421	21
Passengers transit (000)		402	95	1,305	91		368	130	1,396	103
Operators (international)	6	32	26	26	7	5	29	25	26	7
Operators (Local)	1	40	2	7	2	1	32	2	7	2

Source: EAC (2016)

and increase flow of cargo and passengers. Already, Kenya has preferable volume of base of import and export in domestic cargo which guarantees sustainability. The country is expanding land area for cargo storage and for value addition. It has also improved access to a large hinterland with road, railway and air transport. The port is improving on the depths to encourage deep port ships and is also expanding its infrastructure to improve operational efficiency especially by reducing waiting time by ships.

8.4 Energy

The energy sector contributed 1.7 per cent to GDP in 2016. The sector has a bearing to industry and export market since the cost of energy is a critical component in industry and transport. Lower costs of electricity promote manufacturing by reducing operational costs and enabling production. Similarly, low costs of petroleum products can potentially boost transport services by reducing the component of transport costs in the cost of production. Therefore, energy security requires enough generation capacity at affordable prices to support industrialization.

The critical issue that emerges is how energy infrastructure in Kenya and the EAC can help Kenya speed up industrialization and transport sectors. The EAC has abundant renewable energy resources which comprise solar, wind, geothermal and hydro power. The region's initiatives are focused towards enhancing access to sufficient, reliable, affordable and environmentally friendly energy resources. Some of these initiatives are included in the EAC Vision 2050 (EAC, 2016a), 4th EAC Development Strategy (EAC, 2012) and Sustainable Energy for All (SE4All, 2012). The EAC Vision 2050 sets out programmes and projects to drive the region towards establishment of regional power market, power interconnection code, cross-border-electrification programme and energy security policy. The (SE4All) initiatives seek to mobilize all stakeholders to take concrete action towards ensuring universal access to modern energy services, double the global rate of improvement in energy efficiency, and double the share of renewable energy in the global energy mix within the UN timeframe of 2030.

Electricity generated by a country should be enough to serve local and regional demand. Kenya plans to increase installed electricity capacity to 6,766 MW by 2020 (ERC, 2016). This will be developed mainly from geothermal followed by coal, wind, hydro, thermal, solar and co-generation, respectively, and the balance will be imported from Ethiopia. By 2016, the country had managed to install capacity of 2,341 MW of electricity, an increase from 2015 generation of 2,333.6 MW. The government plans to increase geothermal power generation to at least 1,900 MW by 2017 and 5,500 MW by 2030 mainly because geothermal power is the least cost power compared to other sources. The planned installed capacity is still low compared to some of the aspired industrial African countries such as South Africa whose installed consumption is about 44,175 MW.

In terms of domestic electricity generation, 9.749 million MW was generated in 2016 compared to total domestic demand of 7,867 million MW (KPLC, 2016). The largest share of electricity was consumed by commercial and industrial consumers followed by small commercial consumers and domestic consumers. The total electricity supply outstrips the electricity demand; the difference between electricity supply and demand is due to electricity exports and transmission losses and unallocated demand. Between the years 2015 and 2016, electricity exports increased by 13 per cent while transmission losses and unallocated demand increased by 17 per cent (KPLC, 2016) against the world average of 8.5 per cent and Sub-Saharan Africa 11.8 per cent. Though transmission losses may be lower compared to EAC (Tanzania 20% and Ethiopia 19%), this is still too high compared to South Africa which has 8.5 per cent, Zambia 8.7 per cent and Egypt 11.14 per cent. The increase in exports is due to increasing demand from the trading partners. Even though there was increase in

electricity losses, the country has put in place measures to address this by improving existing sub-stations and construction of new sub-stations, as well as upgrading and construction of new transmission and distribution lines. In 2016, under the national grid programme, Kenya constructed 402 km of transmission lines, 15 transmission sub-stations, and 3,862 km distribution lines (Government of Kenya, 2016b). More investment is needed towards construction of more sub-stations and improvement of grid lines (Table 8.5).

Table 8.5: Electricity installed capacity, generation and consumption, 2015-2030 (MW)

	2015	2016	2020*	2030*
Installed capacity (MW)	2333.6	2341	6,766	24,000
Electricity generation (million MW)	9.201	9.749	-	-
Electricity Consumption (million MW)	7.615	7.867	-	18,000
Exports to Uganda and Tanzania (MW)	0.040	0.045	-	-
Imports from Uganda and Tanzania (MW)	0.079	0.067	-	-
Transmission losses and unallocated demand (MW)	1.625	1.904	-	-

• Projected
Source: ERC (2016), MOEP (2016)

It is projected that by 2030, peak demand will be 18,000 MW against an installed capacity of 24,000 MW. The difference between peak demand and installed capacity is important in addressing the energy margin requirements, energy security and for engaging in power trade. The anticipated installed capacity will provide important ground towards investing in an industrious nation. The margin allows for accommodation of unanticipated high demand of electricity due to increased industry activity, and new entrants with heavy consumption of electricity such as the SGR.

In the region, Kenya trades electricity with Tanzania and Uganda. This demonstrates mutual benefit from integration in the energy sector. The trade is facilitated by cross-border electrification programme. In this arrangement, border towns are electrified using the nearest and most economical medium and low voltage grid. The key energy interconnection infrastructures to benefit Kenya are expected to be along Zambia-Tanzania-Kenya, Kenya–Uganda and Kenya–Ethiopia. With this infrastructure in place, Kenya will be able to trade power with Zambia and Ethiopia.

Kenyan manufacturers pay US$ 15 cents per kilowatt of electricity compared to Ethiopia, Egypt, Uganda and Tanzania which pay US$ 4 cents, US$ 6 cents, US$ 12 cents, and US$ 9 cents, respectively (KAM, 2016). One major indicator of energy cost is electricity tariff which has been reducing since 2011 (Figure 8.1). This is a positive signal to manufacturing sector in reducing the cost of doing business. The price of electricity reduced from an average of 16.7 Ksh/Kwh in 2014 to 14.7 Ksh/Kwh in 2015 which is still high compared to Ethiopia (4 Ksh/Kwh), Egypt (6 Ksh/Kwh), South Africa (8Ksh/Kwh) and Tanzania (9 Ksh/Kwh) (KAM, 2017).

The reduction in electricity tariffs witnessed in 2015 was due to a significant drop in international crude oil prices from US$/bbl 109.50 in July 2014 to an all-time low of US$/bbl 46.40 in January 2015. Fuel price is an integral component in the determination of electricity tariffs. For instance, in 2014/15, fuel cost charge was estimated at 25 per cent of the total electricity tariffs in Kenya (ERC, 2016). The relatively high electricity tariff could also be explained by the power generation mix, which has a high component of thermal and hydro. For instance, power in South Africa is mainly from coal (92.6%) and nuclear (5.7%). Hydro power only contributes to 0.5 per cent of total power mix. For Kenya, geothermal power is one of the least cost

power with a contribution of 14.8 per cent. However, its intended benefits of cheaper power are overtaken by thermal power and hydro power generation which contribute a total of 51.2 per cent of the total energy mix. Kenya is investing in least cost power generation such as geothermal, wind and solar and is also upgrading the existing grid and constructing new infrastructure to improve operational efficiency by reducing transmission and distribution losses.

Table 8.6: Petroleum demand, 2008-2016 ('000 tonnes)

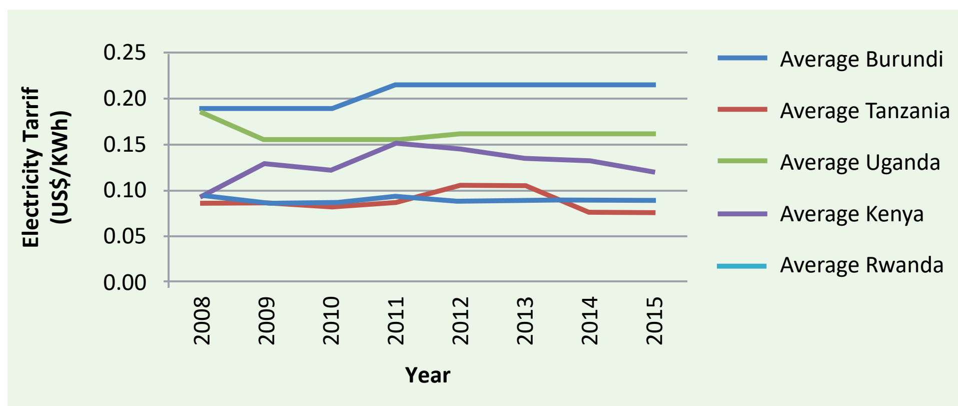
	2008	2012	2013	2014	2015	2016	% change
Illuminating kerosene	244.7	309	296.1	300.3	390.1	371.7	-4.7%
Motor gasoline (premium and regular)	381.3	618.5	774.5	903.8	1107	1,227.2	10.8%
Other petroleum fuels	2422.8	2616.9	2544.4	2584.1	3092.8	3,445.4	6.3%
Total petroleum demand	3133.2	3638	3707.9	3937.9	4738.5	5,044.2	6.5%

Source: KNBS (2017)

The average electricity tariff for commercial, medium industrial and large industrial consumers for EAC countries is indicated in Figure 8.1. Tanzania and Burundi have maintained a competitive edge over Kenya on electricity tariff in the region. This makes these countries better destination for industry investment in terms of cost of electricity, besides other factors such as low taxes, improved legal and regulatory framework, and reduced red tape.

Kenya relies on imports to meet its petroleum demand. The demand portfolio for petroleum products is shown in Table 8.6. The total petroleum demand increased by 6.5 per cent from 4,738,500 tonnes in 2015 to 5,044,200 tonnes in 2016. Petroleum fuels demand were increasing in the same period such as liquefied petroleum gas and motor gasoline while some were falling such as kerosene. The fall in demand can be explained by product-related costs, including the import duty since most petroleum fuels are imported after the closure of the Kenya Oil Refinery in 2013.

Figure 8.1: Regional electricity tariffs, 2008-2015



Source of Data: EAC (2015)

The rise in demand for most petroleum fuels was mainly due to falling crude oil prices. The crude oil price per barrel decreased to an average of US$ 44.18 in 2016 from US$ 52.53 in 2015. The volatility of the crude oil market contributes to the uncertainty of total domestic demand which reacts rapidly to falling and rising prices of crude oil.

The EAC region has discovered oil and gas deposits which can transform its economies. For instance, by 2016 Uganda had discovered 6.5 billion barrels of oil while Kenya discovered 750 million barrels. Exploration activities are still on-going and future prospects are promising for the region. Tanzania discovered about 57 trillion cubic feet of gas deposits by 2016.

The EAC Vision 2050 plans to establish oil refineries within the region; Lamu in Kenya and Hoima in Uganda. There is need to have shared infrastructure on oil, especially the pipeline, for Kenya and Uganda and by extension South Sudan. A regional network for oil pipeline is more strategic and cost effective to encourage pooling of resources and sharing of the risks. Development of such network will require negotiated revenue sharing plans and agreements.

Kenya is scheduled to start exporting crude oil in June 2017. Despite plans to export crude oil, the country will also continue to import petroleum fuels as finished products since it does not have a refinery. Towards maximizing gains from the oil, the draft National Energy and Petroleum Policy of 2015 identifies that a refinery will be established in Lamu and a pipeline laid along the LAPSSET corridor to transport refined oil products to Ethiopia. Crude oil will be transported from Lokichar to Lamu by pipeline. Discovery of gas in the EAC (Tanzania and Rwanda) will lead to increased energy security in the region. Uganda is expected to start exporting crude oil from mid-2020.

Kenya is developing a regulatory framework to maximize exploitation of energy resources as envisaged in the Energy Bill of 2015 and the Petroleum Bill of 2015. These Bills set the legislative framework for local content, revenue sharing, among others.

8.5 Information and Communication Technology (ICT)

The ICT sector aims to transform Kenya into a knowledge economy and spur innovation. In this regard, Vision 2030 recognizes ICT as a foundation for economic development. Kenya's vision of a knowledge-based economy is geared at shifting the current industrial development path towards innovation where creation, adoption, adaptation and use of knowledge remain the key sources of economic growth.

The contribution of the ICT sector to GDP is estimated at about 1.0 per cent in 2016. The sector growth slowed to 9.7 per cent in 2016 after recording an expansion of 14.5 per cent in 2014 largely attributable to reduced expansion in the telecommunication sub-sector. The value of ICT goods exported increased by 6.6 per cent to Ksh 2.2 billion in 2016 compared to Ksh 2.1 billion in 2015. Exports of telecommunication equipment accounted for 55 per cent of total exports of ICT goods in 2016.

One of the key indicators in assessing digital divide is access to mobile phone service. Access to mobile phone services in 2015 is estimated at 85 per cent in Kenya, Tanzania 81 per cent in Tanzania, 57 per cent in Uganda, 70 per cent in Rwanda and 25 per cent in Burundi (EAC, 2016). There are also disparities in access to internet and digital TV, among other indicators of digital divide.

A number of programmes have been rolled out towards meeting the MTP II targets, which include: Upgrading national ICT infrastructure, improving public service delivery using ICT, ICT industry development, and upgrading ICT capacity. Under these programmes, a number of achievements have been made including increased bandwidth in government offices from 80 to 100MB broadband and increased demand for internet and data services from 1.5 million in 2009 to 25.6 million subscribers in 2016. The sector has rolled out digital TV migration successfully and Kenya recorded 62 digital TV stations in 2015.

There is improvement in public service delivery as a result of the establishment of 40 *Huduma* centres, national and county government online systems such as Integrated Financial Management Information System (IFMIS), County Revenue Collection System, and application of public service jobs online.

Digital Learning Programme in Kenya

To increase competitiveness and to position Kenya as an ICT hub, the construction of Konza Technology City project has started. The project is expected to yield innovations in ICT software such as applications and assembling of ICT equipment for the region besides being a training and learning centre and Business Process Outsourcing (BPOs).

In 2013, Digital Learning Programme (DLP) was initiated by the Government of Kenya and targeted learners in all public primary schools to integrate the use of digital technologies in learning. In an effort to upgrade the ICT capacity the government has established incubation centres and rolled out the digital learning programme in education institutions.

At the regional level, EAC recognizes the importance of ICT in facilitating globalization and promoting regional integration. The region seeks to attain universal access to communications infrastructure and services, ensure availability of rich and diverse ICT content and applications, and build competence, confidence and security in the information society.

In 2016, Kenya, Uganda and Rwanda signed an agreement on 'One Network Area' (ONA) to reduce roaming charges. This is expected to reduce the taxes and internetwork charges and promote regional integration by bringing down the high cost of mobile roaming.

The ICT investment opportunities existing in the EAC are in mobile phone market penetration, internet hosting, radio stations, and television services especially digital platform. Kenya performs well on ICT indicators compared to other partner states. For instance, Kenya has recorded relatively high mobile phone penetration rates, high telephone subscribers as well as high Internet hosts (Table 8.6). However, Rwanda is also fast emerging as an

ICT hub largely due to successful deployment of ICT in education.

Table 8.7: ICT performance in EAC, 2012-2015

Indicator	State	2012	2013	2014	2015
Mobile phone penetration (No. per 1,000 people)	Burundi	246	-		
	Tanzania	605	605	724	813
	Uganda	479	511	588	569
	Kenya	748	749	782	853
	Rwanda	531	630	700	
Mobile telephone subscribers ('000 number)	Burundi	2,247	2,536		
	Tanzania	27,219	27,443	31,863	39,666
	Uganda	16,356	18,068	20,366	20,220
	Kenya	30,433	31,309	33,633	37,716
	Rwanda	5,691	6,689	7,747	
Internet hosts per 1000 persons	Burundi	-	-		
	Tanzania	168	202	302	354
	Uganda	-	-		
	Kenya	209	315	383	302
	Rwanda	-	-		
	East Africa				
Television stations	Burundi	5	5	8	
	Tanzania	28	30	27	30
	Uganda	68	67	72	
	Kenya	14	14	50	62
	Rwanda	1	2	5	

Source of Data: EAC (2016b)

8.6 Conclusion

Kenya has potential to play a leading role in providing regional infrastructure services and harnessing the accompanying gains. However, the infrastructure services must be designed as a package to fully exploit the opportunities in the region. This will boost economic growth given that infrastructure has a multiplier effect in other sectors such as business, industry and agriculture, besides contributing directly to GDP.

Mombasa port has gained more competitiveness with the improved efficiency in its operations. This together with the on-going efforts to improve the inland services, including the construction of Standard Gauge Railway and expansion of road network will serve to increase transit traffic and position Mombasa port as a regional hub. Kenya can however exploit her potential beyond the EAC region by supporting Trans-Africa transit traffic and trans-shipment infrastructure.

Significant progress has been made in expanding power generation and increasing access. Furthermore, there are initiatives to improve operational efficiency and therefore reduce power losses. While electricity tariffs have come down

Construction of Standard Gauge Railway in Kenya

Expansion of Jomo Kenyatta International Airport, Nairobi

Wind Power generation, Kibiku, Ngong in Kenya

significantly, they remain higher compared to other countries in the region and this could undermine the country's industrial competitiveness.

Kenya is rolling out various ICT programmes in transforming the country into a knowledge economy and spurring innovation. While Kenya performs well with various ICT indicators, there is growing competition in the region on establishment of an ICT hub.

8.7 Recommendations

Kenya needs to strategize on harnessing opportunities available for infrastructure development for it to become a regional hub. To exploit the potential beyond EAC requires cooperation in developing infrastructure corridors to include Central, Northern and Western Africa.

To position Mombasa as a regional hub, the on-going efforts to improve operational efficiency need to be maintained, including the development of the second port. Furthermore, improving the rural road network will increase cargo traffic at the port in addition to supporting the development of EAC road corridors.

Achieving the right power mix will not only ensure increased supply of electricity but also reduce the cost of power and increase electricity trade in the region. In this regard, tapping renewable sources of energy remains an appropriate strategy.

Finally, expediting the implementation of the Konza Technology City project will serve to strengthen the position of Kenya as a regional ICT hub.

Chapter 9

Labour and Regional Integration

The East African region can reap maximum benefits of a youthful population by providing opportunities for the youth to engage in productive economic activity. While the Common Market Protocol promotes free movement of labour, it only permits free movement of highly skilled workers yet the informal sector is the main employer in the region. There are disparities on availability of professional skills and Kenya needs to take advantage of the CMP provisions to promote exports of her significant number of professionals. In addition, a labour portal to facilitate information sharing will enhance labour mobility in the region.

9.1 Introduction

As the EAC seeks to spur economic growth and development through growth in trade and enhanced competitiveness, the labour market becomes a critical component of the integration process. Robust growth has been recorded by member states but unemployment especially among the youth remains a key challenge in addressing the persistently high levels of poverty. This chapter focuses on movement of persons and labour, characteristics of labour, and availability of professionals in the EAC.

9.2 Labour and Common Market Protocol

The EAC Common Market Protocol (CMP - 2009) established under Article 76 of the EAC Treaty provides for free movement of labour, goods, services and the right of establishment. It guarantees the free movement of workers who are citizens of the partner states. However, Annex II of the Protocol only permits free movement of highly skilled workers. Overall, the CMP seeks to promote a competitive regional labour market by encouraging transfer of skills, resource sharing, making the EAC an attractive investment destination, increasing global competitiveness and reducing flight of skills.

The CMP calls for the removal of restrictions on movement of labour, harmonization of labour policies, legislations, provision for social security benefits as well as establishment of common standards and measures for mutual recognition of academic and professional qualification. Kenya has signed Mutual Recognition Agreements (MRAs) with Rwanda, Tanzania and Uganda in the following professions: engineering services; architectural services; and accounting, auditing and book keeping services. However, the main employers in the EAC are in the informal sector and agriculture which have recorded growth in the last decade compared to formal employment. This excludes a critical mass in the labour force not provided for by the CMP.

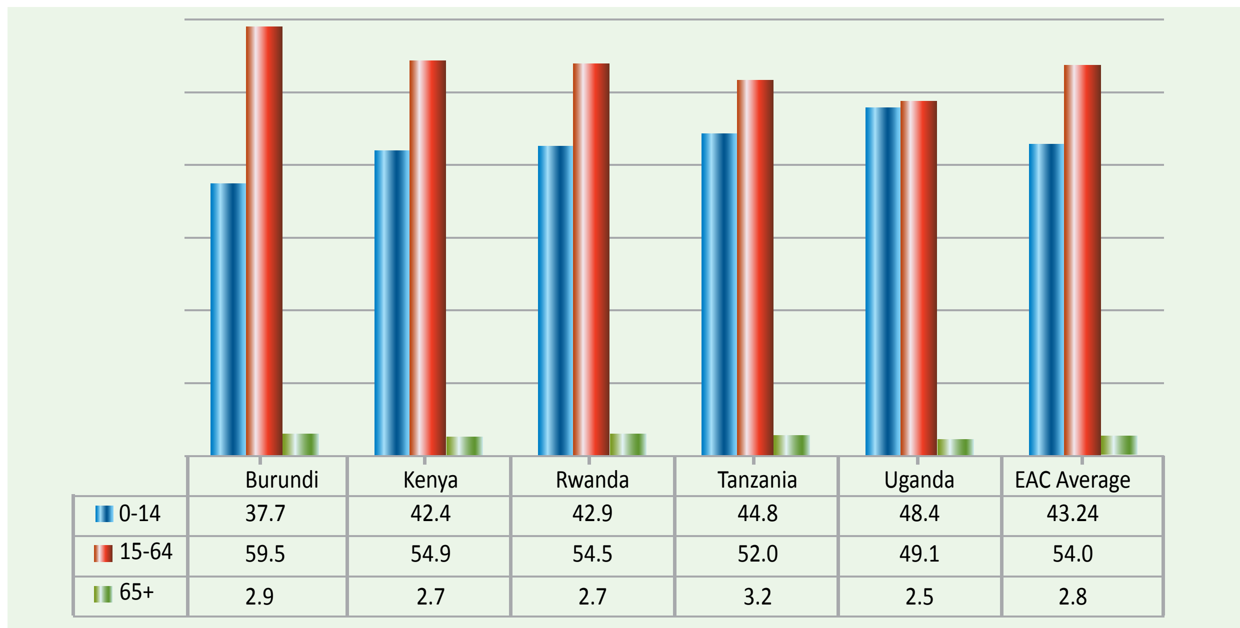
9.3 Size of Labour Force

The EAC has a population of 145.5 million with an average annual growth rate of 2.7 per cent. Kenya shares a third of the EAC population (45.4 million) making it the second largest in population size with a growth rate of 2.9 per cent. Kenya's Population Policy 2012 recognizes rapid growth in population as a constraint to national development. To counter this, the policy proposed a reduction in fertility levels from 5 children per woman in 2009 to 2 children per woman in 2050. If this policy is followed, then the population will increase from 59 million in 2030 to 75 million in 2050 with the proportion of those below 15 years decreasing to 25 per cent.

The EAC has a youthful population and a huge proportion of dependants aged 0-14 years (Figure 9.1). On average, 54 per cent of the population aged 15-64 years takes care of 43 per cent that is aged 0-14 years. The youth aged 15-34 years was estimated at 48 million or 35 per cent of the total population in 2010. By 2030, the youth population is projected to rise to 82 million, accounting for 35 per cent of the total population.

The labour force in the EAC is projected to more than double from 77 million in 2010 to 169 million by 2050 (Table 9.1). However, the challenge that the region faces is how to match the growth of economically active population with creation of quality jobs.

Figure 9.1: Population distribution by age in the EAC, 2015



	Burundi	Kenya	Rwanda	Tanzania	Uganda	EAC Average
0-14	37.7	42.4	42.9	44.8	48.4	43.24
15-64	59.5	54.9	54.5	52.0	49.1	54.0
65+	2.9	2.7	2.7	3.2	2.5	2.8

Source: EAC (2016b)

Table 9.1: Trends in EAC economically active population, 2010-2050 (‘000)

Country	2010	2015	2030*	2040*	2050*
Tanzania	24,891	28,833	38,840	44,760	51,822
Kenya	23,362	26,760	37,210	43,943	50,768
Uganda	17,331	20,713	29,284	33,462	40,153
Rwanda	5,925	6,749	9,450	11,025	13,265
Burundi	5,289	5,933	8,284	10,232	12,615
EAC	76,799	88,987	123,068	143,422	168,623

*Projections
Source: International Labour Organization (2016)

The proportion of population aged 15 to 64 working population was 69 percent as per the 2009 population census. The corresponding employment to population ratio for the youth categories aged 15-35 and 15-24 were 63 per cent and 49 per cent, respectively (Figure 9.1). The youth aged between 18-34 form 30 per cent of the total population while those aged 0-34 years constitute 78 per cent of the population. The typology of those in the labour force for EAC is: youth (2.1%), 25-34 (6.9%), 35-54 (5%), 55-64(9.8%) and 65+ (19.2%).

9.4 Employment Trends in EAC Region

In 2014, majority of EAC employment was in agriculture, specifically Rwanda (90.1%), Tanzania (74.7%), Uganda (68.7%) and Kenya (63.7%) (Table 9.2). The private sector in the EAC region is the major employer compared to the public sector. The sector employs more than 70 per cent of the total work force in the region. The private sectors in Tanzania and Uganda employ the highest number of employees in the region, accounting for 97 per cent and 95 per cent in 2015, respectively.

Kenya and Burundi’s public sector employs the highest in the region, accounting for 30 per cent and 27 per cent, respectively. The public sector in Tanzania and Uganda employs the least in the region as shown in Table 9.2.

Tanzania has 77 per cent of its population working in the informal sector. Rwanda has the largest informal sector with over 92 per cent of total employment followed by Burundi with under 92 per cent. Uganda has the lowest informal sector employment with 70 per cent. In Kenya, 17 per cent of the labour force is employed in the formal sector while the remaining 83 per cent are engaged in the informal sector and agriculture.

Youth employment prospects in the formal sector have generally been low. The new jobs created in the EAC region are in the informal sector. Countries in the region have invested heavily in addressing the youth unemployment problem through youth and women empowerment programmes. In Kenya, the Ministry of East Africa Community, Labour and

Table 9.2: Employment by sectors, 2012-2015 (%)

		2012	2013	2014	2015
Private sector	Burundi	-	73.3	73.3	-
	Tanzania	96.0	96.0	96.8	96.8
	Uganda	95.4	95.4	95.4	95.4
	Kenya	69.3	69.6	70.4	-
	Rwanda	85.9	96.1	-	-
Public sector	Burundi	-	26.7	26.7	-
	Tanzania	4.0	4.0	3.2	-
	Uganda	4.6	4.6	4.6	4.6
	Kenya	30.7	30.4	29.6	-
	Rwanda	14.1	3.9	-	-
Agriculture sector	Burundi	-	-	-	-
	Tanzania	-	-	74.7	76.5
	Uganda	-	-	68.7	65.6
	Kenya	-	-	63.7	61.1
	Rwanda	-	-	90.1	78.8
Informal sector	Burundi	-	-	-	91.2
	Tanzania	-	-	-	77.0
	Uganda	-	-	-	70.0
	Kenya	81.8	82.5	82.7	82.8
	Rwanda	-	-	-	92.4

Source: EAC (2016b) and KNBS (2016b)

Social Protection endeavours to formalize informal employment through the National Labour Policy and the National Human Resource Planning and Industrial Training Policy.

Unemployment is a major challenge in the EAC. Rwanda has consistently recorded the lowest rate of unemployment of 2 per cent in 2012 to 2015. Unemployment in Kenya has remained the highest in the region at 12.7 per cent since 2012 (Table 9.3).

Table 9.3: Unemployment rate in EAC, 2012-2015 (%)

	2012	2013	2014	2015
Burundi	-	2	2	-
Tanzania	11	11	10.3	10.3
Uganda	-	9.4	9.6	9.6
Kenya	12.7	12.7	12.7	-
Rwanda	2.2	2.2	2	2

Source: EAC (2016b) and KNBS (2016b)

The key factors that characterize unemployment include youth unemployment and unequal gender participation. In Burundi, youth unemployment stood at 35 per cent in 2014 while unemployment among the youth in Kenya has steadily been increasing over the last twenty years from 16 per cent to 25 per cent in urban areas to more than 9 per cent in the rural areas (ILO, 2014).

The EAC also manifests male-female gap in labour force participation rates mainly in favour of males. At country levels, the gender gap is 1.6 per cent in favour of males in Burundi, 2 per cent for Rwanda, 7.6 per cent for Tanzania, 13.2 per cent for Uganda and 17.3 for Kenya. The policy challenge is how to promote equal participation of male and female in the labour market.

As of 2008, the EAC had a labour force inactivity rate of 13.7 per cent. The country specific figures were 18.3 per cent for Kenya, 15.4 per cent for Rwanda, 14.3 per cent for Uganda, 10.4 per cent for Burundi, and 10.1 per cent for Tanzania.

9.5 Distribution of Professionals in East Africa

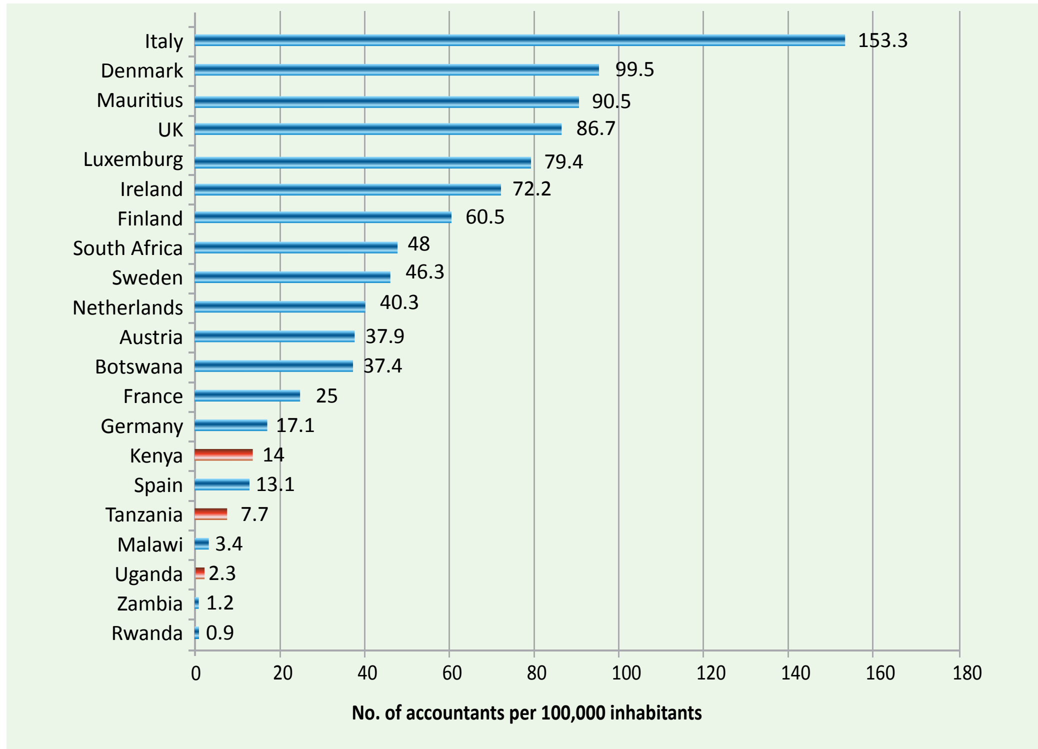
The EAC region shows a different picture across the markets for accounting, engineering, and legal professionals. While scarcity for all examined professionals was evident in all countries there is a wide spectrum of perceptions about skills shortages, their nature and the underlying reasons for the shortage with different policy implications for each country's reform agenda.

With a professional density of 14 accountants per 100,000 inhabitants, Kenya has more accounting professionals per capita and a relatively well developed market for accounting professionals. By contrast, Rwanda and Uganda have a limited availability of accountants, even by African standards as shown in Figure 9.2.

The density of lawyers per 100,000 inhabitants reveals disparities in the availability of lawyers between EAC countries and the rest of the economies (Figure 9.3). While majority of African countries display a density of less than 20 lawyers per 100,000 inhabitants, Tanzania, Uganda and Rwanda have a low ratio compared to average standards for developing countries.

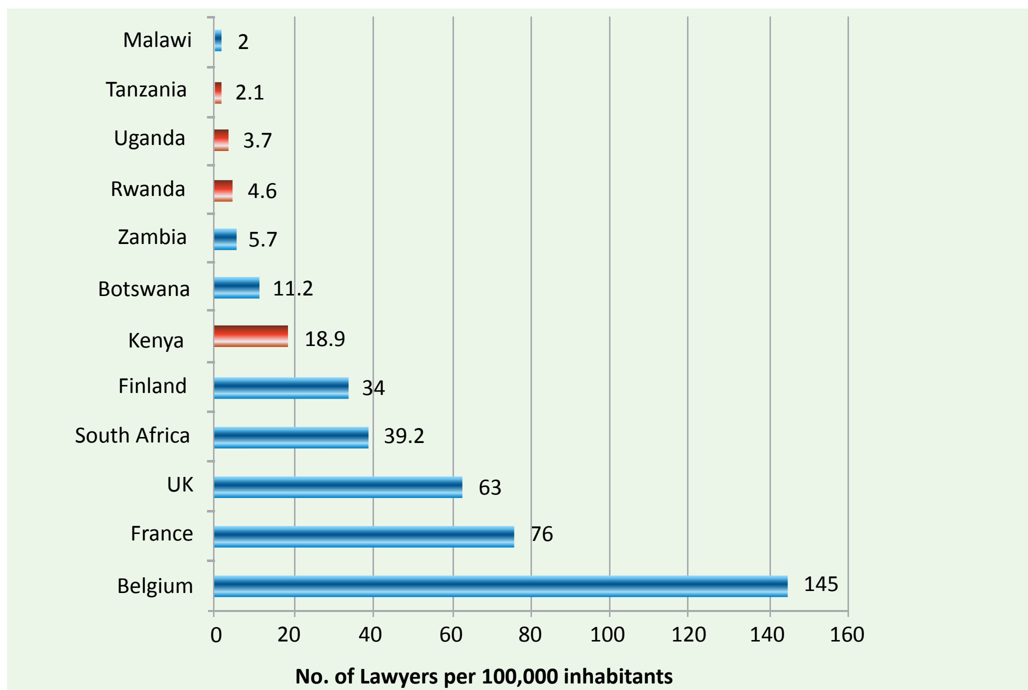
Most EAC countries have notable skills mismatches. For instance, accounting associations in Tanzania and Kenya report that a high number of trained accountants are jobless despite there being high demand for qualified accounting professionals in the two countries. One of the reasons for this is that the job market has become specialized, demanding accountants to hold extra professional qualifications in additional to conventional accounting degree.

Figure 9.2: Number of accountants per 100,000 inhabitants



Source: World Bank (2014)

Figure 9.3: Number of lawyers for 100,000 inhabitants



Source: World Bank (2014)

9.6 Migration and Movement of Labour

Movement of labour from areas of surplus to areas of scarcity has efficiency gains to all the parties involved. The country of origin gains from remittances sent back home by the migrant workers. The EAC has particular interest in promoting labour migration for development for two main reasons. Firstly, migration of skilled workforce from the region will ensure East Africa will harness the benefits of the much needed foreign exchange for the development of the region. Secondly, the labour migration boosts the efforts of partner states to create employment and thus contribute significantly to poverty reduction in the region.

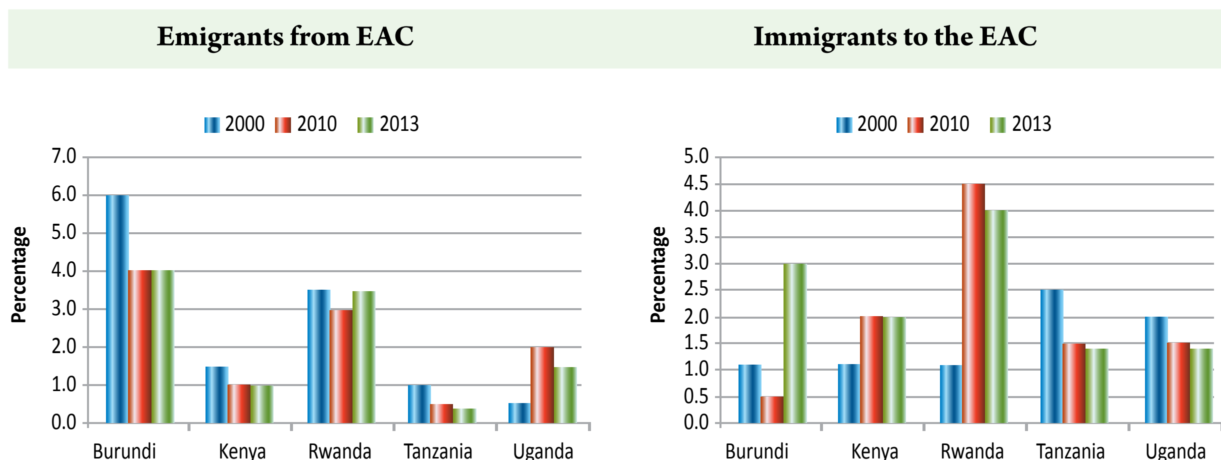
The free movement of workers is, however, hindered by a number of other obstacles. These include weak provisions for mutual recognition of professional qualifications and experience; complex procedures for obtaining work permits; and language barriers, especially in countries where the command of English is limited.

The partner states have not fully aligned their national laws with the Common Market requirement that guarantees the right of EAC citizens to move freely and to establish residence in another EAC partner state. However, Kenya and Rwanda governments have made improvement including waiving off the work permit fees for EAC citizens to allow free movement of labour and persons, and the two governments have reviewed their immigration laws.

Migration flows in the EAC, like in the rest of the continent and in other regions, are driven by both economic and social factors. To a large extent, the migration destination is towards more developed areas which for an individual migrant means higher income. In the region, political stability has also been a key driver. Kenya, Tanzania, and Uganda which are politically stable and have large and booming economies have attracted the largest number of EAC migrants. Somalis represent about 60 per cent of migrants in Kenya; Congolese, about 50 per cent of migrants in Rwanda; and Congolese and South Sudanese, about 45 per cent of migrants in Uganda (World Bank, 2015).

Migration flows within the EAC increased significantly in the 2000s (Figure 9.4). Intra-EAC immigrants increased by over 40 per cent between 2000 and 2013 and exceeded 1.1 million in 2013. The increase took place in the 2000s with a slight decrease observed between 2010 and 2013 (Table 9.4).

Figure 9.4: Emigrants from and immigrants to the EAC, 200-2013 (% of each country's population)



Source: World Bank (2015c)

EAC countries present different immigration patterns. Out of the total EAC emigrants, more than half are within the EAC while 20 per cent are an African country outside the EAC while the rest are to the rest of the world. However, the situation differs substantially across EAC countries. Kenyans migrate mostly to North America and Europe. Burundian emigrants are mostly in the EAC and Rwandan and Ugandan emigrants are mostly in the EAC or the rest of Africa.

Table 9.4: Estimated total migration from, to and within the EAC, 2000-2013

	From the EAC to the rest of the world	From the rest of the world to the EAC	Within EAC
2000	768,779	1,139,850	774,687
2010	868,999	1,495,370	1,154,377
2013	925,853	1,677,406	1,106,487

Source: World Bank (2015)

Intra-EAC remittances have decreased in recent years and represent only a small fraction of the total which is estimated at about 20 per cent. This amounts to US$ 550 million (or 0.5% of regional GDP) in 2013 down from about US$ 650 million in 2010. Remittances from migrants residing in advanced countries are much higher, accounting to about 60 per cent of the 2013 total. This reflects a number of factors such as higher income levels in Europe and North America but also the fact that EAC migrants who reside outside the region are younger and better educated. The average amount of money sent also varies across recipient countries. Kenyan migrants send the highest amount, on average, whereas Burundian migrants send the lowest amount.

9.7 Conclusion

The East Africa Community has a youthful population with potential to contribute productively to economic growth. Most of this labour force is however unemployed or engaged in the informal and agricultural sector which offer low quality jobs that tend to perpetuate high levels of poverty.

There are disparities across the region on availability of professionals but generally the region experiences professional skills shortages and significant mismatches. Kenya tends to perform better with various skills providing an opportunity to export skilled labour to the region.

The Common Market protocol provides for free movement of labour but only for highly skilled labour. However, there are a number of hindrances mainly because of weak provisions in the mutual recognition agreement and complex procedures for obtaining work permits.

9.8 Recommendations

Mutual recognition of academic certificates and professional qualifications is required for skills standardization and formalization in employment.

Partner states could take advantage of the skill disparity that exists in the region by encouraging higher labour mobility by creating awareness of the same through joint labour portal. The portal would facilitate information and experience sharing mechanisms among the wide field of actors in youth employment promotion.

At national levels, there is need to fast-track legal legislation for the region to be in compliance with the EAC Common Market Protocol, specifically on movement of labour and work permits. Moreover, all partner states need to fully implement Articles 76 and 104 of the EAC Treaty that guarantees free movement of workers without any exception.

Chapter 10

Governance and Regional Integration

Kenya continues to play a critical role in the regional efforts to secure peace and stability, which is necessary in the development process. That said, the EAC region faces several challenges that could threaten deepening the integration process. These include cross-border cattle rustling, border disputes, influx of refugees, and terrorism. Without a strong institutional structure to facilitate peaceful settlement of disputes, and harmonization of laws among partner states, these could undermine peace and security in the region.

10.1 Introduction

Good governance entails creation of an effective political framework conducive to private economic action, political stability, rule of law, efficient state administration geared towards good service delivery and a strong civil society free from state interference. Good governance promotes human rights, empowers citizenry and ensures that democratic principles are respected and promoted. It encourages investment which enhances growth as well as influencing other development conditions such as poverty and inequality reduction. It also ensures resources are efficiently and effectively applied for economic development and service delivery. Maintenance of peace and security is key in safeguarding socio-economic development. This chapter focuses on the role of regional integration in enhancing governance issues such as peace and security.

10.2 EAC Governance Institutions

The institutional framework for EAC consists of the Executive, the Legislative and the Judicial arms. The Executive arm consists of the EAC Heads of State, while the Legislative and Judicial arms comprise the East African Legislative Assembly (EALA), and the East African Court of Justice (EACJ), respectively. The Secretariat is the executive organ of EAC and mainly deals with policy formulation.

In the EAC, there are two critical institutions related to governance. The East African Court of Justice (EACJ) provides a platform for peaceful settlement of disputes and harmonization of laws in the region. Secondly, the East Africa Legislative Assembly (EALA) is the law making organ of the EAC and has legislation, oversight and representation of member states interests in the EAC. EALA may also perform any other functions as conferred upon it by Articles 48 and 49 of the EAC Treaty.

The Eastern Africa region has other regional groupings, namely COMESA and IGAD which also play a role in governance. However, there are variations in membership to these regional groupings, where for example Tanzania, Burundi and Rwanda are members of EAC but do not belong to IGAD. Ethiopia, Djibouti and Eritrea belong to IGAD but they are not members of EAC. Cooperation among these groupings is essential for peace and stability to prevail.

10.3 Kenya's Engagement in Stabilizing the Region

The EAC recognizes that economic integration can only succeed if peace, stability and security prevail in the region. Kenya is engaged in a number of initiatives aimed at stabilizing countries facing political instability in the region. Some of the countries that Kenya has supported in the peace process are Burundi, South Sudan, Somalia and the Democratic Republic of Congo.

In South Sudan, Kenya played a prominent role in the Comprehensive Peace Agreement (CPA) that was signed in January 2005 by the Sudan People's Liberation Movement and the Government of Sudan to end the civil war. In addition, Kenya has been involved in the peace process to resolve the conflict that erupted in December 2013. The peace process culminated into the signing of the Peace Agreement in August 2015 that saw the formation of the Transitional Government of National Unity in April 2016. Following the outbreak of military fighting and civil unrest in the capital Juba in July 2016, regional states and the international community proposed the deployment of a regional protection force to supplement the United Nations Mission in South Sudan (UNMISS) already operating in the country. Kenya has continued to support the humanitarian programme to assist internally-displaced and war-affected civilians during an ongoing conflict, which has helped save millions of lives. Kenya is currently among regional states who have contributed to a 4,000 regional protection force to guarantee civilians their safety in internally-displaced camps in South Sudan. She is also currently hosting South Sudanese refugees within the countries in various refugee camps.

Kenya deployed considerable resources in the Somalia's stabilization process. This was through training of Somalia's security personnel, peace building efforts and contribution of troops to the African Mission in Somalia (AMISOM). Due to Kenya's commitment to peace efforts, Somalia managed to host the 28th Extra-Ordinary Session of the IGAD Assembly of Heads of State on 13th September 2016 and held successful parliamentary and presidential elections at the beginning of 2017. This IGAD summit called upon AMISOM and Somali Security Forces to expand their operations to contain the terrorist threats. Further, the IGAD leaders are rooting for the establishment of an economic recovery plan with support from regional states and the international community, and Kenya is expected to play a critical role in this initiative.

Kenya is also providing support to the government of Somalia in efforts to fight terrorists and stabilize the country. The Kenya Defence Force launched a military operation dubbed *Operation Linda Nchi,* in coordination with the Somali Transitional Federal Government (TFG) to weaken and incapacitate Al Shabaab, a terrorist group that has been fighting the Somali government and also launching cross border attacks in Kenya on security installations, public places and kidnappings.

10.4 Governance Challenges in EAC Integration

The member states of the East African Community are characterized by both similarities and differences in political, economic and social system. Security challenges encompass the traditional security challenges, intra-state conflicts, as well as human security challenges. The EAC region is confronted by spillover effects of regional political instability that have seen increased refugees, movement of illicit arms, and terrorism attacks. Among the major challenges to EAC regional integration includes:

a) Resource-based Conflicts

Scarcity and contestation over shared resources such as pastures and water masses within member states and across border regions which have pitied neighbouring communities against each other. For example, pastoral communities that reside along the border of Kenya and Uganda, Kenya South Sudan border and Kenya Ethiopia border have faced conflict for scarce natural resources such as water and pastures for their livestock, especially during seasons of drought, when these resources are scarce and need to be shared.

b) Cattle Rustling

Incidences of cattle rustling have also been reported amongst pastoral communities living in northern Kenya, northern Uganda, North Rift Kenya, and also amongst communities living on borders of Kenya and Tanzania. Cattle rustling are fuelled by trafficking in small arms and light weapons. In the EAC region, the Regional Centre on Small Arms (RECSA) has continued to support member states in the implementation of various interventions on small arms control to mitigate against cross-border crimes. The security threat posed by cattle rustling saw the formation of the East Africa Police Chiefs Cooperation Organization (EAPCCO) Protocol, whose major agenda is prevention, combating and eradication of cattle rustling in Eastern Africa region.

c) Border Disputes

Border Disputes have also been witnessed. For example, Kenya and Somalia have a dispute over a triangular stretch of 100,000 square kilometers of offshore territory in the Indian Ocean and this has seen Somalia lodge a case at the International Court of Justice. Uganda is also having dispute with Kenya over the territorial claims on Migingo Islands in Lake Victoria. South Sudan, Ethiopia and Kenya are also contesting the ownership of the Elemi triangle on their shared international border. Border disputes tend to undermine the gains of regional integration, by compromising stability in the region, which slows down development.

d) Influx of Refugees

Refugees are not only a financial burden and pose a security threat to host nations. The influx of refugees from war-torn neighbouring countries such as South Sudan, Somalia, Burundi and Democratic Republic of Congo continues to strain local law enforcement agencies in areas where these refugees are being accommodated. Criminal networks and terrorists take advantage of this precarious situation to pass off as genuine refugees and be sheltered in camps as they perpetrate their criminal activities. Kenya hosts the highest number of refugees in the EAC region, followed by Uganda then Tanzania (Table 10.1). Kenya has started repatriating refugees back to Somalia in regions where AMISOM forces have stabilized the country, and also in regions that are under the control of the Somali government.

Table 10.1: Status of refugees in EAC member states, 2015

	Country	Total Refugees
1	Kenya	593,881
2	Uganda	477,187
3	Tanzania	211,845
4	Rwanda	144,737
5	Burundi	53,363

Source: KNBS (2016) and http://www.unhcr.org/statistics/unhcrstats/576408cd7/unhcr-global-trends-2015.html (accessed on 31st August 2016);
(Kenya had 494,863 refugees in 2016)

e) Terrorism

Terrorism within the EAC region manifests itself in the following forms; firstly, domestic/local terrorism organized mainly by regional/local criminal gangs without regional connection; domestic/local terrorism with regional connection, for instance Al Shabaab terrorist group; and terrorism organized by global actors with regional and local support, for example, Al Qaeda and Islamic State in Syria (ISIS). According to the 2015 and 2016 Global Terrorism index scores, Kenya ranks high among countries in the EAC region that are likely to be attacked by terrorists (Table 10.2).

Table 10.2: Global terrorism index scores for EAC member states, 2014-2016

	Country	2014 GTI Score (out of 10)	2015 GTI Score (out of 10)	2016 GTI Score (out of 10)
1	Kenya	6.58	6.66	6.578
2	Uganda	2.93	4.894	4.327
3	Tanzania	3.71	3.979	3.832
4	Rwanda	4.0	3.334	2.589
5	Burundi	3.97	3.342	5.417
	0: Least prone to terror attacks; 10: Highest prone to terror attacks			

Source: Global Terrorism Database (2016), 'Terrorist Group Profiles', http://www.start.umd.edu/tops/, (accessed 17th March 2017).

The country has taken a raft of measures to ensure that the number of terror threats in the country remain minimal. Kenya has initiated measures to combat the imminent threats in her bid to preempt, foil and counter any would be attacks on her citizenry. The Anti-Terror Police Unit (ATPU) deployment to the northern region, especially because of the proximity to Somalia, to gather intelligence and thwart terror attacks in the country is one of the measures put in place. This is supplemented by increased deployment of security officers in other areas where terror threats are high. The porous Somali-Kenya border has prompted the proposal to construct a perimeter security wall that will separate the two countries and lock the terrorists out of Kenya. The Ministry of Defence budgetary allocations have been increased to help equip the security agencies in the intensified war against terrorism.

Uganda is the second terror prone country given its active participation in fighting terrorism in Somalia, where it is amongst several African nations who have a significant number of troops to help stabilize the country. Rwanda and Burundi are the least terror prone countries in the East African Community (Table 10.2). Their lack of close proximity to Somalia (where Al Shabaab terrorists operate from) may have worked favourably to their advantage. Burundi's political instability has however increased its risk to terror attack in the GTI scores. In 2015, Burundi had a score of 3.342 but the worsening political crisis increased its risks to terror to 5.417 (Table 10.2). Political instability in Burundi has given rise to militias who have been blamed for human rights violations. This, in essence, has increased the exposure of Burundi to home grown terror attacks.

f) Porous Borders

Expansive international border lines between countries such as Kenya and Somalia, Kenya and Ethiopia, Kenya and South Sudan, Rwanda and Democratic Republic of Congo, Uganda and South Sudan, Tanzania and Mozambique are resource consuming and difficult to police due to internal challenges posed by refugees. This creates ground for organized crime to thrive since governments have to put resources that would have gone towards policing those borders to protecting refugee camps. For instance, the rise in violence in northern Uganda and Kenya is attributed to the ease of access to guns from Darfur and Somali conflicts due to small arms trafficking by complex international criminal networks.

Expansive borders make it easy for traffickers in small arms and other contra-band goods to infiltrate the region from countries prone to political

instability. This increases the cost of security, since more private actors in security have to be hired by firms and industries to protect their investments from incidences such as robberies, kidnappings for ransom, and attacks on goods destined for member states in the EAC. Insecurity along transport routes drives up the costs of goods and services, and reduces the benefits of regional integration.

10.5 Institutional challenges in EAC

The key mandate of the EACJ is facilitating peaceful settlement of disputes and harmonization of laws in EAC partner states. An ordered mechanism of transfer of Community-related disputes from EAC member national judiciaries and requirement for exhaustion of local remedies could inject some fresh impetus in the Community's judicial system. The court lacks the execution capacity of its own, and rather relies on the procedure obtained in the country where the Court decree/order is to be executed. EACJ works on an *ad hoc* basis, thus undermining its efficiency.

The decision of extending the jurisdiction of EACJ to include appellate and human rights jurisdiction was adopted in 2004, but no framework to operationalize this mandate is yet to be developed and adopted by member states. This has denied the Court opportunity to play a critical role in addressing the violations of human rights in the EAC region.

The forward and backward linkages in legislation between regional EALA and national assemblies are weak. It implies that legislation at regional level requires deliberation at national assembly for domestication and implementation. The national assembly legislation, which have regional bearing, are not necessarily deliberated at EALA.

Partner states nominate members to EALA which raises the legitimacy question on the nominated members. The partner states do not have uniform electoral processes. For instance, each EAC member state employs its own electoral laws when electing EALA representatives. This indirect election of EALA representatives by member states undermines democratic freedom of EAC community citizens, thus minimizing popular public participation.

10.6 Conclusion

The role Kenya plays in regional integration and stabilization cannot be under estimated. But, this has come with its own challenges with the threats of terrorism and influx of refugees. Kenya hosts majority of refuges in the region and has a higher risk of terrorist attack. The EAC partner states need to set up joint mechanisms to deal with emerging humanitarian disasters and management of refugees within East African community.

Cattle rustling is a long standing cultural challenge amongst pastoralists in the region. A multi-faceted framework to the issue of conflict resolution in areas most prone to cattle rustling is needed to strengthen the existing traditional peace building and conflict resolution initiatives.

The Nairobi Protocol for the Prevention, Control and Reduction of Small Arms and Light Weapons in the Great Lakes Region and the Horn of Africa should be revisited and revised to be in tandem with emerging trends in crime, such as terrorism and commercialized cattle rustling.

Institutions of governance are weak. Efforts are needed to ensure that various institutions such as the EACJ put together under EAC are strengthened to be in sync in all areas of governance as far as regional integration is concerned.

10.7 Recommendations

Regional countries in the EAC need to develop a system to track down refugees and establish exactly how many displaced persons are within EAC, since some refugees are not living within their camps that governments have created for them.

Ongoing intelligence sharing among member states should be enhanced to mitigate against regional security threats such as terrorism and small arms trafficking. Civil society groups in the EAC region should partner with EAC governments to help address social problems such as terrorism, cattle rustling, among other challenges that may mutate and become security threats. Democratization of and expansion of representation within, formal EAC regional institutions should be fast-tracked by regional civil society groups in partnership with EAC Secretariat and regional governments.

The East African Legislative Assembly (EALA) needs to enact an omnibus law to ensure that citizens in all EAC member states directly participate in election of representatives to the regional legislative arm of the community.

East African Legislative Assembly (EALA) Session in December 2016, Nairobi, Kenya

Chapter 11 Global Trade Dynamics and Emerging Issues

Kenya stands to lose preferential market access should EAC partner states delay the signing and ratification of the EU-EAC EPA. Further, the dynamics of Brexit are yet to fully unfold and this is a concern to Kenya as Britain is a key trading partner. The region may also be isolated from international trade system by the entry of regional trade agreements that have the potential to modify the global trade landscape. In addition, there is need to remain alert of any changes in the global strategy on foreign policy and security as this could have implications on financial support to the region

11.1 Introduction

This chapter highlights the developments that are creating new rules and orders in the global economy. The emerging issues are likely to affect foreign trade, investments, engagements, and relationships. Specifically, the status and likely implications of the EAC-EU Economic Partnership Agreements (EPAs) on Kenya and the withdrawal of Britain from the European Union (or *Brexit*) are important points for discussion. Future relationships with Britain after *Brexit* and the implications of ratifications of the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) are also discussed.

11.2 Dynamics of the EAC-EU Economic Partnership Agreement

The EPA negotiations under the EAC configuration were formally concluded in October 2014. Consequently, Kenya and Rwanda signed the EPA with the European Union on 1st September 2016. However, Tanzania and Uganda have requested for additional time to reflect upon the possible implications of the agreement following the recent withdrawal of Britain from the European Union membership. Burundi has been unable to sign due to the European Union sanctions.

The EU-EAC EPA requires that all EAC partner states sign and ratify the agreement for it to take

effect. Kenya will lose the preferential market access provided under the agreement should it be placed under the General Systems of Preferences (GSP) schemes. The GSPs is non-reciprocal unilateral trade preferences, which are not contractual and are subject to amendments by the EU without consultation to beneficiary countries. They are therefore not secure in stimulating trade-related investments. In addition, dairy products and horticultural products (flowers, fruits and vegetables) attract import duty, unlike GSP in the EPAs. Apart from Kenya, the other EAC partner states are classified as less developed and therefore are eligible for duty-free quota-free preferences in the EU market under 'everything-but arms' (EBA) initiative.

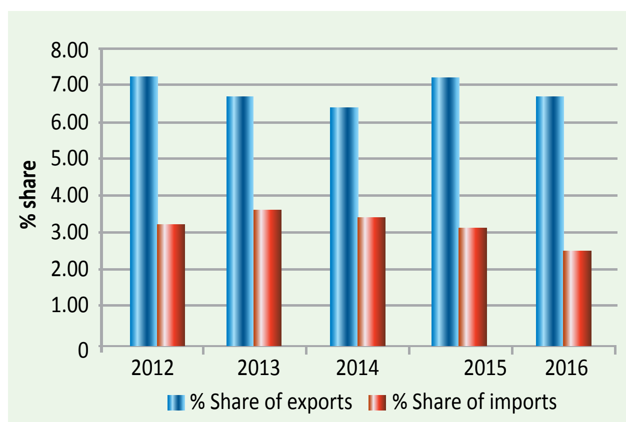
The other related aspect is the ACP-EU relations post-Cotonou agreement in the year 2020. This comes at a time when there is changing face of international cooperation due to demographic pressures, increased mobility of persons, climate change, and new forms of conflicts. The EUs Global Strategy on Foreign and Security Policy recognizes the EU's responsibility to promote sustainable development worldwide but falls short of succinctly mentioning the ACP configuration. In particular, the revision of the European Consensus on Development to align the EU development policy to the new and ambitious global agenda and delivery of the Sustainable Development Goals will be of major interest to future ACP-EU relations.

11.3 The Brexit

On 23rd June 2016, British citizens voted in a referendum and supported a decision to exit the EU. Three main reasons for the referendum outcome were, first, economic stagnation which Britain like most European countries was experiencing and its flexibility in terms of policy options was limited because of belonging to the EU. Second, the general citizenry felt the need to get back their sovereignty and identity as the British. Third, was that Britons were dissatisfied with immigration policy because the immigrants were also competing with them in the labour market.

There was immediate effect on global stock markets and the exchange rate of the British Pound against other major currencies. However, the long-term effects are not clear. With regard to Britain's participation in the international trade, it will depend on how the ruling regime negotiates trade and other agreements that were signed between the EU and third countries. Britain is a major trading partner for Kenya. Total trade with Britain declined by 15 per cent to Ksh 71 billion from Ksh 83.6 billion between 2015 and 2016. Similarly, imports reduced from Ksh 43 billion in 2015 to Ksh 33.4 billion in 2016. Approximately 6.5 per cent of Kenyan exports went to Britain and 2.3 per cent of imports were sourced from Britain in 2016 (Figure 11.1). Similarly, imports reduced from Ksh 43 billion in 2015 to Ksh 33.4 billion in 2016.

Figure 11.1: Kenya's exports and imports from Britain, 2012-2016 (% share)



Data source: KNBS (2017)

Tea, flowers and vegetables account for the largest share of total commodity exports by Kenya to Britain in 2016. The major imports are motor vehicles, tractors, aircraft parts, and second-hand clothes. Imports from Britain are diversified, unlike the exports which are concentrated on a few products. Britain is the second largest export destination for cut flowers after the Netherlands. The main trade effect will be felt when Britain

Figure 11.2: Main exports and imports for Kenya

Source: Author's compilation

starts renegotiating over 100 trade deals it had under the EU umbrella. This is likely to take time but the exact effects may not be apparent for now.

There are suggestions that Britain might continue using the EU development cooperation structures or the historical structure of the commonwealth with Africa after *Brexit* given the strong traditional ties with these countries. However, it is eminent that an expanded UK official development assistance will be bilaterally channeled.

11.4 Mega-Regional Trade Agreements

Regional Trade Agreements (RTAs) are provided for under the WTO's rules and regulations. There is an emerging trend of new mega-regional trade agreements (MRTAs), partly due to slow progress in the WTO negotiations. The three main MRTAs include the Transatlantic Trade and Investment Partnership (TTIP) between the European Union and the United States; the Trans-Pacific Partnership (TPP) between the United States and eleven other nations across the Pacific Rim; and the Regional Comprehensive Economic Partnership (RCEP) between 16 economies from Asia and the Pacific. Once the establishment of these mega RTAs is completed, they have a potential to considerably modify the global trade landscape and pose a fundamental challenge to the multilateral trading system.

The effects that these mega RTAs are expected to have on third parties is fairly uncertain. The effect will be determined by prevailing trade levels and structure between individual country and members of these mega RTAs (Draper *et al.*, 2014). This is

even though all provisions of the agreements are not fully known, except for the TPP (Mevel, 2016). However, positive or negative implications on third countries can be anticipated. No African country is a member of any of the mega RTA initiatives but they are likely to be impacted by increased competition and preference erosion in MRTA markets (Mevel, 2016).

11.5 Conclusion

The delay in signing the EU-EAC EPA by all partner states poses the challenges to Kenyan exporters who risk losing duty-free quota-free market access to the EU market.

Secondly, the withdrawal of Britain from the European Union has major implications on Kenya's trade with the EU. This is because Britain is a leading trading partner, accounting for about 23 per cent of total trade between Kenya and the European Union. In addition, the EU development assistance to Kenya and the EAC might fall because Britain significantly contributes towards the European Development Fund (EDF). Besides, the EU might shift funding priorities to emerging issues of migration, terrorism and the implementation of the UN's agenda 2030 on SDGs.

For the EAC, *Brexit* demonstrates that regional integration is a political process and individual citizens need to be constantly appraised of the benefits emanating from such trade arrangements.

Finally, once established, the mega RTAs are likely to re-shape the multilateral trading system to the disadvantage of Africa countries who are not members. In addition, the mega RTAs are likely to increase global protection of markets and this could undermine Africa's participation in global markets.

11.6 Recommendations

EAC partner states should collectively resolve the EPA stalemate in order to allay the uncertainties among the exporters and potential investors. Meanwhile, there is need to develop a comprehensive framework for implementation of EPA, including identifying specific roles of various agencies, documentation of violations and domestication of various provisions.

As Britain realigns its engagement with other trading partners, Kenya and the EAC need to prepare effectively and adequately to engage Britain for mutually beneficial trade relations.

It is important that EAC remains alert to changes in global strategy on foreign policy and security particularly by Europe and the United States. The migratory flows, multifaceted threat to governance, and growing peace and security challenges are likely to shift financing priorities. The AU's alternative financing mechanisms for its operational and programme budget is therefore appropriate and should be grounded in national legislations.

Finally, there is need to enhance sensitization and engagement of the citizenry about the status of economic integration programmes and their implications. This is particularly for the EAC integration, whose ultimate goal is achievement of a political federation.

Chapter 12

Conclusion and Recommendations

This chapter summarizes the key issues and recommendations on the role of regional integration on Kenya's economic growth and development.

12.1 Conclusion

Kenya's economy remains resilient, but the growth rate is below the long term trajectory. Net exports for Kenya are unfavourable and this is constraining the expansion of aggregate demand. Although the country enjoys a surplus in net exports both in EAC and COMESA, the increasing competition is eroding the Kenya market share in the region.

The growth trajectory of Vision 2030 remains the preferred path for Kenya to attain the upper middle income status. With the current population growth rate, a stronger economic growth is required for the per capita income to hit the upper middle income category. This requires a boost in private sector investments and exports of goods and services.

Micro, Small and Medium Enterprises (MSMEs) dominate the domestic trade sector and play a critical role in cross border trade. While the government has initiated various reforms to enhance information sharing, reduce operational costs, promote integration among producers and entrepreneurs, and improve product competitiveness, there is need to fully address critical institutional arrangements to improve the business environment. For instance, the domestic trade licensing regime is characterized by multiple charges at the national and county government levels, which are leading to high cost of doing business.

Kenya total trade is about 40 per cent of GDP but the global share is very small. The bulk of exports are raw materials and primary products while imports are high value capital and finished products and this sustains the persistent trade deficit. Over 70 per cent of total exports are destined for only 15 countries

globally, with EAC and COMESA as the dominant market. However, with the growing manufacturing activity in the region, competition from China and India products, and non-tariff barriers, Kenya's market share is getting squeezed.

Tourism continues to play a key role in the economy but its full potential is yet to be exploited. There are significant gaps between arrivals and receipts that seem to reflect on the packaging of tourism products. The sector shows signs of recovery with the reduced issuance of travel advisories. However, downside risks at global and regional level still persist. The ranking of JKIA as a Category One airport provides an opportunity that needs to be fully exploited.

Kenya's food security is dependent on imports. While self-sufficiency has improved, post-harvest losses, low agricultural productivity and frequent weather shocks remain constraints to achieving food security. Cross-border trading provides an opportunity to enhance food security in the region. While the Common External Tariff accord food products protection, and the simplified rules of origin have been adopted to facilitate cross-border trading in agricultural products, non-tariff barriers continue to hamper agriculture trade in the region including arbitrary bans and poor infrastructure.

Industrial development is crucial in achieving structural transformation. However, growth in manufacturing sector is slowing while the extractive sector is yet to be fully exploited. Kenya's share of manufactured exports to the region has narrowed with strengthening of manufacturing sector in partner states. In addition, counterfeit products threaten growth of the manufacturing sector.

The government has invested heavily to increase electricity supply while also improving the quality of electricity and this has brought down significantly the electricity costs. However, the competitiveness of Kenya's manufacturing sector is still being undermined by relatively high costs of production that persist due to relatively high electricity tariffs, and power outages. This has seen some firms relocate to neighbouring countries and Kenya needs to secure the re-entry of international firms to the domestic market.

Kenya has the potential to play a leading role in providing infrastructure services to EAC region and beyond, having made remarkable progress in infrastructure development cutting across energy, transport and ICT. Through a modernization programme, Mombasa port has improved its competitiveness. However, there is need to focus on Trans-Africa transit traffic and transhipment infrastructure while also enhancing the expansion of domestic roads system to boost trade traffic. The on-going efforts to increase supply of electricity has seen a decline in electricity costs, but to reap more benefits requires more focus on attaining an appropriate power mix.

Like other partner states in the EAC, Kenya has a youthful population that requires to be engaged productively to reap the dividends. To improve labour mobility, the EAC Common Market Protocol has provisions that allow for free movement of labour. Kenya has signed Mutual Recognition Agreements with partner states in various categories of professionals. However, the existence of shortages and mismatches in professional skills in the region has limited the mobility. of such skills.

Kenya continues to play a critical role in the regional efforts to secure peace and security. However, there are challenges that could threaten deepening regional integration, including border disputes, influx of refugees, and terrorism. Without strong governance structures to facilitate peaceful settlement of disputes, and harmonized laws among partner states, this could undermine peace and security in the region.

Kenya risks losing duty-free quota-free market access to the EU market due to delays in signing and ratifying the EU-EAC EPA agreement by all EAC partner states. Further, the unfolding dynamics of

Brexit are a source of concern given that Britain is a key trading partner for Kenya. The region also stands to be isolated from international trade systems by the mega regional trade agreements that have the potential to reshape the global trade landscape.

12.2 Recommendations

The following recommendations will enhance growth and development through deepening of economic regional integration:

1. Increase productivity of the economy by promoting agro-processing and developing value chains even at regional level, and exploit extractive resources to diversify sources of growth. Boosting private investment is also a priority.

2. Expand export market through diversification of export products and destinations. This will in turn boost the development of industries in the priority sectors in the country.

3. Expand business development programmes to strengthen and integrate the wholesale and retail supply chains. Also, rationalize and harmonize business regulations across national and county governments to improve the business environment for wholesalers and retailers.

4. Establish a National Trade Commission to implement the National Trade Policy and coordinate bilateral, regional and multilateral trade issues.

5. Develop a tourism master plan to enhance sustainable development of the tourism sector. In addition, promote joint security surveillance in the region.

6. Train farmers on appropriate farming methods and management of post-harvest losses and improve food distribution to address food deficit. Promote commercialization and value addition to boost productivity and develop the sector.

7. Eliminate non-tariff barriers and sensitize cross-border traders on the EAC simplified rules of origin to enhance cross-border-trade and minimize food insecurity in the region.

8. Progressively diversify manufacturing to medium and high technology products and establish incubation centres to nurture innovation. This will help in diversifying manufactured exports.

9. Invest in domestic infrastructure targeting to feed into the regional connectivity and support Trans-African infrastructure development. Scale up measures towards least cost energy technologies to support large scale industries, and design a package for infrastructure services hub.

10. Establish a joint labour portal to create awareness and enhance information sharing to facilitate wider labour mobility in the EAC region. In addition, harmonize the certification and accreditation of professionals.

11. Continue promoting peace and security in the region to reduce conflicts, and displacement of persons.

12. Enhance citizen participation and representation at national and regional level to strengthen governance institutions.

13. Develop a comprehensive framework for implementation of EPA, including identifying specific roles of various agencies, documentation of violations and domestication of various provisions.

14. Remain alert to any changes in global strategy on foreign policy and security particularly by Europe and the United States.

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Annexes

Annex Table 1a: Sources of GDP growth, 2010 - 2016 (%)

Sector	2010	2011	2012	2013	2014	2015	2016
Agriculture, forestry and fishing	28.0	9.2	14.8	21.5	14.7	22.0	15.2
Mining and quarrying	2.4	2.4	3.6	(0.7)	2.4	1.9	1.7
Manufacturing	6.4	13.7	(1.4)	10.9	6.6	6.6	6.3
Electricity supply	0.6	2.8	4.2	2.6	2.1	2.7	2.6
Water supply, sewerage, waste management	1.1	0.5	0.6	0.2	0.6	0.3	0.4
Construction	8.9	2.8	10.5	4.7	11.0	11.7	8.2
Wholesale and retail trade; repairs	8.0	9.6	11.1	10.1	10.6	8.1	5.0
Transport and storage	4.2	8.1	4.1	1.8	5.8	8.3	9.7
Accommodation and food service activities	(0.1)	1.1	1.1	(1.3)	(4.5)	(0.3)	2.4
Information and communication	5.3	10.1	1.7	7.0	9.1	4.7	6.1
Financial and insurance activities	11.0	4.3	7.4	8.2	9.1	9.3	7.3
Real estate	5.2	6.9	7.3	6.0	8.5	8.9	12.3
Professional, scientific and technical activities	0.4	0.2	1.4	1.3	0.7	0.7	0.8
Administrative and support service activities	0.5	0.6	0.7	0.3	0.6	0.3	0.8
Public administration and defence	0.7	1.5	3.5	2.0	3.9	3.7	3.5
Education	7.6	7.8	15.6	7.7	8.1	5.7	7.5
Human health and social work activities	1.5	(0.9)	(1.1)	2.3	2.6	2.1	1.8
Arts, entertainment and recreation	0.2	0.1	(0.1)	0.1	0.1	-	0.1

Sector	2010	2011	2012	2013	2014	2015	2016
Other service activities	0.3	0.1	0.6	0.9	0.8	0.7	0.7
Activities of households as employers	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Financial intermediation services indirectly measured	(3.9)	(3.3)	(5.0)	(2.2)	(5.1)	(6.7)	(1.4)
All industries at basic prices	88.4	78.0	80.7	83.3	88.0	91.0	91.1
Taxes on products	11.6	22.0	19.3	16.7	12.0	9.0	8.9
GDP at Market Prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: KNBS (2017), Economic Survey

Annex Table 1b: Sectoral growth rates, 2010-2016 (%)

Sector	2010	2011	2012	2013	2014	2015	2016
Agriculture, forestry and fishing	10.1	2.4	2.9	5.4	3.5	5.6	4.0
Mining and quarrying	31.7	19.0	19.0	(4.3)	14.5	11.0	9.5
Manufacturing	4.5	7.2	(0.6)	5.6	3.2	3.5	3.5
Electricity supply	3.5	13.3	13.6	9.8	7.3	9.7	9.1
Water supply, sewerage, waste management	10.5	3.6	3.1	1.0	4.1	1.9	2.6
Construction	19.1	4.0	11.3	6.0	13.1	13.6	9.2
Wholesale and retail trade; repairs	9.6	8.3	7.0	7.8	7.5	6.0	3.8
Transport and storage	5.0	7.1	2.7	1.5	4.6	7.1	8.4
Accommodation and food service activities	(0.5)	4.1	3.1	(4.6)	(16.7)	(1.3)	13.3
Information and communication	17.4	22.1	2.4	12.6	14.6	7.3	9.7
Financial and insurance activities	17.7	4.6	6.0	8.2	8.3	8.7	6.9
Real estate	5.0	5.1	4.0	4.1	5.6	6.2	8.8
Professional, scientific and technical activities	3.0	1.3	6.2	6.7	3.7	3.9	4.8
Administrative and support service activities	2.9	2.5	2.3	1.2	2.4	1.5	3.9
Public administration and defence	1.4	2.2	4.0	2.8	5.3	5.4	5.3
Education	10.2	7.5	11.1	6.4	6.3	4.7	6.3
Human health and social work activities	6.2	(2.6)	(2.8)	7.7	8.1	6.6	5.8
Arts, entertainment and recreation	12.2	3.6	(2.7)	3.0	3.1	1.1	4.0
Other service activities	3.5	1.1	4.0	7.3	6.5	6.0	6.0
Activities of households as employers	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Financial intermediation services indirectly measured	15.9	9.1	10.1	5.2	11.3	15.0	3.0
All industries at basic prices	8.3	5.3	4.1	5.4	5.3	5.8	6.0
Taxes on products	9.2	12.6	7.7	8.1	5.3	4.2	4.5
GDP at market prices	8.4	6.1	4.6	5.7	5.3	5.6	5.8

Source: KNBS (2017), Economic Survey

Annex Table 2: Percentage contribution to GDP, 2010-2016

Aggregate Item	2010	2011	2012	2013	2014	2015	2016
Government final consumption	14.2	14.0	14.0	14.3	14.2	14.5	13.6
Private final consumption	76.2	77.9	77.7	79.8	79.4	78.6	9.1
Final consumption by NPISH	0.9	0.9	0.9	0.9	0.8	0.8	0.7
Gross fixed capital formation	20.3	20.4	21.2	20.6	22.9	21.5	17.3
Changes in inventories	0.4	1.3	0.3	(0.4)	(0.4)	(0.3)	(0.1)
Total investments	20.7	21.7	21.5	20.2	22.5	21.2	17.2
Exports	20.7	21.6	19.8	18.1	16.9	15.8	14.6
Imports	33.6	38.8	35.5	33.1	34.2	29.0	23.4
Net exports	(12.9)	(17.2)	(15.7)	(15.0)	(17.3)	(13.2)	(8.8)
Discrepancy	0.9	2.7	1.4	(0.3)	0.4	(1.8)	(1.9)
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: KNBS (2017), Economic Survey

Annex Table 3: Domestic credit by sectors, 2010-2016 (Ksh billions)

	2010	2011	2012	2013	2014	2015	2016
Credit to Government	3,132.70	3,475.90	3,881.90	4,466.80	4,247.60	5,197.30	6,379.20
Central Bank	(97.00)	200.34	212.60	(100.40)	(663.90)	(326.96)	(1,688.50)
Commercial banks and NBFIs	3,229.90	3,275.50	3,669.60	4,567.30	4,912.40	5,524.56	8,067.70
Credit to other public sector	173.50	303.30	517.70	509.70	772.30	544.44	635.00
Local government	(34.80)	14.90	29.40	0.30	5.40	7.66	10.20
Parastatals	208.90	288.70	488.30	509.40	487.60	537.18	624.80
Credit to private sector	9,711.40	12,630.90	14,664.40	16,763.30	20,703.50	24,878.25	27,102.70
Agriculture	464.00	590.00	648.80	676.10	804.10	975.85	1,142.10
Manufacturing	1,221.80	1,595.60	1,886.00	2,070.60	2,612.20	3,209.27	3,913.80
Trade	1,597.90	2,116.10	4,261.00	2,777.90	3,399.90	3,866.75	4,101.10
Building and construction	414.70	507.00	727.00	831.40	903.80	1,101.65	1,233.50
Transport & communications	749.40	882.50	965.40	957.70	1,363.90	1,808.62	2,274.50
Finance & insurance	286.20	301.60	352.70	335.50	461.00	666.64	1,053.60
Real estate	921.50	1,404.80	1,823.40	2,129.80	2,779.60	3,253.21	3,868.60
Mining and quarrying	193.50	282.20	297.40	302.70	309.10	260.91	239.40
Private households	1,410.30	1,810.80	2,019.30	2,270.20	3,292.30	4,165.98	4,389.90
Consumer durables	640.20	834.30	925.60	1,055.20	1,250.80	1,457.04	1,662.90
Business services	918.90	1,041.20	1,005.70	1,371.00	1,893.70	2,288.51	2,148.00
Other activities	893.00	1,264.60	1,561.70	1,777.90	1,632.60	1,383.09	1,475.30
TOTAL	**13,017.60**	**16,410.10**	**19,046.50**	**21,740.30**	**25,444.50**	**30,620.48**	**34,117.10**

Source: CBK, Monthly Economic Indicators, December 2016

Annex Table 4: Kenya Millennium Development Goals, 1990-2015

	1990	2000	2003	2005	2007	2009	2011	2013	2014	2015
Goal 1: Eradicate extreme poverty and hunger										
Proportion of population living below the national poverty line (%)	43.4	52.3	48.9	45.9	46.8	45.2	44	44.7	45.9	..
Poverty gap ratio (%)	..	18.7	17.2	16.3	14	12.2	12	10.2	9	..
Share of poorest quintile in national consumption (20%)	4.8	4.8	4.7	4.6	..	9.8	10.2	11.1	11.5	..
Employment-to-population ratio (%)	..	..	..	63.9	..	69.3	..	..	..	..
Proportion of own account and contributing family workers in total employment (%)	..	..	..	47.9	..	64.3	..	..	..	..
Prevalence of underweight children under five years of age (%)	22.3	22	19.9	20.9	20.9	20.3	..	..	11	11.1
Goal 2: Achieve universal primary education										
Net enrolment ratio in primary education (%)	..	67.8	80.4	82.8	91.6	92.9	88	88.1	88.2	..
Proportion of pupil starting grade 1 who reach the last grade (%)	..	57.7	68.2	77.6	81	83.2	76.5	78.5	78.5	..
Literacy rates of 15-24 year olds (women and men)(%)	..	80.3	..	89.3	..	91.3	..	..	94.4	..
Goal 3: Promote gender equality and empower women										
Ratio of girls to boys in primary schools	..	0.98	0.95	0.94	0.96	0.96	0.98	0.98	0.98	1
Ratio of girls to boys in secondary schools	..	0.89	0.92	0.89	0.85	0.87	0.86	0.89	0.89	1
Ratio of females to males in tertiary institutions	..	0.63	0.75	0.74	0.8	0.72	0.78	0.81	0.8	1
Share of women in wage employment in the non-agricultural sector (%)	..	29.5	30.6	31.3	31.2	29.3	31.9	35.9	36	50
Proportion of seats held by women in the National Assembly (%)	..	4.1	8.1	8.1	9.9	9.9	9.9	19.7	..	50

	1990	2000	2003	2005	2007	2009	2011	2013	2014	2015
Goal 4: Reduce child mortality										
Under five-mortality rate	91	110	115	92	..	74	74	..	..	32
Infant mortality rate	60	67	77	60	..	52	52	..	..	22
Proportion of 1 year old children immunized against measles	83.8	76.1	..	76.7	..	85	..	..	..	90
Goal 5: Improve maternal health										
Maternal mortality ratio	590	590	414	414	414	488	488	488	362	147
Proportion of births attended to by skilled health personnel	45.4	42.6	41.6	38.2	51	44	43	46.2	62	90
Contraceptive Prevalence Rate (CPR)	39.1	39	39	39	39	46	46	46	58	70
Adolescent birth rate	152	111	114	114	114	109	..	..	120	90
Antenatal care coverage (at least one and four visits)	80	..	88		89.6	91	92	92	90	100
Unmet need for family planning	23.9	25	..		25	25	25	23	16.8	..
Goal 6: Combat HIV/AIDS, malaria and other diseases										
HIV prevalence among population aged 15-24 years	..	..	3.6	3.7	3.8	2.9	2.5	2.1	2.9	..
Condom use at high-risk sex	..	29.8	34.9	..	..	48.4	48.4	48.4	49.9	..
Proportion of population aged 15-24 with comprehensive knowledge of HIV/AIDS	..	..	40.5	..	..	50.95	50.95	50.95	50.93	..
Ratio of school attendance of orphans to non-orphans aged 10-14 years	..	..	0.97:0.92	..	..	..	..	..	..	..
Proportion of adults population with advanced HIV infection with access to ARV drugs (Adults)	..	0	3	2.5	51.7	77.8	31.4	42.5	78	..
Proportion of adults population with advanced HIV infection with access to ARV drugs (Children)	..	0	0	2.3	16.6	7.4	..	..	40.5	..

	1990	2000	2003	2005	2007	2009	2011	2013	2014	2015
Malaria prevalence per 100,000 population	..	..	..		..	29.1	..	..	..	..
Deaths from malaria per 100,000 population	..	..	..		..	..	72	15	..	..
Proportion of children <5 years sleeping under insecticide-treated bed nets	..	2.9	4.6	24.2	33	41.1	42.2	..	..	54.1
Proportion of children <5 years with fever treated with appropriate anti-malarial drugs	..	64.4	26.5		..	23.2	35.1	..	..	91.6
TB incidence per 100,000	112	280	350	360	350	320	290	290	275	..
TB prevalence per 100,000	163	280	320	350	350	310	300	300	300	..
TB deaths per 100,000	12	20	22	23	23	20	21	21	22	..
Proportion of TB cases detected and cured under directly observed treatment short course	53	58	63	68	72	<75	<75	79	88	..
Goal 7: Ensure environmental sustainability										
Proportion of land area covered by forest (%)	7.9	6	6.3	6.9	5.9	6.4	6.6	6.9	7	10
CO2 emissions, total, per capita and per $ 1 GDP	0.24	0.34	0.2	0.24	0.26	0.31	0.32	0.31	0.31	..
Consumption of ozone depleting substances	452.3	381.4	268.4	267.5	88.8	58.3	52.6.	50.4	50.4	..
Proportion of fish stock within safe biological limit	0	0	0	0	0	133600	149046	161849	161849	..
Proportion of total water resources used	7.5	0	0	0	0	0	14.2	0	0	18
Proportion of terrestrial and marine areas protected	7.696	8.244	8.244	8.244	8.244	8.244	8.255	8.255	8.255	8.255
Proportion of species threatened with extinction	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5
Proportion of species threatened with extinction	-9	-9	-9	-9	-9	-9	-9	-9	-9	-9
Proportion of population using improved source of drinking water (Rural)	..	43.5	..	..	..	44	..	..	48	..

	1990	2000	2003	2005	2007	2009	2011	2013	2014	2015
Proportion of population using improved source of drinking water (Urban)	..	89.7	..	..	..	71.7	..	..	63	..
Proportion of population using improved source of drinking water (Total)	..	54.8	57.1	56.5	59.4	52.6	..	53.3	66.9	..
Proportion of population using improved sanitation facility (Rural)	..		..	..	..	..	..	..	..	..
Proportion of population using improved sanitation facility (Urban)	..		..	..	..	..	..	..	..	..
Proportion of population using improved sanitation facility (Total)	45		..	48	..	61.1	..	66.7	65.2	..
Proportion of urban population living in slums (Millions)	1.5	2.1	2.7	3.6	4.7	0	5.5	6.6	..	7
Goal 8: Develop a global partnership for development.										
Proportion of total country imports from Kenya admitted duty free (%)	..	90.56	97.54	96.32	98.55	98.61	97.88	..	98.6	100
Average tariffs imposed by developed countries on agricultural products and textiles and clothing from Kenya (%) MFC	..	8.34	8.02	7.96	8.1	8.41	8.35	..	8.4	..
Average tariffs imposed by developed countries on agricultural products and textiles and clothing from Kenya (%) PC	..	4.71	2.65	2.74	2.44	2.28	2.23	..	2.1	..
Debt service as a percentage of exports of goods and services	14.47	12.5	4.9	4.14	3.76	4.24	3.57	5.6	4.99	..
Telephone lines per 100 population	..	1	1	0.8	0.9	1.8	1	0.5	..	..
Cellular subscribers per 100 population	..	1.9	8.4	15.2	25	51.3	68.2	74.9	..	78.3
Internet users per 100 population	..		..	3	4.6	4.6	15.7	31.7	..	38.3

Source: Ministry of Devolution and Planning (2016); NB: MFC-Most Favoured Countries and PC-Preferential Countries; -5 -critically endangered, 9-endangered

Annex Table 5a: Selected fiscal indicators for Kenya, 2010-2016 (% of GDP)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Revenue	19.13	18.73	19.24	19.21	19.04	20.20
Expenditure	23.78	23.67	25.14	25.64	28.21	31.50
Capital spending	5.33	4.76	4.14	4.45	4.80	4.58

Source: KNBS (2016b)

Annex Table 5b: Selected fiscal indicators for Kenya and other selected countries/regions, 2010-2016 (% of GDP)

	2010		2011		2012		2013		2014		2015		2016*	
	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure
Sub-Saharan Africa	20.7	24.9	23.2	25.2	21.9	24.5	20.1	23.8	19.4	23.2	17.4	22.4	17.0	22.3
EAC	14.7	22.3	15.2	21.4	15.1	21.6	15.5	22.1	15.8	22.4	16.4	23.1	17.0	23.7
Kenya	19.2	24.2	19.0	23.6	18.7	24.2	19.2	25.4	19.3	27.2	19.1	27.8	19.2	27.0
Uganda	10.6	18.8	12.8	17.2	11.6	16.5	11.7	16.8	12.5	17.1	13.9	18.1	13.9	20.0
Tanzania	12.0	20.2	12.3	19.1	12.7	19.8	13.1	19.4	13.3	17.9	13.7	18	15.2	20.4
Rwanda	13.0	25.9	14.0	26.5	15.0	25.9	16.5	27.6	16.7	27.6	18.6	28.1	18.2	33.3
Burundi	14.5	40.8	16.2	42.2	15.6	37.5	14.0	33.2	14.4	31.8	12.9	28.5	15.5	22.5
COMESA	15.8	21.5	16.2	21.0	16.6	20.8	16.6	21.4	16.7	21.8	16.8	22.7	17.0	23.1
Ethiopia	14.0	18.5	13.4	18.2	13.8	16.6	14.3	17.8	13.8	17.5	15.1	18.6	16.3	20.2
SADC	27.0	30.9	28.5	30.7	28.6	31.1	27.7	31.0	27.2	31.5	25.6	30.1	24.8	29.5
Botswana	32.1	39.9	35.7	36.3	36.2	35.4	37.8	32.4	38.8	35.3	33.1	37.5	34.7	38.3
South Africa	26.9	31.5	27.1	30.9	27.3	31.4	27.6	31.5	28.2	31.9	29.6	33.5	29.9	33.7
Zambia	14.2	18.1	17.1	19.5	17.0	21.5	16.2	23.8	18.1	24.8	18.0	27.2	17.9	27.1
ECOWAS	13.4	18.4	17.4	19.3	15.1	17.0	12.5	16.0	12.0	14.6	9.6	14.2	9.3	14.3
Ghana	14.4	26.5	17.1	27.1	17.0	29.8	16.3	28.8	17.7	29.3	17.2	23.9	18.5	23.2

IMF (2017), Regional Economic Outlook, Sub-Saharan Africa

* = Estimates

Annex Table 6: External sector performance for Kenya, 2010-2016 (Ksh millions)

	2010	2011	2012	2013	2014	2015	2016
Exports of Goods and Services	654,689	805,766	947,190	945,478	988,521	1,042,700	1,043,002
Imports of Goods and Services	1,063,942	1,446,502	1,514,394	1,575,731	1,782,945	1,735,621	1,672,236
Balance of Trade	(537,412.0)	(788,145.0)	(856,740.0)	(911,029.0)	(1,081,085.0)	(996,512.0)	(853,678.0)
Current Account	(187,677.3)	(339,195.3)	(356,389.1)	(417,019.6)	(560,761.1)	(421,082.1)	(370,801.9))
Balance of Payment	(13,878.6)	79,613.4	(103,356.6)	(31,765.5)	(127,842.3)	24,905.1	(13,096.1)

Source: KNBS (2017), Economic Survey

Annex Table 7: Kenya's trade performance indicators, 2010-2015 (%)

Indicators	2010	2011	2012	2013	2014	2015
Share of Kenya total trade to GDP	54.23	60.45	55.22	51.28	51.12	44.81
Share of Kenya total trade to world trade	0.06	0.06	0.06	0.06	0.06	0.07
Share of Kenya total trade to EAC	45.66	43.47	43.54	43.66	44.78	43.61
Share of Kenya total trade to COMESA	6.81	8.58	7.30	7.52	8.78	9.12
Share of Kenya total trade to Africa	1.73	1.74	1.79	1.82	2.06	2.31
Share of Kenya total trade to EU	0.16	0.17	0.19	0.19	0.20	0.21
Share of Kenya total trade to United States of America	0.53	0.55	0.58	0.57	0.61	0.58
Share of Kenya total trade to Asia	0.15	0.15	0.16	0.15	0.16	0.17
Share of services in total trade		30.68	32.60	33.29	32.10	33.47
3 top leading exports	Tea and mate	Tea and mate	Tea and mate	Tea and mate	Tea and mate	Tea and mate
	Crude vegetable materials, n.e.s.	Crude vegetable materials, n.e.s.	Crude vegetable materials, n.e.s.	Crude vegetable materials, n.e.s.	Crude vegetable materials, n.e.s.	Crude vegetable materials, n.e.s
	Vegetables	Vegetables	Petroleum oils or bituminous minerals	Petroleum oils or bituminous minerals	Petroleum oils or bituminous minerals	Petroleum oils or bituminous minerals

Indicators	2010	2011	2012	2013	2014	2015
3 top leading imports	Petroleum oils or bituminous minerals > 70% oil	Petroleum oils or bituminous minerals > 70% oil	Petroleum oils or bituminous minerals > 70% oil	Petroleum oils or bituminous minerals > 70% oil	Petroleum oils or bituminous minerals > 70% oil	Petroleum oils or bituminous minerals > 70% oil
	Petroleum oils, oils from bitumen materials, crude	Petroleum oils, oils from bitumen materials, crude	Petroleum oils, oils from bitumen materials, crude	Petroleum oils, oils from bitumen materials, crude	Motor vehicles for the transport of persons	Telecom-munication equipment
	Telecom-munication equipment	Fixed vegetable fats and oils, crude, refined, fract	Telecom-munication equipment	Telecom-munication equipment	Telecom-munication equipment	Petroleum oils, oils from bitumen materials, crude
3 top leading export destinations	Uganda	Uganda	Uganda	Uganda	Uganda	Uganda
	United Kingdom	United Kingdom	Tanzania	United Kingdom	Tanzania	Netherlands
	Tanzania	Tanzania	United Kingdom	Tanzania	Netherlands	United Kingdom
3 top leading import sources	China	United Arabs Emirates	India	India	China	China
	United Arabs Emirates	India	China	China	India	India
	India	China	United Arabs Emirates	United Arabs Emirates	USA	USA

Data Source: http://unctadstat.unctad.org/wds/TableViewer/dimView.aspx

Annex Table 8: Industrial competitiveness ranking and selected indicators, 2010-2013

Countries	Industrial competitiveness Ranking		Manufactured exports share in total exports (%)		Share of MVA in GDP (%)		Medium and high tech MVA share in total manufacturing (%)		Impact on world MVA (%)	
	2010	2013	2008	2013	2008	2013	2008	2013	2008	2013
Selected African countries										
Upper middle income countries										
South Africa	38	41	69.1	67.0	16	15	23.6	24.4	0.01	0.52
Tunisia	59	58	81.9	84.9	16	17	27.3	28.8	0.00	0.08
Botswana	85	79	94.0	95.4	6	7	8.0	16.8	0.00	0.01
Mauritius	83	82	80.6	96.3	16	13	3.2	8.3	0.00	0.02
Namibia	86	84	49.9	69.1	13	11	7.9	8.0	0.00	0.01
Algeria	82	87	18.3	22.4	6	6	15.2	27.2	0.00	0.08
Lower middle income countries										
Morocco	69	67	74.9	80.4	14	13	29.1	27.4	0.00	0.12
Egypt	72	71	61.8	65.1	16	15	22.3	22.5	0.00	0.22
Swaziland	88	88	92.9	92.9	30	26	0.9	0.9	0.00	0.01
Nigeria	98	100	5.6	6.7	3	4	33.4	33.4	0.00	0.09
Senegal	103	106	81.5	62.1	12	12	22.5	21.7	0.00	0.02
Zambia	114	109	30.9	25.0	10	9	21.1	21.1	0.00	0.01
Kenya	107	113	49.6	48.7	11	10	10.0	10.4	0.00	0.03
Low income countries										
Tanzania	116	121	42.5	36.8	8	9	11.2	8.6	0.00	0.02
Uganda	130	129	34.4	38.2	7	7	15.3	15.3	0.00	0.01
Rwanda	136	136	57.2	63.4	7	6	6.7	6.7	0.00	0.00
Selected industrialized and emerging industrialized countries										
High income countries										
Korea	3	3	97	97.2	27	29	82.8	63.1	0.03	3.92
Argentina	37	40	55.3	49.2	20	19	38.6	50.6	0.01	0.70
Chile	49	51	49.5	51.6	13	12	15	11.1	0.00	0.22
Upper middle income countries										
China	8	5	95.8	96.6	33	33	58.1	58.3	0.13	17.55
Mexico	22	20	78.6	81.0	16	16	76.9	78.3	0.02	1.82
Malaysia	23	24	70.7	80.7	26	25	43.1	42.1	0.01	0.57
Thailand	25	26	84.8	88.0	36	34	60.4	59.8	0.01	0.87
Brazil	33	35	67.0	63.4	15	13	46.3	40.1	0.02	1.68
Lower middle income countries										
Indonesia	41	42	60.5	60.1	26	25	29.5	30.3	0.01	1.25
India	45	43	85.8	83.1	15	14	27.3	28.7	0.02	2.25

Data Source: http://www.unido.org/resources/statistics/statistical-databases.html

Annex Table 9: Doing business: Global competitiveness ranking, 2010-2017

Country	2010 out of 183 countries)	2011 out of 183 countries)	2012 out of 183 countries)	2013 (out of 185 countries)	2014 (out of 189 countries)	2015 (out of 189 countries)	2016 (out of 189 countries)	2017 (out of 190 countries)
Selected African countries								
Upper middle income countries								
Mauritius	17	20	23	19	20	28	32	49
Botswana	45	52	54	59	56	74	72	71
South Africa	32	34	35	39	41	43	73	74
Tunisia	69	55	46	50	51	60	74	77
Namibia	66	69	78	87	98	88	101	108
Algeria	136	136	148	152	153	154	163	156
Lower middle income countries								
Morocco	128	114	94	97	87	71	75	68
Kenya	95	98	109	121	129	136	108	92
Zambia	90	76	84	94	83	111	97	98
Swaziland	115	118	124	123	123	110	105	111
Egypt	106	94	110	109	128	112	131	122
Senegal	157	152	154	166	179	161	153	147
Nigeria	125	137	133	131	157	170	169	169
Low income countries								
Rwanda	67	58	45	52	32	46	62	56
Uganda	112	122	123	120	132	150	122	115
Tanzania	131	128	127	134	145	131	139	132
Burundi	176	181	169	159	140	152	152	157
Selected industrialized and emerging industrialized countries								
High income countries								
Korea, Republic	19	16	8	8	7	5	4	5
Chile	49	43	39	37	34	41	48	57
Argentina	118	115	113	124	126	124	121	116
Upper middle income countries								
Malaysia	23	21	18	12	6	18	18	23
Thailand	12	19	17	18	18	26	49	46
Mexico	51	35	53	48	53	39	38	47
China	89	79	91	91	96	90	84	78
Brazil	129	127	126	130	116	120	116	123
Lower middle income countries								
Indonesia	122	121	129	128	120	114	109	91
India	133	134	132	132	134	142	130	130

Data Source: World Bank (2017)

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KIPPRA acknowledges generous support from the Government of Kenya (GoK), the European Union (EU), the African Capacity Building Foundation (ACBF), and the Think-Tank Initiative of IDRC.

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ISBN 9966 058 58 4

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