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Thinking Policy Together

Kenya in COVID-19 Era: Fast-Tracking Recovery and Delivery of the "Big Four" Agenda

Overview

This Policy Brief is based on the Kenya Economic Report (KER) 2021. The theme of the Kenya Economic Report 2020 is *Kenya in COVID-19 Era: Fast-Tracking Recovery and Delivery of the "Big Four" Agenda*. The theme was motivated by the prevailing health and economic crisis caused by the COVID-19 pandemic, which has adversely affected growth of most sectors of the economy, and therefore slowing down economic growth and the envisaged achievement of the "Big Four" agenda.

The analysis makes use of the 2020 COVID-19 Surveys (Wave 1 and 2) by the Kenya National Bureau of Statistics (KNBS) and 2015/16 Kenya Integrated Household Budget Survey (KIHBS). These are supplemented by other nationally representative datasets, including the 2019 Population Census. Other data sources included the annual Economic Surveys, Quarterly GDP Reports, Gross County Product and Statistical Abstracts.

Macroeconomic Performance and Prospects

Kenya's growth momentum has been disrupted by the COVID-19 pandemic, with sharp contractions witnessed in the second and third quarters of 2020. The containment measures associated with the COVID-19 pandemic took a heavy toll in the service sector, while agriculture remained resilient supporting growth in 2020. The COVID-19 pandemic has further reversed the gains made in poverty reduction in the last two decades by pushing about 6.2 million Kenyans to poverty. The measures, though implemented by the government to protect the vulnerable groups, have served to ameliorate the situation.

Despite the shock, macroeconomic stability was maintained. Key macroeconomic indicators such as inflation and interest rates remained stable, supported by accommodative monetary policy adopted by the Central Bank of Kenya. However, the economic shock related to COVID-19 has derailed the fiscal consolidation path. The already existing limited fiscal space coupled with inadequate revenue collections aggravated debt accumulation. Nevertheless, the country remained resilient as it leveraged on key opportunities, including the uptake of COVID-19 vaccination programme and the coming into effect of the African Continental Free Trade Agreement (AfCFTA) in January 2021. The economy is envisaged to recover in 2021 and maintain the same in the medium-term.

As Kenya navigates the pandemic and its associated uncertainty, it is important to manage and control the COVID-19 pandemic by expanding the COVID-19 vaccination programmes to cover a wider population and maintain macroeconomic stability to foster inclusive economic recovery. To ensure an all-inclusive recovery process, the collaboration between the National and County Government is key in building economic resilience, cushioning the vulnerable groups and promoting economic activities. Maintaining focus on achieving the objectives under the "Big Four" agenda, especially on the goal of Universal Health Coverage (UHC), is instrumental in fighting the pandemic and placing the country on the recovery path. In addition, the National and County governments need to work towards supporting all initiatives towards a peaceful general election in 2022 to mitigate any build-up political risk.

Navigating through the Effects of COVID-19 Pandemic to Deliver on Manufacturing

Manufacturing is important in driving growth of Kenya's economy. Over the last 20 years, manufacturing as a share of GDP has averaged 10.0 per cent annually. Further, the sector's contribution to wage employment over the last 5 years has averaged 16.3 per cent, with informal employment contributing an average of 20.3 per cent. However, the manufacturing sector has been adversely affected by the COVID-19 pandemic, thus contracting by 0.1 per cent in 2020. The containment measures including partial lockdowns, curfews, and requirements to adopt to the new pandemic guidelines, including rearranging floor plans to allow for social distancing, and increased production costs generally disrupted the supply chains. At international level, the total ban on flights and disruption in global supply chains affected the exports market for manufactured goods and importation of material inputs used in production process. Most importantly, micro and small enterprises that dominate the sector were most affected by the pandemic due to the nature of their operations.

In sustaining growth of the manufacturing sector, it is important to: enhance local production capacity of the manufacturing firms, including the micro and small enterprises by exploiting opportunities afforded by the pandemic, such as production of hospital beds and ventilators, reagents, gloves, masks, disinfectants, PPEs, and sanitizers while preparing for transition as the pandemic subsides; map the micro-enterprises in manufacturing engaged in production of essential goods such as Personal Protective Equipment (PPEs) and other innovations in response to COVID-19 to support them and enhance their capabilities; boost demand for locally manufactured goods by enforcing Buy Kenya Build Kenya; build resilience and sustainability of the manufacturing sector, for example, by strengthening the local value chains; safeguard manufacturing firms by sealing loopholes for counterfeit goods; strengthen the linkages between industry/businesses and academia/educational institutions; embracing international productivity standards to promote competitiveness; clustering and amalgamation of value chains where firms benefit from working together; and improving the overall manufacturing sector productivity by enacting policies aimed at facilitating and encouraging partnership between formal and informal manufacturers through collaboration along the value chains.

Trade Performance and COVID-19 Recovery

The influence of trade, both domestic and international, in driving Kenya's national development goals remains indispensable. Trade linkage to other sectors such as agriculture, manufacturing, agro-processing and service sectors underscores its influence in decent job creation for the youth in improving their welfare. Globally, COVID-19 pandemic has impacted trade flows across sectors and countries with heterogeneous effects. For Kenya, several of the country's export and import destinations were affected including European Union, the United States, Asia and China. Crucially, despite the negative effect of COVID-19 pandemic on global trade, Kenya exports in the East Africa regional market remained resilient. The resilience of the East African Community (EAC) market was mainly due to implementation of the EAC guidelines.

The prospects of trade in the country's growth trajectory remain positive. To this end, Kenya's exports to the EAC and other trading partners' markets should be secured. The concentration of Kenya products and export destinations limits the country's trade revenue potential and as a consequence, the country should fast-track the implementation of the Integrated National Export Development and Promotion Strategy to address this. The resilience of Kenya's export products (tea, coffee, and horticulture) requires policy support to sustain and increase the momentum in the sub-sectors. The signing and implementation of the Africa Continental Free Trade Area (AfCFTA) is expected to expand the exports market destination for Kenya products. Similarly, the present on-going negotiations of Kenya and the US Free Trade Area will deepen exports growth and improve the country's trade balance.

Agriculture and Food Security

Over the last two decades, agricultural policy in Kenya has revolved around the main goals of increasing productivity, intensifying production and income growth, especially for smallholders, enhanced food security and equity, increasing the area under irrigation and commercialization. The investments in these policy goals have led to the agricultural sector's growth that translates to a third of the Gross Domestic Product (GDP). However, this contribution is not based on increased factor inputs or technology, rather on an agrarian production system. The sector faces challenges associated with low productivity, poor land-use practices, inadequate markets, and low-level value addition. These challenges have been compounded by climate change and the recent desert locust invasion, and the measures taken to contain the COVID-19 pandemic. The COVID-19 pandemic has reversed the gains towards reducing food poverty with varying intensities across and within counties. Spending in the sector as a share of total Government spending is declining in nominal terms; the country's research system suffers from many challenges, including almost complete dependence on unstable and unsustainable donor funds and an ageing labour force, implying that going forward, the development of technology and innovation will decline.

To fast-track the delivery of the "Big Four" agenda on food security, concerted efforts are needed to ensure that linkages between research and the country-based extension system are strengthened to support the transfer and adoption of the technologies and innovations. Further, investments should exploit the available land and water resources by expanding the area under irrigated agriculture. All counties have at least one or two commodity-based co-operatives. These institutions need to be revamped, and the investments coupled with the empowerment of farmer/producer organizations to participate in commercial activities. The private sector should be encouraged and given incentives to participate in both input and output markets and provide financial services. Finally, there is need to promote evidence-based approaches to inform policy implementation, especially regarding disasters and pandemics.

Fast-Tracking the Delivery of the Affordable Housing Project

Affordable housing is prioritized as one of the National Government's pillars of growth under the "Big Four" agenda to provide affordable housing in addressing persistent and growing housing deficit. Affordable housing refers to access to decent and adequate housing whose monthly expenditure is less than 30 per cent of the total household income. The housing supply deficit is reported at 80 per cent and skewed to the low-end market segment. The growing housing shortfall is mainly attributable to rapid urbanization coupled with demand- and supply-side factors such as insufficient long-term financing, high cost of funding, and low purchasing power. So far, the government and key stakeholders have put interventions towards realizing the affordable housing scheme. The main structures adopted include government partnerships through public-private partnerships, private developers' partnerships, and state-funded projects to boost financial access. Over the past few years, increased resource allocation and absorption rate have enabled implementation of the affordable home ownership project. Despite the progress made so far, huge disparities exist in access to basic amenities at the county level, and urban services do not meet the population's needs. More than half of counties limited access to improved drinking water, hand washing facilities, and clean cooking fuels. The housing tenure is dominated by rental housing, with 90 per cent of the urban residents dwelling in rented units, out of which 65 per cent live in informal settlements. Successful implementation of the affordable housing programme requires strategic interventions on both the supply- and demand-side and creating an enabling environment.

To fast-track the delivery of affordable housing, it requires the following: Implement fully the existing policies, institutional frameworks that support the affordable project, and amendment of the National Housing Development Fund regulations to ensure effective, sustainable, and timely delivery of the housing project; Leverage on locally produced low-cost building materials and technologies such as Expanded Polystyrene (EPS) technology to reduce the housing construction costs; Undertake an in-depth analysis of the housing demand and supply study in urban areas to address the country-specific challenges related to access to essential services, basic infrastructure, and the housing gap. Ensure symbiotic efforts among the key stakeholders in the housing sector to ensure seamless execution of affordable housing plans. For instance, basic amenities are interdependent and cut across various sectors, hence the need for integrated plans to provide basic infrastructure.

Building a Robust ICT Ecosystem to Accelerate the Delivery of the "Big Four" Agenda

Information and Communications Technology (ICT) drives and facilitates achievement of the national development goals in Kenya. Mainstreaming digitization to achieve the "Big Four" agenda is a government priority as outlined in the various strategic documents, including the Kenya Vision 2030 and Digital Economy Blueprint. The ICT sector has been instrumental in addressing the social and economic challenges due to the effects of COVID-19 pandemic. Digital tools have enabled and kept the society functioning through telecommuting and remote working, e-learning, e-health and e-commerce applications during the COVID-19 pandemic. The sector has remained resilient during the pandemic due to favourable regulatory and business environment coupled with infrastructure growth that supports the adoption of technology both at the household and firm levels. The digital growth in the country is mainly driven by the mobile innovations that are showcasing technology leadership in the continent. For instance, Kenya is rated a leading country in the continent for thriving Internet economy. The race to respond to the effects of COVID-19 pandemic has stimulated innovation and creativity in Kenya with huge potential of the growth of the digital economy. The high mobile phone and internet penetration coupled with increased use of mobile money has spurred the growth of e-commerce. The number of agents, number of accounts, number and value of mobile money transfers have significantly increased due to the government directive on the use cashless payments. For example, the value of mobile money transactions has continued to increase since the onset of COVID-19 pandemic, from Ksh 364.5 billion in March 2020 to Ksh 536.69 billion in May 2021.

As Kenya continues to report significant progress in digital transformation, universal access to digital services remains a key challenge. Digital divide is visible across counties in terms of ownership of ICT devices such as functional TVs, radios, Internet devices and access to ICT services such as Internet. E-commerce uptake is at nascent stage with very low uptake despite high mobile and internet penetration in Kenya. There are several key digital projects such as National Addressing System and Konza Technopolis experiencing delays in their implementation. Further, although Kenya is the home to well-known digital innovations in fintech space such as M-Pesa, much of the innovations experience inadequate support to scale up.

To further build robust a digital ecosystem that accelerates the growth of the digital economy it requires the following: Development and implementation of a more comprehensive policy and legal framework through a multi-sectoral approach to be prioritized to promote the growth and development of e-commerce in a safe and secure environment. In order to spur growth of digital innovations, it is critical to create an enabling ecosystem for identification, nurturing and supporting of contactless applications for e-commerce, e-health and e-learning to manage the effects of the pandemic; Establishing innovation hubs and accelerator programmes across the country is key to support provision of digital services in the country. The implementation of the key projects such as National Public Key Infrastructure, National Addressing System and Konza Technopolis be fast-racked to generate jobs and create a conducive environment for digital economy. It is recommended that effective taping on Universal Service Funds for infrastructure development can bridge the digital divide gap in the unserved and underserved areas, including empowering the low-income last mile users and MSME enterprises to own devices, software, and access to basic ICT services and training resources. To create a safe computing environment and achieve cybersecurity resilience, strengthening of the online security through collaboration with all actors and continuously promoting cybersecurity programmes should be prioritized. Finally, it is critical to formulate and implement a policy framework to guide the adoption of the emerging technologies such as Artificial Intelligence, Blockchain, Fifth Generation technology (5G), Internet of Things (IoT) and Fourth Industrial Revolution (4IR).

Safeguarding Health Services in Kenya

The Government and the global community have identified Universal Health Coverage (UHC) as important in the realization of the Sustainable Development Goals (SDGs). To this end, the National and County governments have implemented reforms that have had positive impacts on access to health care services. Most preventive and treatment indicators (including full immunization in children, family planning coverage, skilled delivery, and hospital admissions per 100 individuals) exhibited an upward path in the decade to 2018. Out of pocket payments as a share of total expenditure declined, and indicators point to a decline in the incidence of catastrophic health expenditures by households.

Despite the progress, there are inadequacies that the health sector and health facilities face including in: health equipment and human resources for health; financial resources to maintain healthcare equipment; and coordination between the National and County levels of government in the procurement processes and in the recruitment of additional healthcare personnel.

To safeguard health services in Kenya in the COVID-19 era, the country needs to fast-track healthcare services to achieve MTP III targets and the "Big Four" agenda. A key intervention shall be the successful implementation of the digital health programme, which encompasses adoption of e-health and telemedicine. Kenya also needs to ensure adequate and equitable distribution of adequate and skilled human resources for health. This can be enhanced through improvement in human resource planning and management practices. There is need to: implement the policy, legal and institutional commitments including the Sessional Paper No. 2 of 2017 on the Kenya Health Policy 2014-2030; report and monitor indicators by collecting nationally representative data more frequently; strengthen efficiency in the use of financial and human resources for health. A quick win to improve health outcomes would be to allocate available resources rationally, reduce wastage, and enhance efficiency and synergies e.g. with water sanitation and hygiene (WASH) interventions; enhance investments required in rehabilitating and equipping existing health facilities; and improve the coordination of interventions between and within the county and national governments. Key areas of improvement in coordination include procurement of the managed medical equipment and human resources for health.

Fast-Tracking Recovery of the Tourism Sector from the Effects of COVID-19

Over the last two decades, the tourism sector in Kenya has been a key source of growth for the economy, accounting for over 10 per cent of total employment, contributing to 9 per cent to GDP; 18 per cent foreign exchange earnings and is a major source of government revenue in form of taxes, duties, licence fees, park entry fees, among others. Despite its importance, in supporting achievement of the Kenya Vision 2030, the sector was among those adversely impacted by the COVID-19 pandemic, which saw inbound tourist arrivals, revenue and employment decline by an estimated 71.6 per cent, 73.6 per cent and 72.0 per cent, respectively, over the previous year. Generally, the impact of the pandemic led to retraction of recent growth momentum witnessed in 2019 to performance levels recorded in 1987. It is estimated that total revenue from hotels declined by 32.4 per cent over the previous year, to Ksh 70.1 billion, owing to tremendous decline in bed-night occupancy especially in quarter 2 and 3, which was characterized by negligible stay by foreign visitors. Furthermore, the country lost the peak season of June-August 2020, equivalent to 435,000 international visitors and Ksh 32.4 billion in receipts, and Ksh 390 million in park entry fees. Local guests continued to be the main support of activity in the hospitality sub-sector during the COVID-19 period, accounting for over 84.0 per cent and 79.0 per cent of the total clientele for accommodation and restaurant services, respectively. During the pandemic period, the importance of domestic tourism in cushioning the sector from the shock occasioned by the pandemic has clearly been demonstrated. Overall, the sector is expected to rebound in the next two to three years, albeit sluggishly, as countries devise ways to contain the spread of the COVID-19 pandemic, including scaling up vaccination campaigns. However, the anticipated performance by end of 2022 will be lower than the MTP III target.

To support recovery of the sector both in the short and long-term, there is need to review the Tourism Act 2011 to accommodate aspects of devolution and coordination; assent and implement the revised National Tourism Policy 2020; finalize and assent to the National Wildlife Policy 2018; increase funding allocation to the tourism sector for marketing and rehabilitation of infrastructure that supports tourism development; enforce COVID-19 containment measures and improve the standards and quality assurance in the sector, since recovery of tourism will be driven by hygiene, sanitation, technology and mobility factors; support domestic tourism development at both national and county levels; each county to map its tourism sector resources and develop a tourism sector development master-plan to facilitate niche product development, packaging, marketing and investment; develop regional and medical tourism to target 800,000 tourists from neighbouring countries; and to improve security in the volatile areas to attract tourism investors.

Strengthening Cooperation and Coordination

The World Health Organization (WHO) declared the COVID-19 disease as a pandemic due to its presence in more than 114 states on 11th March 2020, thus making it a public health issue of global concern. The global nature of the threat posed by COVID-19 requires strategic collaborative and partnership efforts at all levels in identifying, controlling, preventing, reporting and responding to these diseases. The need for cooperation (at international, regional, county and inter-county levels) in the public health arena is critical in preventing and controlling the spread of infectious diseases, which are easily transmissible across borders. This has been compounded by increase and ease in trade and travel globally. Therefore, coordination, collaboration and cooperation at all levels are key instruments in responding to and controlling the spread of COVID-19 and addressing the negative socio-economic effects on a number of States. Due to the ease of transmission of diseases such as COVID-19, which transcend national borders and spread internationally, cooperation, collaboration and coordinated responses in the public health arena have become imperative.

Within Kenya, County Governments are critical stakeholders in ensuring speedy post-COVID-19 recovery for the success of the "Big Four" agenda due to their critical role in a number of devolved sectors such as health, agriculture and housing. Further, regional economic blocs formed by counties have potential to accelerate recovery from COVID-19 and drive the "Big Four" agenda through their collective platforms. The platform offered by regional blocs can be leveraged to establish mechanisms for intercounty and cross border surveillance; intercounty sharing of human resources and training for quality health care; intercounty evacuation and assistance to County Emergency Response. Various cross-sectoral, collaborative initiatives conducted by private sector, the government, development partners and civil society including resource mobilization, awareness creation and humanitarian assistance also demonstrated the potential and importance of partnership during COVID-19 and in other public policy issues.

Challenges in coordinating COVID-19 responses at an international level have been non-implementation of WHO guidelines for infection, prevention and control protocols, misreporting or non-reporting of data on COVID-19, discordant approaches to COVID-19 and lack of consensus among States on COVID-19, which undermined the effectiveness of measures to control the spread of COVID-19. Regionally, uncoordinated response measures and divergence in opinion on actions to deal with COVID-19 led to diplomatic rifts within the East African region. At a national level, weak intergovernmental relations between National Government and the County Governments have led to duplicity of efforts, overlap and fragmented implementation of policies. Labour disputes between County Governments and health workers also posed challenges during the COVID-19 pandemic.

Across counties, most regional blocs are yet to be formally and legally established to authorize or enable them to carry out their planned projects, though they have potential to enhance coordinated responses across counties.

Coordination aspects at international, regional and national level should be encouraged, promoted and through participation in multi-stakeholder forums. Further, it is important for States to adopt coordinated responses to COVID-19 and adopt global strategies for the control of emerging diseases. At a national level, frameworks for coordination and platforms for consultative engagements between the two levels of government need to be established. As regional economic blocs have the potential to drive forward the "Big Four" agenda through their collective platforms, all blocs should establish enabling legal frameworks to empower them to carry out their planned projects. Legislators and legislative drafting experts need to review and update the Public Health Act to reflect developments in the public health sector.

About KIPPRA Policy Briefs

KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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