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UNLOCKING ECONOMIC GROWTH: OPPORTUNITIES FOR POST-COVID-19 RECOVERY PROCESS AND SUSTAINABILITY

POLICY *Monitor*

EDITORIAL TEAM

1. John Karanja
2. Melap Sitati
3. Charity Mbaka
4. Jane Kenda
5. Kenneth Kiptanui
6. Adan Shibia

CONTRIBUTORS

1. Hellen Chemnyongoi
2. Humphrey Njogu
3. Juneweenex Mbuthia
4. Anne Gitonga
5. Adan Shibia
6. Githinji Njenga
7. William Musili
8. Caroline Mukiira
9. Jane Mugambi
10. Paul Odhiambo
11. Mohamednur Duba

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Editorial

Welcome to the KIPPRA Policy Monitor, the July-September 2021 edition. The theme of this issue is ***"Unlocking Economic Growth: Opportunities for post-COVID-19 Recovery Process and Sustainability"***. This edition focuses on three articles: Building Digital Essentials to Unlock the Potential for E-commerce in Kenya; Role of the Agriculture Sector in Supporting a Sustainable Economic Recovery: Focus on Subsistence Farming; Unlocking the Potential of Micro and Small Enterprises.

Further, the Policy Monitor provides key highlights of recent economic developments and various activities and events undertaken by the Institute during the first quarter of 2021/2022. Among the key activities highlighted include the capacity building needs assessment for state agencies; the signing of MoUs between KIPPRA and the National Social Security Fund (NSSF), and with the Kenya Deposit Insurance Corporation (KDIC), and a dissemination workshop on youth employment through industries without smokestacks.

Finally, the Monitor provides key highlights of policy news and legislative developments, and upcoming events.

On behalf of the KIPPRA family, we hope you will be greatly informed as you read this first edition.

Recent Economic Developments

By Hellen Chemnyongoi

Introduction

This article analyses the country's recent economic developments with a focus on four key areas: the performance of economic activities, monetary and financial policy, fiscal developments, and the external sector.

Economic Performance

The Gross Domestic Product (GDP) contracted by 0.3 per cent in 2020 compared to an expansion of 5.0 per cent in 2019 (Figure 1). This was the first contraction the country has registered in the last three decades after the 1992 contraction of 0.8 per cent. The economic contraction resulted from the outbreak of the COVID-19 pandemic. Like other countries globally, Kenya initiated interventions to curb the spread of the virus through stringent containment measures for safeguarding lives while concurrently cushioning the vulnerable groups. The country's performance in 2020 mirrored that of global and Sub-Saharan Africa performance that contracted by 3.5 and 2.5 per cent, respectively, following the COVID-19 pandemic, according to the World Bank. Nevertheless, rebound in economic activity globally is expected in 2021 following strong government's support amid continued vaccination and gradual relaxation of pandemic-control measures worldwide.

The analysis in Figure 1 shows that the first quarter (January to March) performance of 2020 mirrored the performance of 2019 despite a slight decline of 0.4 percentage points (Figure 1). However, the outbreak of the COVID-19 pandemic in the country in Mid-March 2020 reversed the growth momentum as the Government introduced containment measures that included the ban on local and international travel, cessation of movement in and out of some counties and zones, and closure of educational facilities, leisure, entertainment, and catering facilities. This slowed economic activity resulting in contraction experienced during the second and third quarter of 2020.

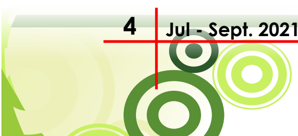
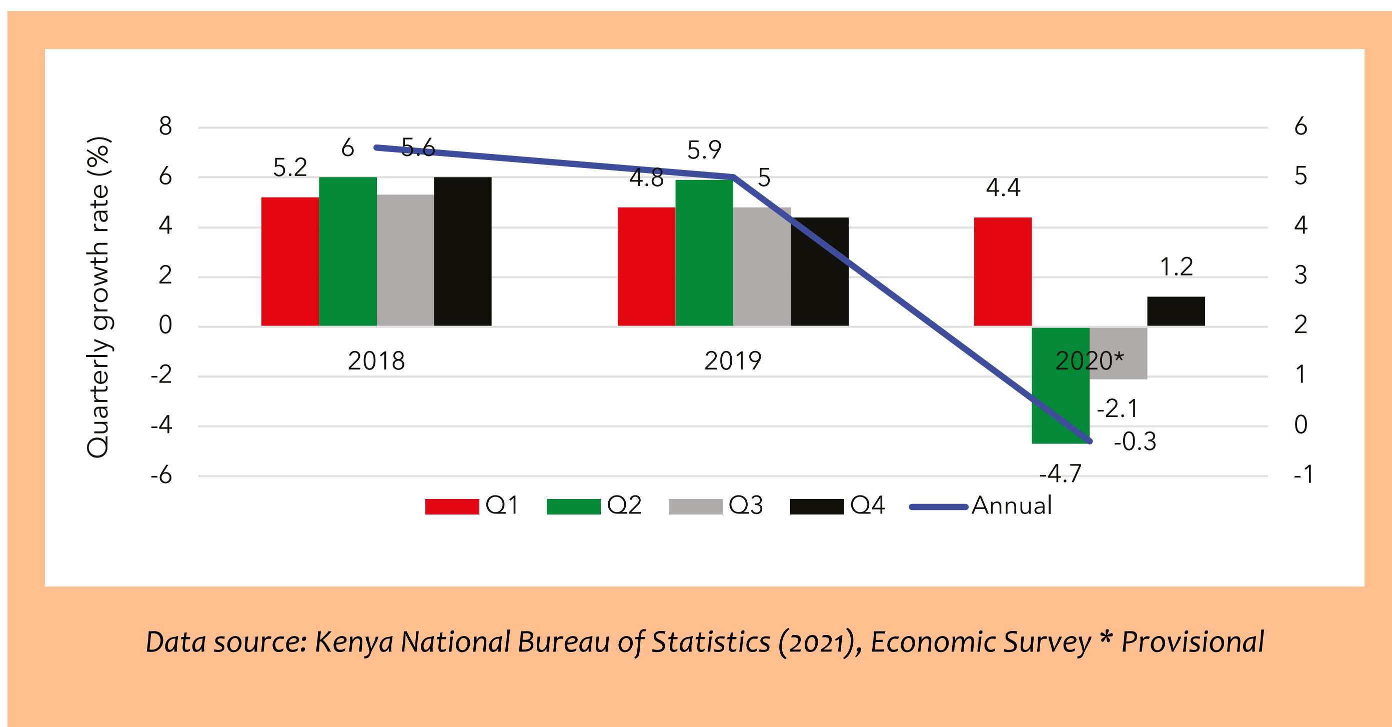


Figure 1: Figure 1: Quarterly GDP (2019-2020)



*Data source: Kenya National Bureau of Statistics (2021), Economic Survey * Provisional*

The construction and agriculture sectors were resilient and more vibrant in 2020 compared to 2019 despite the pandemic. Activities in the two sectors were more vibrant in 2020, registering a growth of 11.8 and 4.8 per cent compared to 5.6 and 2.6 per cent, respectively in 2019 (Table 1). The strong performance in the construction sector was supported by continued implementation of Government investments in road infrastructure, growth in the housing sub-sector and the ongoing rehabilitation of the Meter Gauge Railway (MGR). Similarly, accelerated growth in the agriculture sector was premised on favourable weather conditions that led to improved food crop and livestock related products. Notably, dairy activities measured by the volume of marketed milk grew by 2.1 per cent from 668.2 million litres in 2019 to 682.3 million in 2020. As such, strong performance in the two sectors cushioned the economy from significant contractions witnessed in other sectors due to the COVID-19 pandemic.

Significant contractions were experienced in the accommodation and restaurant services, professional, administration and support services and education sectors by 47.8, 14.8 and 10.8 percent, respectively, in 2020 (Table 1). The accommodation and restaurant sector contracted in the third quarter by 63.4 per cent but, as the Government eased the movement restrictions from October 2020, the performance of the sector improved significantly. Notably, the number of international visitors arriving between April and July had declined from 500,220 in 2019 to 1,010 in 2020 but 2021 shows significant improvements with 182,330 visitors arriving during the same period. With the ongoing COVID-19 vaccination and containment of the pandemic by the Government, the sector is envisioned to recover by 2022.

The activities in the manufacturing sector similarly slowed down during the second and third quarters of 2020, though with significant growth from the

“The construction and agriculture sectors were resilient and more vibrant in 2020 compared to 2019 despite the pandemic.”

Table 1: Quarterly sectoral economic performance (% growth rate) for 2019 and 2020

	2019					2020*				
GDP by Activity	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Agriculture	**4.8**	**3.2**	**0.7**	**1.3**	**2.5**	**4.3**	**4.9**	**4.2**	**5.8**	**4.8**
Mining and quarrying	-1.2	7	5.5	6.4	4.4	6.4	4.4	7.0	9.2	6.8
Manufacturing	2.5	4.1	2.6	0.9	2.5	2.2	-4.7	-1.7	3.8	-0.1
Electricity and water supply	3.0	1.5	1.5	0.9	1.7	1.5	-4.7	0.2	3.5	0.1
Construction	**4.6**	**5.5**	**6.1**	**6.2**	**5.6**	**11.0**	**8.3**	**12.3**	**15.7**	**11.8**
Wholesale and retail trade	4.6	6.4	5.3	4.8	5.3	4.9	-4.2	-5.0	2.6	-0.4
Accommodation and restaurant	15.6	11.7	11.9	17.6	14.2	-8.1	-56.8	-63.4	-62.2	-47.6
Transport and storage	6.8	8.8	4.6	5.2	6.4	2.2	-16.8	-10.1	-6.1	-7.7
Information and communication	9.5	7.5	7.1	6.1	7.6	5.6	2.6	3.2	7.6	4.8
Financial and insurance activities	6.1	8.0	9.3	4.4	7.0	7.5	4.4	3.0	7.4	5.6
Public administration	**9.0**	**10.8**	**10.2**	**9.7**	**9.9**	**4.0**	**2.7**	**6.3**	**8.4**	**5.4**
Professional, admininistrative and support services	**7.3**	**8.6**	**5.0**	**6.8**	**6.9**	**0.3**	**-27.5**	**-19.7**	**-12.1**	**-14.8**
Real estate	7.0	7.9	6.7	6.2	6.7	5.4	4.6	3.7	2.7	4.1
Education	3.8	3.4	5.6	6.2	4.8	1.8	-22.4	-17.4	-5.3	-10.8
Health	5.7	6.1	6.8	6.4	6.3	7.4	9.8	5.2	4.7	6.8
Other services	6.2	6.6	4.7	0.1	4.4	-1.5	-22.1	-17.4	-5.3	-11.6
GDP at market prices	4.8	5.9	4.8	4.4	5.0	4.4	-4.7	-2.1	1.2	-0.3

*Data source: Kenya National Bureau of Statistics, Economic Survey (2021) * Provisional*

fourth quarter of 2020. The sector is expected to remain resilient in 2021 as most activities pick up. With the resumption of learning activities from January 2021, the education sector is similarly envisaged to recover in 2021. The construction sector continues to be vibrant in 2021 as indicated by growth in cement produced and consumed compared to 2020. The cement produced and consumed in 2021 (from January to May) grew by 27.3 per and 26.6 percent, respectively, compared to the same months of 2020. This is envisaged to support the sector's resilience in 2021.

The overall inflation rate for July to September 2021 averaged 6.7 per cent compared to 4.3 per cent during the same months in 2020 and 6.0 per cent in April-June Quarter 2021. The inflation during the July-September quarter maintained an increasing trend as shown in Figure 3, largely driven by the rise in food inflation and elevated fuel inflation. The effect of the reviewed taxes, through the Finance Act 2021, on the Internet data services, mobile phone companies and cooking gas/Liquefied Petroleum Gas (LPG) in July similarly contributed to inflation pressure. The price of the 13kg cooking gas increased by 15.4 per cent from Ksh 2,074.23 in

Figure 2: Total number of visitors arrival (January 2020 to July 2021)

Source of data: Kenya National Bureau of Statistics (2021), Leading Economic Indicators, August 2021 edition

June to Ksh 2,394.18 in July 2021, whereas mobile phone airtime per minute increased by 2.6 per cent from Ksh 2.35 to Ksh 2.41 during the same period. These increases in essence reduce the purchasing power of households as both commodities are commonly used by households. The rising cost of cooking gas also has a potential of increasing food prices in eateries as the cost of production increases. Further, it may derail the government's commitment of transitioning 100 per cent from using firewood, charcoal and kerosene to LPG by 2028 as most Kenyans might revert to unclean energy as a way of reducing costs.

Food inflation rose from 8.5 per cent registered in June to 10.6 percent in September 2021. The elevated food inflation was mainly due to increase in prices of cabbage, sukuma wiki, onions and cooking oil that outweighed the slight decrease in prices of tomatoes and maize meal. The general rise of food prices may also be attributed to the sunny and dry weather conditions experienced in most parts of the country. The weather review for June, July and August 2021 indicate that the country has experienced a prolonged dry period, with rainfalls below the expected average compared to the same months of 2020. The Kenya Meteorological Department has consequently issued warning on food, pasture and water shortages mostly in arid and semi-arid lands (ASALs) of the country if the short rains continue to delay in the coming months of 2021. Similarly, the President of Kenya, His Excellency Uhuru Kenyatta, declared the drought affecting most parts of the country a national disaster on 8th September 2021. These developments underscore the need to build resilience in the agriculture sector in the medium term to reduce the severity of weather-related shocks such as drought.

Fuel inflation remained elevated, averaging 10.8 per cent in July to September quarter of 2021 compared to an average of 9.7 per cent realized during the same months of 2020. Notably, it was an improvement from an average of 14.2 percent registered during the March to June quarter of 2021. The slight reduction combined with the return to carrying of full capacity for public service vehicles in August 2021 led to decrease in transport index by 0.32 per cent as at the end of August. The greatest contributor was reduction in bus fares of country and city public service vehicles by 20.0 and 16.7 per cent, respectively, for the sampled routes that include Meru to Nairobi, and Bomas of Kenya to Nyayo Stadium. The reduction in bus fares is a great relieve as it reduces the cost of transport and increases the households' income allocated for other expenditures. However, the rise in petrol, diesel and kerosene prices by 6.0, 7.4 and 13.3 per cent, respectively, as from 15th September 2021

resulted to 20.7 per cent rise in fuel inflation from 9.2 per cent recorded in August to 11.1 per cent in September 2021. Similarly, transport index rose by 1.2 per cent following the increase in fuel.

Monetary and financial Policy

The banking sector has remained stable and resilient, supported by improvements in economic activity in 2021. An accommodative monetary policy stance adopted at the beginning of the pandemic was maintained. During the Monetary Policy Committee (MPC) meeting held on 28th August 2021, the Central Bank Rate (CBR) was retained at 7.00 per cent. This is expected to support the recovery of economic activities while maintaining macroeconomic stability. The interbank rate remained stable, averaging 3.97 per cent during the July-September 2021 quarter; a slight increase from an average of 2.54 per cent registered during the same months of 2020. The increase in the interbank rate is a positive signal as it reflects the improved demand in the economy as various sectors continue to recover from the effects of the pandemic.

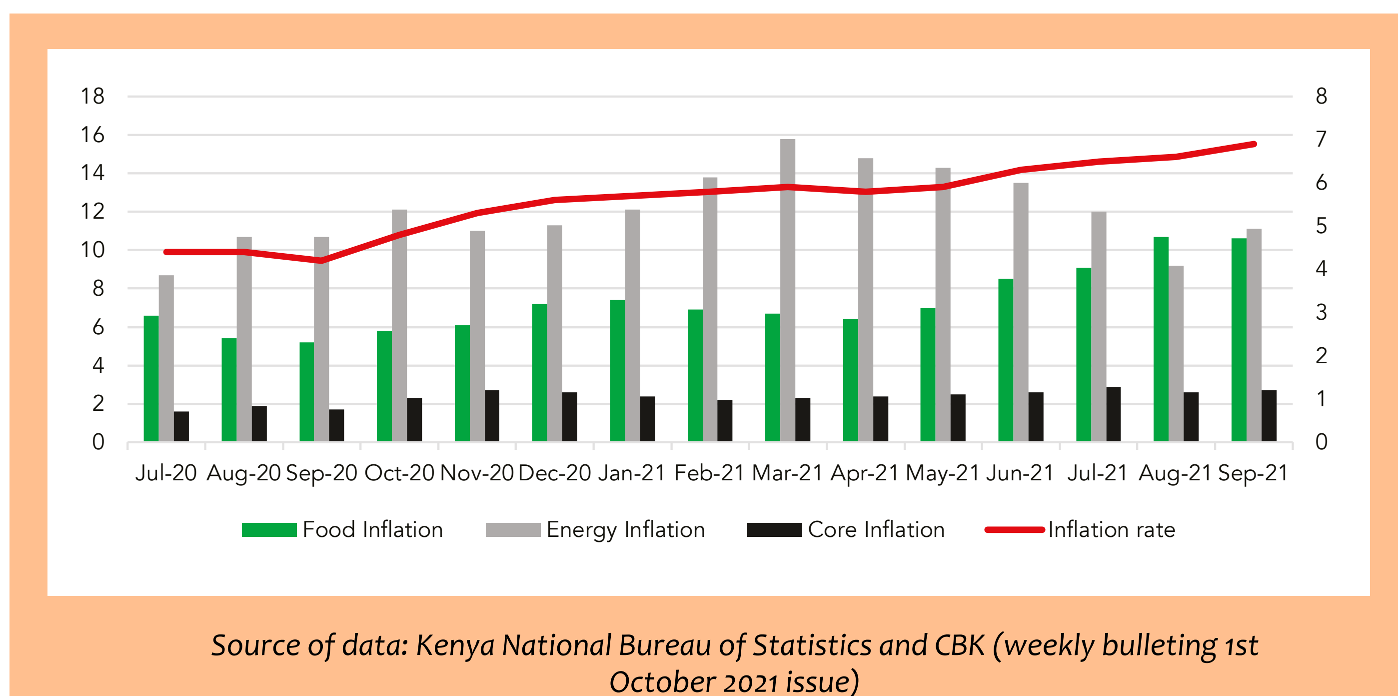
Growth in private sector credit averaged 7.2 per cent during April-June 2021 compared to an average of 8.9 per cent in the January-March 2021 period. The sector registered slight decrease in 2021 from 7.8 to 6.1 per cent in July and from 8.2 to 7.0 per cent in August compared to 2020. Notwithstanding the decline, private sector credit grew from 6.1 per cent in July to 7.0 per cent in August 2021. The robust performance was supported by recovery in demand associated with improved economic activities.

The ratio of non-performing loans (NPLs) to gross loans continued to decline during the quarter. The ratio declined by 2.8 per cent to 14.1 during the April-June quarter from 14.5 attained in January-March quarter of 2021. During the month of July 2021, the ratio stood at 13.8 per cent, which reflects a sustained improvement from April-June 2021. The declining trend in the ratio of NPL is also reflected in the volumes of NPL. The volumes of NPL have maintained a declining trend from Ksh 444.2 billion recorded in February 2021 to Ksh 433.3 billion in July 2021. Repayments and recoveries were noted in the manufacturing, agriculture, trade and real estate sectors. The improved performance in loan repayments reflects the improved sectorial performance as the Government continues to support the industries and contain the pandemic.

Fiscal front

Preliminary Government budgetary operations at the end of 2020/2021 shows a fiscal deficit of Ksh

Figure 3: Inflation rates (July 2020 to September 2021)



Source of data: Kenya National Bureau of Statistics and CBK (weekly bulleting 1st October 2021 issue)

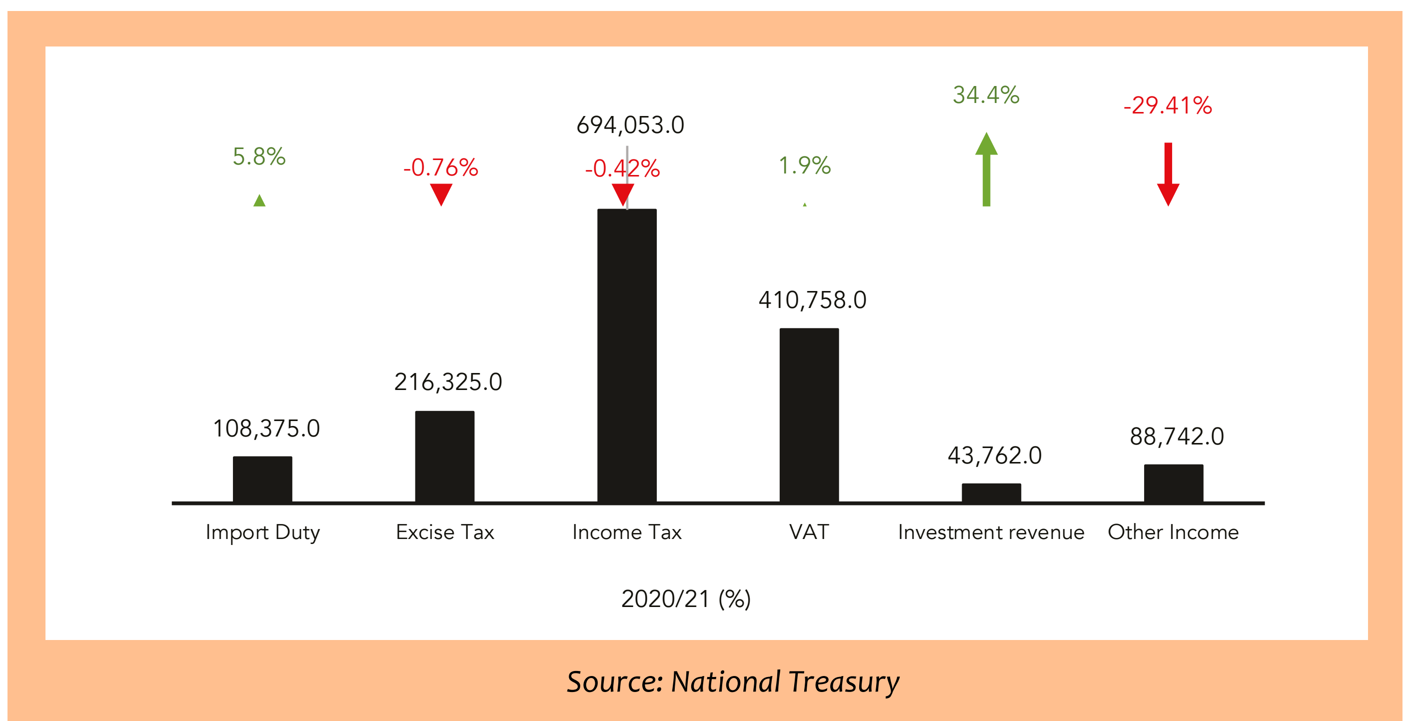
The overall inflation rate for July to September 2021 averaged 6.7 per cent compared to 4.3 per cent during the same months in 2020 and 6.0 per cent in April-June Quarter 2021.

950.2 billion (representing 8.5% of GDP) against a target of Ksh 976.2 billion (representing 8.7% of GDP). At the end of the financial year, revenues and grants reported a shortfall of Ksh 95.6 billion (5.0% of the target) while expenditures and net lending resulted in a shortfall of Ksh 131.1 billion (4.5% of the target).

In terms of the composition of revenue streams, import duty and investment revenues surpassed the annual target by 5.8 per cent and 34.4 per cent, respectively (Figure 4). This was mainly on account of reopening of economies across the globe and improved operations of the global supply chains that saw improvements in international trade. Other revenue stream such as excise tax, income tax and other income registered shortfalls against the target at 0.76 per cent, 0.42 per cent and 29.4 per cent, respectively. The decline in revenue collection was mainly driven by slow business activity given the COVID-19 pandemic and the ensuing containment measures.

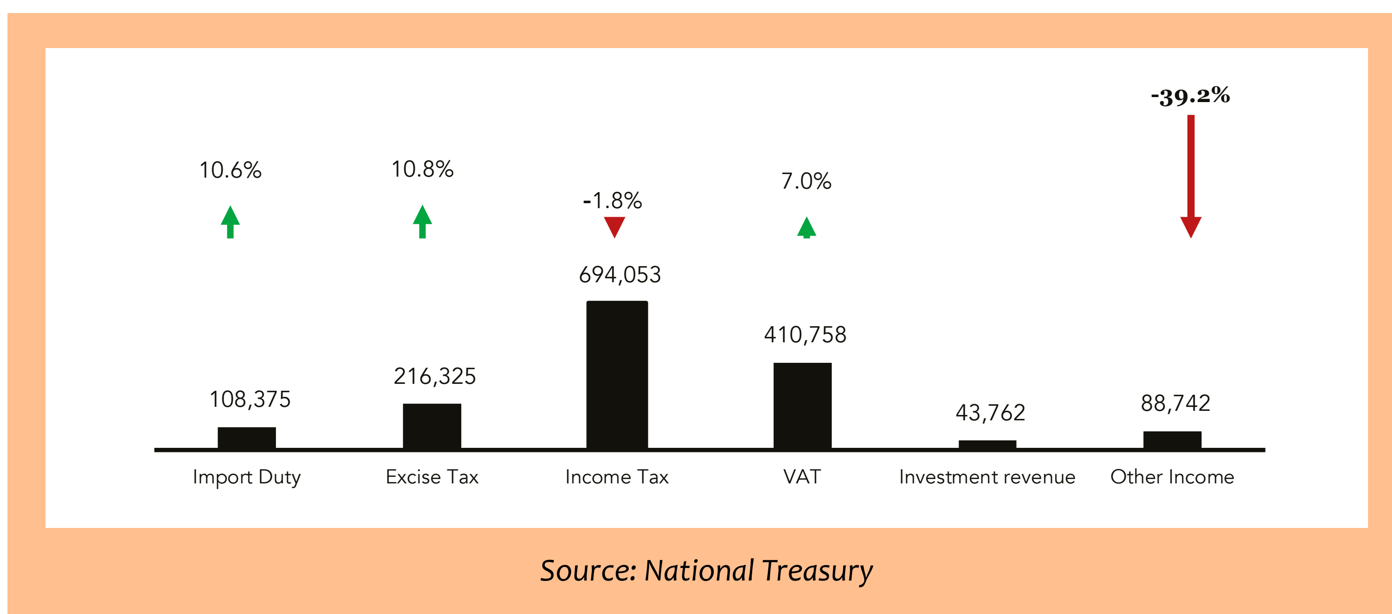
In terms of comparison of major tax heads in 2019/20 and 2020/21, there was a notable shift in 2020/2021 compared to a similar period in the previous financial year. Import duty increased by 10.6 per cent, excise tax increased by 10.8 per cent, while VAT increased by 7.0 per cent on account of reversal of initial tax measures put in place to cushion the economy from the ravaging effects of the pandemic (Figure 5). The cumulative income tax amounted to Ksh 694.1 billion at the end of 2020/21 compared to Ksh 706.9 billion recorded in the 2019/20 financial year. This represents a 1.8 per cent decline, attributed to the prolonged closure of businesses and reduced operating hours and job losses that affected both corporate and individual incomes in the country.

Figure 4: Actual 2020/21 tax revenues (Ksh million) and variance from target 2020/21 (%)



Source: National Treasury

Figure 5: Actual tax revenue for 2020/21 (Ksh million) and variance from 2019/20 (%)



Source: National Treasury

At the end of the 2020/21 financial year, government fiscal operations resulted in expenditure and net lending of Ksh 2,749.5 billion, which was a 4.4 per cent increase from Ksh 2,627.5 billion realized in 2019/20. Notably, recurrent expenditure amounted to Ksh 1,796.6 billion, accounting for 65.3 per cent of total expenditure compared to 64.5 per cent in 2019/20 financial year. Development expenditure share declined by 9.8 per cent following increase in recurrent expenditures. This could be attributed to increased government spending on COVID-19-related spending and budget adjustments to curb the pandemic. County transfers increased from Ksh 325.3 billion to Ksh 398.9 billion.

In terms of composition of recurrent expenditure illustrated in Figure 6, the largest share was held by Operations and Maintenance (O&M), which accounted for 38.9 per cent at the end of 2020/2021 financial year compared to 42.3 per cent in 2019/2020. Other components of recurrent expenditure increased, specifically wages and salaries (27.3%); and pensions and other Consolidated Fund Services (6.3%). The increased social protection activities amid COVID-19 largely resulted in increase of various components of recurrent expenditure.

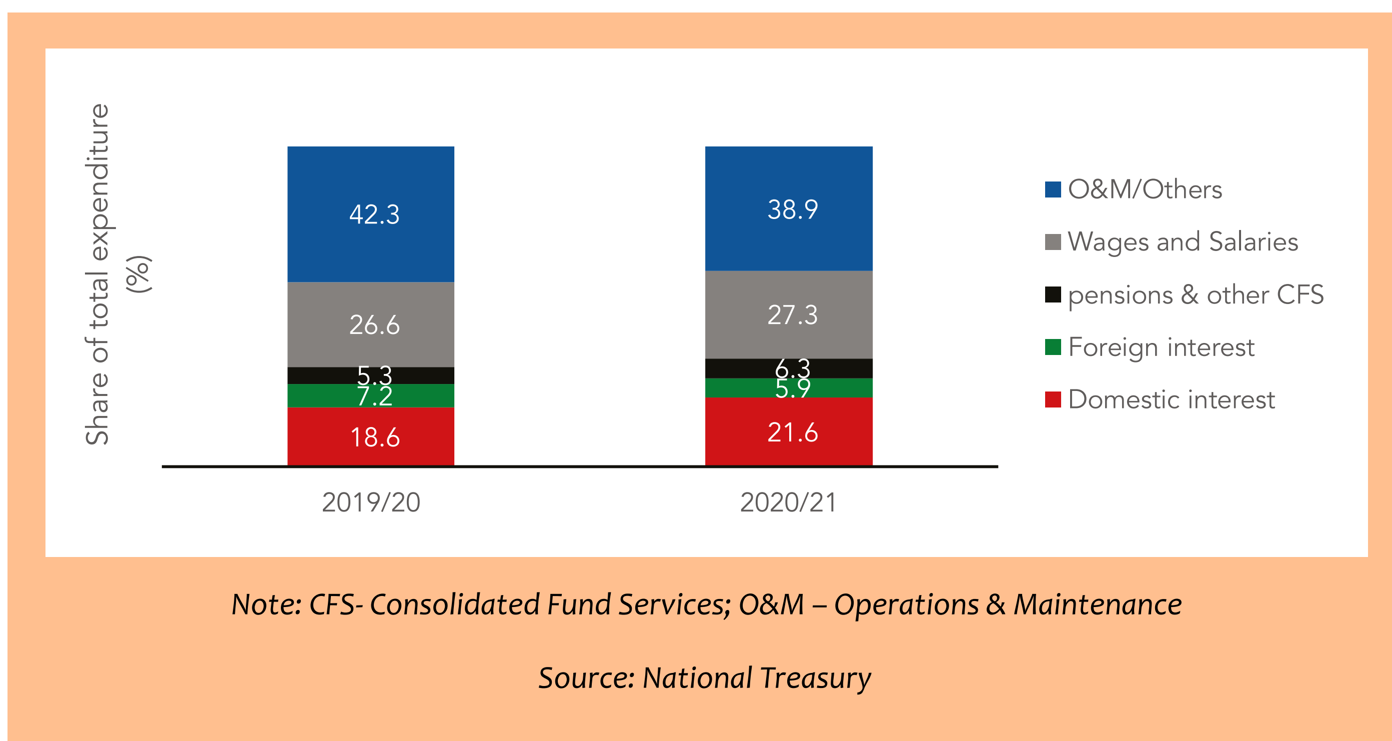
At the end of the 2020/21 financial year, total budget deficit, including grants, amounted to Ksh 950.2 billion, representing 8.5 per cent of GDP. This was financed through both domestic and foreign borrowing that amounted to Ksh 626.9 billion and Ksh 323.3 billion, respectively. Domestic financing was drawn from government securities that amounted to Ksh 556.3 billion, Ksh 71.7 billion being Government overdraft and others, and Ksh 1.1 billion repayments to the Central Bank. Net foreign financing comprised of Ksh 451.6 billion loan disbursements (financing inflows) and Ksh 128.3 billion repayments of principal debt (financing outflow). The financing inflows comprised Ksh 168.6 billion from programme loans, Ksh 52.5 billion from project loans, Ksh 116.3 billion project loans A-in-A and Ksh 114.3 billion commercial financing.

Notably, the National Treasury successfully raised US$ 1 billion on 17th June 2021 through issuance of a 12-year Eurobond in the international financial markets. The bond, which was over-subscribed with over US$ 5.4 billion offers by investors signified strong global investor interest and confidence on the country's economy and medium-term prospects. The issue will assist in financing the anticipated 7.7 per cent budget deficit for financial year 2021/22 and aid in responding to the COVID-19 pandemic. Therefore, it is expected that the issue will improve the fiscal balance for 2021/22.

External Sector

The Kenya Shilling depreciated against the major currencies between July and September 2021 quarter. During the July-September 2021 quarter, the Kenya Shilling exchanged at an average of Ksh

Figure 6: Share of recurrent expenditure components 2019/20 and 2020/21 (%)



Note: CFS- Consolidated Fund Services; O&M – Operations & Maintenance

Source: National Treasury

109.18 against the dollar compared to an average of Ksh 107.94 during the same quarter of 2020, representing a depreciation rate of 1.15 per cent. Similarly, the Kenya Shilling depreciated by 1.95 per cent and 8.07 per cent against the Euro and the Sterling Pound, respectively, over the same period. Specifically, the Kenya Shilling exchanged at an average of Ksh 128.75 and Ksh 150.52 against the Euro and Sterling Pound, respectively, during the July-September 2021 quarter from an average of Ksh 126.29 and 139.35, respectively, registered during the similar quarter of 2020. The quarterly depreciation was also reflected in the monthly performance where the Kenyan Shilling depreciated between the month of July and September 2021. In July 2021, the Kenya Shilling exchanged at an average of Ksh 108.14 against the dollar compared to an average of Ksh 110.15 in September 2021, representing a depreciation rate of 1.86 per cent. Additionally, the Kenya Shilling depreciated by 1.48 per cent and 1.44 per cent against the Euro and the Sterling Pound, respectively, over the same period. Specifically, the Kenya Shilling exchanged at an average of Ksh 129.78 and Ksh 151.52 against the Euro and Sterling Pound, respectively, in September 2021 from an average of Ksh 127.89 and 149.37, respectively, in July 2021.

The foreign exchange reserves remained adequate and stood at an average of 5.8 months of import cover between July and September 2021. The stock of official reserves stood at US$ 9,551.5 million (5.8 months of import cover) in September 2021. This represents a 0.7 per cent increase from US$ 9,480.8 million (also 5.8 months of import cover) recorded in July 2021. The performance was

> "At the end of the 2020/21 financial year, government fiscal operations resulted in expenditure and net lending of Ksh 2,749.5 billion, which was a 4.4 per cent increase from Ksh 2,627.5 billion realized in 2019/20."

an improvement from an average stock of official reserves that stood at US$ 9,200.53 representing 5.6 months of import cover realized during the same quarter of 2020. The reserves are within the statutory requirement of at least 4 months of import cover and the East African Community's (EAC) convergence criteria of 4.5 months of import cover.

Total diaspora remittances stood at US$ 312.9 million in August 2021, representing 14.2 per cent growth compared to US$ 274.1 million received in the same period in 2020. This was mainly driven by an increase in remittances from North America and Europe, which recorded a 20.8 per cent and 24.5 per cent growth in the same period. Remittances from North America and Europe accounted for 61.7 per cent and 18.9 per cent of total remittances, respectively, in August 2021. The rebound on remittances from North America and Europe was premised on quick recovery from the COVID-19 pandemic following the vaccine roll-out in the regions. On the contrary, diaspora remittances from the rest of the world recorded 9.2 per cent decline from US$ 66.8 million in August 2020 to US$ 60.7 million in August 2021.

The value of horticultural exports, which makes up approximately 24 per cent of Kenya exports earnings, recorded a 26.7 per cent decline in the last 12 months to July 2021. The volume of horticultural products exported grew by 1.5 per cent growth, from 25,500 metric tonnes in July 2020 to 25,900 metric tonnes in July 2021. Despite the increase in the volume, the value of horticultural exports decreased from Ksh 9.3 billion in July 2020 to Ksh 6.8 billion in July 2021. This may be attributed to depreciation of the Kenya Shilling against the major currencies as aforementioned. Similarly, the value of coffee and tea exports declined by 2.0 per cent and 8.1 per cent, respectively, in July 2021 compared to the same period in 2020. The value of coffee and tea exports stood at Ksh 1.8 billion and Ksh 10.0 billion, respectively, in July 2020 but declined to Ksh 1.7 billion and Ksh 9.2 billion, respectively, in July 2021. The decline in the value of tea and coffee exports is partly attributed to decline in the volume of coffee and tea exports by 24.0 per cent and 6.4 per cent, respectively, in the same period.

The current account deficit widened by 16.6 per cent in the year to July 2021. In July 2020, the current account deficit stood at US$ 4,847.6 million and increased to US$ 5,651.6 million in July 2021. This was mainly attributed to the deterioration on the balance on goods, services and primary income by 13.4 per cent, from a deficit of US$ 9,877.2 million in July 2020 to a deficit of US$ 11,196.4 million in July 2021. During the same period, the balance on goods and services worsened by 16.4 per cent from a deficit of US$ 8,365.8 million in July 2020 to a deficit of US$ 9,734.3 million in July 2021.

image: Freepik.com

Building Digital Essentials to Unlock the Potential for E-commerce in Kenya

By Humphrey Njogu

Technology-enabled business models are transforming buyer-seller relationships and pushing out the frontier of what is possible to buy and sell online. The World Trade Organization report on E-commerce (2021) observes that measures in response to the COVID 19 pandemic have changed consumer preferences and shopping patterns. E-commerce is now an emerging pillar to manage the COVID-19 crisis and consequently support economic recovery. E-commerce is keeping alive human social ties in times of physical distancing while at the same time overcoming the traditional barriers in trade channels and market access. Technology-enabled enterprises allow consumers to benefit from greater choices and lower prices. Studies show that Micro Small and Medium Enterprises (MSMEs) that use e-commerce platforms are five times more likely to export than those in the traditional economy. The United Nations Conference on Trade and Development (UNCTAD) report on COVID-19 and e-commerce (2021) is showcasing the significant rise of e-commerce's share of global retail trade from 14 per cent in 2019 to 17 per cent in 2020. The report shows a strong uptake of e-commerce across regions, with consumers in emerging and developing economies making the greatest shift to online shopping. However, developing countries have largely remained to be consumers but not active players and producers in the digital economy due to inadequate digital essentials for e-commerce.

E-commerce uptake in Kenya is at the nascent stage and largely driven by mobile commerce. In the last five years, the value of mobile commerce transactions has significantly increased from Ksh 1.7 trillion in 2016 to Ksh 9.3 trillion in 2020. E-commerce in Kenya is valued slightly over Ksh 100 billion and is expected to grow to Ksh 170 billion in 2022. Kenya's Internet GDP is leading in Africa, accounting for 7.7 per cent in 2020 and is expected to dominate in the continent by accounting for 15 per cent in 2050 (Accenture

report on Africa GDP forecast for Africa). Kenya's outstanding performance in digital economy is demonstrated by good rating at the continent. For instance, Kenya is rated third best performing African country behind Mauritius and South Africa to embrace digital transformation. Kenya is ranked 82 globally by the Network Readiness Index (NRI) (2020). Similarly, Kenya is rated top 5 African countries for thriving Internet economies based on the Inclusive Internet Index (2019).

Kenya has a lot of potential to leapfrog on e-commerce as demonstrated by several factors. For instance, Kenya is in a strategic location that acts as a business hub for air travel in the region, supported by over 600 postal office countrywide network and international links for delivery. Kenya has high uptake of the Internet with over 44 million subscribers. The total bandwidth capacity has significantly increased from 2 million Mbps in 2016 to 8 million Mbps in 2020 to support the new patterns in internet traffic. Further, bandwidth utilization increased by 47.4 per cent to 4.0 million Mbps, indicating increased usage of the Internet in 2020. Similarly, Kenya has a modern mobile telecommunication infrastructure supporting 3G, 4G and 5G services critical for e-commerce. However, the country still lags and performs below the global average in terms of households with Internet, secure servers, reliable postal services, and conducive policy environment.

According to UNCTAD E-commerce Index (2019), Kenya has registered high share of individuals with accounts for money payment services (82%), but low share of individuals using the Internet at household levels (18%), Secure Internet servers (49%) and postal reliability (47%). Similarly, the Kenya Census (2019) indicates that only 4 per cent of the Kenyan population above 15 years searched, ordered, or bought items online and majority are between 15 to 44 years old and living in urban areas.

The growth of e-commerce in Kenya is further constrained by absence of a comprehensive legal and policy framework for e-commerce, inadequate indicators and unreliable data to support planning for e-commerce sector, unreliable postal services to deliver products to the last mile level, low trust for digital businesses, high shipping cost to last mile, high taxes for businesses, poor registration of digital businesses, inadequate infrastructure to support affordable Internet services provision in many parts in the country and a high number of counterfeit products sold online. In addition, access to Internet and ownership of computers by households remain low. About 18 per cent and 8.8 per cent of households have access to Internet services and own computers or tablets, respectively, that are necessary for e-commerce (Kenya Census, 2019).

The Information Communication Technology (ICT) Survey on Enterprises (2016) indicates that 39 per cent of surveyed firms have engaged in some e-commerce activities. However, majority of the local enterprises have not fully automated their processes because of complexity and challenges in dealing with collection of fees and royalties, managing copyright and intellectual property, privacy and personal data protection, illegal downloads, piracy, counterfeiting and rising number of cyber threats. Further, according to the Kenya Enterprise Survey 2018 (World Bank, 2018), 89 per cent of the ICT firms report electricity outages, with an average number of 3.5 episodes per month and 35 per cent of firms do not have power backup generators. The introduction of digital service tax in January 2020 would further subject e-commerce firms, including start-ups, to more taxes and may affect growth of the digital economy.

There are several efforts put in place to strengthen the adoption of e-commerce in the country. From an infrastructural point of view, the Government is implementing a National Addressing System of Kenya (NASK) to guide the naming and numbering of streets and properties to facilitate easy identification and location on the ground. The concept of national addressing is recognized world over as an essential tool for economic and social

development. Simply, NASK will provide an authoritative and immutable addressing digital registry (mapping database) that will have multiple use cases for individuals, businesses, and government necessary for the growth of the digital economy. The national addressing framework is envisaged to create a user-friendly environment that facilitates movement and locating places. The NASK project is expected to open new avenues for innovations for e-commerce by all players in the e-commerce sector. NASK will accelerate the uptake of e-commerce and associated industries with a commensurate positive impact on the economy by enabling easier geo-location for various service providers such as taxi, mail and home delivery of goods and services, thus unlocking economic value and job creation.

The implementation of NASK started in 2014 and the following milestones have been achieved: Drafting of NASK policy and Bill, and NASK database framework. The Ministry of ICT, Innovation and Youth Affairs appointed a taskforce in June 2021 to pilot the NASK concept in selected counties, including Nairobi County. A nationwide NASK implementation will require the coordination of actors at the national, county, and sub-county levels and persistence and persuasion will be critical. Implementation in rural and informal settlement areas will pose a more significant challenge compared to urban areas given the difficulty of access, long distances, unnamed roads, uneven settlement patterns, and temporary settlements in some counties. Existing challenges also provide opportunities to build on Kenya's innovative talent to develop homegrown solutions that leverage on technology to support the uptake of e-commerce.

To strengthen security for online services, the Ministry of ICT, Innovations and Youth Affairs and Communications Authority are implementing the National Public Key Infrastructure. A Public Key Infrastructure (PKI) is a technical infrastructure that supports roll out of e-transaction services. PKI refers to a system for the creation, storage

> "E-commerce in Kenya is valued slightly over Ksh 100 billion and is expected to grow to Ksh 170 billion in 2022."

and distribution of digital certificates, which are used to verify that a particular public key (online identity) belongs to a certain entity. The PKI creates a framework for protecting communications and stored information from unauthorized access and disclosure by addressing the fundamentals of cyber security – confidentiality, integrity, authentication, and non-repudiation. However, implementation of this noble project has been slow since its onset in 2014.

Other initiatives for e-commerce include formulation of a digital economy blueprint and enactment of relevant laws such as Kenya Information and Communication Act (KICA) (1998), Computer Misuse and Cybercrime Act (2018), Data Protection Act (2019), National Payment System Act (2015) and Guidelines on Cybersecurity for Payment Service Providers (2019). The Central Bank of Kenya unveiled the Kenya National Payments System Vision and Strategy (2021-2025), which strives to enhance Kenya's global leadership in digital payments by building a world-class, secure, resilient, and collaborative payments system that powers Kenya's economy and its journey towards cash lite.

Other notable efforts include formulation of a white paper in 2015 on e-commerce guidelines, which has been incorporated in license conditions requiring all postal/courier operators to embrace practices that promote ecommerce growth; a pilot survey to establish

e-commerce baseline in December 2015; engagement of UNCTAD on e-commerce scoping study; and implementation of National Public Key Infrastructure (NPKI). There are various policy concerns that require to be addressed, including scoping of digital economy, consumer protection, warehousing, inadequate policy and legal framework, poor handling of product recall, digital taxation, digital divide, and digital service unavailability in the unserved and underserved areas. Efforts to address such policy concerns appear to be disjointed, since e-commerce is a multi-sectoral subject that requires effective collaboration of multiple players.

To build the digital essentials to unlock the potential for e-commerce in Kenya, it is important to consider developing and implementing a more comprehensive e-commerce policy and legal framework through a multi sectoral approach to promote the growth and development of e-commerce. The framework should address the following policy concerns: e-commerce regulation and facilitation, registration of digital businesses, e-payment, taxation structure of digital businesses, indicators and scoping of e-commerce, ICT infrastructure, logistics, consumer protection, and consumer awareness. To promote the growth of e-commerce innovations, there is need to create an enabling ecosystem to support identification, nurturing and support of contactless applications for e-commerce by establishing innovation hubs and accelerator programmes across the country.

Tapping on Universal Service Funds should be considered for infrastructure development to bridge the digital divide gap in the unserved and underserved areas, and supporting and empowering the low-income last mile users and micro, small and medium enterprises (MSMEs) in owning devices and accessing basic ICT services. Supporting digital transformation for businesses should be prioritized by providing incentives and resources, including training and free software/hardware to accelerate adoption of digital technologies. It is also important to accelerate the implementation and operationalization of key digital projects such as National Public Key Infrastructure, National Addressing System and Konza Technopolis to support growth of e-commerce. Konza's Data Centres will offer the cloud data storage service, revolutionizing the local data economy. Strengthening the online security through collaboration with all actors and continuously promoting cybersecurity programmes to the public will ensure that all digital users are accessing digital services safely. Finally, it is important to note that a full e-commerce ecosystem takes years to develop, requiring complex investments by the private sector and implementation of multi-faceted government reforms. By putting in place the right digital essentials, Kenya can unlock the huge potential for e-commerce during and post COVID-19 crisis.

Image: Freepik.com

Role of the Agriculture Sector in Supporting a Sustainable Economic Recovery: Focus on Subsistence Farming

By Juneweenex Mbuthia and William Musili

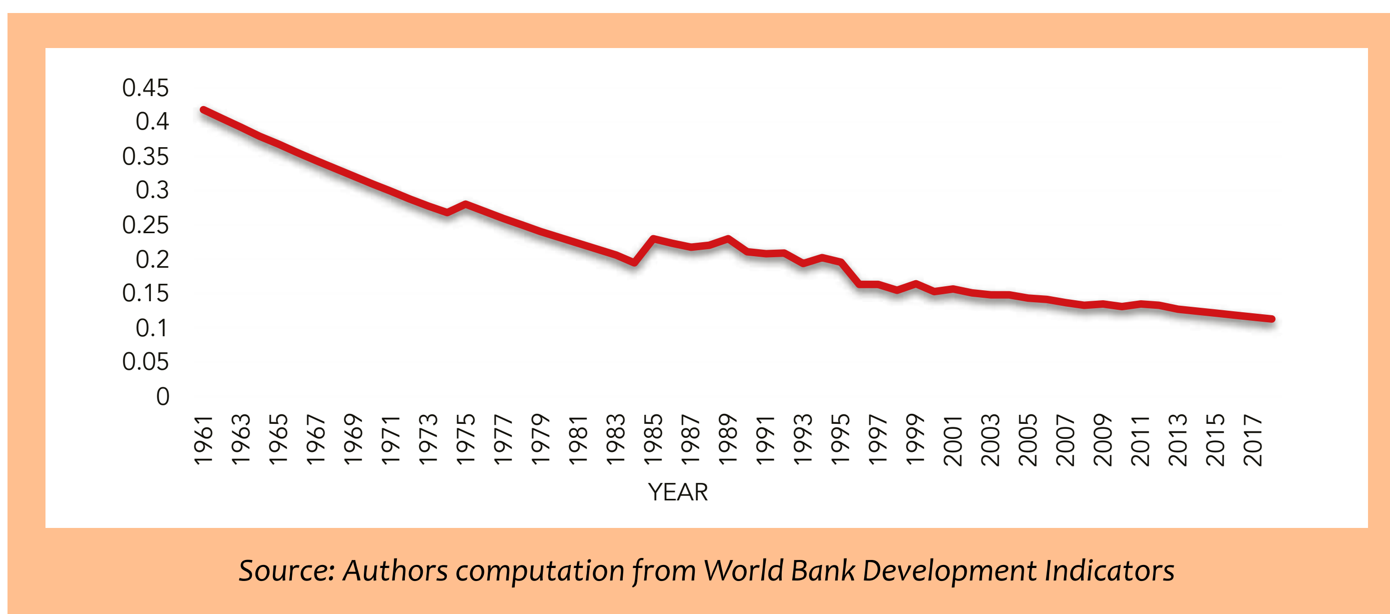
Overview

Kenya's economy, like in many countries around the world, is hinged on agriculture. The sector accounts for about 53 per cent of the Gross Domestic Product (GDP), 26 per cent directly and 27 per cent indirectly. The sector further employs over 60 per cent of the population, of which 70 per cent are living in rural areas. The agricultural sector is, however, largely dominated by subsistence farming. This type of farming is often carried out on farms averaging 0.2 to 3.0 hectares, normally for own consumption. Subsistence farming forms an important source of food and income for majority of the Kenyan population (about 74%) residing in rural areas.

Subsistence farming accounts for about three quarters of the gross agricultural output and has been critical in meeting the ever-increasing demand for food. Notably, the increasing demand for food is due to the growing population from 8.4 million in 1961 to 47.6 million in 2019, and average growth rate of 2.3 per cent. What is worrying, however, is that the proportion of farmers, especially in rural areas, engaged in subsistence farming has been declining from 90.2 per cent of the total population to 72.5 per cent in 2019. Similarly, from Figure 1, subsistence farmers farmed on only 0.1 hectares of arable land per person, having declined from 0.4 hectares per person in 1961. This is due to the rural population moving to urban areas for white collar jobs. The implication of this is that few farmers are left at the centre stage in the production of food to serve the increasing demand for those in the rural and urban areas.

Beside declining participation in subsistence farming, this type of farming has been

Figure 7: Kenya's arable land (hectares per person) 1961-2017



Source: Authors computation from World Bank Development Indicators

neglected, and is characterized by persistent challenges that require the attention of policy makers. These include low agricultural research and development, attributed to the declining government spending on agricultural research over the past decade averaging 0.4 per cent of GDP, trailing the African Union target of one per cent[1]. There are also inadequate extension services where the ratio of national extension staff to farmers is 1:1,000, compared with the recommended 1:400. Another challenge is low agricultural finance, with only 14.7 per cent of the agricultural population having access to agri-finance while 84.8 per cent of the agricultural population do not use any form of agricultural finance. Other constraints are market access and aged farmers who are less productive.

Apart from the pre-existing challenges, the disruptions occasioned by the COVID-19 pandemic and invasion of desert locust have unmasked the vulnerability of subsistence farming. Despite the challenges faced, the agriculture sector has shown resilience during that period, with growth rate increasing from 3.0 per cent in 2019 to 5.4 per cent in 2020 (Figure 2). Specifically, the value of sales through smallholder farms increased by 9.4 per cent from Ksh 341.4 billion in 2019 to Ksh 373.6 billion in 2020. Over the same period, the share of marketed agricultural output for smallholder farming increased marginally to 73.3 per cent in 2020, contributing largely to the growth rate. This reflects the continued dominance of the smallholder sector in the marketing of agricultural produce during the years under review. This reflects the continued dominance of the smallholder farming in the marketing of agricultural produce during the years under review. Therefore, it is this resilience that presented opportunities for the country to refocus on agriculture and specifically smallholder farming in supporting a sustainable economic recovery.

Opportunities for Subsistence Farming amidst COVID-19

The COVID-19 pandemic has presented opportunities for the country to refocus on agriculture and specifically subsistence farming. These include increasing use of technology, reduced importations to encourage local food production, involvement of more youth in agricultural activities, increased subsistence farming in the urban areas, and involvement of more people in agribusiness activities that support the subsistence farming value chain. Therefore, if these opportunities could be capitalized on, subsistence farming would contribute to the Kenya's Agricultural Sector Transformation and Growth Strategy (ASTGS) 2019-2029 on achieving annual economic growth rate of 10 per cent by transforming smallholder agriculture from subsistence to an innovative, commercially orientated, and modern agricultural sector.

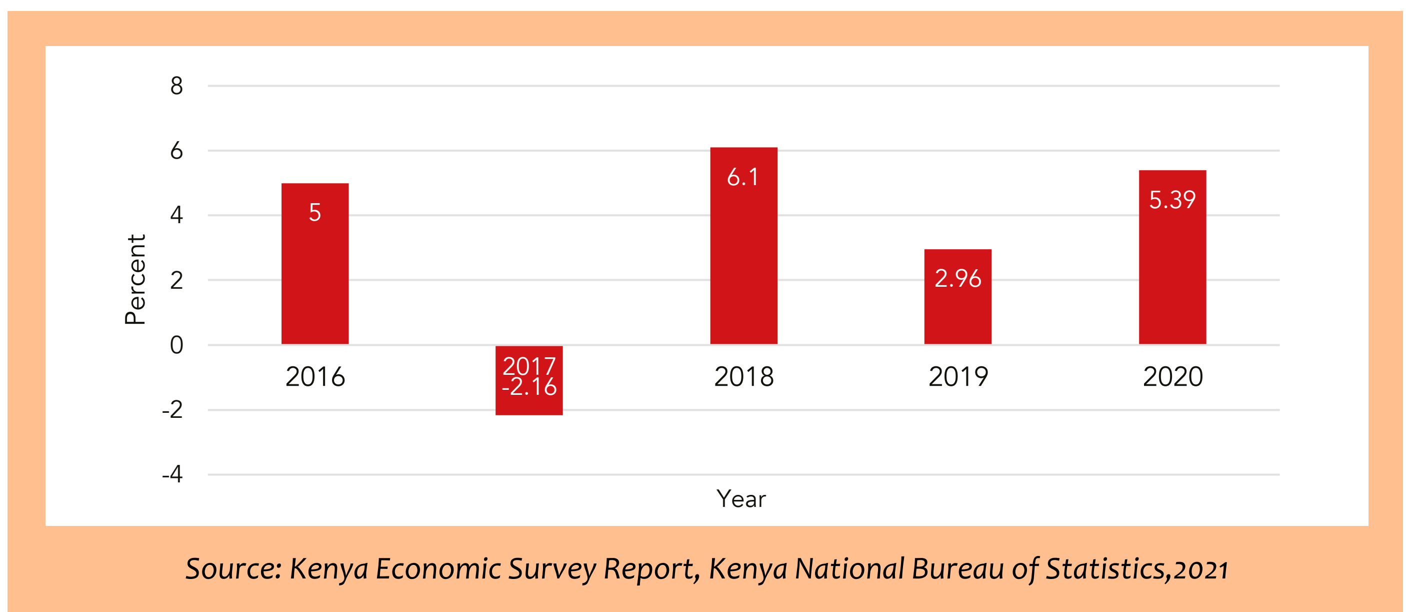
[1] *Beintema, N., Mose, L., Kibet, T., Emongor, R., Murithi, F., Kimani, I., Ndungu, V. and Mwangi, P. (2018). Kenya: Agricultural R&D Indicators Factsheet Update. Washington, DC.: International Food Policy Research Institute (IFPRI); and Kenya Agricultural and Livestock Research Organisation (KALRO)*

> "...the increasing demand for food is due to the growing population from 8.4 million in 1961 to 47.6 million in 2019, and average growth rate of 2.3 per cent."

The Government of Kenya instituted cessation of movement, curfew, and appeal to use mobile money as some of the COVID-19 containment measures. Consequently, this forced farmers to embrace use of technology platforms such as WhatsApp and YouTube to market their agricultural outputs. The pandemic also necessitated farmers to adopt cashless transactions technologies such as M-Pesa. The total amount of mobile money transfers grew by 20.0 per cent, the largest increment recorded in the last five years, to stand at Ksh 5.2 trillion in 2020. This is partly attributed to preferences of cashless transactions in the wake of COVID-19, and reduction of mobile money transfer tariffs. This presents an opportunity to leverage on technology and innovation by consumers adopting online buying behaviours during the period. Technology in this case provided a safe channel for transaction and allowed for continuity of food value chains and economic resilience even when shops and markets were closed, and movement restricted. This, therefore, showed the importance of not only embracing technology as a survival mechanism during the pandemic, but as an important player in the agriculture value chain, moving forward. Most subsistence farmers who previously depended on offline retailing have transitioned to online platforms, even by using social media to reach consumers. This can be explained by increased internet subscribers by 7.81 per cent from 83.38 per cent in 2019 to 91.19 per cent in 2020.

Also, local agro-processing became necessary due to the limited agricultural importation, and which eventually leads to increased exports. The value of total imports decreased by 9.0 per cent to Ksh 1,643.6 billion in 2020, thus encouraging local food production. Food and beverages category grew by 14.3 per cent and was the dominant category, accounting for 46.4 per cent of the total domestic exports in 2020. The increase was on account of growth in the value of both primary and processed food and beverages for industry and household consumption (KNBS, 2021). Local agro-processing is a game changer, especially for boosting and promoting subsistence farming. It is a sustainable way in which investors can work with farmers to reduce food waste and boost farming during

Figure 8: Real agricultural growth rate, 2016-2020



Source: Kenya Economic Survey Report, Kenya National Bureau of Statistics,2021

the era of uncertainties. Agro-processing has the potential of supporting employment and contribute to economic growth. In the last one decade, agro-processing has been contributing highly to manufacturing output mainly due to availability of domestic raw materials from subsistence farming. It accounts for about 2.4 per cent of national employment, 3.2 per cent to Kenya's GDP, and 8.5 per cent of exports. Therefore, with the aspiration to increase agro-processing to at least 50 per cent of total agricultural production, according to Kenya's Medium-Term Plan 2018-2022, the pandemic presented an opportunity to rely on local processing, meaning more subsistence output. This was due to the cargo restrictions where overseas markets locked out fresh produce exports from lower-income countries such as Kenya, citing a failure to comply with the strict measures at the farm and in transit. However, local agro-processing factories still struggle to remain operational due to challenges such as poor roads and high cost of electricity, water, and network connections.

The COVID-19 pandemic period has opened more opportunities for young people to get involved in agriculture. Many of educated young people had to return home during the crisis because of job loss or reduced incomes. Youths were previously not interested in agricultural activities due to the perception that it is the work of older people. The average age of a Kenyan farmer is 61 years against a life expectancy of 65, yet over 75 per cent of the population is under 35 years of age. The main challenges faced by youth seeking to participate in agriculture are access to knowledge, information and education, access to land, access to financial services, access to green jobs, access to markets, and inadequate engagement in policy dialogue (FAO and IFAD, 2014). Youth lack access to resources such as land and financial services such as savings and loans to start agriculture activity. However, despite more young people now getting involved in agriculture, many have not been able to access any agricultural training and information that can help them learn how to make a sustainable living off agriculture. Therefore, this is an opportunity that can be leveraged on in the economic recovery and sustainable growth.

Agriculture accounts for about a third of Africa's GDP. However, the COVID-19 effects revealed shortcomings of current agricultural food systems as countries instituted lockdowns, restraining food export and imports. The COVID-19 pandemic also presented an opportunity for African countries to trade with each other under preferential terms of trade. The African Continental Free Trade Area (AfCFTA) as a trade block provides a way of tackling low levels of trade and high and persistent unemployment affecting the continent. Subsistence farming stands to gain from the AfCFTA as it provides a ready and expanded market. This will go a long way in incentivizing smallholder farmers to boost local production. AfCFTA is expected to negotiate with the World Trade Organization and reduce import bills where African countries are expected to focus on their comparative advantages to produce cheaply.

Conclusion and Policy Implications

The COVID-19 pandemic has amplified the important role of subsistence farming in the economy. The opportunities presented can be leveraged on in supporting sustainable economic recovery. However, there are bottlenecks that need to be addressed foremost. Among these include revamping agricultural extension, which is a necessary role that involves imparting information to the farmers. The implication of this is that more farmers will have access to up-to-date and efficient ways of farming. In addition, given that most farmers may not have technological literacy, there is need to sensitize the farmers on embracing technology in undertaking agricultural activities to ensure sustainability of income.

Given that 41.9 per cent of the households, and farmers, had to cut on financial spending on non-essential commodities during the pandemic, there is need to improve financial access to boost farming activities. Also, the Government could increase investment in agricultural research to up-to one per cent of GDP as targeted by African Union from the current 0.48 per cent. Lastly, the uncertainty of marketing of products due to closure of markets during the pandemic led to reduced production. Marketing services would help farmers realize better prices for their produce. The Government could come up with mechanisms to curb intermediaries who exploit farmers through low prices relative to market prices. Therefore, it is important to refocus, rebuild and transform subsistence farming after learning about its resilience and its significance during the COVID-19 pandemic.

image: unsplash.com

Unlocking the Potential of Micro and Small Enterprises with COVID-19

Anne Gitonga, Adan Shibia, and Githinji Njenga

Micro and Small Enterprises (MSEs) support development through employment creation, innovation, inclusive growth, and economic diversification. The MSEs in Kenya account for 93 per cent of the country's labour force, thereby providing a source of livelihoods for a high proportion of vulnerable populations, such as the women youth, and persons living with disabilities in various sectors. The sector also offers diverse skill levels across various sectors and localities. The MSEs have the flexibility to adopt and adapt to innovation through incremental changes, thereby supplying new or niche products, facilitating inclusivity through enhanced access to underserved markets.

According to the 2016 MSME Survey, there were 7.4 million MSEs in Kenya, employing 14.1 million persons in the formal and informal sector. Key economic sectors such as wholesale and retail trade, manufacturing, and accommodation and food services account for 76 per cent of MSEs in Kenya. These sectors were among the hardest by the COVID-19 pandemic. The COVID-19 pandemic has indeed exacerbated the numerous challenges faced by MSEs in Kenya. These challenges manifest in factors of production and market access opportunities, which often have the effects of lowering MSEs productivity and competitiveness. This article examines these challenges during COVID-19 pandemic and provide possible policy interventions aimed at unlocking the potential of MSEs' contribution to the development agenda. The constraints around the factors of production including capital, land, labour, and entrepreneurship, which serve as a fourth factor of production for organizing and coordinating the first three are discussed. This is in addition to issues related to market access.

Capital: Capital constitutes both financial and material resources used to produce goods and services. Financial resources facilitate purchase and acquisition of physical and soft resources such as machinery, equipment, buildings, and technology and systems for generating goods

and services. Insufficiency of operating capital, as highlighted in the 2016 MSME survey, is the top reason for MSEs closures in Kenya. Access to appropriate and affordable capital is constrained by inadequate collateral and high interest rates as revealed in the 2016 MSME Survey.

A recent survey by KNBS on impact of COVID-19 reveals that 20 per cent of MSEs shut down their operations between March 2020 (onset of pandemic) and March 2021 partly because of lack of operating capital. Further, the 2020 Survey Report on MSME Access to Bank Credit published by the Central Bank of Kenya reveals challenges faced by MSEs in accessing capital and implications of the COVID-19 pandemic on many fronts. The loan tenor for micro and small enterprises are 18 months and 30 months, respectively, compared to medium enterprises at 40 months. This means that MSEs generally have challenges in accessing long-term capital for investments to enhance in productivity. With the onset of COVID-19 pandemic, many MSEs faced severe liquidity challenges. In response to this challenge, financial institutions responded by restructuring the existing loan facilities. The number of restructured loan facilities surged from 3,720 in 2019 to 66,413 in 2020 (1,685% increase) while the corresponding value of loans jumped from Ksh 4.9 billion to Ksh 79.5 billion (1,522% increase). Further, the average value of loan to micro enterprises reduced from Ksh 130,000 to Ksh 60,000 while those for small enterprises reduced from Ksh 3.1 million to Ksh 2.1 million, reflecting increased difficulties in accessing financial capital. The number of bad loans written off among MSMEs increased by 102 per cent from 101,424 to 204,802, of which 73.6 per cent was accounted for by MSEs.

The liquidity constraints and challenges accessing additional capital meant that MSEs faced compounded challenges related to technology adoption and innovation that proved to be critical in the face of COVID-19 pandemic. For instance, there were opportunities presented in manufacturing activities such as production of Personal Protective Equipment (PPEs), detergents, sanitisers, and other hygiene products. Without access to affordable capital, MSEs cannot tap into such opportunities.

> "...the increasing demand for food is due to the growing population from 8.4 million in 1961 to 47.6 million in 2019, and average growth rate of 2.3 per cent."

Land: Land as a factor of production constitutes physical land, which is critical in facilitating provision of worksites and other infrastructure necessary for operations of MSEs. The 2016 MSME Survey reveals that access to worksites is a significant problem for MSEs, largely because they do not own land. About 60 per cent of MSEs operate from rental land compared to 30 per cent of large enterprises. Further, 54 per cent of micro enterprises reported to face challenges of possible evictions particularly by landlords, or expiry of tenancy. During the COVID-19 pandemic, the challenge of land ownership proved to be a major obstacle, especially with MSEs facing a double burden of business supply chain interruptions and obligations to make rental payments. The 2019 KIPPRA study on *"County Business Environment for Micro and Small Enterprises in Kenya"* established that MSEs worksites face some inadequacies with respect to water, sanitation, and waste management services. Consequently, some MSEs depend on shared facilities ranging from common manufacturing facilities and market stalls among others. Worksites further face challenges with adhering to COVID-19 protocols, especially social distancing guidelines due to limited space and

cost implications. The limited space is largely due to the huge number of MSEs compared to the available worksites. Further, unavailability of land has contributed to delays in effective implementation for earmarked industrial parks, SME parks and SEZ, which could deal with the space challenge faced by MSEs.

Labour: The MSEs are labour-intensive. Majority of MSEs' labour is in sectors that experience high mortality, particularly wholesale and retail trade, which accounts for about 50 per cent of the total MSEs labour force and accommodation and food services, which account for 11.7 per cent of employment. The KNBS surveys on the socio-economic impact of COVID-19 reveals that in May 2020, employees in the accommodation and food services sector worked 30 hours less compared to a typical week, reported as 58 hours. This reduced to 18 hours in June 2020. The variance in wholesale and retail trade was between 11 and 13 hours in May and June 2020 from an average of a 51-hour week. The reduced working hours was because of restrictions on inter-county movements and curfew hours. Considering majority of MSEs are sole proprietorships, the low working hours not only affected business operations but also household incomes, and thus a wider welfare effect. The FinAccess MSE COVID-19 Tracker Survey reveals 20% of MSEs closed by March 2021 due to disrupted business operations emanating from COVID-19 pandemic.

Entrepreneurial coordination: Entrepreneurship ensures efficiency in the combination of the other factors of production. There is, however, a large overlap between an entrepreneur and a labourer in MSEs. This is because as revealed in the 2016 MSME Survey and the Informal Sector Skills and Occupations Survey 2020, majority of MSEs in Kenya are own-account (self-employed) workers. Thus, specialization and division of work within MSEs are limited, and therefore operations and continuity of these businesses are highly dependent on health and availability of the owners. These owners also face skills deficit, particularly those related to technology and innovation. This limited the flexibility of MSEs during COVID-19 since they do not have the ability to innovate and embrace new ways of reaching customers and suppliers.

Policy Interventions

Prior to the onset of COVID-19 pandemic, the Government initiated several interventions to support productivity and growth of MSEs. These included efforts to facilitate access to financial capital, notably establishment of *stawi* loan and operationalization of the credit guarantee scheme. The *stawi* loan app, launched in November 2019, targets to facilitate access to unsecured credit of between Ksh 30,000 to Ksh 250,000 by MSEs. The loan facility is a partnership between the Central Bank of Kenya and five commercial banks, and is accessed through digital accounts at an annual interest of 9 per cent. Owing to challenges of record keeping among MSEs, *stawi* app seeks to leverage on technology to use data on customers' transactions to establish level of creditworthiness. The Public Finance Management (Credit Guarantee Scheme) Regulations 2020, and the allocation of seed capital of Ksh 3 billion through the 2020/21 budget were part of the initiatives to de-risk lending to MSEs. As part of this effort, the Government entered into a credit guarantee scheme agreement with seven participating commercial banks.

The Government also reviewed the MSEs policy and developed Sessional Paper No. 5 of 2020 on Kenya Micro and Small Enterprises Policy that, among other things, seeks to facilitate access to affordable finance, build skills and entrench entrepreneurship culture, increase access to decent and affordable infrastructure, facilitate technology adoption, promote access to markets and mitigate external business risks such as the ones recently experienced from the COVID-19 pandemic.

Government interventions aimed at addressing labour productivity as highlighted in different policy documents such as the Sessional Paper No. 4 of 2013 on Employment Policy and Strategy for Kenya, and Sessional Paper No. 5 of 2020, including strengthening interactions between research and industry, enhancing business linkages, promoting industrial clustering and technology transfer. However, inter and intra

industry linkages have been weak, and the cluster development approach is not well integrated into Kenya's industrial development and planning. Further, Kenyan MSEs fail to benefit from such opportunities given limited institutional framework or platforms to encourage the same.

Kenya's National Spatial Plan (NSP) 2015-2045 establishes that the national and county government plan for industrial development in each county. Small and Medium Enterprises (SMEs) and industrial parks are further policy priorities articulated in the Vision 2030, and the NSP. The implementation is, however, weakened by the unavailability of land and inadequate resource allocation by respective County Governments.

Government policies including Sessional Paper No. 9 of 2012 on the National Industrialization Policy Framework for Kenya 2012-2030 and Sessional Paper No. 5 of 2020 call for expansion of entrepreneurial training aimed at enhancing technical and vocational skills and infrastructural support such as, entrepreneurial "Çentres of Excellence" and incubation services. Weak interlinkages within the Kenya innovation system, however, remain a key policy challenge.

With the onset of COVID-19 several interventions were initiated to support liquidity, market opportunities and continuity of MSEs. On the fiscal side, the government lowered turnover tax from 3 per cent to 1 per cent for businesses with annual sales between Ksh 1 million to Ksh 50 million, and exempted those with sales below Ksh 1 million, effected from April 2020. This initiative was intended to lower tax burden and improve liquidity of smaller businesses. The 2016 MSMEs Survey reveals that 36 per cent of the licensed and 6.3 per cent of the unlicensed establishments fall in the bracket of paying turnover tax. This respectively translates to about 601,729 and 368,569 establishments, that would be expected to benefit from this policy move[2]. The FinAccess MSEs COVID-19 Tracker second wave survey revealed that while only 18 per cent of the MSEs sampled benefited from reductions in turnover tax, majority of 442 MSEs (73%) sampled had not benefited from any direct government COVID-19 interventions. Measures such as 100 per cent tax relief for low-income earners, with gross monthly income of up to Ksh 24,000 was further aimed at improving purchasing power of low-income households, that form a large segment of customers for MSEs. While there was also a reduction of corporate income tax from 30 per cent to 25 per cent, only 2 per cent of MSMEs operate as incorporated companies, meaning minimal benefits for this segment of the enterprises.

On transactions costs, key measures included waiver of transaction charges on mobile money transactions for values below Ksh 1,000, which was expected to benefit lower income households and small-value transactions, considering health risks of cash-based transactions that characterize MSEs. Further, to inject additional liquidity in the economy, the Central Bank of Kenya lowered the policy rate by 0.25 per cent to 7.0 per cent. However, as aforementioned, the MSEs continued to face significant challenges in accessing credit as average loan value declined by 53.8 per cent and 32.3 per cent for micro enterprises and small enterprises, respectively.

Policy Implications

The key policy weaknesses emanate from inappropriate technical support, as evidenced with finance, technology, and training opportunities. Further, the challenge of security of tenure in terms of MSEs worksites has not been adequately addressed.

To unlock the potential of MSEs, especially in the recovery process from COVID-19 pandemic, there is need to fast-track and boost financing opportunities, especially leveraging on public-private sector partnerships. A

[2] *See Implications on Socio-Economic Activity of Measures Taken to Deal with COVID-19 Pandemic: Micro, Small and Medium Enterprises Perspective by Gitonga A. Musamali R. and Muleli M. (2020) in KIPPRA Policy Monitor Issue 11 No. 4.*

national Credit Guarantee Scheme has been a policy intention of the Government since the first comprehensive policy on MSEs in 1992, aimed at alleviating the collateral challenges. This policy intervention, if well deigned and properly targeted and implemented, will increase the flow of credit to those who would have otherwise been excluded. However, more needs to be done, especially in terms of attracting more funding for credit guarantee schemes from the private sector and development partners by ensuring the policy framework accommodate such initiatives. Further, to support efficiency in delivery of flexible funds dedicated and easily accessible to MSEs, there is need to operationalize MSEs Development Fund, established by MSE Act No. 55 of 2012, and support the use of movable assets as collateral to access credit as facilitated by the Movable Property Security Rights Act No. 13 of 2017. The capitalization through equity and other avenues from private sector and development partners can also promote sustainability of credit guarantee schemes. The extent of leverage created by the participating financial institutions is also a key benchmark in the success of the publicly funded credit guarantee scheme.

Access and adoption of technology is also a priority in promoting efficiency in production and access to markets. This calls for enhanced efforts by the Government in closing Kenya's technology divide. The 2016 MSME Survey reveals that 80 per cent of the MSMEs use ICT, majorly mobile phone, in their business operations. Further, the 2016 National ICT Survey show that 71 per cent of private enterprises buy or sell goods and services via mobile phones and 39 per cent are engaged in e-commerce. The FinAccess MSE COVID-19 Tracker Survey also reveal an increase in digital transactions in the country. Though the technology needs of MSEs vary, access to mobile phones present an entry to addressing the technology needs of MSEs given that it has the potential to enhance opportunities to participate in e-commerce. Innovation and technology further enhance a firm's resilience to cope with and exploit emerging or underserved markets. The Government, therefore, plays an important role in provision of appropriate policy and regulatory framework to nurture and safeguard technology acquisition and innovation.

Access to MSEs worksites is indicated in the Third Medium-Term plan of Vision 2030 as a challenge facing MSEs. The fast-tracking of MSEs' support through provision of worksites, industrial parks, SME parks, SEZ and centres of excellence is therefore critical. The Government can leverage on existing infrastructure such as Constituency Industrial Development Centres (CIDCs) given they are located across the country and equip them with appropriate technology and equipment. There is need also to establish innovative approaches in the securing land meant for industrial development.

Integrated complementary entrepreneurship training is also key. This needs to be industry-centred with the aim of addressing the inadequacy of entrepreneurial skills and enhancing labour productivity among MSEs. This can be complemented by enhanced industry collaborations and training institutions, which would encourage technology and skills transfer. The Government, therefore, need to devise innovative approaches to earmarking land for industrial development that would be beneficial to MSEs, considering existing public private partnership mechanisms.

A. NATIONAL ASSEMBLY BILLS

The **Universities (Amendment) Bill 2021** was gazetted for introduction into the National Assembly on 9th July 2021. The principal object of this Bill is to amend the Universities Act in the provisions relating to the appointment of the members of University Councils, and the governance of universities, and to make new provisions with respect to the Universities Fund. Clause 2 of the Bill proposes to amend section 10 of the Act to limit the number of Deputy Secretaries of the Commission of University Education to two to streamline the management of the Commission. Clause 3 of the Bill proposes to amend section 20 of the Act to empower the Commission to recommend suitable institutions for declaration as constituent colleges of universities. Clause 4 of the Bill proposes to amend section 24 of the Act to regulate the institutions offering specialized degrees. Clause 5 of the Bill proposes to amend section 25 of the Act to provide for the declaration of institutions of the stature of National Polytechnics to be technical universities. Clause 6 of the Bill proposes to replace section 26 of the Act to ensure attention to viability in the establishment of universities at county level. Clause 7 of the Bill proposes to amend section 28 of the Act to allow the Commission to publish the names of accredited foreign universities on the Commission's website and two newspapers of national circulation to reduce costs. Clause 8 of the Bill proposes to amend section 35 of the Act to clarify the procedure for the publication of university statutes through the Cabinet Secretary, and to harmonize the provisions on the appointment of certain members of the university administration. Clause 9 proposes to amend section 36 of the Act to adjust the qualifications for appointment of chairpersons and members of university councils and to provide for staggered appointments for purposes of continuity. Clause 10 of the Bill seeks to introduce a provision to empower the Cabinet Secretary with regard to the appointment and deployment of members of university councils. Clause 11 of the Bill proposes to amend section 39 of the Act to harmonize the procedure for appointment of Deputy Vice-Chancellors and Principals and Deputy Principals of university colleges and constituent colleges. It also seeks to limit the number of deputy vice chancellors to three. Clause 12 of the Bill proposes to amend section 47 of the Act on the submission of accounts to the Auditor-General after the close of the financial year to harmonize them with the Public Finance Management Act, 2012. The Bill also proposes to amend the Act in the provisions relating to the Universities Fund, its establishment and management and to restructure it for optimal achievement of its intended objectives. Clause 20 of the Bill proposes to amend the Act to remove from the Act the formats for the Charter and the Letter of Interim Authority for a University to afford greater flexibility in their formulation.

The **Public Procurement and Asset Disposal (Amendment) (No.2) Bill 2021** was gazetted for introduction into the National Assembly on 9th July 2021. The principal object of the Bill is to amend the Public Procurement and Asset Disposal Act, 2015 to subject the open tender method of procurement to a two-envelope bid process. Under the proposals, persons shall be invited by a procuring entity to submit technical proposals for evaluation. Where at least three technical proposals are deemed responsive, the successful bidders are to be invited to submit financial proposals within a twenty-four-hour window for evaluation. The two-stage process is proposed to be concluded within the prescribed evaluation period. The proposal further seeks to amend the maximum prescribed period for evaluation of open tenders from the current thirty days to thirty business days; and to waive the requirement on bidders to provide evidence of compliance with tender criteria to reduce the current reliance on technicalities to disqualify bidders during tender evaluation. Under the proposed amendments, bidders shall be required to submit a declaration under oath of their experience, qualifications and certifications held and the evaluation committee would only be required to verify the details of the declarations of successful bidders before awarding of a tender.

The National Government Constituencies Development Fund (Amendment) Bill, 2021 was gazetted for introduction into the National Assembly on 9th July 2021. The principal object of the Bill is to amend the National Government Constituencies Development Fund Act, No. 30 of 2015 to increase the minimum share of all the National Government share of revenue appropriated to the National Government Constituencies Development Fund from 2.5 to 5.0 per cent.

The Election Campaign Financing (Amendment) Bill, 2021 was gazetted for introduction into the National Assembly on 12th August 2021. The principal object of this Bill is to amend the Elections Campaign Financing Act, 2013 to align its provisions with the Elections Act, 2011 and further propose amendments that will enable its implementation as the current provisions do not take cognizance of current socio-economic and political structures, which has hindered the full implementation of the law.

The Children Bill, 2021 was gazetted for introduction into the National Assembly on 20th August 2021. The principal object of the Bill is to give effect to Article 53 of the Constitution; to make provision for parental responsibility, fostering, adoption, custody, maintenance, guardianship, care and protection of children; to make provision for, and regulate the administration of, children's institutions; to establish the National Council Children's Services; and for connected purposes.

The Proceeds of Crime and Anti-Money Laundering (Amendment) Bill, 2021 was gazetted for introduction into the Senate on 30th August 2021. The Bill seeks to remove the position of a Deputy Director at the Financial Reporting Centre. This proposal is consistent with the current practice of not providing for positions of Deputy Chief Executives of State Corporations in law. The Bill further proposes to designate advocates, notaries and other independent legal professionals who are sole practitioners, partners, or employees within professional firms as reporting persons for purposes of the Proceeds of Crime and Anti-Money Laundering Act, 2009. The obligations under Part IV of the Act shall apply to the advocates, notaries and other independent legal professionals who are sole practitioners, partners or employees within professional firms when preparing or carrying out transactions for their clients in the following situations — (a) buying and selling of real estate; (b) managing of client money, securities or other assets; (c) management of bank, savings or securities accounts; (d) organization of contributions for the creation, operation or management of companies; (e) creation, operation or management of buying and selling of business entities. The Bill seeks to introduce a new section 44A requiring the Financial Reporting Centre to intervene where the Centre has reasonable grounds to suspect that a transaction may be suspicious. This will ensure timely access to information on assets held by criminals as preventive and repressive measure and, ultimately, disrupting criminal networks and unlawful activities. The Bill proposes to amend section 54C (5) of the Act by substituting the word "Agency" with the words "Oversight Board" in relation to the approval of the Agency's annual budget. This is consistent with the proposed functions of the Oversight Board under the proposed section 55B. The Bill proposes to insert new sections for the establishment, membership, functions, committees, and procedures of the Asset Recovery Oversight Board. The Bill proposes the introduction of new provisions 130A and 130B limiting the rights to privacy as far as prevention, detection and investigation of money laundering and financing of terrorism is concerned. The Bill further seeks to amend the First Schedule to the Act to include the Law Society of Kenya and the Sacco Societies Regulatory Authority as supervisory bodies for purposes of the Act.

B. SENATE BILLS

The **Military Veterans Bill, 2021** was gazetted for introduction into the Senate on 2nd July 2021. The principal object of the Bill is to provide for the welfare and benefits of military veterans and their dependants. These benefits include compensation for physical injuries and psychological trauma, healthcare services, access to training and employment opportunities. Currently, other than pension and gratuity, there is no law which provides for such benefits.

The **Elections (Amendment) Bill 2021** was gazetted for introduction into the Senate on 9th July 2021. The principal object of this Bill is to amend the Elections Act, No. 24 of 2011, to enable a person who is able to read and write to be nominated as a candidate for elections as a Member of Parliament or County Assembly. Article 38(3) of the Constitution provides that-:

(3) Every adult citizen has the right, without unreasonable restrictions,

(a) to be registered as a voter;

(b) to vote by secret ballot in any election or referendum; and

(c) to be a candidate for public office or office within a political party of which the citizen is a member and elected, to hold office.

Currently, the law only allows the nomination of a candidate for election if such person holds a degree from a university recognized in Kenya. This will allow for persons who may not have a degree but who may have other attributes of a leader to vie for election.

The **Elections (Amendment) (No. 2) Bill, 2021** was gazetted for introduction into the Senate on 9th July 2021. The principal object of the Bill is to amend the Election Act, No. 24 of 2011 to ensure equality to all candidates who aspire to vie as members of a county assembly during elections. The Bill addresses the requirement of a degree for one to contest as member of county assembly taking into account low literacy levels, especially in marginalized counties.

The **Special Needs Education Bill, 2021** was gazetted for introduction into the Senate on 23rd July 2021. The principal object of the Bill is to provide for the education of learners with special educational needs. The Bill further seeks to provide a framework for the realization of the right to education for all learners in Kenya with special needs and to provide a framework for the establishment of a comprehensive education system for the provision of education to persons with special needs. It also seeks to provide a framework that will ensure equal access to education for learners with special needs and provide standards that conform with international treaties and conventions that

Kenya is party to for the implementation of special needs education. Finally, it seeks to eliminate exclusion and discrimination that hinders the right of access to education for learners living with special needs.

The **County Resource Development Bill, 2021** was gazetted for introduction into the Senate on 12th August 2021. The principal object of the Bill is to make provision for the obligation of county governments to engage in protection and development of natural resources, for the collection of local revenues and for connected purposes.

The **Constitution of Kenya (Amendment) Bill, 2021** was gazetted for introduction into the Senate on 12th August 2021. The principal object of the Bill is to amend the Constitution of Kenya to ensure that resources and services are brought closer to the people by splitting the vast expansive Kitui County into two counties of Kitui and Mwingi. As currently constituted, the larger Mwingi region has three constituencies. These are Mwingi Central, Mwingi North and Mwingi West. The proposed new Mwingi County shall also include Kitui East constituency. The four constituencies have a cumulative population of 558,000 people according to the 2019 national census report.

The **Anti-Corruption and Economic Crimes (Amendment) Bill, 2021** was gazetted for introduction into the Senate on 12th August 2021. The principal object of the Bill is to create a framework for amnesty for corruption cases under deferred prosecution agreements. It allows a person suspected to have committed a corrupt or economic offence to enter into a deferred prosecution agreement with the Director of Public Prosecutions. The deferred prosecution agreements framework is in response to perceived deficiencies in the existing prosecution framework involving economic crimes which include:

(a) long, expensive and complicated investigations and trials for offences of economic crimes; and

(b) non-compensation of victims of economic crimes.

The deferred prosecution agreements shall be concluded under the supervision of a High Court judge, who must be convinced that the deferred prosecution agreement-

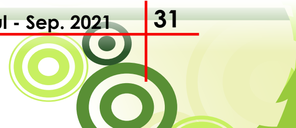
(a) is in the interests of justice; and

(b) that the terms of the deferred prosecution agreement are fair, reasonable, and proportionate.

The Social Assistance (Amendment) Bill, 2021 was gazetted for introduction into the Senate on 20th August 2021. The principal object of the Bill is to amend the Social Assistance Act, 2013 to include caregivers of persons with disabilities among the beneficiaries who receive social assistance from the State.

President Kersti Kaljulaid of Estonia made a historic official visit to Kenya on 9th -11th September 2021. During the bilateral talks between President Uhuru Kenyatta and his Estonian counterpart, the leaders noted with satisfaction enhanced cooperation between Kenya and Estonia in various sectors including ICT and innovation in which Estonia is regarded as one of the advanced digital societies. The two Heads of State reiterated their commitment to continue strengthening bilateral cooperation in trade and investment, digital transformation with an aim of spurring economic growth for job creation especially for the youth. The two leaders also agreed on the need for universal access to vaccines against COVID-19 and called upon the international community to increase the sharing of vaccines. As non-permanent members of the United Nations Security Council, Presidents Kenyatta and Kaljulaid restated their commitment to contribute to international peace and security, respect for democracy and human rights, gender equality and women empowerment. Through international cooperation and multilateralism, the two leaders reaffirmed their commitment to the Sustainable Development Goals (SDGs) and the African Union Agenda 2063 as a means of realizing sustainable, just, inclusive, and resilient economies.

The inaugural session of the Joint Commission for Cooperation (JCC) between Kenya and South Africa was held on 11th August 2021, in Nairobi and was witnessed by Cabinet Secretary for Foreign Affairs, Ambassador Raychelle Omamo and South Africa's Minister of International Relations and Cooperation Dr Naledi Pandor who led their respective delegations. The historic inaugural session followed the signing of a Memorandum of Understanding (MoU) on the establishment of a JCC that took place on 2nd October 2007. During the August session, the two ministers reviewed and exchanged views on the status of bilateral relations, which they hailed as robust and cordial. The two ministers also welcomed negotiations under six areas of mutual interests, namely correctional services, political consultations, migration, tourism, return of nationals refused entry and illegal entrants and diplomatic training. Other areas of cooperation and collaboration include trade and investment; agriculture, livestock, and fisheries; education and human resource development; art, culture, and sports; health; science and technology; maritime and air transport, among others. The progress made in the implementation of the United Nations Resolution 1325 on Women, Peace and Security adopted in 2000 was appreciated and the leaders committed to support each other's initiatives in the advancement of that agenda.



The East African Community is set for Open Skies

The 17th East African Community (EAC) Sector Council on Transport, Communication and Meteorology has issued directive to the EAC Secretariat to initiate the process of harmonizing air travel policies of each EAC Partner State, examination of the factors that determine air ticket costs and establishment of uniform air travel regulations. The Sector Council also directed the Partner States to review and harmonize charging mechanisms, fees, and taxes to reduce ticket costs and increase the demand for air travel in the region. The high passenger airfares and freight charges contribute to high cost of doing business in the bloc. The EAC Secretariat is already engaging regional airlines as they will be critical for the success of the harmonization of air travel policies and charges. A study conducted by the East African Business Council titled Costs and Benefits of Open Skies in the East African Community shows that harmonization of air travel could benefit the region as the air charges will reduce by nine (9) per cent and frequencies would increase by 41 per cent. Consequently, increase in air service and traffic will result in positive benefits to the EAC economy through greater trade and tourism, investment, productivity growth, increased employment, and economic development.

Tanzania and Burundi ratify the AfCFTA

Burundi and Tanzania ratified the African Continental Free Trade Area (AfCFTA) agreement on 17th June and 9th September, respectively. The move by the two East African countries has been hailed by the East African Community (EAC) Secretary General Hon. Peter Mathuki as imperative in allowing East Africans to access the continental market, increase EAC's exports to African states outside the bloc and a boost to infra-African trade. Further, the full implementation of AfCFTA will improve movement of people, goods and services across the continent, hence advancing trade, investments and development aspirations thereby putting Africa in a better position to trade more with the rest of the world. Other EAC Partner States that have ratified the AfCFTA are Kenya, Rwanda, and Uganda. South Sudan has signed the agreement but is yet to ratify it. The agreement has been signed by 53 countries and Sahrawi Arab Democratic Republic (Western Sahara) and ratified by 38 parties. Only Eritrea is yet to join the AfCFTA. Currently, intra-African exports stand at about 17 per cent of the total continental exports. The AfCFTA provides a unified market of 1.2 billion people with a combined GDP OF US$ 3 trillion. Achieving the potential of the AfCFTA will largely depend on lowering of tariffs, reforming non-tariff and trade facilitation measures, and instituting significant policy reform measures and regulatory measures such as sanitary standards and technical barriers to trade.

A configured peace mission to support Somalia at the exit of AMISOM

The African Union (AU) plans to deploy a reconfigured peacekeeping force in Somalia after the expiry of the African Mission in Somalia (AMISOM) at the end of 2021. The AU representatives, the Federal Government of Somalia officials and representatives from the European Union and the United Kingdom agreed to embark on a plan towards the establishment of configured continental Peace Support Operations on 19th August 2021. The AU's peace and security experts are already working on critical issues including threat assessment, mission requirements (military, police, and civilian components) to inform the configured peacekeeping mission's strength, logistics and funding needs. The configured peacekeeping operation will be a mission of a limited duration (2022-2027) and will be expected to progressively hand-over security responsibilities to the Federal Government of Somalia and its security forces. Various actors, including the United Nations, African Union, Inter-Governmental Authority on Development (IGAD), security experts and regional countries including Kenya, Uganda and Ethiopia concur that the threat of the Al-Shabaab militants cannot be gainsaid, hence the need to avoid abrupt exit from Somalia. AMISOM has three components namely military, police and civilian. The Troop Contributing Countries include Burundi, Djibouti, Ethiopia, Kenya, and Uganda. Police Contributing Countries are Ghana, Kenya, Nigeria, Sierra Leone, Uganda, and Zambia. The civilian component is made up of five clusters, namely: Mission Support; Political Processes; Stabilization and Early Recovery; Protection, Human Rights and Gender; and Security Sector Reform.

Kenya assumes the UN Security Council's Presidency for October 2021

Kenya assumed the rotational Presidency of the United Nations Security Council (UNSC) on 1st October 2021. The significance of Kenya presiding over the Security Council's affairs for October 2021 stems from the fact that the UNSC is the principal organ of the United Nations for the maintenance of international peace and security. Kenya's membership of the UN Security Council for 2021-2022 is in keeping with the country's desire to shape the international security environment to make Kenya and the region safer, peaceful, and stable. Therefore, the October 2021 presidency of the Security Council will provide a strategic platform for the country to showcase its normative values in addressing international security challenges and emerging threats. As a pivotal state in Eastern African region, Kenya continues to be a strong voice for the continent in advocating for amicable means of conflict resolution and playing a considerable role in search for peace and stability in the region through political mediation, facilitating peace processes and deployment of the Kenya Defence Force (KDF) for UN or AU-sanctioned peace support operations. Numerous activities planned for the UNSC in the month of October, including two high level events, a forum to discuss Great Lake region's peace and security challenges, a visit to the Sahel region especially Mali and Niger and consultation about progress in the Central African Republic.

A. Demand-Driven Projects

Petroleum Products demand forecasting economic model

KIPPRA was contracted by Energy and Petroleum Regulatory Authority (EPRA) to develop an economic model that has an objective of forecasting demand for petroleum products in Kenya. The main concern was to forecast the short-term and long-term consumption of regulated petroleum products that include Liquefied Petroleum Gas (LPG), kerosene, fuel oil, petrol, and diesel. The model is finalized together with its handbook for use by the wider public. Capacity building to the stakeholders in the petroleum sub-sector was undertaken and the model can now be used in processing of petroleum development plan in Kenya. As much as Kenya is a price taker for petroleum products, it was found that the key elements that drive consumption of petroleum products is the price, and the income of the consumers.

National Social Security Fund - NSSF

KIPPRA signed an MoU with NSSF in June 2021 with an aim of collaborating in matters of policy research and economic modelling. NSSF expressed an urgent interest in development of forecasting economic model for the NSSF pension contributions. To address the interest, KIPPRA undertook a two-week training in June 2021 on basic steps in building macro models and the experience in Kenya on working with macroeconomic models. This was followed by NSSF engaging KIPPRA in developing an NSSF contribution forecasting model for short-term to medium-term analysis. The economic model is currently under construction and is undertaken in a collaborative approach where both technical teams assemble periodically to work and brainstorm on the model. The economic forecast from the model will also be expected to be cascaded to the NSSF branches for optimal operations of the Fund.

Kisumu Local Economic Development Plan

KIPPRA is currently supporting the County Government of Kisumu to develop a Kisumu Local Economic Development Plan. The Local Economic Development Plan will bring together all pre-existing visions and plans to attain the SDGs while considering Kisumu's strengths and assets. Among other developmental aspects, the Local Economic Development Plan aims to analyze the major trends and opportunities of an integrated local economic development, considering the significant impact of COVID-19 and consolidate all opportunities for private sector investment for city development.

B. Collaborative Projects

The Domestic Savings Shortfall in Sub-Saharan Africa: What Can Be Done About It?

KIPPRA in collaboration with UNU-WIDER is working on a book on savings titled "The domestic savings shortfall in Sub-Saharan Africa: What can be done about it?" This is motivated by the need to increase domestic savings rates in Sub-Saharan Africa for economic growth to be realized. The book intends to close a gap in knowledge about: drivers of domestic saving rates in Sub-Saharan Africa; whether alternative approaches, such as pension funds or fintech, could provide new solutions to increase domestic savings; and lessons learnt from the experiences so far in different countries in Sub-Saharan Africa and other regions that have been more successful in raising savings rates. The findings of the research will be in tandem with the Addis Ababa action agenda of the United Nations on financing for development, which provides a new global framework for financing sustainable development by aligning all financing flows and policies with economic, social and environmental priorities.

Human Capital in Africa: Kenya Case Study

KIPPRA, in collaboration with Africa Economic Research Consortium (AERC), is conducting research on "Human capital in Africa: Kenya Case Study" under the AERC programme on Building Policy Research Institutions to Support Human Capital in Africa (HCA) Institutional Partnership. The study aims to build capacity that involves systematic mentoring of young researchers by international resource persons who are experts in their fields of research. This project presents an opportunity from a research perspective to establish priority areas for the government, aimed at ensuring that fundamental rights, including right to highest attainable standard of health, quality education, and freedom from hunger and access to safe clean water are attained. The Institutional support will cover the following components: Thematic research on financing human capital investment in Kenya; strengthening KIPPRA ICT institutional systems; Strengthening partnerships and collaborations in human capital development; and capacity building; and knowledge management, dissemination, and policy uptake on human capital country case studies.

Implications of COVID-19 on Essential Health Services in Kenya

KIPPRA, in collaboration with Africa Economic Research Consortium (AERC) is conducting research on Understanding the short and long-term effects of COVID-19 on Kenya's health system. KIPPRA is developing a research paper addressing the following objectives: assess the implications of the COVID 19 on the delivery of healthcare services including availability and distribution; the level of preparedness with essential equipment, health workers, medicines; information in the crisis period; the efficiency in

provision of public health services amidst the pandemic while identifying strategies of adequately and appropriately financing public health service delivery in dealing with the pandemic.

Children Sensitive Planning and Budgeting, Public Finance for Children (PF4C): From Evidence to Policy Project

KIPPRA in collaboration with UNICEF is providing technical assistance to county governments to implement recommendations of the county budget briefs, Public Expenditure and Financial Accountability (PEFA) and poverty profiles for improved service delivery. The Institute is also supporting transitioning UNICEF county level support to be fully reflected in plans and budgets (and possibly UN Women and UNDP). The Institute is planning to develop 7 National Budget Brief and set up a virtual data centre platform to facilitate support for county governments.

Employment Initiative Mapping Tool

KIPPRA and Presidential Advisory Services Unit (PASU) are working on the Migration of the Dashboard on Youth data to be hosted at KIPPRA. The project is at the inception stage and aims at addressing youth unemployment. KIPPRA will develop and host a data portal on youth indicators regarding employment.

Urban Economic Growth in Africa: A Case Study of Nairobi city

KIPPRA, in collaboration with Africa Growth Initiative at Brookings Institution, is conducting research on Urban economic growth in Africa: A case study of Nairobi city. The study aims at addressing challenges faced by the urban population in Nairobi, including lack of productive jobs, inadequate housing, low levels of accessibility, and high costs relative to development. The study will develop a framework detailing the primary constraints to Nairobi city's ability to benefit from agglomeration and generate productive jobs-accessibility, business environment, and public sector governance. The official launch of the study took place on 30th September 2021.

Making Agri-tourism Markets Work for Sustainable Food Systems in Sub-Saharan Africa

KIPPRA, in collaboration with Agriluxe Marketing (ALM) plc South Africa are undertaking research that aims to explore the synergy between agriculture and tourism sectors (with inputs from other sectors) and how they will contribute to transforming Africa's food systems on all the three dimensions/measures of food systems sustainability: economic, social, and environmental.

Food Systems Research Network for Africa (FSNET Africa)

KIPPRA, which is the country hosting node for Agriculture, and Natural Resources Policy Analysis Network (FANRPAN), is supporting the implementation of FSNet-Africa ARUA-UKRI GCRF Research Excellence Project, which is a collaborative initiative between University of Pretoria (UP), the University of Leeds (UK), and the Food, Agriculture, and Natural Resources Policy Analysis Network (FANRPAN). It is a research excellence project funded by the Global Challenges Research Fund (GCRF) through the African Research Universities Alliance (ARUA) – United Kingdom Research and Innovation (UKRI) partnership. The overarching goal of FSNet-Africa is to strengthen food systems research and the translation of evidence into interventions using systems analytical research designed and implemented in partnership with a diverse set of food systems stakeholders. The Food Systems Research Networks for Africa (FSNet-Africa) project seeks to strengthen food systems research capabilities and translate evidence into implementable policy solutions and practical interventions in support of the Sustainable Development Goal (SDG) targets for Africa. This will be achieved through leading systems analysis research on climate-smart, nutrition-sensitive and poverty-reducing food system solutions designed and implemented in partnership with relevant food systems stakeholders.

KIPPRA, Samuel Hall Sign MOU to Foster Research Collaboration

KIPPRA signed MoU with Samuel Hall on 8th October 2021. The purpose of the MoU is to foster research collaboration and build innovation capacities of both organizations. Samuel Hall is a social enterprise that conducts research, evaluates programmes, and designs policies in contexts of migration and displacement. The signing ceremony of the MoU was attended by KIPPRA Executive Director, Dr Rose Ngugi, and Samuel Hall Founder and Director Mr Herve Nicolle. Dr Ngugi expressed KIPPRA's commitment to improve public policy making in Kenya for the realization of national development goals. Mr Nicolle on his part thanked KIPPRA for accepting to partner with Samuel Hall and stated that his organization is committed to making the collaboration a success.

KIPPRA Executive Director Dr Rose Ngugi (right) and Samuel Hall Founder Mr Herve Nicolle pose for a photo at the signing ceremony of the MOU

KIPPRA Executive Director Dr Rose Ngugi and Samuel Hall founder and Director Mr Herve Nicolle sign the MOU.

KIPPRA Executive Director Dr Rose Ngugi (third right) and Mr Herve Nicolle (third left) pose for a group photo with staff from both organizations.

KIPPRA Holds Workshop to Launch A Study on Urban Economic Growth in Africa: A Case Study of Nairobi City, Kenya

Urban Economic Growth in Africa: A Case Study of Nairobi City on 30th September 2021. The workshop, which was held virtually, was attended by representatives of Africa Growth Initiative, Africity Secretariat, officials from State Department of Planning and representatives of Ministry of Infrastructure, Transport, Urban and Housing, among other stakeholders. KIPPRA is undertaking the study in collaboration with Africa Growth Initiative at the Brookings Institution. The launch aimed at creating awareness among key stakeholders of the objectives, scope and importance of the urban area study focusing on Nairobi. The stakeholders got an opportunity to share the priority policy areas to be considered in the study. The objective of the study is to review policy and legal frameworks that support urban growth in Nairobi, establish the key economic activities that support urban growth in Nairobi, review the business environment and constraints to support urban growth in Nairobi and establish potential of Nairobi County to create productive jobs.

KIPPRA Inks Partnership Agreement with Kenya Deposit Insurance Corporation

KIPPRA signed an MoU with the Kenya Deposit Insurance Corporation (KDIC) on 27th September 2021. The agreement is aimed at promoting partnership and collaboration between the two institutions on areas of mutual interest such as research and capacity building. During the signing ceremony, which was held at the KDIC offices, KIPPRA Executive Director, Dr Rose Ngugi, expressed the Institute's commitment in building institutional and individual capacity in public policy research and analysis. Welcoming the new partnership, the KDIC Chief Executive Officer Mr Mohamud Ahmed Mohamud, emphasized the importance of research in promoting the safety of bank deposits in Kenya. The two heads praised their institutions' work and recognition on the global and regional platforms with Dr Ngugi noting that KIPPRA had this year been ranked the number two think tank in Sub-Saharan by the Global Go-To Think Tanks Index Report. Mr Mohamud, on his part, indicated that he had recently been elected the chairman and president of the African Regional Committee (ARC) of the International Association of Deposit Insurers (IADI). Dr Ngugi also highlighted KIPPRA's recent collaboration with the Brookings Institution and its role in the upcoming T-20 Summit, saying it was important to find space at the table where policy issues affecting the African continent were being discussed.

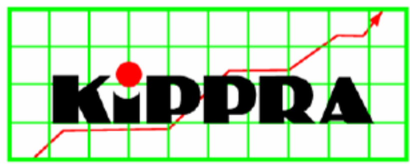
KIPPRA Executive Director Dr Rose Ngugi (right) and Kenya Deposit Insurance Corporation (KDIC) CEO Mr Mohamud A. Mohamud (left) sign the MOU

KIPPRA Executive Director Dr Rose Ngugi (right) and Kenya Deposit Insurance Corporation (KDIC) CEO Mr Mohamud A. Mohamud (left) pose for a photo at the MOU signing ceremony

KIPPRA Undertakes Capacity Building Needs Assessment for State Agencies

KIPPRA conducted a needs assessment workshop on capacity building, research and policy gaps among state agencies and departments. The workshop was held in Machakos County from 21st to 31st July 2021. The objective of the workshop was to identify capacity needs and public policy gaps in different sectors of the economy, and train participants on public policy research. The workshop was attended by over 50 institutions, including Kenya Power, National Council for Population and Development, Bomas of Kenya, National Drought Management Authority, Tourism Regulatory Authority, Kenya Leather Development Council, Kenya Maritime Authority, Kenya Industrial Estates, Unclaimed Financial Assets Authority, Kenya Veterinary Board, Kenya Marine and Fisheries Research Institute, National Council for Persons with Disability, Micro and Small Enterprises Authority, Kenya Urban Roads Authority, Kenya Bureau of Standards, Kenya National Highways Authority, Pest Control Products Board, Kenya Civil Aviation Authority, Kenya Tourism Board, Kenya Railways Corporation, Kenya News Agency, among others. This important exercise is in line with KIPPRA's mandate of developing capacities in public policy research and analysis and assisting the Government in policy formulation and implementation.

KIPPRA EVENTS



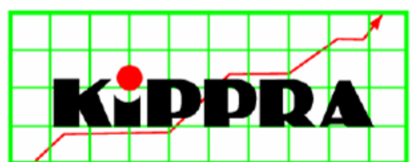
KIPPRA Policy Analyst Mr Victor Mose facilitates a session at the capacity building needs assessment exercise in Machakos

Participants follow the proceedings at the capacity building needs assessment workshop

Colombian Ambassador to Kenya Paid a Courtesy Call on KIPPRA

The Colombian Ambassador to Kenya H.E. Monica De Greiff paid a courtesy call on KIPPRA Executive Director, Dr Rose Ngugi on 28th July 2021. The Ambassador and Executive Director discussed possible areas of collaboration in a bid to strengthen the existing bilateral ties between Kenya and Colombia. The Ambassador was also briefed on the outcomes of the 4th KIPPRA Annual Regional Conference, which KIPPRA hosted recently. The theme of the conference was Science, Technology, and Innovation in Enhancing Delivery of the Big Four Development Agenda.

Colombian Ambassador to Kenya H.E Monica De Greiff receives gift from KIPPRA Executive Director Dr Rose Ngugi



Colombian Ambassador to Kenya H.E Monica De Greiff and KIPPRA Executive Director Dr Rose Ngugi pose for a group photo with staff.

KIPPRA Holds Workshop to Disseminate Findings of Youth Employment Study

KIPPRA held a dissemination workshop on 27th July 2021 on youth employment through Industries Without Smokestacks (IWOSS) undertaken by KIPPRA in collaboration with Brookings Institution. The purpose of the workshop was to share the Kenya case study findings and to provide a platform for stakeholders to engage in policy discourse with the aim of contributing to policy uptake on youth employment. The event was graced by Chief Administrative Secretary (CAS), The National Treasury and Planning Hon Eric Wafukho, KIPPRA Board Vice-Chairperson Mr Koitamet Olekina and KIPPRA Executive Director Dr Rose Ngugi.

Chief Administrative Secretary (CAS), The National Treasury and Planning Hon Eric Wafukho, gives his remarks at IWOSS dissemination workshop.

From the study findings it was noted that Industries Without Smokestacks have similar characteristics with manufacturing in terms of productivity and potential to create decent jobs. These sectors include agro-processing, financial services, horticulture, ICT, tourism, transit trade and wholesale trade.

In his address, Hon Wafukho noted that the findings and recommendations from the research would go a long way in advising the Government and providing policy options to generate jobs for youth. Dr Ngugi, on her part, lauded the long-standing partnership with Brookings Institution, which she said was initiated by KIPPRA's founding Executive Director, the late Prof. Mwangi Kimenyi. The workshop brought together stakeholders from the national and county governments, development partners, civil society organizations, international, regional and Kenya think tanks and organizations representing the IWOSS sectors.

KIPPRA Executive Director Dr Rose Ngugi addresses participants at IWOSS dissemination workshop

KIPPRA Principal Policy Analyst Dr Eldah Onsomu takes the participants through the findings of the research

KIPPRA, NSSF Sign MoU on Areas of Collaboration

KIPPRA and the National Social Security Fund (NSSF) signed a Memorandum of Understanding (MoU) outlining areas of collaboration between the two institutions. Among the areas of partnership include undertaking joint research on areas of mutual interest; undertaking both human and institutional capacity building; holding joint policy seminars, conferences, and research workshops to disseminate research findings; and development of various policies.

The signing ceremony was attended by KIPPRA Executive Director, Dr Rose Ngugi, and NSSF CEO/ Managing Trustee, Dr Antony Omerikwa. In her remarks, Dr Ngugi noted that KIPPRA is committed to its mandate of developing capacities in public policy research and analysis and assisting the Government in policy formulation and implementation. Dr Ngugi added that KIPPRA would continue to collaborate with different institutions with the aim of promoting the achievement of national development goals. Dr Omerikwa, on his part, welcomed the inking of the partnership and reiterated NSSF's commitment to making the collaboration a success.

KIPPRA Executive Director Dr Rose Ngugi (right) elbow bumps NSSF CEO/Managing Trustee Dr Antony Omerikwa during MOU signing between the two institutions

ABOUT KIPPRA

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) is an autonomous institute whose primary mission is to conduct public policy research leading to policy advice. KIPPRA's mission is to produce consistently high-quality analysis of key issues of public policy and to contribute to the achievement of national long-term development objectives by positively influencing the decision making process. These goals are met through effective dissemination of recommendations resulting from analysis and by training policy analysts in the public and private sectors. KIPPRA therefore produces a body of well-researched and documented information on public policy, and in the process assists in formulating long-term strategic perspectives. KIPPRA serves as a centralized source from which the Government and the private sector may obtain information and advice on public policy issues.

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Send to us your comments on the articles published in this newsletter and any other aspects that may help to make the *KIPPRA Policy Monitor* useful to you. This may include policy issues you would like KIPPRA to prioritize.

Bishops Garden Towers, Bishops Road
PO Box 56445, Nairobi, Kenya
Tel: +254 20 2719933/4; Fax: +254 20 2719951
Email: monitor@kippra.or.ke
Website: http://www.kippra.org
Twitter: @kipprakenya

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